



HARBIN BANK CO., LTD.

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

Stock Code: 6138

2016 INTERIM REPORT



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Harbin Bank Co., Ltd.
Interim Report 2016

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

Definitions

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

“Articles of Association”	the Articles of Association of Harbin Bank Co., Ltd.
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“CBRC”	the China Banking Regulatory Commission
“Chief Financial Officer”	the chief financial officer of the Company
“Company”, “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
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“HB Leasing”	Harbin Bank Financial Leasing Co., Ltd.
“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
“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
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC” or “Central Bank”	the People’s Bank of China
“Reporting Period”	the six months ended 30 June 2016
“Senior Management”	the senior management of the Company
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Supervisor(s)”	the supervisor(s) of the Company
“village and township banks”	the 24 village and township banks held by 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:

SUN Feixia

Joint Company Secretaries:

SUN Feixia; NGAI Wai Fung

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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

Corporate Uniform Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

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:

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

Domestic: Ernst & Young Hua Ming LLP

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 a city commercial bank emerging in the northeast region of China in recent years. As at 30 June 2016, the Bank had established 17 branches in Dalian, Chengdu, Tianjin, Shenyang, Chongqing 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 HB Leasing. As at 30 June 2016, the Group had 351 branch outlets with branches and sub-branches across seven administrative regions across China.

As at 30 June 2016, the Bank had total assets of RMB477,965.3 million, total loans and advances to customers of RMB192,718.9 million and total customer deposits of RMB330,673.3 million.

The Bank is ranked 207th in terms of Basel Accord Tier-1 capital in the Top 1000 World Banks 2016 of the Banker, a British magazine, rising two places from the previous ranking, and 31st among the Chinese banks.

Major Subsidiaries

The major subsidiaries of the Company at 30 June 2016 are as follows:

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Bank RMB million
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	90.00	45
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200	85.00	207.6
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	200	70.00	140
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	150	80.00	144.4
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30

Company Profile

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Bank RMB million
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30	100.00	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600

Summary of Accounting Data and Financial Indicators

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

	For the six months ended 30 June		For the year ended 31 December	
	2016	2015	2016 vs. 2015	2015
	(In RMB million, except percentages)			
Results of operations			Rate of change	
Net interest income	5,413.2	4,451.7	21.60%	9,632.9
Net fee and commission income	1,262.9	945.8	33.53%	1,959.4
Operating income	6,859.5	5,513.9	24.40%	11,945.4
Operating expenses	(2,064.8)	(1,996.1)	3.44%	(4,736.9)
Impairment losses	(1,691.2)	(756.9)	123.44%	(1,338.5)
Profit before tax	3,163.1	2,784.5	13.60%	5,919.0
Net profit	2,459.3	2,132.0	15.35%	4,509.6
Net profit attributable to shareholders of the Bank	2,417.7	2,101.6	15.04%	4,457.6
For each share (RMB yuan)			Rate of change	
Net assets per share attributable to shareholders of the Bank	3.11	2.78	11.87%	3.01
Earnings per share	0.22	0.19	15.79%	0.41
Profitability indicators			Changes	
Return on average total assets ⁽¹⁾	1.07%	1.16%	-0.09%	1.14%
Return on average equity ⁽²⁾	14.36%	14.00%	0.36%	14.23%
Net interest spread ⁽³⁾	2.49%	2.43%	0.06%	2.47%
Net interest margin ⁽⁴⁾	2.68%	2.68%	—	2.68%
Net fee and commission income to operating income ratio	18.41%	17.15%	1.26%	16.40%
Cost-to-income ratio ⁽⁵⁾	24.85%	28.18%	-3.33%	31.75%

Summary of Accounting Data and Financial Indicators

	As at		First half of 2016 vs. 2015
	As at 30 June 2016	31 December 2015	
(In RMB millions, except percentages)			
Capital adequacy indicators			Changes
Core tier-1 capital adequacy ratio	10.34%	11.14%	-0.80%
Tier-1 capital adequacy ratio	10.34%	11.14%	-0.80%
Capital adequacy ratio	13.26%	11.64%	1.62%
Total equity to total assets	7.33%	7.61%	-0.28%
Assets quality indicators			Changes
NPL ratio ⁽⁶⁾	1.54%	1.40%	0.14%
Impairment coverage ratio ⁽⁷⁾	159.73%	173.83%	-14.10%
Impairment losses on loans ⁽⁶⁾	2.46%	2.43%	0.03%
Other indicators			
Loan-deposit ratio	58.28%	48.46%	9.82%
Scale indicators			Rate of change
Total assets	477,965.3	444,851.3	7.44%
Of which: total loans and advances to customers	192,718.9	148,674.8	29.62%
Total liabilities	442,931.4	411,003.3	7.77%
Of which: due to customers	330,673.3	306,817.7	7.78%
Share capital	10,995.6	10,995.6	-
Equity attributable to shareholders of the Bank	34,250.8	33,099.6	3.48%
Non-controlling interests	783.1	748.4	4.64%
Total equity	35,033.9	33,848.0	3.50%

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 the 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 with the total non-performing loans divided by the total loans to customers.
- (7) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (8) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

Management Discussion and Analysis

I. Past Economic and Environment and Operation Overview

(I) Past economic and financial environment

For the first half of 2016, the financial market became more fluctuated as a result of a global economic slowdown. Various economic measures implemented by the Chinese government including active fiscal policy, accommodative monetary policy and real estate adjustment policy worked together to relieve the downward pressure on the economy. With the eventual implementation of interest rate liberalization, the operating mode of banks has gradually transformed from traditional credit business into diversified business.

For the first half of 2016, the gross domestic product (GDP) amounted to RMB34.064 trillion, up by 6.7% year on year, while the consumer price index (CPI) rose by 2.1% year-on-year. As at 30 June 2016, the balance of M2 amounted to RMB149.05 trillion, up by 11.8% year on year; the balance of M1 amounted to RMB44.36 trillion, up by 24.6%, and the balance of M0 amounted to RMB6.28 trillion, up by 7.2%. As at 30 June 2016, the balance of RMB loans amounted to 101.49 trillion, and the balance of RMB deposits amounted to 146.24 trillion. New RMB loans made in the first half of 2016 amounted to 7.53 trillion, up by RMB967.1 billion year on year; and new RMB deposits amounted to 10.53 trillion, up by RMB566.0 billion less year on year. Increment of social financing scale for the first half of the year was RMB9.75 trillion.

For the first half of 2016, Heilongjiang Province proactively implemented the Revitalizing Northeastern China strategy promulgated by the State Council, and through mode transformation and economic structure adjustment and led by the philosophy of innovative development, it innovatively implemented the “Five Major Plans” and accelerated the development of ten key point industries. In addition, through proactively meeting the “One Belt, One Road” strategy and actively participating in the “China-Mongolia-Russia Economic Corridor” and by the “Longjiang Silk Road Belt” construction, Heilongjiang Province has developed a new with fully external openness path, characterised by domestic and regional cooperation and opening up to Europe, America, Japan, Korea, Hong Kong, Macau and Taiwan with a focus on opening up to Russia. Meanwhile, by leveraging its own edges and not only by developing the new economy through the room for growth in the total domestic demand but also by leveraging the distinct supply advantages in Heilongjiang to form new industries and to create new economic growing stimulus, Heilongjiang Province aims to explore and release the development potentials of modern agriculture, comprehensive eco-development, industrialization of the technology and industries of the old industries and technology research, development of mineral resources and co-operation with Russia.

(II) Operation overview

For the first half of 2016, against the backdrop of China’s domestic economic growth, accelerated market-oriented financial reform and intensified industry competition, under the leadership of the Board and supervision of the Board of Supervisors. The Bank proactively responded to the changes and challenges, accelerated business transformation, insisted on microcredit development strategy, maintained sound operations, strengthened risk management, improved its profitability against the market trend and fulfilled its pre-set goals.

Management Discussion and Analysis

Steady business development

As at 30 June 2016, the Bank's total assets amounted to RMB477,965.3 million, up RMB33,114.0 million or 7.4% from the end of last year. The Bank's total loans and advances to customers amounted to RMB192,718.9 million, up RMB44,044.1 million or 29.6% from the end of last year. The Bank's deposits from customers amounted to RMB330,673.3 million, up RMB23,855.6 million or 7.8% from the end of last year.

Stable profitability

For the first half of 2016, the Bank recorded net profit attributable to shareholders of the Bank of RMB2,417.7 million, up RMB316.1 million or 15.0% year on year, mainly due to increases in net interest income as well as net fee and commission income. For the first half of 2016, the Bank recorded net interest income of RMB5,413.2 million, up RMB961.5 million or 21.6% year on year, and net fee and commission income of RMB1,262.9 million, up RMB317.1 million or 33.5% year-on-year. The return on average total assets decreased slightly to 1.07% as compared with 1.16% for the same period in 2015. The return on average equity was 14.36%, representing an increase as compared with 14.00% over the same period in 2015.

Slight increase in NPLs

As at 30 June 2016, the Bank had NPLs balance of RMB2,963.2 million, representing an increase of RMB884.5 million from the end of last year. NPL ratio, impairment losses on loans ratio and impairment coverage ratio amounted to 1.54%, 2.46% and 159.73%, increased by 0.14 percentage point and 0.03 percentage point and decreased by 14.10 percentage points from the end of last year, respectively.

Stable development of subsidiaries

For the first half of 2016, HB Leasing and the 24 village and township banks which were under the control of the Bank showed promising momentum. HB Leasing had total assets of RMB17,763 million as at 30 June 2016, up 43.6% from the end of last year, and net profit of RMB112 million for the first half of 2016. All of the 24 village and township banks recorded profit with total net profit of RMB201 million, representing an increase of more than 20% year on year.

Compliance with applicable laws and regulations

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

(III) Analysis on key issues

1. *Net interest margin*

For the first half of 2016, net interest spread and net interest margin of the Bank were 2.49% and 2.68%, respectively. Net interest spread increased by 0.06 percentage point as compared to the same period last year while net interest margin basically remained unchanged as compared to the same period last year, mainly attributable to the Bank's continuous efforts in enhancing the assets and liabilities structure and strengthening loans pricing management to mitigate the impacts of benchmark rate cuts on yield of loans. The Bank also pushed forward the management of cost of debt in view of decreasing interest rates such that the overall decrease in cost of debt was higher than the decrease in yield of assets. As a result, net interest spread was higher as compared to the same period last year. Specific measures included: (1) the Bank took the initiative to enhance debt management by appropriately reducing the proportion of debts with high costs such as structured deposits and amounts of due to other financial institutions in view of benchmark rate cuts; (2) the Bank improved the liabilities structure by attracting various kinds of low-cost demand deposits to maintain better control on cost of debt; and (3) the Bank made active response to the policy adjustments in respect of deposit rate liberalization and adopted more flexible and scientific pricing mechanisms. On the other hand, due to factors such as the successive benchmark rate cuts, economic slowdown and declining asset quality, return on loans decreased and in turn affected net interest spread and net interest margin of the Bank to a certain extent. Looking forward to the second half of 2016, it is expected that the decline of the return on loans will continue and net interest spread and net interest margin will be subject to greater downward pressure and greater difficulties in cost control following complete deposit rate liberalization and intensified competition. To this end, the Bank will further strengthen its active management of assets and liabilities, proactively adjust its credit structure, timely adjust its investment portfolios, strengthen its risk control and optimise pricing mechanisms which perform customer-oriented differential pricing in order to maintain a relatively steady return on assets. In addition, the Bank will be active in coping with challenges posed by such interest rate liberalization by strengthening its liquidity management, enhancing its customer base, optimising its debt structure and endeavouring to maintain its cost of debt to ensure a stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 30 June 2016, the NPL ratio of the Bank amounted to 1.54%, representing an increase of 0.14 percentage point from the end of last year, with the ratio of loans of special attention and the impairment losses on loans amounted to 2.46% and 2.46%, down 0.02 percentage point and up 0.03 percentage point respectively as compared to the end of last year. The increase in NPL ratio was due to the high NPL ratio of customer groups sensitive to capital turnover such as small and micro enterprises and "agriculture, rural areas and farmers" resulting from the slow turnover of capital under flat production and business activities caused by the prevailing downward economic pressure. The decrease in ratio of loans of special attention was due to the Bank's greater effort in tracking, alert, collection and disposal of loans of special attention, and grasped the golden opportunities, thus lowering the ratio of loans of special attention. It was also due to the adoption of more prudential risk classification standard by the Bank, which can effectively reflect the actual asset quality of the Bank. The Bank's asset quality was relatively stable, and the risk level was generally controllable.

Management Discussion and Analysis

The NPLs of the Bank primarily concentrated in the wholesale and services industry and the manufacturing industry, which amounted to RMB798.7 million and RMB265.8 million with NPL ratio of 2.24% and 2.22%, respectively. Loans to the manufacturing sector faced downward pressure on asset quality due to the economic restructuring in the northeast region. The Bank was active in responding to external macro-economic changes and took pre-emptive measures against risks of industries with over-capacity and high-risk regions. As at 30 June 2016, the Bank's loans to the manufacturing sector amounted to RMB11,981.5 million, which increased by RMB1,457.3 million from the end of last year and the relevant proportion to total loans decreased by 0.86 percentage point.

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

3. *Capital management*

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

As at 30 June 2016, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 10.34%, 10.34% and 13.26%, respectively. The core tier-1 capital adequacy ratio and the tier-1 capital adequacy ratio decreased by 0.80 percentage point and 0.80 percentage point respectively as compared to the end of last year, while the capital adequacy ratio increased by 1.62 percentage points as compared to the end of last year. The decrease in the core tier-1 capital adequacy ratio and tier-1 capital adequacy was mainly because of the rapid growth in risk-weighted assets and distribution of cash dividends, while the increase in capital adequacy ratio was mainly because the Bank issued tier-2 capital bonds of RMB8,000 million to replenish capital in 2016, and was partially offset by the increase in risk-weighted assets. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB334,686.9 million, up 11.2% from the end of last year, where the high growth rate was mainly due to the rapid expansion of credit assets of the Bank in support of the development of the real economy, which included growth of 16.9% seen in those underlying corporate loans to small enterprises as compared to the end of last year. Furthermore, the Bank paid cash dividends of RMB1,176.5 million in 2016, which led to a corresponding decrease in net core tier-1 capital. Looking forward into the second half of 2016, the Bank will continue to strengthen its capital management by: (1) continuing its differentiated competition strategy of characteristic development to further enhance internal capital generation; (2) actively responding to current changes in various situations and strengthening its active capital management to continuously optimize its business structure and raise awareness of intensive capital use; and (3) establishing multi-layered and multi-channel mechanisms for capital replenishment to ensure regulatory capital requirements to be satisfied on an ongoing basis.

4. *Investments in receivables*

As at 30 June 2016, total investments in receivables amounted to RMB93,283.4 million, up by 3.6%, as compared to the end of last year. Pursuant to the Notice on Regulating Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigid review on risk and compliance with respect to capital use and accurately measured risks. It made provision therefor based on the principle of “substance over formality” and the nature of the underlying assets. Following loan provision requirements, it raised the coverage ratio for investment in receivables in a steady, prudent and dynamic manner based on results of evaluation on both portfolios and individual investments. As at 30 June 2016, impairment losses on investment in receivables and the coverage ratio of the Bank amounted to RMB959.2 million and 1.03%, up RMB481.5 million and 0.50 percentage point from the end of last year respectively.

II. Analysis on Income Statement

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
	(In RMB million, except percentages)			
Interest income	10,478.6	9,770.8	707.8	7.2%
Interest expense	(5,065.4)	(5,319.1)	253.7	-4.8%
Net interest income	5,413.2	4,451.7	961.5	21.6%
Fee and commission income	1,342.4	1,016.5	325.9	32.1%
Fee and commission expense	(79.5)	(70.7)	(8.8)	12.4%
Net fee and commission income	1,262.9	945.8	317.1	33.5%
Net trading income	24.2	92.8	(68.6)	-73.9%
Net gain on financial investments	4.3	2.2	2.1	95.5%
Other operating income, net	154.9	21.4	133.5	623.8%
Operating income	6,859.5	5,513.9	1,345.6	24.4%
Operating expenses	(2,064.8)	(1,996.1)	(68.7)	3.4%
Impairment losses:				
Loans and advances to customers	(1,147.4)	(606.4)	(541.0)	89.2%
Others	(543.8)	(150.5)	(393.3)	261.3%
Operating profit	3,103.5	2,760.9	342.6	12.4%
Share of profits of an associate	59.6	23.6	36.0	152.5%
Profit before tax	3,163.1	2,784.5	378.6	13.6%
Income tax expense	(703.8)	(652.5)	(51.3)	7.9%
Net profit	2,459.3	2,132.0	327.3	15.4%

For the first half of 2016, the Bank recorded profit before tax of RMB3,163.1 million and net profit of RMB2,459.3 million, representing an increase of 13.6% and 15.4%, respectively, as compared to the same period of last year.

Management Discussion and Analysis

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

For the first half of 2016, the Bank recorded a net interest income of RMB5,413.2 million, representing an increase of RMB961.5 million or 21.6% as compared to the same period last year. The following tables set forth, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost ratio of these interest-bearing liabilities.

	For the six months ended 30 June					
	2016			2015		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
	(In RMB million, except percentages)					
Interest-earning assets						
Loans and advances to customers	168,767.0	5,432.4	6.47%	140,974.9	5,199.0	7.38%
Investments in debt securities ⁽¹⁾	132,252.1	3,608.6	5.49%	81,642.0	2,591.9	6.34%
Cash and balances with Central Bank	40,163.4	292.4	1.46%	44,126.8	319.2	1.44%
Due from banks and other financial institutions ⁽²⁾	51,330.7	787.2	3.08%	60,779.5	1,524.1	5.02%
Long-term receivables	13,954.3	358.0	5.16%	5,257.5	136.6	5.20%
Total interest-earning assets	406,467.5	10,478.6	5.18%	332,780.7	9,770.8	5.87%
	For the six months ended 30 June					
	2016			2015		
	Average balance ⁽⁶⁾	Interest expense	Average cost ratio	Average balance ⁽⁶⁾	Interest expense	Average cost ratio
	(In RMB million, except percentages)					
Interest-bearing liabilities						
Due to customers	276,506.9	3,382.6	2.46%	221,722.4	3,109.6	2.80%
Due to banks ⁽³⁾	76,427.2	1,221.7	3.21%	81,488.2	2,065.4	5.06%
Debt securities issued	24,804.5	452.7	3.67%	5,249.2	118.1	4.50%
Due to Central Bank	699.0	8.4	2.42%	1,591.7	26.0	3.26%
Total interest-bearing liabilities	378,437.6	5,065.4	2.69%	310,051.5	5,319.1	3.44%
Net interest income		5,413.2			4,451.7	
Net interest spread⁽⁴⁾			2.49%			2.43%
Net interest margin⁽⁵⁾			2.68%			2.68%

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, financial assets sold under repurchase agreements and borrowing from banks and other financial and institutions.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost ratio on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average interest earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of the Bank's daily balances.

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

	For the six months ended 30 June		
	2016 vs. 2015		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
	(In RMB million)		
Interest-earning assets			
Loans and advances to customers	1,008.5	(775.1)	233.4
Investments in debt securities	1,585.6	(568.9)	1,016.7
Cash and balances with the Central Bank	(29.6)	2.8	(26.8)
Due from banks and other financial institutions	(238.8)	(498.1)	(736.9)
Long-term receivables	224.5	(3.1)	221.4
Change in interest income	2,550.2	(1,842.4)	707.8
Interest-bearing liabilities			
Due to customers	751.7	(478.6)	273.1
Due to banks	(134.0)	(709.8)	(843.8)
Debt securities issued	437.3	(102.7)	334.6
Due to the Central Bank	(14.6)	(3.0)	(17.6)
Change in interest expense	1,040.4	(1,294.1)	(253.7)

Management Discussion and Analysis

Notes:

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

(II) Interest income

For the first half of 2016, the Bank's interest income increased by RMB707.8 million or 7.2% to RMB10,478.6 million as compared to the same period of last year. The increase in the Bank's interest income was primarily due to the increase in the Bank's average balance of interest-earning assets by 22.1% from RMB332,780.7 million for the same period of last year to RMB406,467.5 million for the first half of 2016 attributable to increases in the Bank's loans and advances to customers, investments in debt securities and long-term receivables. The increase in the Bank's interest income was partially offset by the decrease in the average yield of the Bank's interest-earning assets from 5.87% for the same period of last year to 5.18% for the first half of 2016. The decrease in the average yield of the Bank's interest-earning assets was primarily the result of a decline in average yield of loans and advances to customers, investments in debt securities, due from banks and other financial institutions and long-term receivables for the first half of 2016.

1. Interest income from loans and advances to customers

For the first half of 2016, interest income from loans and advances to customers increased by RMB233.4 million or 4.5% to RMB5,432.4 million year on year, primarily as a result of a 19.7% increase in the average balance of loans and advances to customers being partially offset by a 0.91 percentage point decrease in the average yield. The increase in the average balance of loans and advances to customers was attributable to the Bank's efforts to develop the Bank's microcredit business, and increase in credits granted for better real economy, while the 0.91 percentage point decrease in the average yield was primarily due to the several reductions in benchmark lending rate by PBOC in 2015 as well as the slowdown in economic growth.

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

	For the six months ended 30 June					
	2016			2015		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(In RMB million, except percentages)					
Corporate loans	93,289.3	2,903.2	6.26%	89,051.5	3,300.4	7.41%
Personal loans	70,206.4	2,411.8	6.91%	45,470.0	1,723.9	7.58%
Discounted bills	5,271.3	117.4	4.48%	6,453.4	174.7	5.41%
Total loans and advances to customers	168,767.0	5,432.4	6.47%	140,974.9	5,199.0	7.38%

2. Interest income from investments in debt securities

For the first half of 2016, interest income from investments in debt securities increased by RMB1,016.7 million or 39.2% to RMB3,608.6 million as compared to the same period of last year, principally attributable to a 62.0% increase in the average balance of the Bank's investments in debt securities being partially offset by a 0.85 percentage point decrease in the average yield of the Bank's investments in debt securities. The increase in the average balance of the Bank's investments in debt securities was primarily attributable to an expanded and diversified investment portfolio as a result of increased capital sources from customers, while the decrease in the average yield of the Bank's investments in debt securities was attributable to the several reductions in benchmark lending rate by PBOC in 2015 as well as the slowdown in economic growth, causing a decrease in the yield of investments in receivables under debt securities.

3. Interest income from cash and balances with central bank

For the first half of 2016, interest income from cash and balances with Central Bank decreased by RMB26.8 million or 8.4% to RMB292.4 million as compared to the same period of last year, primarily attributable to the reduction in statutory deposit reserve ratio.

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

For the first half of 2016, interest income from amounts due from banks and other financial institutions decreased by RMB736.9 million or 48.3% to RMB787.2 million as compared with the same period of last year, primarily attributable to a 1.94 percentage point decrease in the average yield of the relevant assets, and a 15.5% decrease in the average balance of such assets. Such decrease was primarily attributable to more capital resources being applied to loans to customers and thus lesser application of such assets to investments in debt securities, whereas the decline in the average yield of the relevant assets was attributable to changes in market liquidity and structure of such assets.

5. Interest income from long-term receivables

For the first half of 2016, interest income from long-term receivables increased by RMB221.4 million or 162.1% to RMB358.0 million as compared with the same period last year, primarily attributable to a 165.4% increase in the average balance of long-term receivables being partially offset by a 0.04 percentage point decrease in the average yield. The increase in the average balance of such assets was primarily attributable to the accumulation of leasing customers resources and the enhancement in market development capacity, whereas the decline in the average yield of the relevant assets was primarily attributable to factors such as the increasingly competitive financial leasing industry and the reductions in lending benchmark rate by PBOC.

Management Discussion and Analysis

(III) Interest expense

For the first half of 2016, the Bank's interest expense decreased by RMB253.7 million or 4.8% to RMB5,065.4 million as compared to the same period last year, primarily attributable to a decrease in the average cost ratio of the interest-bearing liabilities from 3.44% for the same period last year to 2.69% for the first half of 2016, being partially offset by an increase in the average balance of the interest-bearing liabilities from RMB310,051.5 million for the same period last year to RMB378,437.6 million for the first half of 2016. The decrease in the average cost ratio of the interest-bearing liabilities was mainly due to the decreases in amounts due to customers, due to banks and debt securities issued in the first half of 2016.

1. Interest expense on due to customers

For the first half of 2016, the Bank's interest expense on due to customers increased by RMB273.0 million or 8.8% to RMB3,382.6 million as compared to the same period last year, primarily attributable to a 24.7% increase in the average balance of amount due to customers being partially offset by a 0.34 percentage point decrease in the average cost ratio, where such decrease was mainly due to the several reductions in benchmark deposit rate by PBOC in 2015, improvements in customers deposit structure and the adoption of more flexible and scientific pricing mechanisms.

	For the six months ended 30 June					
	2016			2015		
	Average Balance	Interest expense	Average cost ratio	Average Balance	Interest expense	Average cost ratio
	(In RMB millions , except percentage)					
Corporate deposits						
Demand	73,438.4	206.7	0.57%	60,023.8	183.5	0.61%
Time	112,349.3	2,212.0	3.96%	83,762.0	1,890.2	4.51%
Subtotal	185,787.7	2,418.7	2.62%	143,785.8	2,073.7	2.88%
Personal deposits						
Demand	33,126.4	58.5	0.35%	26,615.3	57.9	0.44%
Time	57,592.8	905.4	3.16%	51,321.3	978.0	3.81%
Subtotal	90,719.2	963.9	2.14%	77,936.6	1,035.9	2.66%
Total deposits from customers	276,506.9	3,382.6	2.46%	221,722.4	3,109.6	2.80%

2. Interest expense on due to banks

For the first half of 2016, the Bank's interest expense on due to banks decreased by RMB843.7 million or 40.8% to RMB1,221.7 million as compared with the same period last year, primarily attributable to a decline in the average cost ratio of the underlying liabilities from 5.06% for the same period last year to 3.21% for the first half of 2016 and a 6.2% decrease in the average balance of relevant liabilities from RMB81,488.2 million for the same period last year to RMB76,427.2 million for the first half of 2016. The drop in the average cost ratio of the underlying liabilities was mainly due to the overall market sufficient liquidity during the Reporting Period which results in a downward trend in interest rate, as well as the Bank's efforts to strengthen interbank liabilities and optimize bank liabilities structure while the decrease in the average balance of relevant liabilities was mainly due to the liabilities structure adjustments proactively initiated by the Bank to replace the amount due to banks with amount due to customers which had lower costs in view of benchmark rate cuts.

3. Interest expense on debt securities issued

For the first half of 2016, the Bank's interest expense on debt securities issued amounted to RMB452.7 million, up RMB334.6 million or 283.3% as compared to the same period of last year, mainly attributable to the issuance of interbank negotiable certificates of deposit in the second half of 2015 and tier-2 bonds in the first half of 2016 by the Bank.

(IV) Net interest spread and net interest margin

The Bank's net interest spread increased from 2.43% for the same period last year to 2.49% for the first half of 2016 and the Bank's net interest margin was 2.68%, which remained basically unchanged as compared to the same period last year, mainly attributable to the higher decrease in cost of liabilities than the decrease in yield of assets as result of the Bank's continual optimization in assets and liabilities structure in view of decreasing interest rates.

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(V) Non-interest income

1. Net fee and commission income

For the first half of 2016, the Bank's net fee and commission income increased by RMB317.1 million or 33.5% to RMB1,262.9 million as compared with the same period last year, primarily due to the increase in the Bank's advisory and consultancy fee, settlement fee and agency and custodian fee as a result of the development of the related businesses.

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
	(In RMB million, except percentages)			
Fee and commission income	1,342.4	1,016.5	325.9	32.1%
Advisory and consultancy fee	474.9	341.0	133.9	39.3%
Settlement fee	67.7	35.5	32.2	90.7%
Agency and custodian fee	655.7	488.2	167.5	34.3%
Of which: non-principal				
protected wealth management				
agency fee	196.0	236.7	(40.7)	-17.2%
Bank card fee	102.7	122.3	(19.6)	-16.0%
Others	41.4	29.5	11.9	40.3%
Fee and commission expense	(79.5)	(70.7)	(8.8)	12.4%
Net fee and commission income	1,262.9	945.8	317.1	33.5%

For the first half of 2016, the Bank's advisory and consultancy fee income reached RMB474.9 million, up RMB133.9 million or 39.3% as compared with the same period last year, mainly attributable to the expansion of the Bank's advisory and consultancy businesses, resulting in an increase in the number of the Bank's customers and a sustained growth in business volume.

The Bank realized an income of RMB67.7 million from settlement fees for the first half of 2016, representing an increase of RMB32.2 million or 90.7% year on year.

For the first half of 2016, the Bank's agency and custodian fee income was RMB655.7 million, up 34.3% or RMB167.5 million as compared with the same period last year, mainly as a result of the development of the Bank's agency business.

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For the first half of 2016, the Bank earned RMB102.7 million from bank card fee, down 16.0% or RMB19.6 million as compared with the same period last year.

For the first half of 2016, other charges and commission generated income of RMB41.4 million, up 40.3% or RMB11.9 million as compared with the same period last year.

2. *Net trading income*

For the first half of 2016, the Bank's net trading income decreased by RMB68.6 million or 73.9% to RMB24.2 million as compared with the same period last year, mainly attributable to the decrease in interest income from bonds held for trading and the change in the conditions of the bond market.

3. *Net gains on financial investments*

For the first half of 2016, the Bank's net gains increased by RMB2.1 million or 95.5% to RMB4.3 million as compared with the same period last year, mainly attributable to gain on disposal of available-for-sale financial assets.

4. *Other operating income, net*

For the first half of 2016, the Bank's other operating income, net increased by RMB133.5 million or 623.8% to RMB154.9 million as compared with the same period last year, mainly due to the increase in foreign exchange gain and government grants and subsidies.

(VI) Operating expenses

For the first half of 2016, the Bank's operating expenses increased by RMB68.7 million or 3.4% to RMB2,064.8 million as compared with the same period last year.

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs	816.3	773.2	43.1	5.6%
Business tax and surcharges	360.2	442.4	(82.2)	-18.6%
Depreciation and amortization	255.5	208.6	46.9	22.5%
Others	632.8	571.9	60.9	10.6%
Total operating expenses	2,064.8	1,996.1	68.7	3.4%

Staff costs are the largest component of the Bank's operating expenses, representing 39.5% and 38.7% of the Bank's total operating expenses for the first half of 2016 and 2015, respectively.

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

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs				
Salaries, bonuses and allowances	639.1	592.3	46.8	7.9%
Social insurance	94.3	89.6	4.7	5.2%
Housing fund	36.7	35.7	1.0	2.8%
Staff benefits	39.2	46.7	(7.5)	-16.1%
Labor's union expenditure and education costs	6.9	6.6	0.3	4.5%
Early retirement benefits	0.1	2.3	(2.2)	-95.7%
Total	816.3	773.2	43.1	5.6%

For the first half of 2016, the staff costs of the Bank were RMB816.3 million, up by 5.6% or RMB43.1 million as compared with the same period last year, primarily attributable to more branches being established by the Bank, an increase in wages and benefits, and the improved remuneration structure, and enhanced performance and results linked appraisal.

For the first half of 2016, the Bank had to pay business tax and surcharges of RMB360.2 million, down 18.6% or RMB82.2 million as compared with the same period last year, primarily attributable to the shift from business tax to value added tax under the full implementation of the "BT to VAT" policy in the domestic financial sector of China since May 2016.

For the first half of 2016, depreciation and amortization were RMB255.5 million, up by 22.5% or RMB46.9 million as compared with the same period last year, primarily as a result of an expansion of the Bank's distribution network and an increase in the capital costs relating to operating properties.

For the first half of 2016, the Bank's other operating expenses were RMB632.8 million, up by 10.6% or RMB60.9 million as compared with the same period last year, primarily attributable to stepping up business expansion.

(VII) Impairment losses

For the first half of 2016, the Bank's impairment losses increased by RMB934.3 million or 123.4% to RMB1,691.2 million as compared with the same period last year, primarily attributable to collective impairment provision for assets on a prudent and dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
	(In RMB million, except percentages)			
Loans and advances to customers	1,147.4	606.4	541.0	89.2%
Others	543.8	150.5	393.3	261.3%
Total impairment losses	1,691.2	756.9	934.3	123.4%

(VIII) Income Tax Expenses

For the first half of 2016, the Bank's income tax increased by RMB51.3 million or 7.9% to RMB703.8 million as compared to the same period last year, which was mainly due to the increase in the Bank's operating profit.

	For the six months ended 30 June			
	2016	2015	Change in amount	Rate of change
	(In RMB million, except percentages)			
Current income tax expenses	1,039.8	714.7	325.1	45.5%
Deferred income tax expenses	(336.0)	(62.2)	(273.8)	440.2%
Effective income tax expenses	703.8	652.5	51.3	7.9%

Management Discussion and Analysis

III. Analysis of key items of financial position

(I) Assets

As at 30 June 2016, the Bank's total assets increased by RMB33,114.0 million or 7.4% to RMB477,965.3 million from the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers and investment securities and other financial assets.

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans and advances to customers, gross	192,718.9	40.3%	148,674.8	33.4%
Allowance for impairment losses	(4,733.1)	-1.0%	(3,613.3)	-0.8%
Loans and advances to customers, net	187,985.8	39.3%	145,061.5	32.6%
Investment securities and other financial assets, net	152,232.5	31.9%	138,980.5	31.2%
Cash and balances with the Central Bank	64,946.4	13.6%	54,566.1	12.3%
Due from banks and other financial institutions	33,894.5	7.1%	30,035.1	6.8%
Reverse repurchase agreements	6,350.8	1.3%	51,027.9	11.5%
Other assets	32,555.3	6.8%	25,180.2	5.6%
Total assets	477,965.3	100.0%	444,851.3	100.0%

1. Loans and advances to customers

As at 30 June 2016, the Bank's total loans and advances to customers increased by RMB44,044.1 million to RMB192,718.9 million, representing an increase of 29.6% as compared with the end of last year.

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans	103,769.7	53.8%	86,649.6	58.3%
Personal loans	85,870.2	44.6%	61,596.4	41.4%
Discounted bills	3,079.0	1.6%	428.8	0.3%
Total loans and advances to customers	192,718.9	100.0%	148,674.8	100.0%

(1) Corporate loans

As at 30 June 2016, the Bank's corporate loans increased by RMB17,120.1 million to RMB103,769.7 million, representing an increase of 19.8% as compared with the end of last year, mainly due to the increase in the Bank's corporate loans in active response to the national policy on continuously supporting real economy development and promoting the development of SMEs.

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
	(In RMB millions, except percentages)			
Loans to Small Enterprises ⁽¹⁾	58,778.8	56.6%	50,297.7	58.0%
Other corporate loans excluding loans to Small Enterprises	44,990.9	43.4%	36,351.9	42.0%
Total corporate loans	103,769.7	100.0%	86,649.6	100.0%

Note:

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

As at 30 June 2016, the Bank's loans to small enterprises increased by RMB8,481.1 million to RMB58,778.8 million, representing an increase of 16.9% as compared with the end of last year. The increase in the Bank's loans to small enterprises was primarily due to the Bank's proactive development of microcredit business. As at 30 June 2016 and 31 December 2015, the Bank's loans to small enterprises accounted for 56.6% and 58.0%, respectively, of the Bank's total corporate loans.

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(2) Personal loans

As at 30 June 2016, the Bank's personal loans increased by RMB24,273.8 million to RMB85,870.2 million, representing an increase of 39.4% as compared with the end of last year. This increase was mainly attributable to the Bank's continued development of personal loans in response to the PRC government's policies to encourage financial institutions to provide financial services to SMEs and rural areas. The Bank's personal loans (including loans to small enterprise owners, personal consumption loans and loans to farmers) are an important component of the Bank's microcredit business, which increased accordingly under the Bank's strategy of focusing on the microcredit business.

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB millions, except percentages)				
Loans to Small Enterprise				
Owners	19,189.8	22.4%	17,558.4	28.5%
Personal consumption				
loans	54,281.1	63.2%	34,320.4	55.7%
Loans to farmers	12,399.3	14.4%	9,717.6	15.8%
Total personal loans	85,870.2	100.0%	61,596.4	100.0%

As at 30 June 2016, loans to small enterprise owners, personal consumption loans and loans to farmers increased as compared with the end of last year, representing an increase of 9.3%, 58.2% and 27.6%, respectively.

2. Investment securities and other financial assets

As at 30 June 2016, the total of the Bank's investment securities and other financial assets was RMB153,191.7 million, representing an increase of RMB13,733.6 million or 9.8% as compared with the end of last year. The increase in such assets for the first half of 2016 was mainly due to the Bank's efforts to increase various types of investments, and expand the Bank's capital allocation channels, in order to improve the efficiency of the Bank's funds.

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Investments in receivables	93,283.4	60.9%	90,082.9	64.6%
Held-to-maturity investments	27,985.2	18.3%	25,244.1	18.1%
Available-for-sale financial assets	27,911.8	18.2%	21,291.1	15.3%
Financial assets held for trading	4,011.3	2.6%	2,840.0	2.0%
Total investment securities and other financial assets	153,191.7	100.0%	139,458.1	100.0%

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt investments:				
Bond investments	50,430.0	32.9%	39,405.9	28.3%
Debt instruments issued by financial institutions ⁽¹⁾	102,737.1	67.1%	100,027.6	71.7%
Subtotal	153,167.1	100.0%	139,433.5	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities and other financial assets	153,191.7	100.0%	139,458.1	100.0%

Note:

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

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As at 30 June 2016, the Bank's investment in debt instruments issued by financial institutions was RMB102,737.1 million, representing an increase of RMB2,709.5 million or 2.7% as compared with the end of last year. As a percentage of total investment securities and other financial assets, such investments decreased from 71.7% as at 31 December 2015 to 67.1% as at 30 June 2016.

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Government bonds	7,769.7	15.4%	7,012.1	17.8%
Bonds issued by financial institutions	4,429.9	8.8%	4,933.9	12.5%
Corporate bonds	6,174.1	12.2%	4,548.8	11.5%
Bonds issued by policy banks	32,056.3	63.6%	22,911.1	58.2%
Total bond investments	50,430.0	100.0%	39,405.9	100.0%

3. Other components of the Bank's Assets

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

As at 30 June 2016, the Bank's cash and balances with Central Bank increased by RMB10,380.3 million to RMB64,946.4 million, representing an increase of 19.0% as compared with the end of last year.

As at 30 June 2016, the Bank's due from banks and other financial institutions increased by RMB3,859.4 million to RMB33,894.5 million, representing an increase of 12.8% as compared with the end of last year, mainly because the Bank adjusted the weight of such non-credit assets based on its capital and changes in liquidity in the market to ensure both liquidity and capital efficiency.

As at 30 June 2016, the Bank's financial assets held under reverse repurchase agreements decreased by RMB44,677.1 million to RMB6,350.8 million, representing a decrease of 87.6% as compared with the end of last year, mainly because the Bank correspondingly adjusted the scale of such assets based on the need to match assets and liabilities and the situation of market liquidity.

(II) Liabilities

As at 30 June 2016, the Bank's total liabilities were RMB442,931.4 million, representing an increase of RMB31,928.1 million or 7.8% as compared with the end of last year.

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Due to customers	330,673.3	74.7%	306,817.7	74.6%
Due to banks ⁽¹⁾	57,733.5	13.0%	60,166.9	14.6%
Repurchase agreements	15,277.5	3.4%	12,145.0	3.0%
Debt securities issued	27,487.2	6.2%	23,269.9	5.7%
Due to Central Bank	736.9	0.2%	764.3	0.2%
Other liabilities ⁽²⁾	11,023.0	2.5%	7,839.5	1.9%
Total liabilities	442,931.4	100.0%	411,003.3	100.0%

Notes:

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

1. Due to customers

As at 30 June 2016, the Bank's due to customers was RMB330,673.3 million, representing an increase of RMB23,855.6 million or 7.8% as compared with the end of last year. This increase was primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate deposits				
Demand deposits	87,512.9	26.5%	85,924.1	28.0%
Time deposits	137,932.2	41.7%	125,077.1	40.8%
Subtotal	225,445.1	68.2%	211,001.2	68.8%
Personal deposits				
Demand deposits	43,308.7	13.1%	39,089.3	12.7%
Time deposits	61,919.5	18.7%	56,727.2	18.5%
Subtotal	105,228.2	31.8%	95,816.5	31.2%
Total due to customers	330,673.3	100.0%	306,817.7	100.0%

Management Discussion and Analysis

2. Due to banks

As of 30 June 2016, the amount due to banks was RMB57,733.5 million, representing a decrease of RMB2,433.4 million or 4.0% as compared with the end of last year. The changes of due to banks reflected the Bank's consideration to match assets and liabilities. Based on market liquidity and the Bank's needs for funds, the Bank adjusted the portion of due to banks in its liabilities.

3. Repurchase amounts

As of 30 June 2016, the Bank's repurchase amounts were RMB15,277.5 million, representing an increase of RMB3,132.5 million or 25.8% as compared with the end of last year. The changes in the Bank's repurchase amounts reflected the Bank's consideration to match assets and liabilities. Based on market liquidity and the Bank's capital needs, the Bank increased the repurchase amount to better keep in line with the interbank assets business.

4. Debt securities issued

As at 30 June 2016, the Bank's debt securities issued were RMB27,487.2 million, representing an increase of RMB4,217.3 million or 18.1% as compared to the end of last year, mainly due to tier-2 capital bonds newly issued by the Bank.

(III) Shareholders' equity

As at 30 June 2016, the Bank's shareholders' equity was RMB35,033.9 million, representing an increase of RMB1,185.9 million or 3.5% as compared with the end of last year. As at 30 June 2016, equity attributable to shareholders of the parent company was RMB34,250.8 million, representing an increase of RMB1,151.2 million or 3.5% as compared with the end of last year. The increase in shareholders' equity was mainly due to the increase of net profit.

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Share capital	10,995.6	31.4%	10,995.6	32.5%
Reserves	15,220.6	43.5%	13,920.9	41.1%
Retained profit	8,034.6	22.9%	8,183.1	24.2%
Equity attributable to equity holders of the Bank	34,250.8	97.8%	33,099.6	97.8%
Non-controlling interests	783.1	2.2%	748.4	2.2%
Total equity	35,033.9	100.0%	33,848.0	100.0%

IV. Off-balance Sheet Commitments

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

	As at 30 June 2016	As at 31 December 2015
	(In RMB million)	
Credit commitments:		
Bank bills acceptance	54,714.0	49,452.5
Issued letters of guarantee	7,774.1	6,884.4
Issued sight letters of credit	2,503.5	1,275.7
Credit limit of credit card	2,024.1	1,289.1
Subtotal	67,015.7	58,901.7
Capital expenditure commitments	1,045.4	1,164.5
Operating lease commitments	893.9	998.0
Treasury bond redemption commitments	2,689.0	2,752.0
Relief obligation under risk cooperative fund	180.0	180.0
Total	71,824.0	63,996.2

In addition, as at 30 June 2016, significant legal proceedings outstanding against the Group amounted to RMB50 million. It is expected that no loss will be caused by these litigations and no provisions need to be made. As at the date of this report, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in "commitments and contingent liabilities" in the notes to financial statements.

Management Discussion and Analysis

V. Analysis on Loan Quality

During the Reporting Period, the Bank closely monitored changes in external environment, practically strengthened management of the whole process of loan granting, accelerated the credit restructuring, increased the efforts in collection and disposal of NPLs and strengthened performance appraisal on risk management, so that the loan quality was generally kept at a manageable level. However, the Bank faced an upward pressure on non-performing loans due to changes in the external business environment, economic slowdown and difficulties in operations of SMEs. As at 30 June 2016, the balance of non-performing loans was RMB2,963.2 million. The non-performing loans ratio amounted to 1.54%, up by 0.14 percentage point as compared with the end of last year.

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

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Pass	185,020.4	95.9%	142,918.6	96.1%
Special mention	4,735.3	2.5%	3,677.5	2.5%
Substandard	1,689.2	0.9%	1,343.8	0.9%
Doubtful	763.6	0.4%	523.8	0.4%
Loss	510.4	0.3%	211.1	0.1%
Total loans to customers	192,718.9	100.0%	148,674.8	100.0%
NPLs and NPL ratio ⁽¹⁾	2,963.2	1.54%	2,078.7	1.40%

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, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

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

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

	As at 30 June 2016			As at 31 December 2015		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
(In RMB million, except percentages)						
Corporate loans						
Loans to small enterprises	58,778.8	927.4	1.58%	50,297.7	661.7	1.32%
Other corporate loans excluding loans to small enterprises	44,990.9	387.9	0.86%	36,351.9	240.5	0.66%
Subtotal	103,769.7	1,315.3	1.27%	86,649.6	902.2	1.04%
Personal loans						
Loans to small enterprise owners	19,189.8	472.7	2.46%	17,558.4	391.3	2.23%
Personal consumption loans	54,281.1	685.8	1.26%	34,320.4	357.2	1.04%
Loans to farmers	12,399.3	489.4	3.95%	9,717.6	428.0	4.40%
Subtotal	85,870.2	1,647.9	1.92%	61,596.4	1,176.5	1.91%
Discounted bills	3,079.0	–	–	428.8	–	–
Total	192,718.9	2,963.2	1.54%	148,674.8	2,078.7	1.40%

In the first half of 2016, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business rapidly (corporate loans to small enterprises and personal loans). At the end of the Reporting Period, the NPL ratio of corporate loans rose by 0.23 percentage point as compared to the end of last year to 1.27%. The NPL ratio of loans to small enterprises increased during its rapid development. The NPL ratio of personal loans increased by 0.01 percentage point as compared to the end of last year to 1.92%. Under the backdrop of rapid increase in the general credit scale of retail credit business, the Bank insisted to adopt policy of high risk and high pricing particularly towards loans to farmers with higher risk. The Bank also efficiently lowered the NPL ratio through pertinence measures such as changing the way of risk mitigation, optimizing the customer base and the thorough application of internal assessment system. The NPL ratio of loans to farmers decreased by 0.45 percentage point. In the first half of 2016, the Bank enhanced its sub-divided risk management by strengthening risk alerts, rigid quota control and client list management of businesses, setting rigorous loan granting thresholds, establishing additional NPL collection institutions, enhancing cooperation with external institutions and redoubled collection and disposal of loans overdue, thus ensure that loan quality is relatively stable. Aiming at the features of retail credit business risks, the Bank set up a specialized collection and disposal mechanism, built up the NPL elimination mechanism at the beginning of product design, enhanced the application of third-party data to prevent fraud risk, increased the application of internal assessment results and the tracking and monitoring of rating card rules and strategies, in order to make timely adjustment and realize the unification of risk appetite and the immediate transmission of policies.

Management Discussion and Analysis

(III) The distribution of loans and NPLs classified by industry

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

	As at 30 June 2016				As at 31 December 2015			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Agriculture, forestry, husbandry and fishery	3,531.7	1.8%	99.0	2.80%	3,528.2	2.4%	33.9	0.96%
Mining	257.2	0.1%	3.0	1.17%	321.2	0.2%	3.0	0.93%
Manufacturing	11,981.5	6.2%	265.8	2.22%	10,524.2	7.1%	293.5	2.79%
Production and supply of electricity, gas and water	3,480.1	1.8%	2.1	0.06%	1,933.7	1.3%	2.2	0.11%
Construction	6,565.2	3.4%	67.2	1.02%	3,551.4	2.4%	4.0	0.11%
Transportation, storage and postal services	2,036.4	1.2%	1.5	0.07%	3,191.9	2.1%	–	–
Information transmission, computer services and software	1,214.4	0.6%	0.9	0.07%	708.5	0.5%	0.9	0.13%
Wholesale and services	35,712.6	18.5%	798.7	2.24%	29,848.6	20.1%	533.6	1.79%
Accommodations and catering	2,663.1	1.4%	38.9	1.46%	2,587.2	1.7%	1.2	0.05%
Finance	45.0	0.0%	–	–	28.0	0.0%	–	–
Real estate	11,079.6	5.7%	11.0	0.10%	10,657.6	7.2%	6.0	0.06%
Rental and commercial services	17,315.8	9.0%	17.7	0.10%	13,324.4	9.0%	19.9	0.15%
Scientific research, technical services and geological prospecting	235.4	0.1%	–	–	244.7	0.2%	–	–
Water conservation, environment, public utility management and investment	3,477.7	1.8%	5.5	0.16%	3,447.8	2.3%	–	–
Residential and other services	1,793.0	0.9%	4.0	0.22%	1,113.6	0.7%	4.0	0.36%
Education	496.6	0.3%	–	–	420.6	0.3%	–	–
Health, social security and social welfare	1,524.4	0.8%	–	–	1,029.9	0.7%	–	–
Culture, sports and entertainment	360.0	0.2%	–	–	181.1	0.1%	–	–
Public management and social organization	–	–	–	–	7.0	0.0%	–	–
Total corporate loans	103,769.7	53.8%	1,315.3	1.27%	86,649.6	58.3%	902.2	1.04%
Total personal loans	85,870.2	44.6%	1,647.9	1.92%	61,596.4	41.4%	1,176.5	1.91%
Discounted bills	3,079.0	1.6%	–	–	428.8	0.3%	–	–
Total	192,718.9	100.0%	2,963.2	1.54%	148,674.8	100.0%	2,078.7	1.40%

As at 30 June 2016, the non-performing corporate loans of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 2.24% and 2.22%, respectively. The Bank actively restructured the industry portfolio of its loans by withdrawing or tightening loans for overcapacity and high-risk industries. The loans for the manufacturing, wholesale and services, real estate and mining shrank. The Bank developed with great efforts on the highly profitable personal loan business which was associated with controllable risks, green credit such as environmental protection, education and medication, which are supported by national policies and other clients in premium industries. In addition, multi-pronged measures were implemented to put in place rigorous control over existing NPLs.

(IV) The distribution of loans and NPLs by geographical region

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

	As at 30 June 2016				As at 31 December 2015			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In RMB million, except percentages)							
Heilongjiang region	92,089.5	47.8%	1,941.2	2.11%	71,453.0	48.1%	1,294.2	1.81%
Other Northeast region	30,608.6	15.9%	257.8	0.84%	24,422.8	16.4%	212.2	0.87%
Southwest region	46,053.2	23.9%	506.7	1.10%	36,468.6	24.5%	382.1	1.05%
Northern China	20,331.8	10.5%	156.2	0.77%	14,154.4	9.5%	139.0	0.98%
Other regions	3,635.8	1.9%	101.3	2.79%	2,176.0	1.5%	51.2	2.35%
Total	192,718.9	100.0%	2,963.2	1.54%	148,674.8	100.0%	2,078.7	1.40%

As at 30 June 2016, a majority of the Bank's NPLs was concentrated in the Heilongjiang region, the Bank actively restructured the loans within geographical regions. The percentage of total loans in Heilongjiang region was slightly down as compared to the end of last year. However, the NPL ratio was slightly increased due to various factors such as changes in external operating environment, slowdown in economic growth and difficulties in operations of SMEs. Furthermore, the Bank strengthened its management of regional industry, quota and product quota for loans, credit facilities to related clients, distant loans, risk mitigation, credit facilities to specific business districts and loans overdue, established regional collection institutions and strengthened appraisal on loan quality to tackle the NPLs increase in regions.

Management Discussion and Analysis

(V) The distribution of loans and NPLs by collateral

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

	As at 30 June 2016				As at 31 December 2015			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In RMB million, except percentages)							
Unsecured loans	25,231.2	13.1%	446.6	1.77%	15,864.6	10.7%	262.8	1.66%
Guaranteed loans	54,773.0	28.4%	1,010.3	1.84%	44,328.6	29.8%	714.2	1.61%
Collateralized loans	90,777.6	47.1%	1,405.0	1.55%	77,030.9	51.8%	1,003.1	1.30%
Pledged loans	21,937.1	11.4%	101.3	0.46%	11,450.7	7.7%	98.6	0.86%
Total	192,718.9	100.0%	2,963.2	1.54%	148,674.8	100.0%	2,078.7	1.40%

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

(VI) Concentration of Borrowers

As at 30 June 2016, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets out, as at 30 June 2016, the Bank's 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a NPL.

Industry		As at 30 June 2016		
		Loan balance	% of Total loans	% of Net capital
(In RMB million, except percentage)				
Borrower A	K- Real estate	1,060.0	0.55%	2.39%
Borrower B	H- Wholesale and services	978.6	0.51%	2.20%
Borrower C	H- Wholesale and services	976.0	0.51%	2.20%
Borrower D	K- Real estate	892.0	0.46%	2.01%
Borrower E	L- Leasing and business services	855.5	0.44%	1.93%
Borrower F	A- Agriculture, forestry, husbandry and fishery	760.0	0.39%	1.71%
Borrower G	N- Water conservation, environment, public utility management and investment	673.0	0.35%	1.52%
Borrower H	K- Real estate	666.7	0.35%	1.50%
Borrower I	I- Accommodation and catering	609.2	0.32%	1.37%
Borrower J	H- Wholesale and services	605.3	0.31%	1.36%
Total		8,076.3	4.19%	18.19%

(VII) Overdue loans and advances to customers

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Current loans	185,583.7	96.3%	143,509.6	96.5%
Loans past due: ⁽¹⁾				
For 1 to 90 days	3,999.3	2.1%	2,999.9	2.0%
For 91 days to 1 year	1,922.4	1.0%	1,443.1	1.0%
For 1 year and above	1,213.5	0.6%	722.2	0.5%
Subtotal	7,135.2	3.7%	5,165.2	3.5%
Total loans to customers	192,718.9	100.0%	148,674.8	100.0%

Management Discussion and Analysis

As at 30 June 2016, the amount of overdue loans totaled RMB7,135.2 million, up RMB1,970.0 million as compared to the end of last year, mainly the loans within 90 days overdue; the overdue loans accounted for 3.7% of the total loans, up 0.20 percentage point as compared to the end of last year, of which the loans within 90 days overdue accounted for 2.1% of the total loans. The overdue loans were mainly temporary, primarily due to the slower capital turnover and longer repayment period of certain clients affected by the economic environment. The Bank conducts the whole process management of loan. According to the stage and risk level exposed to, it adopted specific preventive measures to prevent overdue loans from increasing and loan quality from declining.

Note:

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

(VIII) Movements of allowance for impairment losses on loans

The Bank adopts individual assessment and collective assessment on impairment loss on loans as at the balance sheet dates. The Bank takes prudence as its principle and makes provision for impairment in the full amount. As at 30 June 2016, impairment losses on loans amounted to RMB4,733.2 million, up RMB1,119.9 million as compared to the end of last year. The impairment losses on loans ratio was 2.46%, up 0.03 percentage point as compared to the end of last year.

Movements of allowance for impairment losses are as follows:

Items	As at	
	30 June 2016	31 December 2015
	(In RMB million)	
Balance at the beginning of the period	3,613.3	2,916.1
Exchange difference	1.6	3.2
Impairment loss:	1,147.4	893.5
Impairment allowances charged	1,174.4	919.4
Reversal of impairment allowances	(27.0)	(25.9)
Accreted interest on impaired loans	(44.9)	(46.7)
Write-off	(99.2)	(223.8)
Recoveries of loans and advances previously written off	115.0	71.0
Balance at the end of the period	4,733.2	3,613.3

VI. Segment Report

(I) Geographical Segment Report

The description of the geographical areas is as follows:

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

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

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

Management Discussion and Analysis

	Mainland China					Total
	Heilongjiang region	Other northeast region	Southwest region	Northern China	Other regions	
(In RMB million)						
For the six months ended						
30 June 2015						
Operating income	3,398.5	641.4	943.2	353.4	177.4	5,513.9
Operating expenses	1,336.5	204.3	275.0	115.0	65.3	1,996.1
Impairment losses	527.8	46.2	134.9	37.4	10.6	756.9
Operating profit	1,534.1	391.0	533.3	201.0	101.5	2,760.9
As at 30 June 2015						
Segment assets	249,997.5	39,463.4	73,053.0	22,894.1	6,378.7	391,786.7
Segment liabilities	231,312.3	38,968.6	62,006.6	22,812.8	5,466.8	360,567.1

The table below sets out the Bank's operating income by geographical regions and their proportion to the Bank's total operating income for the periods indicated:

	For the six months ended 30 June			
	2016		2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Heilongjiang region	4,887.5	71.3%	3,398.5	61.7%
Other northeast region	467.3	6.8%	641.4	11.6%
Southwest region	943.0	13.7%	943.2	17.1%
Northern China	368.2	5.4%	353.4	6.4%
Other regions	193.5	2.8%	177.4	3.2%
Total operating income	6,859.5	100.0%	5,513.9	100.0%

(II) Business Segment Report

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

	For the six months ended 30 June			
	2016		2015	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Corporate finance business	2,653.6	38.7%	2,638.2	47.8%
Retail finance business	1,760.5	25.7%	1,112.0	20.2%
Financial institutions business	2,386.7	34.8%	1,725.9	31.3%
Other businesses ⁽¹⁾	58.7	0.8%	37.8	0.7%
Total operating income	6,859.5	100.0%	5,513.9	100.0%

Note:

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

VII. Analysis on Capital Adequacy Ratio

The Group continued to optimize its business structure and strengthen capital management, and as at 30 June 2016, the capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio were 13.26%, 10.34% and 10.34%, the core tier-1 capital adequacy ratio and the tier-1 capital adequacy ratio decreased by 0.80 percentage point and 0.80 percentage point respectively as compared to the end of last year, while the capital adequacy ratio increased by 1.62 percentage points as compared to the end of last year, which were 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 risk-weighted assets, the distribution of cash dividends and the issuance of tier-2 capital bonds.

Management Discussion and Analysis

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

	As at 30 June 2016	As at 31 December 2015
	(In RMB million, except percentages)	
Core capital	34,753.0	33,661.3
Core Tier 1 Capital deductibles item:		
Full deductibles items	(139.8)	(133.9)
Net core tier 1 capital	34,613.2	33,527.4
Net other tier 1 capital	0.0	0.0
Net tier 1 capital	34,613.2	33,527.4
Net tier 2 capital	9,769.9	1,534.6
Net capital	44,383.1	35,062.0
Credit risk-weighted assets	310,446.3	278,894.3
Market risk-weighted assets	5,236.5	3,278.7
Operational risk-weighted assets	19,004.1	18,918.4
Total risk-weighted assets	334,686.9	301,091.4
Core tier 1 capital adequacy ratio	10.34%	11.14%
Tier 1 capital adequacy ratio	10.34%	11.14%
Capital adequacy ratio	13.26%	11.64%

VIII. Business Operation

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

(I) Corporate finance business

In the first half of 2016, the Bank developed its corporate finance business based on the principle of “stable and steady progress”. Focusing on government-backed loans and green industry loans, it leveraged upon product innovations and the cooperation between the corporate finance headquarters and the inter-bank finance headquarters to enhance overall customer value contribution. As a result, in addition to safeguarding the quality and security of underlying assets, it achieved continuous improvement of its efficiency in operation and management as well as the profitability of business lines. It aimed to forge differentiated competitiveness and a framework of managed assets which characterised on “low risk, high yield, light assets and fluent liquidity”.

During the Reporting Period, the Bank constantly strengthened the corporate finance products development. It developed a more complete product lines, steadily improved its service quality, and achieved steady progress and development of its corporate financing business. During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB1,247.3 million (accounting for 39.4% of profit before tax of the Bank) and operating income of RMB2,653.6 million (representing an increase of 0.6% as compared with the same period of last year and accounting for 38.7% of operating income of the Bank).

Corporate customers

Leveraging upon the advantages in its cross-regional outlet laid-outs, and by focusing on a core customer base comprising governments, markets and citizens to enhance the overall customer profit contribution, the Bank continuously fine-tuned the levels of its meticulous management of customers, thereby further solidified its customer base. As at the end of June 2016, the Bank had 89,022 corporate customers, representing an increase of 12,246 from the beginning of the year.

The Bank persisted on actively identifying customers' needs with a view to enhancing the overall profit contribution by customers. Through product innovation, the Bank satisfied demands for sophisticated financing and consulting under the new economy characterised by comprehensive asset and liability management, wealth management and capital operation. The Bank also enhanced the overall customer quality to drive business growth. By offering appropriate customer value propositions based on thorough understanding of customers' needs, the Bank accurately targeted at quality customers and a core customer base was established to further explore the customer value. In particular, the Bank placed emphasis on quality industries and quality customers and created a rippling effect enabling it to establish a full industry chain customer service model covering both upstream and downstream enterprises.

Corporate deposits

During the Reporting Period, the Bank made great efforts in developing funds sources for corporate liabilities business. It initiated various deposit marketing campaigns, continuously strengthened its cooperation with government authorities and enterprises, made active preparations for issuing green financial bonds, obtained the qualification of traffic penalty collection bank, with the certificate of deposit broke through the RMB1.0 billion. Moreover, the Bank actively sought co-operation with third party payment platforms and entered into letters of intent with famous insurers for insurance agency service business, thereby boosting the diversification of sources of funds. As at 30 June 2016, corporate deposits and the average daily deposit of the Bank amounted to RMB225,445.1 million and RMB185,787.7 million, representing an increase of 6.8% as compared to the end of last year and an increase of 29.2% as compared to the same period last year respectively. Demand deposits accounted for 38.8% of corporate customer deposits of the Bank. According to the statistics provided by the Harbin branch of the People's Bank of China, at the end of the Reporting Period, the balance of corporate deposits of the Harbin branch of the Bank accounted for 15.05% of corporate deposits in the local market, ranking the first in the local market.

Management Discussion and Analysis

Corporate loans

During the Reporting Period, the Bank focused on developing government-backed projects and providing supports to projects which support the real economy and livelihood and increased its cooperation with external organizations. It put great effort in key tasks such as product innovation, marketing and business growth in order to provide customers with comprehensive financial services of quality and efficiency. The Bank successfully completed its first asset securitization, which resulted in higher asset liquidity. At the same time, the Bank also focused on promoting government-backed loans and green industry loans, and further strengthened its support on livelihood projects such as infrastructure construction through innovative financial products including industry funds and merger and acquisition loans. It also allocated more resources to green industry projects and embarked on bond issuance for green industries to boost the green economy. The loan floating pricing mechanism was further developed and improved. As at 30 June 2016, the corporate loan balance of the Bank amounted to RMB103,769.7 million, representing an increase of 19.8% from the beginning of the year and accounting for 53.8% of total loans. Being conscious of observing the risk baseline, the Bank kept the overall quality of its loan assets under control in general with the balance of NPLs at RMB1,315.3 million.

Intermediary services

During the Reporting Period, the Bank, aiming at launching star products which featured “demand, transaction, profitability and influence”, endeavored to develop its corporate wealth management and financial consulting businesses. It constantly improved and diversified its intermediary services through business innovations such as merger and acquisition loans, and collaboration of investment and lending. With these efforts, it strove to offer one-stop financial solutions and services encompassing the entire process of the transaction, which resulted in significantly enhanced market competitiveness and profitability. The Bank continued to strengthen its management of the intermediary services by sub-categorizing customers, adopting differentiated marketing strategy, applying advanced technology and developing its teams. It also continuously promoted business development in corporate settlement and capital management, collection and payment and online banking, aiming to further enhance its capability in payment, settlement and capital management for corporate customers. It also placed great efforts into promoting bill business, supply chain finance and trade finance, resulting in steadily increasing transaction banking capabilities. Furthermore, the Bank set up a modernized marketing framework with multiple layers and perspectives, enabling it to take active moves in promoting different kinds of financial services and business and to improve customer experience.

(II) Retail finance business

The Bank was dedicated to provide “comprehensive retail finance” and adopted “customer-oriented” business philosophy by strengthening research and trend analysis in retail business and striving to achieve breakthroughs in key areas such as marketing, segmentation management, and professional capability in wealth management. It continues to strengthen its brand of “comprehensive retail finance” so as to improve the market competitiveness and profit contribution of the retail finance business.

In the first half of 2016, the Bank continued to improve its pricing mechanism and IT system of the retail finance business, therefore enhancing the risk pricing capability and creating a new profit model. During the Reporting Period, the retail finance business of the Bank recorded profit before tax of RMB557.3 million (accounting for 17.6% of profit before tax of the Bank) and operating income of RMB1,760.5 million, representing a year-on-year increase of 58.3% and accounting for 25.7% of the operating income of the Bank.

Retail customers

By leveraging the interactive internet business platform and consolidating its online and offline resources, the Bank actively expanded its retail customer groups and continuously explored its customer value. By and through its consumer finance business, the Bank achieved rapid growth in the number of customers by penetrating into more long-tail customers of the middle to low income levels, such as young white collars, fresh graduates and migrant workers, and vigorously expanded and diversified its cooperation channels and achieved wider consumption coverages, and thereby increased the number of customers it served. As at 30 June 2016, the Bank had approximately 16.24 million retail customers, up by approximately 6.24 million as compared to the beginning of the year, of which over 8.60 million were customers with existing loans.

Retail deposits

The Bank provided demand and time deposits service to retail customers based on the range between the statutory base interest rate and the floating interest rate. Such deposits are mostly denominated in RMB with only a small portion being denominated in foreign currencies. As at 30 June 2016, the total retail customer deposits of the Bank amounted to RMB105,228.2 million, representing an increase of RMB9,411.7 million or 9.8% from the end of last year. The average balance of retail deposits amounted to RMB90,719.2 million, representing an increase of 16.4% as compared to the end of last year. The number of customers with personal financial assets (in RMB and other currencies) over RMB50,000 amounted to 430,400, up by 4.4% as compared to the end of last year. Demand deposits accounted for 41.2% of retail customer deposits.

Retail loans

The Bank's retail loans has always been customer-oriented, forging its core competitiveness through incorporating customers' scenarios into its mobile finance, targeting customer groups and continuous product optimization and innovation. In the first half of 2016, the key target customers of were retail loan business middle class in cities, new agricultural entities, individual businesses, small and micro business owners, university students and consumer groups involving different scenarios. The Bank further optimized and promoted its retail credit products including White-collar e-Loans, Harvest e-Loans, Taxation e-Loans and Profit e-Loans, thereby achieving a significant increase in the market competitiveness. In the first half of 2016, the internal retail rating model had been optimized and upgraded with full application of post-loan behavior rating models and demand rating models. Moreover, the Bank, by strengthening the cooperation with third-party data agencies and online platforms, further enhanced the capability to control risks associated with retail loans. The implementation of the centralized retail credit operating model, the high efficiency of the independent approver mechanism and the pilot promotion of the mobile credit mode together streamlined the retail services and further enhanced the Bank's awareness of and ability to respond to demand for financial services. As at 30 June 2016, the Bank's personal loans amounted to RMB85,870.2 million, accounting for 44.6% of the Bank's total customer loans, and of which loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB19,189.8 million, RMB54,281.1 million and RMB12,399.3 million, respectively. In the first half of 2016, the White-collar e-Loans, by virtue of its innovative business mode of internet+microcredit, was named one of the Top 10 Financial Innovative Products for 2016 (2016中國十佳金融產品創新獎) in the China Financial Innovation Forum and China Financial Innovation Award Ceremony for 2016 (中國金融創新論壇暨2016中國金融創新獎頒獎典禮) jointly organized by the Banker, the CCTV, the Institute of Finance and Banking of the Chinese Academy of Social Sciences and the Central University of Finance and Economics.

Bank cards

During the Reporting Period, the Bank carried out a comprehensive upgrade of its bank card business. Advanced business systems and management mechanisms was introduced in order to develop new stimulus of growth in the Bank's business, in order to achieve faster expansion and become the top bank card brand among city commercial banks. As at 30 June 2016, the total number of issued credit cards reached 185,800, of which 8,900 were newly issued during the Reporting Period, up by 5.06% and 12.48% as compared to last year and the same period last year respectively. The credit card asset balance amounted to RMB2,475 million, down by 20.36% as compared to the end of last year and 22.03% as compared to the end of the same period last year, mainly due to the lower growth rate during the Reporting Period resulting from the system modifications and infrastructure construction of the bank card business currently undergoing by the Bank. As at 30 June 2016, the number of debit cards issued by the Bank recorded a steady increase. The total number of issued debit cards reached 9.68 million, of which 681,100 were newly issued during the Reporting Period, up by 7.57% as compared to last year.

Wealth management

The Bank constantly enhances its wealth management capability to further accelerate the development of the wealth management business. As at 30 June 2016, the Bank recorded total sales of personal wealth management products of RMB83,811 million, up by RMB29,379 million year on year. In the first half of 2016, sales of insurance amounted to RMB720 million and those of sovereign bonds amounted to RMB401 million. By diversifying its product portfolio and enhancing sales professionalism in terms of management and marketing capabilities, the Bank made long strides in exploring customer value deeply and recorded retail management fees and commissions of RMB38 million, which was 2.6 times that for the same period last year. The Bank was listed as China's Best Wealth Management Brand of City Commercial Bank (Agricultural and Commercial) for 2016 (2016中國最佳城商行(農商行)理財品牌) in China's Best Wealth Management Selection for 2016 (2016中國最佳財富管理評選) organized by Securities Times.

(III) Financial institutions business

For the first half of 2016, the financial institutions business actively implemented the “comprehensive asset management” strategy and made a reasonable layout of the notes, bonds, currency, wealth management, foreign exchange and interbank investment businesses. Through expansion into business areas such as municipal bond investment, and collaboration of investment and lending, it achieved an increased profit contribution. As at 30 June 2016, the Bank recorded investment in municipal bonds of RMB4,864.6 million, and continued to maintain its status as a member of financial bond underwriting syndicates for the “policy” banks. Upon obtaining the qualification for credit asset securitization in November 2015, the Bank proactively coordinated its credit asset securitization issuance business. The first tranche of credit asset-backed securities of RMB2,257 million was successfully issued on 18 March 2016. In order to secure low-cost active liabilities effectively, the Bank successfully issued tier-2 capital bonds of RMB8.0 billion.

During the Reporting Period, the interbank finance of the Bank recorded profit before tax of RMB1,276.1 million, representing a year-on-year increase of 23.6%, and operating income of RMB2,386.7 million, representing a year-on-year increase of 38.3% and accounting for 34.8% of operating income of the Bank.

Money market transactions

During the Reporting Period, affected by China's expected marginal improvement in economic fundamentals, returned inflation and the uncertainties relating to interest rate hike by the Federal Reserve System, the bond market shown wide fluctuations. Under such circumstances, the Bank adjusted its investment pace by timely realizing gains from premium arising from its existing bond holdings; reasonably arranged investment duration to enhance liquidity, and strengthening swing trading to realize gains. Meanwhile, by making reasonable term of capital liquidity arrangements and safeguarding capital while minimizing capital costs, it secured stable increase in income and continued improvement in profitability.

As at 30 June 2016, the balance of the amounts due from and placement with banks and other financial institutions and financial assets held under reverse repurchase agreements was RMB40,245.3 million, representing a decrease of RMB40,817.7 million or 50.4% over the end of last year. The balance of the amounts due to and placement from banks and financial assets sold under repurchase agreements was RMB73,011.0 million, representing an increase of RMB699.1 million or 1.0% from the end of last year.

Management Discussion and Analysis

Investments in securities and other financial assets

During the Reporting Period, the Bank accurately seized investment opportunities arising from market trends, made reasonable investment period arrangements and increased transaction frequencies, thereby realized stable swing trading income and improved profitability. The Bank also enhanced investment allocation, resulting in increased investment income and also supplemented the types of liquidity bonds.

As at 30 June 2016, the Bank's balances of securities investments and other financial assets amounted to RMB153,191.7 million. As at 30 June 2016, the total amount of the Bank's bond investments was RMB50,430.0 million, representing an increase of RMB11,024.1 million or 28.0% from the end of last year. As at 30 June 2016, the total amount of the Bank's bond instruments issued by financial institutions was RMB102,737.1 million. Moreover, according to China Central Depository & Clearing Co., Ltd., the bonds traded by the Bank in the first half of 2016 amounted to RMB1,541.4 billion.

Wealth management business

During the Reporting Period, the Bank issued 340 tranches of wealth management products to its customers, and raised total proceeds of RMB116,066 million. As at 30 June 2016, the balance of wealth management products was RMB106,406 million, representing an increase of 27.14% from the end of last year, of which non-principal protected wealth management products amounted to RMB54,258 million and principal protected wealth management products amounted to RMB52,148 million. In terms of assets allocation, the Bank controlled the size of the investments in non-standard debt-based assets strictly in compliance with relevant regulations of regulatory authorities. As at 30 June 2016, the balance of wealth management investments in non-standard debt-based assets amounted to RMB120 million, accounting for 0.11% of the balance of the Bank's wealth management products and 0.03% of the Bank's total assets as at the end of 2015, which were in compliance with the regulatory requirements.

(IV) Mobile finance

Under the mobile finance headquarters of the Bank, there are Mobile Finance Department, Internet Finance SBU and Cross-border E-commerce Direct Operation Team, which are responsible for innovation and marketing of traditional electronic banking channels, mobile business, and emerging mobile finance. In the first half of 2016, the Bank adhered to the strategy of developing mobile finance as its priority. It dedicated to improve customer experience and meet customer demands, the Bank simultaneously facilitated mobile finance product innovation and traditional business migration, and by mobilizing the internal resources of the Bank, it quickly raised the market share and influence rapidly.

1. *Traditional business from offline to online*

Adhering to the principle of “prioritizing customer experience”, the online channels of the Bank deeply explored customers’ demands, and fastened the research and development on innovative products in respect of mobile credit, mobile payment, mobile wealth management and other fields. All procedures for loan products including Ji E Loans (極e貸), White Collar Loans (白領薪貸) and White-collar e-Loans (白領e貸) can now be conducted through online. Based on the daily life scenarios of the customers, the Bank introduced new functions such as QR code withdrawal, mobile payment and online medicine purchase, and accelerated the promotion of online wealth management products. As at 30 June 2016, total sales of wealth management products through electronic channels amounted to RMB45.0 billion, of which sales of wealth management products through mobile channels accounted for approximately 77% of total sales of wealth management products through electronic channels, which is evident of the competitive edges of mobile sales of wealth management products. Meanwhile, the Bank coordinated channel laid-out and arrangement, facilitated building up of channels and optimization of functions, launched the direct banking, pushed forward optimization of mobile banking, revised corporate online banking and facilitated channel marketing and promotion, thus gradually increasing the influence and value of electronic channels. During the Reporting Period, the Bank obtained the Best Customer Experience and Innovation Award issued by China Internet Banking Union, and 2016 Best Social Media Marketing Award for Financial Industry by the China Financial Certification Authority.

2. *Internet finance*

Leveraging its experience in microcredit business over the years, the Bank designed the online-only credit products tailored for wage earners, white collars and small and micro enterprises through various technologies and means, such as financial scenarios modelling, comprehensive channels planning and big data utilizing. In the first half of 2016, the Bank completed the process optimization and technology upgrade for existing POS loans. While continuing to provide more personalized, convenient lending services for owners of small enterprises, the Bank also strived to minimize lending risks and sort out high quality customers. Over the past two years, the online credit products of the Bank ranked top among its peers in terms of reputation and market share. As at 30 June 2016, there were 2.06 million new customers with existing loans for the Internet Finance SBU, an increase of 410.36% from the beginning of the year. The average annualized interest rate of loans was above 10%.

Management Discussion and Analysis

3. Cross-border E-commerce payment and settlement

The cross-border E-commerce payment and settlement platform operated smoothly with increasing number of commercial customers and rapid growth in transaction volume. During the Reporting Period, there was an increase of 168 new commercial customers on the platform, a total of 2.25 million cross-border payments were processed with transaction volume breaking through RMB923 million. Online cross-border E-commerce payment and settlement for exports accounted for 6% of China's interbank market and had the fourth largest market share. There were 3 new overseas payment channels on the platform, covering offline payment and settlement for international credit cards, Russia online banking payment and electronic wallet payment. Hence, the overseas payment channels on the platform were further enhanced. Meanwhile, the Bank further strengthened its risk detection and management on commercial customers and transactions. It introduced the tool from the world famous anti-fraud trading service provider, and strengthened the detection and identification of illegal transactions, thereby ensuring steady, safety operation and operational compliance of the platform. In the first half of the year, such platform was selected and included in the major project repository of the National Development and Reform Commission compiled for "One Belt, One Road".

(V) Key featured businesses

1. Microcredit business

For the first half of 2016, the Bank completed the formulation of its new five-year strategic plan, which set up the strategic goal of "establishing itself into an international leading, microcredit bank with excellent services and distinct features". This reflected that the Bank is highly focused on and adhered to its microcredit business. The Bank continued to focus on the innovation and R&D works in respect of technology and business mode for microcredit business. Focusing on the theme of "Year of Products", the Bank fully advanced the development of its specialized operating departments including the Microfinance SBU, the Consumer Finance SBU and the Housing Loan SBU. As at 30 June 2016, the balance of the Bank's microcredit loans reached RMB144,649.0 million, representing an increase of 29.3% from the end of last year and accounting for 75.1% of the Bank's total loans to customers. During the Reporting Period, the interest income from the Bank's microcredit business was RMB3,732.1 million, accounting for 68.7% of the total interest income from loans to customers.

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

	As at 30 June 2016		As at 31 December 2015	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans to small enterprises	58,778.8	40.6%	50,297.7	45.0%
Personal loans	85,870.2	59.4%	61,596.4	55.0%
Total amount of microcredit loans	144,649.0	100%	111,894.1	100.0%

Small enterprise finance

In the first half of 2016, the Bank's small enterprise finance focused on establishing the "new microcredit" business brand, and stuck to its microcredit development strategies. Centering on five major aspects, namely "strengthening marketing to maintain growth", "innovating products to establish system", "stringent risk control to reduce NPLs", "training key employees to strengthen management team", and "optimizing internal control to enhance efficiency", the Bank smoothly launched its various strategic works. The Bank proactively optimized the product system for small enterprises, and developed various products including "Yi Yang Loan (頤養貸)", "Qian E Loan (乾e貸)" and "Property Loan for Small Enterprise (小企業物業貸)". By expanding online distribution channels, the Bank provided its customers with a wider range of products and offered better services, thus increasing the comprehensive income from small enterprises. During the Reporting Period, the Bank launched a series of marketing campaigns, including "Ace Competition Campaign (王牌之爭、勇奪先鋒)", "Technology Pioneer (科技先鋒)" and "Searching for the Most Valuable Person (尋找最具價值的你)". The customer growth rate reached 5.11%. In respect of asset quality management, the Bank implemented multi-dimensional supervision system and multi-dimensional defense mode. By fully leveraging the credit system, risk alert system and other systems, the Bank managed, discovered and analyzed off-site data and discovered risk alert in a timely manner, thus achieving dynamic risk alert management. As at 30 June 2016, the Bank's balance of corporate loans to small enterprises amounted to RMB58,778.8 million, representing an increase of RMB8,481.1 million over the end of last year; the balance of NPLs amounted to RMB927.4 million, and the NPL ratio was 1.58%.

During the Reporting Period, the "Revolving Loan (流動貸)" for small enterprises, won the title of "2015 Top 100 Financial Products for Serving Small and Micro Enterprises and the Three Rural" awarded by the China Banking Association. The Bank was one of the ten award-winning banks across the country, as well as the only institution in Heilongjiang Province to win such award.

Consumer finance

During the Reporting Period, focusing on blue collars and the youth whose income were at or below average, the product lines of the Bank's consumer finance were further enriched, and the white-list of existing customers had expanded, thus achieving repeated sales. The Bank introduced third party data base and establishing anti-fraud models to control overall operating risk exposures. It has incorporated big data and mobile interaction technology into its traditional banking credit business. Based on actual transaction scenarios, the Bank has expanded the online inflows and offline cooperation channels. The Bank has promoted its comprehensive consumer finance services through subdividing scenarios and collecting data. Through the characteristics of financial scenario modelling, digitization and information sharing of our consumer finance business, the Bank is thereby able to fulfil the long-tail finance demands for a wider range of customers in the market and to offer convenient and inclusive products and services with good quality to more end customers. As at 30 June 2016, the Bank had launched consumer finance in several cities over China with personal consumption loans amounted to RMB54,281.1 million, representing an increase of 58.2% from the end of last year, and of which the Consumer Finance SBU granted personal consumption loans of RMB10,508 million with a balance of RMB12,086 million, representing an increase of 79.8% from the end of the year.

Management Discussion and Analysis

Microfinance

During the Reporting Period, the Microfinance SBU of the Bank continued to enhance “Credit Factory” by applying and optimizing standardized microfinance model rating systems and multi-point risk prevention systems. It continued to offer quality microfinance services for the self-employed and wage earners with stable income in Harbin, Dalian, Shenyang, Tianjin, Chongqing and other regions. As at 30 June 2016, the Bank’s loans to small enterprise owners amounted to RMB19,189.8 million, representing an increase of 9.3% from the end of last year, and of which the balance of loans from the Microfinance SBU accounted for RMB1,058 million, representing an increase of 23.3% from the beginning of the year. The number of customers of microfinance business was 7,695, representing an increase of 2,067 from the beginning of the year. The average loan pricing was 14.19%.

Housing loans

During the Reporting Period, the Bank focused on the theme of “Year of Products” and the Housing Credit Banking SBU of the Bank introduced two innovative housing loan products, namely the “An Ju Loan (安居貸)” and “Property Mortgage Loan (房抵貸)”. It put great efforts into establishing a comprehensive servicing model for customers from batch marketing, and steadily implemented the retail credit centralized operating system. Through establishing a full-chain and standardized anti-fraud management system by making use of the big data analysis technology, the Bank aims to become a unique, competitive housing loan service provider. As at 30 June 2016, the Bank’s personal housing loans amounted to RMB10,331.1 million, representing an increase of 46.7% from the end of last year.

Loans to farmers

For details of the loans to farmers of the Bank, please refer to the section headed “Key Featured Businesses” – “Modern Agriculture Finance Business” under this interim report.

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

During the Reporting Period, the Bank continued with the Sino-Russia financial services as its bank-wide strategy by leveraging the operational advantages of the Sino-Russia SBU, the Bank thus maintained its leading position in Sino-Russia financial services among its domestic peers. The Bank’s Sino-Russia financial businesses developed rapidly. As at 30 June 2016, the Bank’s financial services to Russia generated operating income of RMB115.6 million, representing an increase of 25.7% from the same period last year. The Bank’s balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB5,862 million, representing an increase of RMB3,263 million or 125% from the same period last year. The Bank’s international settlements reached US\$1,450 million, representing a year-on-year increase of 10%.

In 2015, the Bank, as the Chinese promoter, together with Sberbank of Russia initiated the establishment of the first platform for the cooperation and interaction among financial institutions of China and Russia, namely the Sino-Russia Financial Council. During the Reporting Period, 14 institutions newly joined, making the number of members reach 49. The Sino-Russia Financial Council successfully held the 2016 Sino-Russia Financial Council Innovation Forum under the theme of “Challenges and Opportunities: Cooperation between Financial Institutions under the New Normal” in Hainan. 51 institutions comprising economists, members and corporate representatives in China and Russia participated in the Forum. The Cooperative Agreement on Supporting Future Financial Development in Far East and Siberia Region of Russia and the Cooperative Agreement on Talent Training and Exchange Programme of Corporate University of Sberbank of Russia were successfully signed. The success of the Forum had a great impact on the financial sector in both countries. During the Reporting Period, the Bank cooperated with Sberbank of Russia and Asia Pacific Commercial Bank in launching the Internship Exchange Programme between Chinese and Russian Financial Institutions, and entered into the cooperative agreement. The first phase of exchange training commenced successfully. As at 30 June 2016, the Bank’s total credit granted to Russian banks amounted to approximately RMB7,106 million, which played an important role for the development of cooperation between Chinese and Russian financial institutions.

During the Reporting Period, the Company actively pushed on the innovation and promotion of cross-border financial products, launching various innovative products such as the cross-border wealth management portfolios “Caihui Zengying” (財匯增盈) and the direct lending with domestic guarantee business subject to the sale and leaseback. The cross-border electronic commercial payment business developed rapidly. As the only financial institution in China participating in the loans, the Company participated in the approximately EUR250 million dual currency international syndicated loans to the GBI Bank of the Netherlands, which was initiated by the Wells Fargo of America and joined by 24 international financial institutions. The Bank’s involvement demonstrated the comprehensive strength of the Bank in participating in the financial cooperation between Europe and America, and expanded its international influence on the global financial market.

As at 30 June 2016, the number of overseas correspondent banks of the Bank reached 519, including 128 correspondent banks in Russia. The Bank becomes one of the banks with the largest number of Sino-Russia correspondent banks in China. The Bank actively cooperated and interacted with its agents in respect of risk prevention regarding international business, anti-money laundering and anti-terrorism, as well as regional economic exchange. As at 30 June 2016, the Bank handled Ruble foreign exchange of RUB30,198 million and cross-border transactions in Ruble cash of RUB60.33 million. During the Reporting Period, the Bank proactively initiate Sino-Russia Ruble trading.

During the Reporting Period, due to the outstanding performance of the Bank in Sino-Russian financial services, the Bank was awarded three international awards, including the 2016 Top Ten Innovative Project in China by Securities Times, the 2016 Top Ten Innovative Banking Products Award by The Banker and the Best Regional Trade Finance Bank of China in 2016 by The Asian Banker.

3. *Modern agriculture finance business*

In the first half of 2016, adhering to the policies relating to modern agriculture, national food and land, and leveraging the opportunities arising from the complementing reforms in facilitating modern agriculture development and in optimizing financial supports, the Bank continued to put greater efforts into supporting agriculture development and implemented in Heilongjiang the concept of maintaining innovative, coordinated, environmentally friendly, open and sharing development, thus promoting the structural reform of agriculture supply and accelerating the transformation of the development mode of the agriculture industry. Leveraging the upstream and downstream integration implemented by leading enterprises in the agriculture industry, the Bank supported food enterprises in implementing an integrated industry development plan, covering planting, storing, processing and trading, and gradually facilitating the land circulation financing business. The Bank accelerated product upgrade and innovation, and optimized its pledge of food product ownership business. Through pledge of product ownership, the Bank provided its customers with a basket of financing services, enabling the rapid expansion of the operating scale of food storage and processing businesses. As at 30 June 2016, the Bank's agriculture loans were RMB41,023.0 million, representing an increase of 21.4% from the end of last year, including loans to farmers of RMB12,399.3 million, representing an increase of 27.6% from the end of last year.

Under the guidance of the national policy on modern agriculture development, the Bank continued to put increased efforts in offering financial supports to new-type agriculture entities. As at 30 June 2016, the balance of loans to farmers amounted to RMB12,399.3 million, representing an increase of 27.6% from the beginning of the year. During the Reporting Period, the Bank promoted its new agriculture loan products with "Harvest E Loan" as the flagship product. In the first half of 2016, the Bank released 14,000 loans amounting to RMB1,130 million, serving 3,565 new-type agriculture entities including professional large-scale agriculture entities and family farms. During the Reporting Period, the Bank continued to enhance its agriculture finance product innovation. It introduced pledged loan secured by live poultry, namely "Chu Bao Tong (畜保通)", which further expanded the financial collateral methods for agriculture loans, thus facilitating the development of poultry loan business and creating new income source for the agriculture finance business. The Bank proactively responded to the national policy of providing collateral based on the "Two Rights", i.e. the "rural land contracting right and farmer's residential property right". Within four days following the official launch of the Provisional Administrative Measure for loans secured by the "Two Rights", the Bank promptly responded by successfully granting 4 loans secured by rural land contracting right, thus becoming the first batch of financial institutions in China to grant loans secured by rural land contracting right, which received huge support and approvals from regulators and attracted media attention, including XINHUANET.com, Sina Finance and www.dbw.cn.

During the Report Period, due to outstanding performance and contribution of the Bank in agriculture finance business, the Bank was awarded the "2015 Top Ten Innovative Institutions (Agriculture Finance) in China" under the "Agriculture Credit Cup – the Sixth Value Ranking of Rural Financial Brands" election.

(VI) Information on controlling subsidiaries

1. *Village and township banks*

As at the end of the Reporting Period, the Bank had 24 controlling village and township banks, and 36 village and township sub-branches, which were mainly located in the seven administrative regions in northeastern, northern, northwestern, southwestern, central southern, southern and eastern regions of China. As at 30 June 2016, the total assets of the 24 village and township banks amounted to RMB22,610 million, of which the total amount of loans amounted to RMB11,604 million, representing a year-on-year increase of 12.4%. The balance of deposit amounted to RMB15,922 million, representing a year-on-year increase of 15.6%. Net profit amounted to RMB201 million, representing a year-on-year increase of 25.1%.

Village and township banks established by the Bank had thoroughly implemented the overall strategy of the Group. Adhering to the microcredit and the “four adherences”, i.e. adhering to localization, downward expansion, specialized operation and serving the “three rural” and small and micro enterprises. Driven by product innovation and corporate culture establishment with the support of technology, the Bank gradually established unique product series and cultural systems for village and township banks, thus achieving steady development. Meanwhile, by grasping the opportunities arising from national and regional policies, the Bank succeeded in expanding its business scale and further enhancing its profitability, aiming to provide better capital returns for shareholders and make greater contributions to the overall development of the Group.

2. *HB Leasing*

Since its establishment two years ago, HB Leasing made some achievements in respect of asset scale, accumulated investments and business innovation mode, and maintained a leading position in terms of agriculture leasing. As at 30 June 2016, the total assets of HB Leasing amounted to RMB17,763 million. The accumulated investments of its leasing business amounted to RMB7,290 million, with net profit of RMB112 million. The rental yield ratio was 100%.

HB Leasing always strives to serve the “three rural” and remains steadfast in its agricultural strategies. Aiming to become a reputable and popular leading financial leasing company in China with outstanding characteristics, effective governance, meticulous management, leading technologies, sound asset, rich returns, respected and beloved, HB Leasing strives to follow the unique and differentiated development path. Centering on maintaining operation efficiency and by means of management, HB Leasing strives to develop its featured businesses, proactively creates new income source, explores the agriculture and agricultural equipment industries and puts great efforts into developing the agricultural leasing business. Through innovation in leasing of special products and businesses, HB Leasing strives to become a financial leasing company with unique characteristics, steady operations, strict risk controls and excellent performance.

Management Discussion and Analysis

(VII) Distribution channels

1. *Physical network*

As at 30 June 2016, the Bank had a total of 351 branch outlets, including 17 branches, 275 sub-branches, 1 branch-level financial service centre for small enterprises, and 24 controlling village and township banks and their 34 sub-branches.

2. *Electronic banking*

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking and phone banking with offline self-service terminals. Electronic modes of business have become the most important business channels of the Bank. As at 30 June 2016, the replacement rate of electronic banking reached 77%, up by 4 percentage points since the beginning of the year, and that of mobile phone banking reached 30%, up by 6 percentage points since the beginning of the year.

(1) **Self-service banking**

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account inquiry, bill payment, passcode changing and transfer services. While enriching the equipment functions, the Bank proactively established management system with effective management skills and supervisory means. It made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of all self-service terminals across the Bank. As at 30 June 2016, the Bank had 933 self-service terminals, representing an increase of 3.21% from the beginning of the year, including 387 automatic withdrawal machines, 379 ATMs, 161 multi-media inquiry machines and six card issuance machines.

(2) **Online banking**

The Bank continued to expand the functions of online banking. As at 30 June 2016, a total of 1,111,700 customers opened their online banking accounts with the Bank, representing an increase of 17.31% over the beginning of the year. Corporate online banking customers amounted to 62,700, representing an increase of 32.56% over the beginning of the year. Personal online banking customers amounted to 1,049,100 in total, representing an increase of 16.51% since the beginning of the year.

(3) **Phone banking**

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In the first half of 2016, the telephone banking customer service centre recorded a total of 1,020,000 business calls.

(4) Mobile phone banking

The Bank accelerated the business development of mobile phone banking. It offered various transaction functions for its customers, including account management, basic wealth management, transfers, auto-payments and credit cards. Moreover, the Bank also provided different special services such as visual data, intelligent transfer, mobile phone wealth management and fingerprint log in. In the first half of 2016, the Bank gained more than 90,000 new active mobile phone banking users.

(5) WeChat banking

The WeChat banking has stretched banking services from traditional offline channels to finger tips of customers. Featured functions of the WeChat account include account change notifications, palm wealth management, credit card inquiry and loan application and diverse value-added daily-life services such as the coin mall, charging and bill payment services. As at 30 June 2016, WeChat banking had over 370,000 followers, of which 240,000 followers had linked bank cards. The number of WeChat banking customer accounts broke through 110,000; the sales of wealth management products amounted to RMB25.6 billion and the highest sales of such products in a single week reached RMB1.3 billion, showing its significant competitive edges in sales of wealth management products.

(VIII) Information technology

In the first half of 2016, the Bank continued its work on information technology establishment and achieved good results in the establishment of major application systems, supports for business innovation and development, enhancement in data application technological management and establishment of infrastructures, thus providing more comprehensive and effective IT support for business development of the Bank.

1. Stable system operation and further enhancing efficiency

During the Reporting Period, the major information system of the Company operated steadily without any material information security incident. The stability rate of system operation reached 100%. Firstly, in order to prevent information technology risk, the Company put a lot of efforts into the implementation of information security projects such as data desensitization, terminal management, information security monitoring and inspection and 4A for effective enhancement of information security assurance capabilities of the Company. Secondly, in order to further enhance infrastructure supporting capabilities, the Company kept on optimizing the system structure of the three centres in two areas with the use of new technology, enhanced the monitoring indicators of application systems and made further progress in the planning and designing of new data centre.

Management Discussion and Analysis

2. *Orderly advancing the implementation of IT projects*

During the Reporting Period, the application and inquiry-related projects of the Company progressed steadily. In the first half of 2016, six annual planning projects were put into operation phase by phase while six cross-year projects were put into operation. Among them, the key projects progressed smoothly: the new key transformation project finished consultation and started POC testing, and completed the analysis and preparation of business needs so far; the retail CRM project was put into operation successfully and was introduced throughout the whole bank, and thus the distribution rate of retail customers, average number of products held and other key business indicators increased significantly; the credit card systems had ten sub-systems being put into operation successfully, thereby ensuring the large-scale development of the credit card business.

3. *Further strengthening technology governance*

During the Reporting Period, the Company pushed forward its technology governance step by step by further deepening reform, optimizing system and technical means. Firstly, the technology assignment mechanism continued to play its role and is closely connected with business to effectively improve the synergy between technology and business, thereby enhancing the efficiency and results of the information technology establishment throughout the whole bank. Secondly, computer rooms construction standards suitable for the development of branches and sub-branches of the Company were introduced. By introducing new technology to provide effective guidance to branches and sub-branches in carrying out their infrastructure construction, this ensured efficient operation and stable operations.

4. *Improving proprietary self-control ability*

The Company further enhanced the technology innovation in software development and operation maintenance, thereby enhancing the proprietary self-control through technology. In the first half of the year, the Company proactively promoted channels including financial IC cards and online banking to support the OSCCA (Office of State Commercial Cryptography Administration) algorithm and commenced relevant projects such as localization and software legalization so as to reduce costs and effectively improve the proprietary self-control ability of the Company.

5. *Facilitating business growth by strengthening data application*

During the Reporting Period, through implementation of the quarterly product appraisals at all levels of the Bank and new data platform project implementation together with the establishment of the Bank's third party data platform and the commencement of mega data platform construction, the Bank continuously raised the new technology levels by means of data application and mega data technology as a strong support for the business development of the Bank.

IX. Risk Exposure and Management

In the first half of 2016, the Company adhered to the work theme of “establishing downward thinking, proactively managing risk, enhancing rigid management, strengthening accountability” and strived to enhance overall risk management capabilities so as to adapt to business development and innovation needs, further create value from risk management and improve risk pricing capability. According to the prudent risk preference of the whole Bank and based on the results of New Basel Accords while combining with its strategic positioning and business development planning, the Bank defined its policy direction and further enhanced the refined risk management of the Bank.

(I) Credit risk

Credit risk refers to the Bank’s risk of economic losses caused by a debtor or a counter-party failing to fulfill his obligations under the contract or credit quality changes, affecting the value of the financial products. The Bank’s credit risks exist mainly in loan portfolios, investment portfolios, guarantees, commitments and other on- and off-balance-sheet exposures. The Bank 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.

Confronting the downward pressure on economy and continual credit risk exposure, the Bank placed strict distinction between new business and existing business in respect of risk preference, policy and system, risk standard and other areas. It made full use of the results of the internal retail and non-retail rating systems under the new capital accord and set up access, quota and risk pricing standards with respect to regions, industries, products and other dimensions while paying particular attention to risk management on special industries and high risk events so as to achieve differentiated risk management of the Bank. Meanwhile, in order to strengthen the implementation of risk policy, the access standard was imbedded into the system online to achieve rigid management and control while quota execution template with RAROC calculation model was designed offline to conduct regular tracking and monitoring on the effectiveness of risk management performed by branches. Performance appraisal system was also included to place more emphasis on branches and ensure the effective cooperation between risk policy and management.

Management Discussion and Analysis

Taking the opportunities arising from compliance of the new capital accord, the Bank constructed an internal rating system covering all business processes and controlled risk with scientific measurement. Retail and non-retail internal rating results have been applied practically. The Bank has adopted a retail risk management model of evaluation plus rules and strategies. It implemented risk preference into business approval strategies. It unified retail business approval standards. Following a unified risk preference, the Bank optimized and adjusted approval rules and strategies on time with reference to the risk characteristics and performance of asset quality of customers, thereby further increasing the automated approval passing rate of high-quality customers and satisfying the business development needs of the Bank. At the same time, the operation of independent approvers approval system has gradually become mature, enhancing the approval efficiency and retail risk management capability. The Bank made practical use of the non-retail internal rating results in credit approval, risk management, authorization management, single customer quota, risk reporting, risk policy and other areas and also adjusted the parameter by way of configuration at any time according to risk preference and risk monitoring situation so as to enhance the subtlety level of risk management. The Bank also set up an independent verification team for internal rating system and initiated a comprehensive verification project for internal rating so as to further introduce the internal rating model and support the prudent operation of the system.

In order to standardize and strengthen management on collaterals, the Bank independently developed and launched a collateral risk valuation system for full application embedded with the 14 types and 21 sub-types of proprietary researched and developed collateral risk valuation model, thereby achieving automated valuation on residential properties and real-time feedback from the system. Through verification on internal risk value assessment for collaterals, moral hazard could be effectively prevented. The Bank enhanced the construction of risk data for collaterals by establishing valuation database for collaterals and updating such database regularly, including independent property database, commercial district data and commercial property database, so as to support various kinds of property valuation. Such database is in a leading position among the industry peers. At the same time, the Bank kept on optimizing the risk valuation system for collaterals and improved the real-time feedback rate of residential properties as collaterals. During the Reporting Period, the independent management module for collaterals was put into online operation, which provides independent management of collaterals as well as management functions for such collaterals, which serves to provide an effective channel for business sales. In addition, the Bank continued to conduct re-evaluation of the property collateral for retail business of branches outside Heilongjiang Province and prepared a white list of the remaining value of collaterals so as to provide support to business departments for in-depth development of high-quality customers and risk management.

The Bank adhered to product risk management based on the “Year of Products” theme of the Bank. The Bank provided strong support for product innovation and applied retail rating card and corresponding strategies to the research and development of innovative products so as to effectively improve approval efficiency and customer satisfaction. Through monitoring and evaluating the retail internal rating operation, the Bank was able to formulate precise management strategies and according to the risk characteristics and asset quality performance of customers, timely adjust its rules and strategies of the plan, in order to realise a unified risk management and downward communication of risk, thereby increasing risk sensitivity. Directed by asset quality control and business development planning, regular monitoring and statistics based on dynamic authorisation management rules were carried out. In case of any violation, adjustment authorisation and product suspension/resumption policies would be immediately put in place in order to further strengthen the risk management and control on the product level.

Facing downward pressure on economy, the risk of customer default became higher. In order to enhance its risk anticipation capability, the Bank further optimized its risk monitoring and pre-warning system and completed the online promotion application of risk pre-warning system for customers. By introducing credit data, shared data of CBRC and third party data, and risk-related information based on customer behaviour, financial indicators, cash flow and debts, it will detect risk signals and automatically send out pre-warning signals, thereby achieving precise systematic automated and pre-warning, which further diversified the Bank’s the risk monitoring means, enhanced the risk pre-warning capabilities and provided useful instructions on post-loan management for branches and sub-branches to maintain the stability of asset quality.

(II) Liquidity risk

Liquidity risk refers to the risk of the Bank failing to acquire sufficient funds at reasonable cost in time in order to pay the due debt, fulfil other payment obligations and meet the capital requirements for normal operation. The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity risk management policies and strategies, and reviewing the material problems arising from liquidity management activities. The Bank has established an overall liquidity risk management system to comprehensively manage liquidity risks.

Taking the opportunity from compliance of the new capital accord and strictly complying with the implementation standards of the Basel Accords, the Bank strengthened the liquidity risk management and control at the corporate and group levels. The Bank remained focused on improving its liquidity risk management system by strengthening its governance over organizational structure, relevant mechanisms, regulations, quota control, stress test, contingency plans, risk reporting and internal protocols. The Bank also implemented reasonable and effective asset-liability management, made effective use of liquidity risk management tools and means, monitored the liquidity fluctuations in real time and conducted comprehensive assessment on the efficiency of capital application, reasonably controlled the inter-bank financing ratio, strengthened the reserve of quality assets such as interest rate bonds, and ensured that its relevant liquidity indicators remain in compliance with regulatory requirements and internal management standards and avoid risk events.

Management Discussion and Analysis

(III) Market risk

Market risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, and stock and commodity prices). The market risks currently faced by the Bank are interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximize risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on the Bank-wide risk appetite.

Interest rate risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in interest rates. The interest rate risk associated with the Bank's trading accounts exists mainly in the trading businesses, including bond trading and derivative trading. For the management of interest rate risk of trading accounts, the Bank defined the classification standards for trading accounts, evaluated the market value of assets under the Bank's trading accounts on a daily basis, set reasonable limits models and conducted comprehensive data calculations, set reasonable rating caps, stop-loss limits and risk limits, monitored and controlled the caps and limits by frequency, and carried out market risk stress testing on time to have accurate information of the interest rate risk of trading accounts.

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement on behalf of customers. The Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. The Bank closely monitors and assesses the impacts of the changes in foreign and domestic market environment on the exchange rate business of the Bank on time. With a market-oriented approach, the Bank made active responses to the new situation in the foreign exchange markets, enhanced the exchange risk management system under the macroprudential framework with the collaborative use of various channels and platforms and strengthened quality control on data to improve the statistical monitoring and pre-warning capabilities. The Bank also continued to optimize the structure of monetary assets, strengthened the establishment of investment transaction capabilities, innovated and diversified exchange rate risk management tools, enhanced risk management means, maintained the risk-benefit balance of the overall foreign exchange assets, improved the effectiveness and pertinence of risk management and prevented and responded to exchange rate risk effectively.

During the Reporting Period, the Bank, while taking into account its historical transactions, the overall financial environment and its risk tolerance, applied the OpicsRisk system to measure risk by gradually introducing duration analysis, sensitivity analysis, historical VaR and stress VaR. Considering the regulatory requirements and development of the Bank's market risk business, the Bank conducted research and formulated feasible stress test plan for market risk that meets the Bank's practical situations. The Bank also set up scientific stress scenarios and stress communication models and included the whole stress testing procedures and alternatives into the system to conduct stress testing for market risk quarterly, and thus the risk exposure and risk tolerance capability could be assessed on time, enabling the Bank to adopt practical and effective measures to mitigate risks in response to possible extreme market changes so as to secure treasury operations. Furthermore, the Bank, in response to the diversification of monetary transactions, developed sensible market risk measuring models and actively explored a focused and effective derivatives pricing mechanism to achieve effective control over market risk combining qualitative and quantitative techniques.

(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. Operational risk includes legal risk, but excludes strategic risk and reputation risk.

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

During the Reporting Period, taking the opportunity arising from the implementation of the new capital accord, the Bank continued to promote the application of three major management tools, namely self-assessment on risks and control, key risk indicators and loss data collection, to continuously optimize the functions of its operational risk management information system and utilize the system to quickly and efficiently identify, assess, monitor, measure and control the operational risk of each business segment. By strengthening the operation management and supervision standards, continuously utilizing the post supervision system to control the error ratio of counter services and by enforcing real-time alert on counter services through the counter service risk alert system, the Bank effectively controlled the occurrence of operation risk in its counter services.

(V) Information technology risk

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

The Bank has included management of information technology risk into its general risk management system and enhanced such management through risk identification, monitoring, evaluation and control by gradually establishing and improving its business continuity management system, it formulated its business continuity management strategic plan and improved its business continuity management method and tools; by conducting analyses on the implications of business development, it formulated an overall business continuity plan and establish a general emergency plan and carried out business continuity emergency drills to improve its emergency response ability for business stoppage. By enhancing system operation and maintenance capabilities, the stability and security of the systems are ensured and the continuity operation of its major businesses is secured by the enhanced contingency measures.

Management Discussion and Analysis

(VI) Anti-money laundering management

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

(VII) Compliance risk management

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

During the Reporting Period, the Bank formulated and executed a risk-based and “integrated prevention, control, examination and correction” compliance management plan. The Bank strived to strengthen the foundation of its compliance management, actively optimized the compliance system construction, improved the compliance management policy standard to strictly prevent and effectively resolve compliance risk. By leveraging its professional advantages, and emphasizing on the substance of risks, and through business research and development at an early stage, the Bank’s compliance management comprehensively supported and promoted business innovation and sound development of the Bank. By participating in various external supervision examinations, such as the “stability assessment on corporate insurance agency” and by rectifying problems identified during such examinations, it improved its compliance risk management system. By enhancing the studies of foreign legislations, regulatory policies and laws and regulations, it served to provide high-quality comprehensive legal compliance services; and by implementing regular compliance education and training, it served to enhance the Bank’s compliance professional standard.

X. Internal Control and Internal Audit

(I) Internal control

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

During the Reporting Period, the Bank implemented series of works on improving and optimizing internal control as follows: firstly, the Bank improved its risk evaluation system. The Bank strengthened the establishment of horizontal and vertical information exchange channel in the system construction, as well as accelerated the optimization of procedures for system establishment, and basically established a comprehensive risk management system which is suitable for the Bank. Secondly, the Bank strengthened the use of technology and continued its works on the establishment of automatic internal control. It has optimized the mechanism for the establishment of automatic internal control, and incorporated the rationalized and optimized internal control points into its key information systems. Through strengthening the automation rate of internal control at different processes, the Bank further realized the automation and normalization of the internal control system, thereby ensuring the implementation of the results of internal control system establishment under an informationalized environment. Thirdly, the Bank strengthened its system establishment. Based on regulatory requirements, existing business and reform of organization structure, the Bank promptly streamlined and improved its systems across the Bank, and standardized and guided the commencement of various businesses. The Bank also optimized its system evaluation mechanism, and accelerated the optimization of procedures for system establishment. Fourthly, the Bank conducted several rounds of internal control themed inspections to prevent illegal and non-compliance check, and on compliance of the retail lending business to proactively investigate problems and actively implemented rectification measures. Fifthly, the Bank, through measures such as anti-fraud self-evaluation and anti-fraud specific checks, investigated into its deficiencies and inadequacies, in order to deepen its anti-fraud prevention cautiously and to ensure the stable operation for the Bank. The Board and the Senior Management of the Bank put great emphasis on internal control training, consumer right protection and anti-money laundering management etc. in order to enable all staff of the Bank to understand the importance of internal control, be familiar with the duty requirements for different positions, and understand and be in control of the key internal control points, thus building up an environment conducive to excellent internal control across the Bank. The Bank further promoted its compliance philosophy of "giving highest priority to compliance, making all employees abide by compliance rules actively, and creating value through compliance-related practices" to create and build a "high efficient compliance" corporate culture.

Management Discussion and Analysis

(II) Internal audit

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

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

XI. Prospects

For the second half of 2016, following the implementation of the new five-year strategic plan and relying on product innovation as the engine for development, the Bank will further focus on business innovation, optimizing resources allocation, placing strict prevention and control on risks and facilitating business structure optimization and transformation and upgrading of microcredit. The four financial segments will continue to promote product innovation and business innovation according to their positions in their respective segments and regions. The Bank will, base on its decisions on the reforms and adjustments of its corporate governance and operation management, effectively plan and push forward the implementation of a series of fundamental management projects and to carry out reform and adjustments in various areas, including asset-liability management, performance appraisal management, organization reform management, network transformation, staff team building etc.. The Bank will also focus on the application of advanced management tools and management techniques, such as management accounting, the new capital accord, centralized operation platform and new core system, etc.. The Bank will continue to take control of the initiation power in risk management and to closely follow the changes in macro economy and regulatory policies as well as to further strengthen the prevention and control on major risks, including credit risk, liquidity risk and exchange rate risk, compliance risk, incident risk, so as to ensure a safe, sound and stable operation.

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 2016		Increase/Decrease During the Reporting Period (+/-)					30 June 2016	
	Number	Percentage	Private placement	New Shares Issued	Bonus Issue	Others	Subtotal	Unit: Shares	
								Number	Percentage
Domestic Shares									
1. Non-listed shares held by									
corporations	7,889,497,752	71.75%	-	-	-	19,041,426	19,041,426	7,908,539,178	71.92%
Including: (1) Shares held by									
state-owned									
enterprises	2,194,789,800	19.96%	-	-	-	-	-	2,194,789,800	19.96%
(2) Shares held by									
private enterprises	5,694,707,952	51.79%	-	-	-	19,041,426	19,041,426	5,713,749,378	51.96%
2. Non-listed shares held by natural									
persons	82,531,801	0.75%	-	-	-	(19,041,426)	(19,041,426)	63,490,375	0.58%
H Shares									
3. Overseas listed foreign shares	3,023,570,000	27.50%	-	-	-	-	-	3,023,570,000	27.50%
Total number of shares	10,995,599,553	100%	-	-	-	-	-	10,995,599,553	100%

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

Changes in Share Capital and Information on Shareholders

III. Shareholdings of Shareholders

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

Shareholdings of top 10 shareholders of non-overseas listed shares

	Name of Shareholder	Nature of Shareholder	Number of Shares Held (Shares)	Shareholding Percentage (%)	Number of Shares Pledged	Type of Shares
1	Harbin Economic Development and Investment Company	State-owned	2,160,507,748	19.65%	–	Non-overseas listed shares
2	Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non-overseas listed shares
3	Heilongjiang Keruan Software Technologies Company Limited	Private enterprise	719,816,019	6.55%	–	Non-overseas listed shares
4	Heilongjiang Xinyongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	232,957,265	Non-overseas listed shares
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	137,693,932	Non-overseas listed shares
6	Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	284,832,967	Non-overseas listed shares
7	Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	377,620,219	3.43%	–	Non-overseas listed shares
8	Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	301,170,095	Non-overseas listed shares
9	Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non-overseas listed shares
10	Dongning Lizhi Architecture and Decoration Engineering Company Limited	Private enterprise	199,010,054	1.81%	194,982,174	Non-overseas listed shares

Note: The above shareholding percentage of non-overseas listed shares is calculated based on the total share capital of the Bank of 10,995,599,553 shares as at 30 June 2016. In addition, the pledged or frozen shares held by the above shareholders are subject to pledge only and not judicial moratorium.

Substantial interests and short positions

As at 30 June 2016, 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	Domestic Shares held (Long Position)	Percentage of Issued Domestic Share Capital of the Bank	Percentage of Total Issued Share Capital of the Bank
Harbin Economic Development and Investment Company ¹	Beneficial owner	2,160,507,748	27.10%	19.65%
Harbin Kechuang Xingye Investment Company Limited ²	Beneficial owner	720,262,554	9.03%	6.55%
Heilongjiang Keruan Software Technologies Company Limited ³	Beneficial owner	719,816,019	9.03%	6.55%
Heilongjiang Xinyongsheng Trading Company Limited ⁴	Beneficial owner	639,804,806	8.03%	5.82%
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited ⁵	Beneficial owner	572,253,048	7.18%	5.20%
Heilongjiang Tuokai Economic and Trading Company Limited ⁶	Beneficial owner	522,447,109	6.55%	4.75%

Notes:

1. Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau 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 Baotou 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. Baotou 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 (譚燃) 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 Yujixin Technology Company Limited (大連宇嘉信科技有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liang Yifeng (梁乙峰) and Diao Xiaoxi (刁小熙), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Keruan Software Technologies Company Limited.
4. Heilongjiang Xinyongsheng Trading Company Limited is owned as to 95.4% by Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐匯科貿有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liu Kun (劉坤) and Zhao Yonghe (趙永和), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Xinyongsheng Trading Company Limited.
5. Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is owned as to 93.61% by Beijing Huifutong International Investment Company Limited (北京匯富通國際投資有限公司), which in turn is owned as to 80% by a natural person Dong Yan (董雁). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tiandi Yuanyuan Network Technology Company Limited.
6. Heilongjiang Tuokai Economic and Trading Company Limited is owned as to 95.27% by Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司), which in turn is owned as to 87.5% by Beijing Jieshentiancheng Trading Company Limited (北京傑勝天成貿易有限公司), which in turn is owned as to 70% by a natural person 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 corporation ¹	773,124,000	25.57%	7.03%
CITIC Capital Holdings Limited	Interest of controlled corporation ²	401,275,000	13.27%	3.65%
Huaxia Life Insurance Co., Ltd.	Beneficial owner	396,702,000	13.12%	3.61%

Notes:

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

Save as disclosed above, as at 30 June 2016, 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 Hong Kong Stock Exchange.

IV. Substantial Shareholders of the Bank

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

As at 30 June 2016, Harbin Economic Development, the single largest shareholder of the Bank, held 19.65% of the total issued shares of the Bank. According to the Business License (Registration No.: 230100100001678) issued by Harbin Administration of Industry and Commerce on 30 May 2012, and the Amendments to the Articles of Association of Harbin Economic Development and Investment Company made on 19 September 2011, Harbin Economic Development is a validly subsisting economic entity under the ownership by the whole people with the Harbin Municipal Finance Bureau as its sole shareholder.

Changes in Share Capital and Information on Shareholders

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

As at 30 June 2016, 370,651,197 shares of two shareholders each holding 5% or more of the Bank were pledged.

VI. Controlling Shareholders and Actual Controllers

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

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

Please see III. "Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Bank as at 30 June 2016.

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

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

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

The Bank or any of its subsidiaries did not purchase, sell or redeem any shares of the Bank from 1 January 2016 to the date of this report.

Directors, Supervisors, Senior Management and Employees

Directors of the Bank

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

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen	Male	49	Executive Director and Chairman of the Board	2015.6-2018.6
Liu Zhuo	Male	52	Executive Director and Vice Chairman of the Board	2015.6-2018.6
Zhang Qiguang	Male	43	Executive Director, President and Chief Financial Officer	2015.7-2018.6
Zhang Taoxuan	Male	54	Non-Executive Director	2015.6-2018.6
Ma Pao-Lin	Male	54	Non-Executive Director	2015.8-2018.6
Qin Hongfu	Male	38	Non-Executive Director	2015.6-2018.6
Cui Luanyi	Male	36	Non-Executive Director	2015.6-2018.6
Chen Danyang	Male	43	Non-Executive Director	2015.6-2018.6
Zhang Shengping	Male	51	Independent Non-Executive Director	2015.6-2018.6
He Ping	Male	51	Independent Non-Executive Director	2015.6-2018.6
Du Qingchun	Male	45	Independent Non-Executive Director	2015.6-2018.6
Wan Kam To	Male	63	Independent Non-Executive Director	2015.6-2018.6
Kong Siu Chee	Male	69	Independent Non-Executive Director	2015.6-2018.6

Supervisors of the Bank

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

Name	Gender	Age	Position	Term of office
Gao Shuzhen	Female	52	Chairman of the Board of Supervisors and Employee Representative Supervisor	2015.6-2018.6
Wang Ying	Female	45	Employee Representative Supervisor	2015.6-2018.6
Yang Dazhi	Male	39	Employee Representative Supervisor	2015.6-2018.6
Lu Yujuan	Female	32	Shareholders Representative Supervisor	2015.6-2018.6
Wang Jiheng	Male	51	External Supervisor	2015.6-2018.6
Bai Fan	Female	42	External Supervisor	2015.6-2018.6
Meng Rongfang	Female	50	External Supervisor	2015.6-2018.6

Directors, Supervisors, Senior Management and Employees

Senior Management of the Bank

During the Reporting Period, the Senior Management of the Bank comprised of:

Name	Gender	Age	Position	Term of office
Zhang Qiguang	Male	43	Executive Director, President and Chief Financial Officer	2015.7-2018.6
Lv Tianjun	Male	49	Vice President and Chief Risk Officer	2015.6-2018.6
Lu Weidong	Male	45	Vice President and Chief Information Officer	2015.6-2018.6
Xu Shaoguang	Male	55	Chief Credit Approval Officer	2015.6-2018.6
Wang Haibin	Male	46	Vice President	2015.8-2018.6
Sun Jiawei	Female	46	Vice President	2015.8-2018.6
Sun Feixia	Female	46	Secretary of the Board and Joint Company Secretary	2015.6-2018.6
Liu Yang	Male	47	Assistant to the President	2015.9-2018.6

Securities transactions by Directors and Supervisors

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

Interests and short positions of Directors, Supervisors and Chief Executives in shares, underlying shares and debentures of the Bank or its associated corporations

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 the SFO or to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Employees

(I) Personnel composition

As at 30 June 2016, the Bank had 7,030 employees, among which 904 were headquarters staff, accounting for 12.86% of the total. Regarding the age composition, the average age of employees of the Bank is 32.8. 3,040 are between 26 and 30 years old, accounting for 43.24%. Regarding the educational background, there are 5,969 employees with bachelor degree or above, accounting for 84.9%. The Bank had 1,290 employees with 10 years of banking experiences, accounting for 18.4% of the total. Staff turnover rate of the Bank was 2.26%. The controlling subsidiaries had 991 employees.

Directors, Supervisors, Senior Management and Employees

(II) Staff training programs

During the Reporting Period, the Bank seriously executed the strategic plan of “Year of Products” in order to proactively adapt to the changing situation. Focusing on the needs of customers, the Bank built itself into a “learning organization”, launched the “Leadership” Training Program, enriched and integrated training resources, innovated training projects, established sharing platform of knowledge management, improved autonomous learning training system, and facilitated the bilateral enhancement of individual performance and organizational performance. The Bank formulated training programs according to the “2016 Training Plan of Harbin Bank”, which were implemented among different levels of employees. The training programs emphasize the deep integration of innovation and practical work, escorting the employees’ career development.

(III) Staff incentive policy

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

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

(IV) Remuneration policy for employees

The Bank has successfully established a broadband salary management system with diversified composition, standardized management and systematic implementation and adopted a market-oriented and diversified management by region in order to scientifically and effectively motivate the Bank’s employees and ensure the smooth implementation of the Bank’s strategic development. The Bank’s remuneration package is composed of fixed remuneration, short-term incentive, long-term incentive and welfare income, setting up differentiated combination of elements of remuneration for different groups. Meanwhile, the Bank is able to strictly comply with regulatory requirements in remuneration payment by adopting deferred payment and setting up a lock-up period for paying the Senior Management as well as employees holding positions that may exert significant influence to risks in order to tie job duties with risk management responsibilities. As at 30 June 2016, staff costs of the Bank were RMB816.3 million.

(V) Retirement and benefits

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

I. Corporate Governance

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

In accordance with the amendments by Hong Kong Stock Exchange to the Code Provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (which became effective from the accounting period after 1 January 2016), during the Reporting Period, the Board of the Bank has correspondingly approved the amendments to the Terms of Reference of the Audit Committee of the Board of Directors and the Working Rules for the Risk Management and Related Transactions Control Committee of the Board of Directors. During the Reporting Period, the Bank continued to be in compliance with the requirements of code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

Formulation of new five-year development strategy

During the Reporting Period, after full research and discussion, the Bank formulated “2016-2020 Development Strategic Plan” and “2016-2020 Strategic Development Plan Details”, detailed strategy formulation is as follows:

“2016-2020 Guideline of Strategic Development Plan” was considered and passed at the 6th meeting of the sixth session of the Board held on 7 December 2015. After full discussion of the Board of Directors and the Senior Management, on this basis, “2016-2020 Strategic Development Plan” was considered and passed at the 7th meeting of the sixth session of the Board held on 22 January 2016. “2016-2020 Strategic Development Detailed Plan” was considered and passed at the 9th meeting of the sixth session of the Board on 19 May 2016 in order to further layout the details of the strategy and enhance the performability.

According to the “2016-2020 Strategic Development Plan”, in the coming five years, the Bank will continue to uphold “Inclusive Finance, Harmonious Co-Enrichment” as its operational philosophy, and strive to achieve the strategic goal of becoming a “first class international microcredit bank providing excellent services with unique characteristics”. Driven by as product innovation and with the support of the four financial pillars of “Retail Finance, Corporate Finance, Interbank Finance, Mobile Finance”, the Bank aims to achieve “characteristic, collectivized, international” development.

Important Events

II. Debt Securities Issuance

(I) Bonds issuance during the Reporting Period

1. 2016 Credit Loan Asset-Backed Securities

During the Reporting Period, the Bank issued the 2016 first tranche of Huijin credit loan asset-backed securities of RMB2,257.3 million. Details are as follows:

According to the resolutions of the 15th meeting of the fifth session of the Board on 1 November 2013 and the 7th meeting of the sixth session of the Board on 21 January 2016, the Board approved the issuance of the credit loan asset-backed securities of not more than RMB3.0 billion.

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

The 2016 first tranche of Huijin credit loan asset-backed securities are classified as Priority A, Priority B asset-backed securities and subordinated asset-backed securities with the total issue size of RMB2,257.3 million. Class Priority A asset-backed securities, abbreviated as “16 Huijin 1A” (bond code: 1689059), whose issuance scale amounted to RMB1,690.0 million, with a weighted average term of 0.33 year and a coupon rate of 3.18%. Class Priority B asset-backed securities, abbreviated as “16 Huijin 1B” (bond code: 1689060), whose issuance scale amounted to RMB210.0 million, with a weighted average term of 1.17 year and a coupon rate of 3.5%. Subordinated asset-backed securities, abbreviated as “16 Huijin 1C” (bond code: 1689061), whose issuance scale amounted to RMB357.3 million, with a weighted average term of 1.69 year and zero coupon rate.

2. 2016 Tier-2 Capital Bonds

During the Reporting Period, the Bank issued the “2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd.” of RMB8.0 billion. Details are as follows:

According to the resolutions of the 6th meeting of the sixth session of the Board on 7 December 2015 and the 2016 first extraordinary general meeting of the Bank on 22 January 2016, the Board and the shareholders’ general meeting approved the issuance of the tier-2 capital bonds of not more than RMB8.0 billion.

According to the “Approval for Issue of Tier-2 Capital Bonds by Harbin Bank” issued by the Heilongjiang Bureau of the CBRC (Hei Yin Jian Fu [2016] No. 29) on 18 March 2016 and the “Administrative Approval Decision of the People’s Bank of China” (Banking Market License [2016] No. 89) issued by the PBOC on 2 June 2016, the issuance of tier-2 capital bonds of not more than RMB8.0 billion by the Bank in the interbank market was approved. The Company obtained the consent and permission from the Heilongjiang Bureau of the CBRC and the PBOC for the issuance of the “2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd.” on 14 June 2016.

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

(II) Previous financial bonds issuance

1. *Financial Bonds in 2012*

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

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

According to the "Prospectus for 2012 Financial Bonds Raising of Harbin Bank Co., Ltd." prepared in May 2012, the terms of the bond issuance were as follows: the issuing size was not more than RMB2.5 billion; the variety was financial bonds of commercial banks with a maturity period of five years; the coupon rate was a fixed interest rate; the final coupon rate was determined by book-building and centralized allocation and was fixed during the bond duration; simple interest accrued annually with no compound interest and no further interest after maturity; and its short name was "12 Harbin Bank Financial Bonds" (bond code: 1220008).

2. *Financial Bonds in 2014*

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the Bank on 16 September 2013, the Board and the shareholders' general meeting approved the issuance of "agriculture, rural areas and farmers" special financial bonds of not more than RMB10.0 billion.

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

The issuing size of the 2014 first tranche of the financial bonds of Harbin Bank Co., Ltd. was RMB2.0 billion with a term of three years, a fixed coupon rate of 4.60% accrued annually and a short name as "14 Harbin Bank 01" (bond code: 11420045).

Important Events

3. *Financial Bonds in 2015*

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the Bank on 16 September 2013, the Board and the shareholders' general meeting approved the issuance of "agriculture, rural areas and farmers" special financial bonds of not more than RMB10.0 billion.

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

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

(III) Proposed issuance of financial bonds

According to the resolutions of the 8th meeting of the sixth session of the Board on 22 March 2016 and the 2015 general meeting of the Bank on 19 May 2016, the Board and the shareholders' general meeting approved the resolution on the issuance of green financial bonds, pursuant to which, the public issuance of green financial bonds of not more than RMB5.0 billion for a term of not more than 5 years (inclusive) by the Bank in the interbank market of China was approved. The funds raised from the issuance of the bonds will be used to invest in green loans.

III. Initial Public Offering of A Shares

The resolution on the initial public offering and the listing of A Shares was approved at the 2015 first extraordinary general meeting, the first domestic shareholders' class meeting and the first H shareholders' class meeting of the Bank held on 30 June 2015. The resolution on the extension of the validity period of the initial public offering and listing of A Shares was approved at the 2015 annual general meeting, the 2016 first domestic shareholders' class meeting and the 2016 first H shareholders' class meeting of the Bank on 19 May 2016. Relevant matters in respect of the proposed A shares offering has been disclosed in the circular dated 1 April 2016 and the announcement dated 19 May 2016.

The Bank has submitted application filings in respect of the offering and listing of A Shares to the CSRC on 31 August 2015, and the CSRC has accepted the application. The Bank also issued the announcement of the progress of A shares on 16 November 2015. On 25 March 2016, the Bank submitted application filings, including the supplementary A Share prospectus covering the financial information for the twelve months ended 31 December 2015, to the CSRC, and the CSRC has accepted the application. The Bank will disclose further information and progress of the A share offering in due course.

IV. Material Connected Transactions

The Bank had no significant connected transactions with connected persons as at the end of the Reporting Period.

V. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, material pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB50 million. The Bank takes the view that it would not have any material impact on the Bank's operating activities. Beyond that, during the Reporting Period, there were no material legal proceedings or arbitrations which had material impact on the operating activities of the Bank.

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

During the Reporting Period, the Bank and all its Directors, Supervisors and the Senior Management had no record of being subject to investigations, administrative penalties or criticisms by the 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.

VII. Material Contracts and Their Performance

During the Reporting Period, the Bank had no material contracts to be performed.

VIII. The Audit Review

The Bank's consolidated interim financial statements for the first half of 2016 prepared in accordance with International Financial Reporting Standards had been reviewed by Ernst & Young, who had issued an unqualified review opinion.

The Bank's 2016 interim report had been reviewed by the Audit Committee of the Board and the Board.

IX. Implementation of Share Incentive Scheme during the Reporting Period

During the Reporting Period, the Bank had not implemented any share incentive scheme.

X. Appointment and Dismissal of Auditors

The appointment of Ernst & Young and Ernst & Young Hua Ming LLP as the respective overseas and domestic auditors of the Bank for the year 2016 was considered and approved at the 2015 annual general meeting of the Bank held on 19 May 2016.

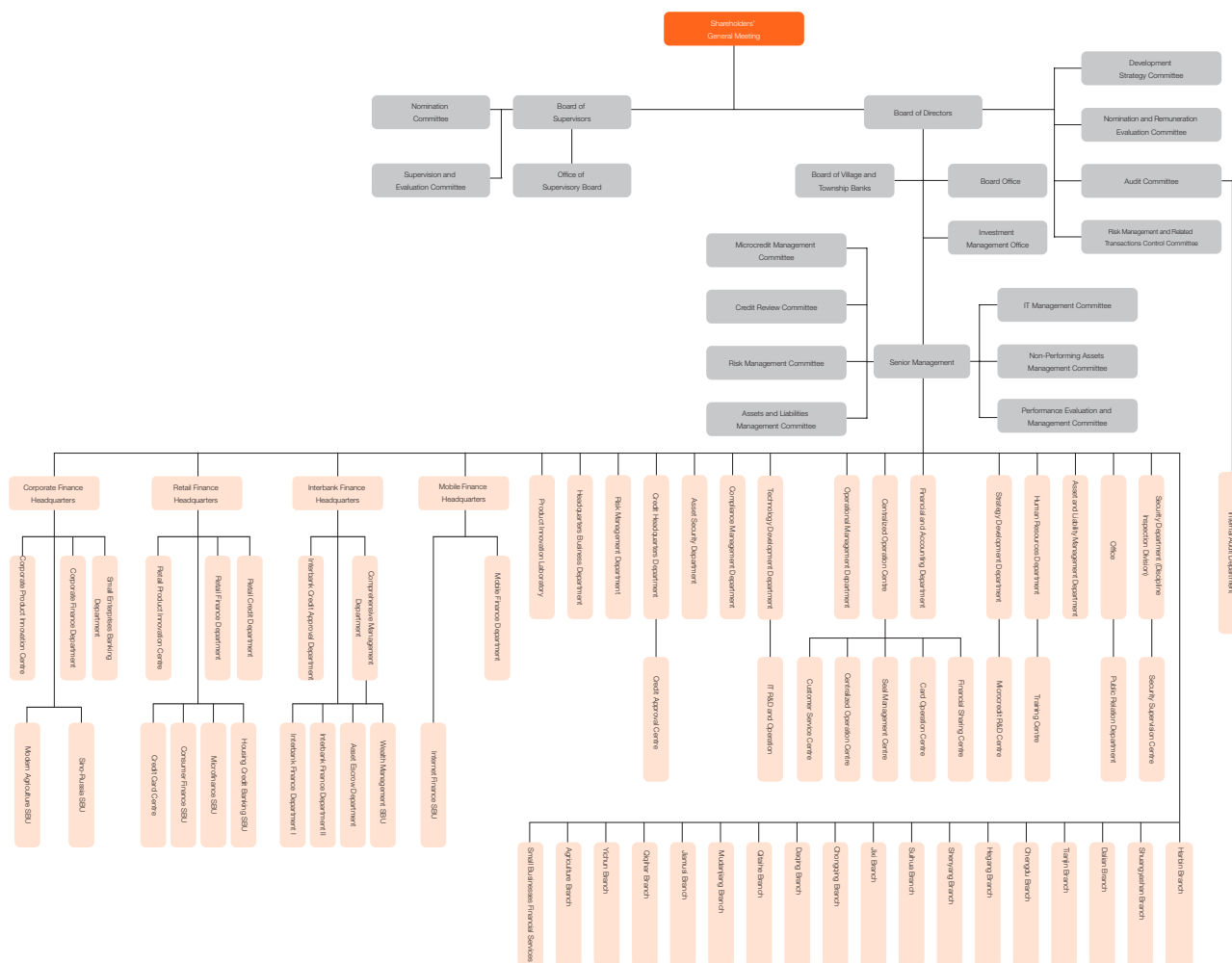
XI. Material Acquisition and Disposal of Assets and Merger of Enterprise

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

XII. Profit Distribution during the Reporting Period

The 2015 profit distribution plan of the Bank was considered and approved at the 2015 annual general meeting held on 19 May 2016. A dividend of RMB0.107 per Share (inclusive of tax) will be paid on 15 July 2016. The Bank had not distributed any and did not intend to distribute any interim dividend for the period ended 30 June 2016.

Organization Chart



Financial Statements

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

Report on Review of Interim Financial Information



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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 83 to 156, 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 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

15 August 2016

Condensed Consolidated Statement of Income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2016	2015
		Unaudited	Unaudited
Interest income	4	10,478,611	9,770,792
Interest expense	4	(5,065,354)	(5,319,114)
NET INTEREST INCOME	4	5,413,257	4,451,678
Fee and commission income	5	1,342,353	1,016,549
Fee and commission expense	5	(79,548)	(70,733)
NET FEE AND COMMISSION INCOME	5	1,262,805	945,816
Net trading income	6	24,234	92,843
Net gain on financial investments	7	4,324	2,165
Other operating income, net	8	154,910	21,426
OPERATING INCOME		6,859,530	5,513,928
Operating expenses	9	(2,064,788)	(1,996,110)
Impairment losses on:			
Loans and advances to customers	17	(1,147,433)	(606,390)
Other		(543,821)	(150,550)
OPERATING PROFIT		3,103,488	2,760,878
Share of profits of an associate		59,575	23,641
PROFIT BEFORE TAX		3,163,063	2,784,519
Income tax expense	10	(703,783)	(652,509)
PROFIT FOR THE PERIOD		2,459,280	2,132,010
Attributable to:			
Owners of the parent		2,417,738	2,101,582
Non-controlling interests		41,542	30,428
		2,459,280	2,132,010
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	12	0.22	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 Statement of Comprehensive Income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2016	2015
		Unaudited	Unaudited
Profit for the period		2,459,280	2,132,010
Other comprehensive income (after tax, net):			
Other comprehensive income attributed to owners of the parent	33	(90,089)	24,574
<i>Other comprehensive income to be reclassified to profit or loss in subsequent year:</i>			
Net (loss)/gain on available-for-sale financial assets	33	(60,597)	20,975
Share of other comprehensive income of an associate	33	(29,492)	3,599
Other comprehensive income attributed to non-controlling interests		(119)	–
Subtotal of other comprehensive (loss)/income for the period		(90,208)	24,574
Total comprehensive income for the period		2,369,072	2,156,584
Total comprehensive income attributed to:			
Owners of the parent		2,327,649	2,126,156
Non-controlling interests		41,423	30,428
Total		2,369,072	2,156,584

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

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

	Note	As at 30 June 2016	As at 31 December 2015
		Unaudited	Audited
ASSETS			
Cash and balances with the central bank	13	64,946,362	54,566,094
Due from banks and other financial institutions	14	33,894,538	30,035,064
Financial assets held for trading	15	4,011,261	2,840,042
Reverse repurchase agreements	16	6,350,766	51,027,890
Loans and advances to customers	17	187,985,786	145,061,523
Derivative financial assets	18	29,384	19,287
Financial investments	19	148,221,201	136,140,459
Finance lease receivables	20	16,618,472	10,447,874
Investment in an associate	21	1,186,379	1,156,296
Property and equipment	22	8,655,813	8,735,459
Deferred income tax assets	23	1,005,723	649,443
Other assets	24	5,059,599	4,171,837
TOTAL ASSETS		477,965,284	444,851,268
LIABILITIES			
Due to the central bank		736,859	764,253
Borrowings from banks and other financial institutions	25	9,213,999	8,137,937
Due to banks	26	48,519,501	52,028,920
Derivative financial liabilities	18	62,646	23,914
Repurchase agreements	27	15,277,500	12,145,000
Due to customers	28	330,673,299	306,817,669
Income tax payable		569,385	507,725
Debt securities issued	29	27,487,168	23,269,878
Other liabilities	30	10,391,075	7,308,013
TOTAL LIABILITIES		442,931,432	411,003,309
EQUITY			
Equity attributable to owners of the parent			
Issued share capital	31	10,995,600	10,995,600
Reserves	32	15,220,493	13,920,950
Retained profits		8,034,628	8,183,051
		34,250,721	33,099,601
Non-controlling interests		783,131	748,358
TOTAL EQUITY		35,033,852	33,847,959
TOTAL EQUITY AND LIABILITIES		477,965,284	444,851,268

The financial statements were approved and authorised for issue by the Board of Directors on 15 August 2016.

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

Guo Zhiwen

Chairman

Zhang Qiguang

President

Yang Dazhi

General Manager of
Finance and Accounting Department

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

	Unaudited										
	Attributable to owners of the parent										
	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 2016	10,995,600	7,637,742	1,957,736	4,064,056	185,933	75,483	13,920,950	8,183,051	33,099,601	748,358	33,847,959
Profit for the period	-	-	-	-	-	-	-	2,417,738	2,417,738	41,542	2,459,280
Other comprehensive income											
- Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(60,597)	-	(60,597)	-	(60,597)	(119)	(60,716)
- Share of other comprehensive income of an associate	-	-	-	-	-	(29,492)	(29,492)	-	(29,492)	-	(29,492)
Total comprehensive income	-	-	-	-	(60,597)	(29,492)	(90,089)	2,417,738	2,327,649	41,423	2,369,072
Dividends – 2015 final (note 11)	-	-	-	-	-	-	-	(1,176,529)	(1,176,529)	-	(1,176,529)
Appropriation to general reserve (i)	-	-	-	1,389,632	-	-	1,389,632	(1,389,632)	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(6,650)	(6,650)
Balance as at 30 June 2016	10,995,600	7,637,742	1,957,736	5,453,688	125,336	45,991	15,220,493	8,034,628	34,250,721	783,131	35,033,852

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

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

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

Unaudited											
Attributable to owners of the parent											
	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 2015	10,995,600	7,639,362	1,547,372	3,845,356	1,882	13,648	13,047,620	5,487,055	29,530,275	632,346	30,162,621
Profit for the period	-	-	-	-	-	-	-	2,101,582	2,101,582	30,428	2,132,010
Other comprehensive income											
- Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	20,975	-	20,975	-	20,975	-	20,975
- Share of other comprehensive income of an associate	-	-	-	-	-	3,599	3,599	-	3,599	-	3,599
Total comprehensive income	-	-	-	-	20,975	3,599	24,574	2,101,582	2,126,156	30,428	2,156,584
Capital contributed by owners	-	-	-	-	-	-	-	-	-	32,880	32,880
Dividends – 2014 final (note 11)	-	-	-	-	-	-	-	(1,132,547)	(1,132,547)	-	(1,132,547)
Appropriation to general reserve (i)	-	-	-	218,700	-	-	218,700	(218,700)	-	-	-
Other	-	-	-	-	-	(1,240)	(1,240)	-	(1,240)	1,240	-
Balance as at 30 June 2015	10,995,600	7,639,362	1,547,372	4,064,056	22,857	16,007	13,289,654	6,237,390	30,522,644	696,894	31,219,538

(i) Includes the appropriation made by subsidiaries in the amount of RMB11,689 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 2016

(Amount in thousands of RMB, unless otherwise stated)

	Audited										
	Attributable to owners of the parent										
	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 2015	10,995,600	7,639,362	1,547,372	3,845,356	1,882	13,648	13,047,620	5,487,055	29,530,275	632,346	30,162,621
Profit for the year	-	-	-	-	-	-	-	4,457,607	4,457,607	51,993	4,509,600
Other comprehensive income											
- Change in fair value of available-for-sale investments, net of tax	-	-	-	-	184,051	-	184,051	-	184,051	119	184,170
- Share of other comprehensive income of an associate	-	-	-	-	-	61,835	61,835	-	61,835	-	61,835
Total comprehensive income	-	-	-	-	184,051	61,835	245,886	4,457,607	4,703,493	52,112	4,755,605
Capital contributed by owners	-	-	-	-	-	-	-	-	-	62,280	62,280
Dividends – 2014 final (note 11)	-	-	-	-	-	-	-	(1,132,547)	(1,132,547)	-	(1,132,547)
Appropriation to surplus reserve	-	-	410,364	-	-	-	410,364	(410,364)	-	-	-
Appropriation to general reserve (i)	-	-	-	218,700	-	-	218,700	(218,700)	-	-	-
Others	-	(1,620)	-	-	-	-	(1,620)	-	(1,620)	1,620	-
Balance as at 31 December 2015	10,995,600	7,637,742	1,957,736	4,064,056	185,933	75,483	13,920,950	8,183,051	33,099,601	748,358	33,847,959

(i) Includes the appropriation made by subsidiaries in the amount of RMB11,689 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 2016

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2016	2015
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,163,063	2,784,519
Adjustments for:			
Share of profits of an associate		(59,575)	(23,641)
Depreciation and amortisation	9	255,536	208,613
Net trading gain	6	(24,234)	(92,843)
Dividend revenue		–	(798)
Interest income on financial investments		(3,648,480)	(2,591,906)
Impairment loss on loans and advances to customers		1,147,433	606,390
Impairment losses on other assets		543,821	150,550
Unrealised foreign exchange (gain)/loss		(70,270)	2,880
Interest expense on issuance of bonds	4	452,741	118,084
Accreted interest on impaired loans	17	(44,924)	(35,873)
Net gain on disposal of available-for-sale financial assets	7	(4,324)	(1,367)
Net gain on disposal of property and equipment		(77)	(1,550)
		1,710,710	1,123,058
Net (increase)/decrease in operating assets:			
Due from the central bank		2,248,905	1,589,854
Due from banks and other financial institutions		452,710	3,868,540
Reverse repurchase agreements		11,649,802	(35,481,898)
Loans and advances to customers		(44,026,772)	(29,316,795)
Finance lease receivables		(6,232,927)	(5,055,000)
Other assets		(657,517)	(413,520)
		(36,565,799)	(64,808,819)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		(27,394)	(797,421)
Borrowings from banks and other financial institutions		1,076,062	4,097,276
Due to banks		(3,509,419)	846,258
Repurchase agreements		3,132,500	12,106,280
Due to customers		23,855,630	26,031,445
Other liabilities		2,010,044	4,327
		26,537,423	42,288,165
Net cash flows used in operating activities before tax		(8,317,666)	(21,397,596)
Income tax paid		(978,163)	(846,500)
Net cash flows used in operating activities		(9,295,829)	(22,244,096)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2016	2015
		Unaudited	Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		(193,091)	(492,793)
Proceeds from disposal of property and equipment		193	34,566
Cash paid for investments		(351,272,560)	(91,850,723)
Proceeds from sale and redemption of investments		337,446,417	80,820,802
Proceeds from distribution of dividends and bonuses		–	798
Return on investments		3,548,525	2,499,016
Net cash flows used in investing activities		(10,470,516)	(8,988,334)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		–	32,880
Proceeds from issue of other debt securities		13,901,792	4,000,000
Redemption of debt securities, interest and issue expenses paid on debt securities		(10,220,252)	(116,850)
Dividends paid on ordinary shares		(27,153)	(3,380)
Net cash flows from financing activities		3,654,387	3,912,650
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		63,675,778	47,182,813
Effect of exchange rate changes on cash and cash equivalents		25,993	(12,716)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	34	47,589,813	19,850,317
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		6,891,117	7,342,683
Interest paid		(4,867,597)	(5,797,116)

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 2016
(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 China Banking Regulatory Commission ("CBRC") of the PRC. The Bank obtained its business licence No. 912301001275921118 from the Market Supervision Administration of Harbin. The legal representative is Guo Zhiwen and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

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

The subsidiaries of the Bank as at 30 June 2016 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	200,000	85.00	207,600	Village and township bank
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30,000	100.00	30,000	Village and township bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	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	150,000	80.00	144,420	Village and township bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80,000	75.00	60,000	Village and township bank
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50,000	98.00	49,000	Village and township bank
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 2016

(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	55,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30,000	100.00	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30,000	100.00	30,000	Village and township bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50,000	100.00	50,000	Village and township bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30,000	96.67	29,000	Village and township bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100,000	80.00	80,000	Village and township bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50,000	100.00	50,000	Village and township bank
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 2016

(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 2016 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 2015.

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 2015.

Standards, amendments and interpretations effective in 2016

On 1 January 2016, the Group adopted the following new standards, amendments and interpretations.

IAS 27 Amendments	<i>Equity Method in Separate Financial Statements</i>
IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Investment Entities: Applying the Consolidation Exception</i>
IAS 1 Amendments	<i>Disclosure Initiative</i>
IFRS 11 Amendments	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
IAS 16 and IAS 38 Amendments	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Annual Improvements to IFRSs 2012-2014 Cycle (issued in September 2014)	

IAS 27 Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exception from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IAS 1 include narrow-focus improvements in materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments.

The amendments to IFRS 11 requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a “business” (as defined in IFRS 3 *Business Combinations*).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

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

Standards, amendments and interpretations effective in 2016 *(Continued)*

The amendments to IAS 16 and IAS 38 clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Annual Improvements to IFRSs 2012-2014 Cycle:

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendments clarify that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

IFRS 7 Financial Instruments: Disclosures

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required. In addition, the amendments clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

IAS 19 Employee Benefits

The amendments clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 34 Interim Financial Reporting

The amendments clarify that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

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

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2016

		Effective for annual periods beginning on or after
IAS 7 Amendments	<i>Statement of Cash Flows</i>	1 January 2017
IAS 12 Amendments	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
IFRS 2 Amendments	<i>Share-based Payment</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Has not yet decided (effective date has been deferred indefinitely)

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

3. Significant accounting judgements and estimates

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2015.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

4. Net interest income

	For the six month period ended 30 June	
	2016	2015
Interest income on:		
Loans and advances to customers	5,432,361	5,199,081
– Corporate loans and advances	2,903,151	3,300,404
– Personal loans	2,411,823	1,723,906
– Discounted bills	117,387	174,771
Reverse repurchase agreements	325,938	1,012,014
Available-for-sale financial assets	525,733	307,922
Held-to-maturity financial investments	531,750	467,604
Receivables	2,551,097	1,816,380
Due from the central bank	292,449	319,150
Deposits with banks and other financial institutions	461,296	512,050
Finance lease receivables	357,987	136,591
Subtotal	10,478,611	9,770,792
Interest expense on:		
Due to customers	(3,382,610)	(3,109,553)
Repurchase agreements	(154,190)	(210,879)
Deposits from banks	(925,085)	(1,739,132)
Debt securities issued	(452,741)	(118,084)
Due to the central bank	(8,419)	(26,027)
Due to other financial institutions	(142,309)	(115,439)
Subtotal	(5,065,354)	(5,319,114)
Net interest income	5,413,257	4,451,678
Including: interest income on impaired loans	44,924	35,873

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

5. Net fee and commission income

	For the six month period ended 30 June	
	2016	2015
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	474,917	340,965
Settlement and clearing fees	67,721	35,522
Agency and custodian fees	655,676	488,243
Including: non-guaranteed wealth management product	196,012	236,696
Bank card fees	102,716	122,261
Others	41,323	29,558
Subtotal	1,342,353	1,016,549
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(5,999)	(7,140)
Agency fees	(7,539)	(6,914)
Bank card fees	(56,322)	(45,993)
Others	(9,688)	(10,686)
Subtotal	(79,548)	(70,733)
NET FEE AND COMMISSION INCOME	1,262,805	945,816

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

6. Net trading income

	For the six month period ended 30 June	
	2016	2015
Debt securities	52,182	91,573
Derivative financial instruments	(27,948)	1,270
Total	24,234	92,843

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

7. Net gain on financial investments

	For the six month period ended 30 June	
	2016	2015
Dividends from available-for-sale equity investments	–	798
Gain on disposal of available-for-sale financial assets, net	4,324	1,367
Total	4,324	2,165

8. Other operating income, net

	For the six month period ended 30 June	
	2016	2015
Gain/(loss) from foreign exchange, net	96,263	(15,595)
Leasing income	13,553	1,702
Government grants and subsidies	41,378	27,870
Penalties and compensation	12	21
Others	3,704	7,428
Total	154,910	21,426

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

9. Operating expenses

	For the six month period ended 30 June	
	2016	2015
Staff costs:		
Salaries, bonuses and allowances	639,039	592,260
Social insurance	94,272	89,602
Housing fund	36,705	35,792
Staff benefits	39,235	46,736
Labour union expenditure and education costs	6,937	6,593
Early retirement benefits	87	2,264
Subtotal	816,275	773,247
General and administrative expenses	263,516	241,526
Business tax and surcharges	360,232	442,387
Depreciation and amortisation	255,536	208,613
Leasing expense	137,652	147,271
Auditors' remuneration	1,900	1,900
Others	229,677	181,166
Total	2,064,788	1,996,110

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

10. Income tax expense

(a) Income tax

	For the six month period ended 30 June	
	2016	2015
Current income tax	1,039,823	714,737
Deferred income tax	(336,040)	(62,228)
	703,783	652,509

(b) Reconciliation between income tax and accounting profit

The income tax of the Group's institutions has been provided at the statutory rate of 25% or 15%. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	For the six month period ended 30 June	
	2016	2015
Profit before tax	3,163,063	2,784,519
Tax at the PRC statutory income tax rate	790,766	696,130
Items not deductible for tax purposes (i)	8,395	31,875
Non-taxable income (ii)	(65,860)	(43,860)
Overprovision in respect of prior years	(6,627)	(19,038)
Profits attributable to an associate	(14,894)	(5,910)
Effect of different tax rates for certain subsidiaries	(7,997)	(6,688)
Tax expense at the Group's effective income tax rate	703,783	652,509

Notes:

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Amount in thousands of RMB, unless otherwise stated)

11. Dividends

	For the six month period ended 30 June	
	2016	2015
Dividends on ordinary shares declared and paid or proposed:		
Final dividend for 2015: RMB0.107 per share** (2014: RMB0.103 per share*)	1,176,529	1,132,547

* Based on the total numbers of shares at 31 December 2014 at RMB0.103 per share, distributed in cash.

** Based on the total number of shares at 31 December 2015 at RMB0.107 per share. As at 30 June 2016, none of such dividend was distributed. The undistributed portion was recorded in other liabilities (note 30) as at 30 June 2016.

12. Earnings per share

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

	For the six month period ended 30 June	
	2016	2015
Earnings:		
Profit attributable to owners of the parent	2,417,738	2,101,582
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	10,995,600	10,995,600
Basic and diluted earnings per share (in RMB yuan)	0.22	0.19

The basic earnings per share amount was computed by dividing the profit attributable to ordinary owners of the parent by the weighted average number of ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary shares for the six month period ended 30 June 2016 (For the six month period ended 30 June 2015: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

13. Cash and balances with the central bank

	Group	
	30 June 2016	31 December 2015
Cash and unrestricted balances with the central bank:		
Cash on hand	659,948	691,250
Mandatory reserves with the central bank (i)	32,483,182	34,754,118
Surplus reserves with the central bank (ii)	31,744,470	19,083,995
Fiscal deposits with the central bank	58,762	36,731
Total	64,946,362	54,566,094

(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 2016 and 31 December 2015, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC.

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

14. Due from banks and other financial institutions

	Group	
	30 June 2016	31 December 2015
Nostro accounts:		
Banks operating in Mainland China	31,004,749	26,752,488
Banks operating outside Mainland China	1,327,041	1,349,076
	32,331,790	28,101,564
Less: Allowance for impairment losses	-	-
	32,331,790	28,101,564
Placements with banks and other financial institutions:		
Banks operating in Mainland China	797,500	1,271,160
Banks operating outside Mainland China	765,248	662,340
	1,562,748	1,933,500
Less: Allowance for impairment losses	-	-
	1,562,748	1,933,500
	33,894,538	30,035,064

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Amount in thousands of RMB, unless otherwise stated)

15. Financial assets held for trading

	Group	
	30 June 2016	31 December 2015
Debt securities	4,011,261	2,840,042
Debt securities analysed into:		
Listed in Mainland China	4,011,261	2,840,042

16. Reverse repurchase agreements

	Group	
	30 June 2016	31 December 2015
Reverse repurchase agreements analysed by counterparty:		
Banks	6,350,766	51,027,890
	6,350,766	51,027,890
Reverse repurchase agreements analysed by collateral:		
Securities	196,000	2,700,000
Bills	6,004,766	48,177,890
Trust beneficial rights	150,000	150,000
	6,350,766	51,027,890

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. As at 30 June 2016, the Group had no such securities (31 December 2015: Nil). As at 30 June 2016, the Group also had no such bills (31 December 2015: RMB13,798 million). As at 30 June 2016, none of these bills have been repledged under repurchase agreements (31 December 2015: Nil). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers

	Group	
	30 June 2016	31 December 2015
Corporate loans and advances	103,769,747	86,649,602
Personal loans	85,870,178	61,596,453
Discounted bills	3,079,021	428,770
	192,718,946	148,674,825
Less: Allowance for impairment losses	(4,733,160)	(3,613,302)
	187,985,786	145,061,523

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

Group

	Individually assessed	Collectively assessed	Total
As at 1 January 2015	230,990	2,685,081	2,916,071
Exchange difference	2,163	1,095	3,258
Impairment loss:	76,970	816,557	893,527
Impairment allowances charged	102,877	816,557	919,434
Reversal of impairment allowances	(25,907)	–	(25,907)
Accreted interest on impaired loans	(13,862)	(32,845)	(46,707)
Write-offs	–	(223,837)	(223,837)
Recoveries of loans and advances previously written off	31,851	39,139	70,990
At 31 December 2015 and 1 January 2016	328,112	3,285,190	3,613,302
Exchange difference	1,062	571	1,633
Impairment loss:	255,819	891,614	1,147,433
Impairment allowances charged	282,750	891,614	1,174,364
Reversal of impairment allowances	(26,931)	–	(26,931)
Accreted interest on impaired loans	(17,919)	(27,005)	(44,924)
Write-offs	–	(99,248)	(99,248)
Recoveries of loans and advances previously written off	–	114,964	114,964
As at 30 June 2016	567,074	4,166,086	4,733,160

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers (Continued)

	Group	
	30 June 2016	31 December 2015
Loans and advances to customers:		
Unimpaired loans and advances to customers (i)	189,755,729	146,596,175
Impaired loans and advances to customers (ii)		
Individually assessed	1,315,266	902,157
Collectively assessed	1,647,951	1,176,493
	192,718,946	148,674,825
Less: Allowance for impairment losses		
Unimpaired loans and advances to customers (i)	(3,380,317)	(2,805,551)
Impaired loans and advances to customers (ii)		
Individually assessed	(567,074)	(328,112)
Collectively assessed	(785,769)	(479,639)
	(4,733,160)	(3,613,302)
Net loans and advances to customers:		
Unimpaired loans and advances to customers (i)	186,375,412	143,790,624
Impaired loans and advances to customers (ii)		
Individually assessed	748,192	574,045
Collectively assessed	862,182	696,854
	187,985,786	145,061,523
Percentage of impaired loans and advances to customers	1.54%	1.40%

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

18. Derivative financial instruments

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

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

	Group					
	30 June 2016			31 December 2015		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
	Assets	Liabilities		Assets	Liabilities	
Foreign exchange forwards	4,063,581	13,310	(50,788)	1,651,030	3,629	(18,196)
Foreign exchange swaps	1,965,511	16,074	(11,858)	841,499	15,658	(5,718)
	6,029,092	29,384	(62,646)	2,492,529	19,287	(23,914)

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

19. Financial investments

	Group	
	30 June 2016	31 December 2015
Receivables (a)	93,283,390	90,082,859
Held-to-maturity investments (b)	27,985,211	25,244,149
Available-for-sale financial assets (c)	27,911,759	21,291,118
Subtotal	149,180,360	136,618,126
Less: Allowance for impairment losses	(959,159)	(477,667)
Net balance	148,221,201	136,140,459

(a) Receivables

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

	Group	
	30 June 2016	31 December 2015
Certificate treasury bonds	72,544	82,527
Wealth management products issued by other financial institutions (i)	45,629,224	45,880,543
Trust fund plans (ii)	47,581,622	44,119,789
Subtotal	93,283,390	90,082,859
Less: Allowance for impairment losses	(959,159)	(477,667)
Net balance	92,324,231	89,605,192

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

19. Financial investments (Continued)

(b) Held-to-maturity investments

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

	Group	
	30 June 2016	31 December 2015
Debt securities analysed into:		
Listed in Mainland China	27,985,211	25,244,149

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group	
	30 June 2016	31 December 2015
Debt securities analysed into:		
Listed in Mainland China	18,360,939	11,239,220
Unlisted:		
Equity investments at cost (i)	24,620	24,620
Wealth management products	2,500,000	4,000,794
Funds	7,000,000	6,000,284
Others	26,200	26,200
	27,911,759	21,291,118
Market value of listed debt securities	18,360,939	11,239,220

- (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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

20. Finance lease receivables

	Group	
	30 June 2016	31 December 2015
Finance lease receivables	18,384,997	11,708,466
Less: unearned finance lease income	(1,594,891)	(1,151,287)
Present value of minimum finance lease receivables	16,790,106	10,557,179
Less: allowance for impairment losses	(171,634)	(109,305)
Including: collective assessment	(171,634)	(109,305)
Net balance	16,618,472	10,447,874

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

	Group					
	30 June 2016			31 December 2015		
	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	8,713,101	(835,060)	7,878,041	3,925,190	(513,927)	3,411,263
1 year to 2 years	3,806,325	(393,264)	3,413,061	2,764,393	(316,378)	2,448,015
2 years to 3 years	2,773,788	(226,835)	2,546,953	2,338,578	(193,575)	2,145,003
3 years to 5 years	2,967,848	(135,734)	2,832,114	2,521,846	(123,173)	2,398,673
More than 5 years	123,935	(3,998)	119,937	158,459	(4,234)	154,225
	18,384,997	(1,594,891)	16,790,106	11,708,466	(1,151,287)	10,557,179

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

21. Investment in an associate

	Group	
	30 June 2016	31 December 2015
Investment in an associate	1,186,379	1,156,296

Details of the Group's associate are as follows:

Name	Percentage of equity/ voting rights		Place of registration	Principal activities
	30 June 2016	31 December 2015		
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 position of a director, and is thus capable of exerting significant influence on the operating and financial decisions of the investee. Accordingly, the Group has classified it as an associate.

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

	30 June 2016	31 December 2015
Assets	110,452,928	106,211,279
Liabilities	(104,288,061)	(100,233,184)
Net assets	6,164,867	5,978,095
Proportion of the Group's ownership	16%	16%
Share of the net assets	986,379	956,296
Goodwill on acquisition	200,000	200,000
Carrying amount of the investment	1,186,379	1,156,296

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

21. Investment in an associate (Continued)

	For the six month period ended 30 June	
	2016	2015
Revenue	1,304,411	775,691
Continuing operation profit	750,240	189,895
Non-continuing operation profit	30	598
Profit for the period	372,344	147,756
Group's share of profit	59,575	23,641
Total comprehensive income	293,669	170,249
Dividends received	–	–

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

As at 30 June 2016, contingent liabilities of the associate mainly include bank acceptances, guarantees issued and sight letters of credit. For the six month period ended 30 June 2016, the associate had no significant contingent liabilities and capital commitments (for the six month period ended 30 June 2015: Nil).

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

22. Property and equipment

Group

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2015	2,831,401	4,273,731	395,154	1,213,538	75,171	294,317	9,083,312
Additions	379,604	552,383	47,409	201,905	6,980	–	1,188,281
CIP transfers	2,267,301	(2,326,705)	–	59,404	–	–	–
Disposals	(5,859)	(6,104)	–	(878)	(5,201)	–	(18,042)
At 31 December 2015 and 1 January 2016	5,472,447	2,493,305	442,563	1,473,969	76,950	294,317	10,253,551
Additions	3,317	94,084	7,032	44,986	655	–	150,074
CIP transfers	190,199	(190,199)	–	–	–	–	–
Disposals	–	(2,887)	–	(1,022)	(1,080)	–	(4,989)
At 30 June 2016	5,665,963	2,394,303	449,595	1,517,933	76,525	294,317	10,398,636
Accumulated depreciation:							
At 1 January 2015	364,992	–	166,652	552,678	46,778	–	1,131,100
Depreciation charge for the year	107,065	–	69,834	191,788	8,872	13,996	391,555
Disposals	(738)	–	–	(384)	(3,441)	–	(4,563)
At 31 December 2015 and 1 January 2016	471,319	–	236,486	744,082	52,209	13,996	1,518,092
Depreciation charge for the period	77,628	–	34,933	102,310	4,824	7,022	226,717
Disposals	–	–	–	(960)	(1,026)	–	(1,986)
At 30 June 2016	548,947	–	271,419	845,432	56,007	21,018	1,742,823
Net carrying amount:							
At 31 December 2015	5,001,128	2,493,305	206,077	729,887	24,741	280,321	8,735,459
At 30 June 2016	5,117,016	2,394,303	178,176	672,501	20,518	273,299	8,655,813

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

22. Property and equipment (Continued)

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

	Group	
	30 June 2016	31 December 2015
Held in China:		
Over 50 years	1,860,208	1,891,056
10 to 50 years	3,219,288	3,071,934
Less than 10 years	37,520	38,138
	5,117,016	5,001,128

As at 30 June 2016, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,183 million (31 December 2015: RMB2,802 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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

23. Deferred income tax assets and liabilities

(a) Analysed by nature

Group

	30 June 2016		31 December 2015	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	3,693,670	913,604	2,522,404	630,601
Change in fair value of derivatives	33,261	8,315	4,628	1,157
Salaries, bonuses, allowances and subsidies payable	40,142	9,669	24,936	6,234
Early retirement benefits	15,064	3,766	17,636	4,409
Deferred revenue	470,094	117,524	309,480	77,370
Subtotal	4,252,231	1,052,878	2,879,084	719,771
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(167,113)	(41,778)	(248,072)	(62,018)
Change in fair value of held-for- trading financial assets	(21,506)	(5,377)	(33,240)	(8,310)
Subtotal	(188,619)	(47,155)	(281,312)	(70,328)
Net deferred income tax	4,063,612	1,005,723	2,597,772	649,443

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016
(Amount in thousands of RMB, unless otherwise stated)

23. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax

Group

	At 1 January 2016	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 30 June 2016
Deferred income tax assets:				
Allowance for impairment losses	630,601	283,003	–	913,604
Changes in fair value of derivatives	1,157	7,158	–	8,315
Salaries, bonuses, allowances and subsidies payable	6,234	3,435	–	9,669
Early retirement benefits	4,409	(643)	–	3,766
Deferred revenue	77,370	40,154	–	117,524
Subtotal	719,771	333,107	–	1,052,878
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(62,018)	–	20,240	(41,778)
Change in fair value of held-for- trading financial assets	(8,310)	2,933	–	(5,377)
Subtotal	(70,328)	2,933	20,240	(47,155)
Net deferred income tax	649,443	336,040	20,240	1,005,723

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

23. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax (Continued)

Group (Continued)

	At 1 January 2015	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2015
Deferred income tax assets:				
Allowance for impairment losses	418,266	212,335	–	630,601
Changes in fair value of derivatives	150	1,007	–	1,157
Salaries, bonuses, allowances and subsidies payables	6,057	177	–	6,234
Early retirement benefits	3,720	689	–	4,409
Deferred revenue	36,902	40,468	–	77,370
Subtotal	465,095	254,676	–	719,771
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(627)	–	(61,391)	(62,018)
Change in fair value of held-for- trading financial assets	(4,096)	(4,214)	–	(8,310)
Subtotal	(4,723)	(4,214)	(61,391)	(70,328)
Net deferred income tax	460,372	250,462	(61,391)	649,443

As at 30 June 2016, the Group did not have significant unrecognised deferred income tax assets and liabilities (31 December 2015: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

24. Other assets

	Group	
	30 June 2016	31 December 2015
Interest receivable (a)	3,067,626	2,959,729
Land use rights (b)	4,890	4,977
Advance payments	319,615	279,174
Settlement and clearing accounts	1,330,531	657,106
Intangible assets (c)	139,825	133,948
Other receivables	196,946	133,029
Others	166	3,874
	5,059,599	4,171,837

(a) Interest receivable

	Group	
	30 June 2016	31 December 2015
Banks and other financial institutions	266,694	193,954
Reverse repurchase agreements	41,726	263,144
Loans and advances to customers	1,473,272	1,385,580
Bonds and other investments	1,285,934	1,117,051
	3,067,626	2,959,729

(b) Land use rights

	Group	
	30 June 2016	31 December 2015
Located in Mainland China		
10-50 years	4,890	4,977

(c) Intangible assets

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

25. Borrowings from banks and other financial institutions

	Group	
	30 June 2016	31 December 2015
Unsecured borrowings	8,220,000	7,000,000
Pledged borrowings	993,999	1,137,937
	9,213,999	8,137,937

As at 30 June 2016 and 31 December 2015, the pledged borrowings of RMB994 million and RMB1,138 million were secured by the finance lease receivables of RMB1,183 million and RMB1,549 million respectively. There was no remaining credit limit under these pledged borrowings.

26. Due to banks

	Group	
	30 June 2016	31 December 2015
Deposits:		
Banks operating in Mainland China	43,949,734	48,862,551
Banks operating outside Mainland China	57,054	14,004
	44,006,788	48,876,555
Placements:		
Banks operating in Mainland China	4,503,126	2,982,750
Banks operating outside Mainland China	9,587	169,615
	4,512,713	3,152,365
	48,519,501	52,028,920

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

27. Repurchase agreements

Repurchase agreements comprise the repurchase of bonds and bills.

	Group	
	30 June 2016	31 December 2015
Repurchase agreements analysed by counterparty:		
Banks	14,277,500	12,145,000
Other financial Institutions Within Mainland China	1,000,000	–
	15,277,500	12,145,000
Repurchase agreements analysed by collateral:		
Bonds	15,277,500	12,145,000

28. Due to customers

	Group	
	30 June 2016	31 December 2015
Demand deposits:		
Corporate customers	87,512,911	85,924,132
Personal customers	43,308,688	39,089,262
	130,821,599	125,013,394
Time deposits:		
Corporate customers	137,932,191	125,077,103
Personal customers	61,919,509	56,727,172
	199,851,700	181,804,275
	330,673,299	306,817,669

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

29. Debt securities issued

	Group	
	30 June 2016	31 December 2015
Financial bonds issued	8,497,577	8,496,302
Tier 2 capital bonds issued	7,997,158	–
Negotiable certificates of deposit issued	10,992,433	14,773,576
	27,487,168	23,269,878

As approved by the PBOC and the CBRC, the Bank issued financial bonds through the open market in 2012, 2014 and 2015 and issued the tier 2 capital bonds through the open market in 2016. These bonds issued were traded in the inter-bank bond market. The Bank has not had any defaults of principal or interest or other breaches with respect to the financial bonds during the six month period ended 30 June 2016 (2015: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
12 Harbin Bank financial bonds	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million
14 Harbin Bank01	15 December 2014	100	4.60%	17 December 2014	17 December 2017	2,000 million
15 Harbin Bank01	26 May 2015	100	4.20%	28 May 2015	28 May 2018	4,000 million
16 Harbin Bank tier 2 capital bonds	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 million

In the six month period ended 30 June 2016 and 2015, the Bank issued 9 terms and 18 terms interbank negotiable certificates of deposit through domestic interbank bond market respectively, at a face value of RMB100 and sold at discount. As at 30 June 2016 and 31 December 2015, 8 terms and 12 terms of negotiable certificates of deposit issued by the Bank have not yet expired, the balances of which were RMB10.992 billion and RMB14.774 billion respectively, with a time limit of 1 month to 1 year.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities

	Group	
	30 June 2016	31 December 2015
Interest payable (a)	3,555,454	3,893,447
Wealth management products payable	14,087	54,556
Settlement and clearing accounts	1,144,252	387,529
Account payable from agency services	129,320	115,403
Salaries, bonuses, allowances and subsidies payable (b)	387,730	544,312
Sundry tax payables	229,891	267,406
Deferred revenue (c)	560,305	458,748
Dividends payable	1,221,428	65,402
Accrued expenses	45,378	56,105
Lease guarantee fee	815,322	702,635
Other payables	2,287,908	762,470
	10,391,075	7,308,013

(a) Interest payable

	Group	
	30 June 2016	31 December 2015
Due to banks	828,814	884,488
Due to customers	2,627,720	2,823,864
Repurchase agreements	6,130	9,296
Bonds payable	92,790	175,799
	3,555,454	3,893,447

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

	Group	
	30 June 2016	31 December 2015
Salaries, bonuses and allowances	310,625	503,133
Social insurance	29,009	6,686
Housing fund	19,589	3,668
Employee benefits	–	449
Labour union expenditure and education costs	13,443	12,738
Early retirement benefits	15,064	17,638
	387,730	544,312

(c) Deferred revenue

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

	Group	
	30 June 2016	31 December 2015
Intermediary services	560,257	457,637
Others	48	1,111
	560,305	458,748

31. Share Capital

	Bank			
	2016		2015	
	Number of shares (thousands)	Nominal value	Number of shares (thousands)	Nominal value
Opening balance	10,995,600	10,995,600	10,995,600	10,995,600
Changes in current period/year	–	–	–	–
As at 30 June 2016/31 December 2015	10,995,600	10,995,600	10,995,600	10,995,600

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

32. 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 end balance of its risk assets.

Upon approval at the 2015 Annual General Meeting held on May 2016, the Bank made appropriation to the general reserve amounting to RMB1,312,710 thousand (2015: RMB207,011 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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

33. Components of other comprehensive income

	Group	
	For the six month period ended 30 June	
	2016	2015
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	(85,791)	25,376
Transfer to the income statement arising from disposal	4,994	2,591
Income tax effect	20,200	(6,992)
	(60,597)	20,975
Share of other comprehensive income of an associate	(29,492)	3,599
	(90,089)	24,574

34. Cash and cash equivalents

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

	Group	
	30 June 2016	30 June 2015
	Cash on hand (note 13)	659,948
Balances with the central bank (note 13)	31,744,470	11,737,818
Due from banks and other financial institutions	11,933,699	5,493,173
Reverse repurchase agreements	3,251,696	1,894,179
	47,589,813	19,850,317

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

35. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	Group	
	30 June 2016	31 December 2015
Contracted, but not provided	1,045,353	1,164,489
	1,045,353	1,164,489

(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 2016	31 December 2015
Within one year	214,328	219,731
After one year but not more than five years	497,012	515,228
After five years	182,563	263,005
	893,903	997,964

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

35. Commitments and contingent liabilities *(Continued)*

(c) Credit commitments

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

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

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

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

	Group	
	30 June 2016	31 December 2015
Bank acceptances	54,714,030	49,452,513
Guarantees issued	7,774,044	6,884,397
Sight letters of credit	2,503,502	1,275,761
Undrawn credit card limit	2,024,128	1,289,077
	67,015,704	58,901,748

(d) Legal proceedings

As at 30 June 2016, significant legal proceedings outstanding against the Group amounted to RMB50,000 thousand. Management expects that there will be no loss caused by these litigations and no provisions need to be made (As at 31 December 2015, there were no significant legal proceedings outstanding against the Group).

(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 2016, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,689 million (31 December 2015: RMB2,752 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

35. Commitments and contingent liabilities *(Continued)*

(f) Risk fund rescue obligation

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

(g) Assets pledged as security

Financial assets of the Group including debt securities and bills have been pledged as security for liabilities or contingent liabilities which mainly arise from repurchase agreements and negotiated deposits. As at 30 June 2016, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB15,770 million (31 December 2015: approximately RMB17,981 million).

36. Interest of Unconsolidated Structured Entities

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

36.1 Unconsolidated structured entities managed by the Group

(1) *Wealth management products*

When conducting wealth management businesses, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2016, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB54,258 million (31 December 2015: RMB47,225 million). For the six month period ended 30 June 2016, fee and commission income included commission and custodian fee and management fee income from wealth management business that amounted to RMB196,012 thousand (for the six month period ended 30 June 2015: RMB236,696 thousand).

During the six month period ended 30 June 2016, the Group did not provide any financing to the unconsolidated wealth management products (for the six month period ended 30 June 2015: Nil).

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

36. Interest of unconsolidated structured entities (Continued)

36.1 Unconsolidated structured entities managed by the Group (Continued)

(2) Asset securitization business

Another type of structured entity managed by the Group but not yet consolidated is the Special Purpose Vehicle (“SPV”) set up by the third trust company due to the Group’s asset securitization business. The SPV purchases credit assets from the Group, and issues Assets Backed Securities (“ABS”) on the basis of the cash generated by the credit assets. The Group acts as the loan service agency of the SPV and charges corresponding fee and commission income. The Group may hold partially subordinated ABS of the SPV and thus retains a little risks and rewards of these transferred credit assets. The Group determines whether or not to derecognise the credit assets based on the extent of the risks and rewards retained. The Group believes that its variable returns on this structured entity is not significant. As at 30 June 2016, the balance of the maximum loss risk exposure of this unconsolidated SPV of the Group amounted to RMB80,769 thousand (31 December 2015: Nil).

As at 30 June 2016, the overall scale of these SPVs not consolidated by the Group amounted to RMB1,540 million (31 December 2015: Nil).

36.2 Structured entities sponsored by other financial institutions

As at 30 June 2016, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

	As at 30 June 2016			
	Available-for-sale financial assets	Receivables	Total	Maximum exposure to loss
Fund	7,000,000	–	7,000,000	7,000,000
Wealth management products	2,500,000	–	2,500,000	2,500,000
Investment trusts and asset management plans	–	93,210,846	93,210,846	92,251,687
Others	26,200	–	26,200	26,200
	As at 31 December 2015			
	Available-for-sale financial assets	Receivables	Total	Maximum exposure to loss
Fund	6,000,284	–	6,000,284	6,000,284
Wealth management products	4,000,794	–	4,000,794	4,000,794
Investment trusts and asset management plans	–	90,000,332	90,000,332	89,522,665
Others	26,200	–	26,200	26,200

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37. Fiduciary activities

	Group	
	30 June 2016	31 December 2015
Designated funds	10,050,647	7,827,344
Designated loans	10,050,647	7,827,344

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. Revenue from these activities is included in "Net Fee and Commission Income" set out in note 5 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

38. Related party disclosures

(a) Significant related party disclosures

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

Name	Share percentage in the Bank	
	30 June 2016	31 December 2015
	%	%
Harbin Economic Development and Investment Company	19.65	19.65
Fubon Life Insurance Company Limited	7.03	7.03
Harbin Kechuang Xingye Investment Company Limited	6.55	6.55
Heilongjiang Keruan Software Technology Company Limited	6.55	6.55
Heilongjiang Xin Yongsheng Trading Company Limited	5.82	5.82
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	5.20	5.20

(ii) Subsidiaries of the Bank

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

38. Related party disclosures *(Continued)*

(b) Related party transactions

(i) Transactions between the Bank and the major shareholders

	30 June 2016	31 December 2015
Balances at end of the period/year:		
Deposits	1,548	440
For the six month period ended 30 June		
	2016	2015
Transactions during the period:		
Interest expense on deposits	12	10
Interest rate ranges during the period are as follows:		
Deposits	0.35-5.85%	0.39-3.78%

(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 information. In the opinion of management, the transactions between the Bank and its subsidiaries have no significant impact on profit or loss.

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(Amount in thousands of RMB, unless otherwise stated)

38. 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 2016	31 December 2015
Balances at end of the period/year:		
Loans	14,368	16,862
Deposits	5,729	7,932
	For the six month period ended 30 June	
	2016	2015
Transactions during the period:		
Interest income on loans	331	225
Interest expense on deposits	11	20
Interest rate ranges during the period are as follows:	%	%
Loans	3.43-9.65	4.35-7.13
Deposits	0.35-5.85	0.39-5.13

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39. Segment information

(a) Operating segments

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

Corporate financial business

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

Retail financial business

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

Interbank financial business

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

Other business

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

39. Segment information (Continued)

(a) Operating segments (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

39. Segment information (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six months ended 30 June 2015</u>					
External net interest income	1,875,083	636,774	1,939,821	–	4,451,678
Internal net interest income/(expense)	638,071	395,010	(1,033,081)	–	–
Net fee and commission income	140,686	80,170	724,960	–	945,816
Other income, net (i)	(15,595)	–	94,210	37,819	116,434
Operating income	2,638,245	1,111,954	1,725,910	37,819	5,513,928
Operating expenses	(911,227)	(467,707)	(593,556)	(23,620)	(1,996,110)
Impairment losses on:					
Loans and advances to customers	(404,413)	(201,977)	–	–	(606,390)
Other	(50,550)	–	(100,000)	–	(150,550)
Operating profit	1,272,055	442,270	1,032,354	14,199	2,760,878
Share of profits of an associate	–	–	–	23,641	23,641
Profit before tax	1,272,055	442,270	1,032,354	37,840	2,784,519
Income tax expense					(652,509)
Profit for the period					2,132,010
Other segment information:					
Depreciation and amortisation	83,904	43,066	80,470	1,173	208,613
Capital expenditure	198,202	101,731	190,088	2,772	492,793
<u>As at 30 June 2015</u>					
Segment assets	144,988,411	65,756,071	179,423,484	1,618,719	391,786,685
Segment liabilities	173,795,037	88,196,091	96,835,991	1,740,028	360,567,147
Other segment information:					
Credit commitments	39,093,397	1,002,075	180,000	–	40,275,472

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

39. Segment information *(Continued)*

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows :

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

39. 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 2016</u>						
External net interest income	4,093,629	104,089	822,831	224,202	168,506	5,413,257
Internal net interest income/(expense)	(233,921)	303,774	(136,425)	65,037	1,535	–
Net fee and commission income	880,433	59,237	236,324	73,671	13,140	1,262,805
Other income, net (i)	147,391	223	20,322	5,259	10,273	183,468
Operating income	4,887,532	467,323	943,052	368,169	193,454	6,859,530
Operating expenses	(1,396,385)	(184,485)	(294,079)	(125,085)	(64,754)	(2,064,788)
Impairment losses on:						
Loans and advances to customers	(779,818)	(101,747)	(131,797)	(96,987)	(37,084)	(1,147,433)
Other	(543,821)	–	–	–	–	(543,821)
Operating profit	2,167,508	181,091	517,176	146,097	91,616	3,103,488
Share of profits of an associate	59,575	–	–	–	–	59,575
Profit before tax	2,227,083	181,091	517,176	146,097	91,616	3,163,063
Income tax expense						(703,783)
Profit for the period						2,459,280
Other segment information:						
Depreciation and amortisation	192,646	15,323	37,407	5,104	5,056	255,536
Capital expenditure	138,588	13,149	25,983	10,216	5,155	193,091
<u>As at 30 June 2016</u>						
Segment assets	344,970,787	34,491,319	67,819,746	21,231,250	9,452,182	477,965,284
Segment liabilities	265,933,187	55,853,526	82,557,455	30,111,078	8,476,186	442,931,432
Other segment information:						
Credit commitments	7,452,460	23,223,501	19,221,680	10,312,360	6,985,703	67,195,704

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

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

39. 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 2015</u>						
External net interest income	2,520,928	550,962	951,311	264,318	164,159	4,451,678
Internal net interest income/(expense)	140,803	(23,762)	(102,383)	(14,658)	–	–
Net fee and commission income	634,995	113,419	84,212	101,596	11,594	945,816
Other income, net (i)	101,751	812	10,101	2,125	1,645	116,434
Operating income	3,398,477	641,431	943,241	353,381	177,398	5,513,928
Operating expenses	(1,336,528)	(204,250)	(275,037)	(114,991)	(65,304)	(1,996,110)
Impairment losses on:						
Loans and advances to customers	(377,342)	(46,194)	(134,909)	(37,378)	(10,567)	(606,390)
Other	(150,550)	–	–	–	–	(150,550)
Operating profit	1,534,057	390,987	533,295	201,012	101,527	2,760,878
Share of profits of an associate	23,641	–	–	–	–	23,641
Profit before tax	1,557,698	390,987	533,295	201,012	101,527	2,784,519
Income tax expense						(652,509)
Profit for the period						2,132,010
Other segment information:						
Depreciation and amortisation	156,593	11,689	27,806	5,288	7,237	208,613
Capital expenditure	305,685	57,058	83,111	31,285	15,654	492,793
<u>As at 30 June 2015</u>						
Segment assets	249,997,484	39,463,364	73,052,991	22,894,081	6,378,765	391,786,685
Segment liabilities	231,312,344	38,968,607	62,006,599	22,812,828	5,466,769	360,567,147
Other segment information:						
Credit commitments	3,216,395	11,179,060	11,641,484	7,690,609	6,547,924	40,275,472

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

40. 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 2016	31 December 2015
Balances with the central bank	64,286,414	53,874,844
Due from banks and other financial institutions	33,894,538	30,035,064
Financial assets held for trading	4,011,261	2,840,042
Derivative financial assets	29,384	19,287
Reverse repurchase agreements	6,350,766	51,027,890
Loans and advances to customers	187,985,786	145,061,523
Financial investments		
– Receivables	92,324,231	89,605,192
– Held-to-maturity investments	27,985,211	25,244,149
– Available-for-sale financial assets	27,887,139	21,266,498
Finance lease receivables	16,618,472	10,447,874
Others	4,595,103	3,749,864
	465,968,305	433,172,227
Credit commitments	67,195,704	59,081,748
Total maximum credit risk exposure	533,164,009	492,253,975

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

40. 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, financial lease receivables and investments in debt securities. Details of the composition of the Group's investments in debt securities are set out in note 40(a)(v) to the financial information. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	Group	
	30 June 2016	31 December 2015
Agriculture, forestry, animal husbandry and fishing	3,531,709	3,528,214
Mining	257,150	321,156
Manufacturing	11,981,525	10,524,185
Production and supply of electricity, gas and water	3,480,119	1,933,727
Construction	6,565,200	3,551,403
Transportation, storage and postal services	2,036,387	3,191,879
Information transmission, computer services and software	1,214,396	708,506
Commercial trade	35,712,685	29,848,707
Lodging and catering	2,663,130	2,587,243
Finance	45,000	28,020
Real estate	11,079,623	10,657,555
Leasing and commercial services	17,315,755	13,324,448
Scientific research, technological services and geological prospecting	235,431	244,650
Water, environment and public utility management and investment industry	3,477,666	3,447,782
Resident services and other services	1,793,035	1,113,598
Education	496,601	420,576
Health, social security and social welfare	1,524,385	1,029,853
Culture, sports and entertainment	359,950	181,100
Public administration and social organisations	–	7,000
Subtotal for corporate loans and advances	103,769,747	86,649,602
Personal loans:		
Personal business	19,189,803	17,558,441
Personal consumption	54,281,114	34,320,391
Loans to farmers	12,399,261	9,717,621
Subtotal for personal loans	85,870,178	61,596,453
Discounted bills	3,079,021	428,770
Total for loans and advances to customers	192,718,946	148,674,825

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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 2016	31 December 2015
Neither past due nor impaired	185,583,527	143,506,586
Past due but not impaired	4,172,202	3,089,589
Impaired	2,963,217	2,078,650
	192,718,946	148,674,825
Less: Allowance for impairment losses		
Collectively assessed	(4,166,086)	(3,285,190)
Individually assessed	(567,074)	(328,112)
	(4,733,160)	(3,613,302)
	187,985,786	145,061,523

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 2016		
	Pass	Special mention	Total
Unsecured loans	23,498,639	1,055,967	24,554,606
Guaranteed loans	51,669,923	301,866	51,971,789
Loans secured by mortgages	86,407,754	886,116	87,293,870
Pledged loans	21,752,582	10,680	21,763,262
	183,328,898	2,254,629	185,583,527
	31 December 2015		
	Pass	Special mention	Total
Unsecured loans	14,771,354	638,159	15,409,513
Guaranteed loans	42,029,872	266,444	42,296,316
Loans secured by mortgages	73,875,675	669,709	74,545,384
Pledged loans	11,251,371	4,002	11,255,373
	141,928,272	1,578,314	143,506,586

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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 2016		
	Corporate loans and advances	Personal loans	Total
Past due for :			
Less than one month	1,912,946	498,894	2,411,840
One to two months	601,213	173,791	775,004
Two to three months	531,102	279,962	811,064
Over three months	173,198	1,096	174,294
	3,218,459	953,743	4,172,202
Fair value of collateral held	4,631,520	1,473,252	6,104,772

	31 December 2015		
	Corporate loans and advances	Personal loans	Total
Past due for :			
Less than one month	1,122,254	238,486	1,360,740
One to two months	686,874	237,428	924,302
Two to three months	606,118	108,092	714,210
Over three months	78,616	11,721	90,337
	2,493,862	595,727	3,089,589
Fair value of collateral held	6,315,341	872,108	7,187,449

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 2016 amounted to RMB2,354,750 thousand (31 December 2015: RMB1,756,465 thousand). The collateral mainly consists of land, buildings, equipment and others.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management *(Continued)*

(a) Credit risk *(Continued)*

(iv) Financial lease receivables

	Group	
	30 June 2016	31 December 2015
The lease amount		
Neither past due nor impaired	16,790,106	10,557,179
Less: Allowance for impairment losses	(171,634)	(109,305)
Net amount	16,618,472	10,447,874

(v) Debt securities

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

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

Group

	30 June 2016				
	Receivables	Held-to- maturity investments	Available- for-sale financial assets	Financial assets held- for-trading	Total
Neither past due nor impaired					
Government and the central bank	72,544	5,742,125	1,532,900	422,146	7,769,715
Policy banks	–	15,548,688	14,132,387	2,375,107	32,056,182
Banks and other financial institutions	45,629,224	3,615,618	10,340,505	–	59,585,347
Corporate entities	47,188,942	3,078,780	1,881,347	1,214,008	53,363,077
Subtotal	92,890,710	27,985,211	27,887,139	4,011,261	152,774,321
Past due but not impaired					
Corporate entities	61,999	–	–	–	61,999
Subtotal	61,999	–	–	–	61,999
Impaired					
Corporate entities	330,681	–	–	–	330,681
Subtotal	330,681	–	–	–	330,681
Less: Allowance of impairment losses	(959,159)	–	–	–	(959,159)
Total	92,324,231	27,985,211	27,887,139	4,011,261	152,207,842

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management *(Continued)*

(a) Credit risk *(Continued)*

(v) Debt securities *(Continued)*

Group *(Continued)*

	31 December 2015				
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and the central bank	82,527	5,591,584	915,372	422,666	7,012,149
Policy banks	–	14,048,317	8,513,897	348,877	22,911,091
Banks and other financial institutions	45,862,536	3,440,632	10,027,278	1,493,304	60,823,750
Corporate entities	43,839,639	2,163,616	1,809,951	575,195	48,388,401
Subtotal	89,784,702	25,244,149	21,266,498	2,840,042	139,135,391
Impaired					
Corporate entities	298,157	–	–	–	298,157
Subtotal	298,157	–	–	–	298,157
Less: Allowance of impairment losses	(477,667)	–	–	–	(477,667)
Total	89,605,192	25,244,149	21,266,498	2,840,042	138,955,881

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(Amount in thousands of RMB, unless otherwise stated)

40. 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 2016

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative Cash flows								
Financial assets:								
Cash and balances with the central bank	32,404,418	-	-	-	-	-	32,541,944	64,946,362
Due from banks and other financial institutions (*)	3,304,823	1,891,110	13,620,942	21,617,411	571,655	-	-	41,005,941
Financial assets held for trading	-	13,410	740,180	1,099,204	1,497,997	1,233,988	-	4,584,779
Loans and advances to customers	4,986	7,243,720	10,741,977	79,408,393	68,941,954	60,567,121	6,522,900	233,431,051
Financial investments	200,000	5,087,304	18,838,343	40,417,539	79,731,789	24,781,089	188,034	169,244,098
Finance lease receivables	-	-	1,394,994	7,318,107	9,547,982	123,934	-	18,384,997
Other financial assets	1,330,530	54,922	75,191	25,503	35,855	5,476	-	1,527,477
Total financial assets	37,244,757	14,290,466	45,411,627	149,886,157	160,327,212	86,711,608	39,252,878	533,124,705
Financial liabilities:								
Due to the central bank	-	151,254	109,531	484,852	-	-	-	745,637
Borrowings from banks and other financial institutions	-	1,044,903	2,467,970	4,883,366	1,091,771	-	-	9,488,010
Due to banks (**)	90,029	21,553,343	16,888,891	24,728,958	1,999,426	-	-	65,260,647
Due to customers	133,328,961	16,633,018	33,115,120	116,003,351	37,710,524	1,664,949	-	338,455,923
Debt securities issued	-	1,000,000	3,500,000	9,798,750	7,540,000	9,600,000	-	31,433,750
Other financial liabilities	1,347,128	1,386,891	724,220	213,316	762,881	1,881	-	4,436,267
Total financial liabilities	134,766,118	41,769,409	56,805,732	156,107,593	49,104,552	11,266,830	-	449,820,234
Net position	(97,521,361)	(27,478,943)	(11,394,105)	(6,221,436)	111,222,660	75,444,778	39,252,878	83,304,471
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	1,371,427	4,687,050	-	-	-	6,058,477
Total outflow	-	-	(1,384,009)	(4,707,729)	-	-	-	(6,091,738)
Credit commitments	2,029,912	4,450,486	6,173,042	52,139,659	2,222,605	-	180,000	67,195,704

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

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40. Financial instruments risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

31 December 2015

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the central bank	19,775,245	-	-	-	-	-	34,790,849	54,566,094
Due from banks and other financial institutions (*)	6,490,565	12,085,146	28,947,615	34,036,194	514,958	-	-	82,074,478
Financial assets held for trading	-	280,545	1,623,657	367,740	456,316	259,145	-	2,987,403
Loans and advances to customers	6,608	8,908,417	11,697,691	54,819,843	52,585,776	47,141,373	4,901,370	180,061,078
Financial investments	4,401,079	21,057,125	8,628,875	41,200,740	57,156,514	21,891,764	192,473	154,528,570
Finance lease receivables	-	230,664	496,423	3,198,103	7,624,817	158,458	-	11,708,465
Other financial assets	657,107	81,620	396	1,376	44,942	4,694	-	790,135
Total financial assets	31,330,604	42,643,517	51,394,657	133,623,996	118,383,323	69,455,434	39,884,692	486,716,223
Financial liabilities:								
Due to the central bank	-	40,488	238,766	494,429	-	-	-	773,683
Borrowings from banks and other financial institutions	-	235,630	1,893,065	5,074,329	1,275,485	-	-	8,478,509
Due to banks (**)	2,433,496	29,260,184	9,379,466	22,279,251	1,865,831	-	-	66,218,228
Due to customers	133,705,741	23,373,632	36,964,229	95,777,059	25,971,596	590,765	-	316,383,022
Debt securities issued	-	2,196,369	2,484,489	10,466,469	9,041,750	-	-	24,189,077
Other financial liabilities	596,748	263,575	392,926	38,915	697,646	88,888	-	2,078,698
Total financial liabilities	136,735,985	55,369,878	51,352,941	134,130,452	38,852,308	679,653	-	417,121,217
Net position	(105,405,381)	(12,726,361)	41,716	(606,456)	79,531,015	68,775,781	39,884,692	69,595,006
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	272,598	1,397,720	-	-	-	1,670,318
Total outflow	-	-	(273,492)	(1,401,452)	-	-	-	(1,674,944)
Credit commitments	1,435,698	6,257,295	15,748,977	33,013,447	2,446,331	-	180,000	59,081,748

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

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(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management *(Continued)*

(c) Market risk

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

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

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

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

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

(i) Currency risk

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk *(Continued)*

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

Group

Currency	Change in rate	Effect on profit before tax	
		30 June 2016	31 December 2015
USD	-1%	(29,712)	(19,797)
HKD	-1%	(2,551)	247
RUB	-1%	(240)	(1,974)

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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:

Group

30 June 2016

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the central bank	64,839,703	92,543	1,153	8,816	4,147	64,946,362
Due from banks and other financial institutions	31,361,023	1,857,477	312,849	192,789	170,400	33,894,538
Financial assets held for trading	4,011,261	-	-	-	-	4,011,261
Derivative financial assets	-	23,150	-	-	6,234	29,384
Reverse repurchase agreements	6,350,766	-	-	-	-	6,350,766
Loans and advances to customers	185,552,976	2,402,829	-	-	29,981	187,985,786
Financial investments	148,196,581	-	-	-	-	148,196,581
Finance lease receivables	16,618,472	-	-	-	-	16,618,472
Other financial assets	4,549,963	45,120	3	-	17	4,595,103
Total financial assets	461,480,745	4,421,119	314,005	201,605	210,779	466,628,253
Financial liabilities:						
Due to the central bank	736,859	-	-	-	-	736,859
Borrowings from other financial Institutions	9,213,999	-	-	-	-	9,213,999
Due to banks	47,795,127	706,125	-	1,197	17,052	48,519,501
Derivative financial liabilities	62,646	-	-	-	-	62,646
Repurchase agreements	15,277,500	-	-	-	-	15,277,500
Due to customers	329,566,095	651,323	1,364	131,197	323,320	330,673,299
Debt securities issued	27,487,168	-	-	-	-	27,487,168
Other financial liabilities	7,623,767	92,461	57,574	45,222	172,697	7,991,721
Total financial liabilities	437,763,161	1,449,909	58,938	177,616	513,069	439,962,693
Net position	23,717,584	2,971,210	255,067	23,989	(302,290)	26,665,560
Credit commitments	66,866,221	312,565	-	-	16,918	67,195,704

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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 2015

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the central bank	54,471,132	72,674	2,053	17,706	2,529	54,566,094
Due from banks and other financial institutions	27,135,355	2,421,357	16,054	223,680	238,618	30,035,064
Financial assets held for trading	2,840,042	-	-	-	-	2,840,042
Reverse repurchase agreements	51,027,890	-	-	-	-	51,027,890
Loans and advances to customers	143,679,430	1,361,134	-	-	20,959	145,061,523
Derivative financial assets	4,786	12,775	-	-	1,726	19,287
Financial investments	136,115,839	-	-	-	-	136,115,839
Finance lease receivables	10,447,874	-	-	-	-	10,447,874
Other financial assets	3,721,431	28,171	-	205	57	3,749,864
Total financial assets	429,443,779	3,896,111	18,107	241,591	263,889	433,863,477
Financial liabilities:						
Due to the central bank	764,253	-	-	-	-	764,253
Borrowings from banks and other institutions	8,137,937	-	-	-	-	8,137,937
Due to banks	50,870,005	1,148,717	-	939	9,259	52,028,920
Derivative financial liabilities	8,462	10,848	-	-	4,604	23,914
Repurchase agreements	12,145,000	-	-	-	-	12,145,000
Due to customers	305,678,282	1,030,170	7,076	10,034	92,107	306,817,669
Debt securities issued	23,269,878	-	-	-	-	23,269,878
Other financial liabilities	5,841,227	74,129	34,138	15,505	7,146	5,972,145
Total financial liabilities	406,715,044	2,263,864	41,214	26,478	113,116	409,159,716
Net position	22,728,735	1,632,247	(23,107)	215,113	150,773	24,703,761
Credit commitments	58,721,299	355,259	-	-	5,190	59,081,748

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

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

Group 30 June 2016

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	64,286,414	-	-	-	659,948	64,946,362
Due from banks and other financial institutions	15,586,573	17,806,629	501,336	-	-	33,894,538
Financial assets held for trading	699,507	972,573	1,234,580	1,104,601	-	4,011,261
Derivative financial assets	-	-	-	-	29,384	29,384
Reverse repurchase agreements	2,976,150	3,374,616	-	-	-	6,350,766
Loans and advances to customers	51,654,176	99,542,434	28,993,529	2,202,040	5,593,607	187,985,786
Financial investments	35,965,513	30,469,242	61,731,810	19,836,806	193,210	148,196,581
Finance lease receivables	16,618,472	-	-	-	-	16,618,472
Other financial assets	-	-	-	-	4,595,103	4,595,103
Total financial assets	187,786,805	152,165,494	92,461,255	23,143,447	11,071,252	466,628,253
Financial liabilities:						
Due to the central bank	256,859	480,000	-	-	-	736,859
Borrowings from other financial institutions	3,450,000	4,770,000	993,999	-	-	9,213,999
Due to banks	22,609,693	24,300,220	1,609,588	-	-	48,519,501
Derivative financial liabilities	-	-	-	-	62,646	62,646
Repurchase agreements	15,277,500	-	-	-	-	15,277,500
Due to customers	181,142,703	113,324,909	34,616,335	1,381,690	207,662	330,673,299
Debt securities issued	4,482,200	9,010,233	5,997,577	7,997,158	-	27,487,168
Other financial liabilities	-	-	-	-	7,991,721	7,991,721
Total financial liabilities	227,218,955	151,885,362	43,217,499	9,378,848	8,262,029	439,962,693
Total interest sensitivity gap	(39,432,150)	280,132	49,243,756	13,764,599	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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 are earlier, of the Group's financial assets and financial liabilities: (Continued)

Group (Continued) 31 December 2015

	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	53,874,844	-	-	-	691,250	54,566,094
Due from banks and other financial institutions	10,505,238	19,029,826	500,000	-	-	30,035,064
Financial assets held for trading	2,064,119	141,251	391,471	243,201	-	2,840,042
Reverse repurchase agreements	36,279,018	14,748,872	-	-	-	51,027,890
Loans and advances to customers	49,741,125	74,218,231	15,419,752	1,491,932	4,190,483	145,061,523
Financial investments	48,265,226	28,858,637	43,161,477	15,631,289	199,210	136,115,839
Derivative financial assets	-	-	-	-	19,287	19,287
Finance lease receivables	10,447,874	-	-	-	-	10,447,874
Other financial assets	-	-	-	-	3,749,864	3,749,864
Total financial assets	211,177,444	136,996,817	59,472,700	17,366,422	8,850,094	433,863,477
Financial liabilities:						
Due to the central bank	274,872	489,381	-	-	-	764,253
Borrowings from other financial institutions	2,030,000	4,970,000	1,137,937	-	-	8,137,937
Due to banks	28,374,220	21,954,700	1,700,000	-	-	52,028,920
Derivative financial liabilities	-	-	-	-	23,914	23,914
Repurchase agreements	12,145,000	-	-	-	-	12,145,000
Due to customers	188,059,967	90,185,683	27,891,304	475,078	205,637	306,817,669
Debt securities issued	4,680,858	10,092,719	8,496,301	-	-	23,269,878
Other financial liabilities	-	-	-	-	5,972,145	5,972,145
Total financial liabilities	235,564,917	127,692,483	39,225,542	475,078	6,201,696	409,159,716
Total interest sensitivity gap	(24,387,473)	9,304,334	20,247,158	16,891,344	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. 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, etc.

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

40. Financial instruments risk management (Continued)

(d) Capital management (Continued)

	Group	
	30 June 2016	31 December 2015
Core capital		
Qualified part of share capital	10,995,600	10,995,600
Qualified part of capital reserve	7,809,069	7,712,515
Surplus reserve and general reserve	7,411,424	6,021,792
Retained profits	8,034,628	8,183,051
Qualified part of non-controlling interests	502,283	748,358
Core tier 1 capital deductible items:		
Fully deductible items	(139,825)	(133,948)
Net core tier 1 capital	34,613,179	33,527,368
Net other tier 1 capital	-	-
Net tier 1 capital	34,613,179	33,527,368
Net tier 2 capital	9,769,939	1,534,651
Net capital	44,383,118	35,062,019
Total risk-weighted assets	334,686,939	301,091,379
Core tier 1 capital adequacy ratio	10.34%	11.14%
Tier 1 capital adequacy ratio	10.34%	11.14%
Capital adequacy ratio	13.26%	11.64%

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

41. Fair value of financial instruments

Determination of fair value and fair value hierarchy

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

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

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

Group

30 June 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	29,384	–	29,384
<u>Financial assets held for trading</u>				
Debt securities	–	4,011,261	–	4,011,261
<u>Available-for-sale financial assets</u>				
Debt securities	–	18,360,939	–	18,360,939
Wealth management products	–	2,500,000	–	2,500,000
Funds	–	7,000,000	–	7,000,000
Others	–	26,200	–	26,200
	–	27,887,139	–	27,887,139
Total financial assets	–	31,927,784	–	31,927,784
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	62,646	–	62,646
<u>Financial assets disclosed at fair value</u>				
Receivables	–	92,322,169	–	92,322,169
Held-to-maturity investments	–	28,680,388	–	28,680,388
	–	121,002,557	–	121,002,557
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	8,635,310	–	8,635,310
Tier 2 capital bonds	–	7,894,048	–	7,894,048
Negotiable certificates of deposit	–	10,994,050	–	10,994,050
	–	27,523,408	–	27,523,408

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

41. Fair value of financial instruments (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

31 December 2015

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	19,287	–	19,287
Financial assets held for trading				
Debt securities	–	2,840,042	–	2,840,042
Available-for-sale financial assets				
Debt securities	–	11,239,220	–	11,239,220
Wealth management products	–	4,000,794	–	4,000,794
Fund	–	6,000,284	–	6,000,284
Others	–	26,200	–	26,200
	–	21,266,498	–	21,266,498
	–	24,125,827	–	24,125,827
<u>Financial assets measured at fair value</u>				
Derivative financial liabilities	–	23,914	–	23,914
<u>Financial assets disclosed at fair value</u>				
Receivables	–	89,602,050	–	89,602,050
Held-to-maturity investments	–	26,898,046	–	26,898,046
	–	116,500,096	–	116,500,096
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	8,643,502	–	8,643,502
Negotiable certificates of deposit	–	14,781,750	–	14,781,750
	–	23,425,252	–	23,425,252

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amount in thousands of RMB, unless otherwise stated)

41. 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 flows 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, Tier 2 capital bonds, financial bonds and negotiable certificates of deposit are determined with reference to the available market values. If quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows.

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

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

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

42. Subsequent event

On 29 July 2016, the Group put 16% stake of Huaxing Bank on Beijing Financial Assets Exchange for sale at a listing price of RMB1.52 billion.

43. Comparative amounts

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

44. Approval of the consolidated financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 15 August 2016.

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

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

(a) Liquidity ratio

	30 June 2016	31 December 2015
RMB current assets to RMB current liabilities	40.99%	43.04%
Foreign currency current assets to foreign currency current liabilities	77.72%	131.44%

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

(b) Currency concentrations

	USD	HKD	RUB	Others	Total
30 June 2016					
Spot assets	4,421,119	314,005	201,605	210,779	5,147,508
Spot liabilities	(1,449,909)	(58,938)	(177,616)	(513,069)	(2,199,532)
Forward purchases	2,238,859	–	–	109,141	2,348,000
Forward sales	(3,663,941)	–	–	(109,181)	(3,773,122)
Net long/(short) position	1,546,128	255,067	23,989	(302,330)	1,522,854
31 December 2015					
Spot assets	3,896,111	18,107	241,591	263,889	4,419,698
Spot liabilities	(2,263,864)	(41,214)	(26,478)	(113,116)	(2,444,672)
Forward purchases	1,221,055	–	–	317,455	1,538,510
Forward sales	(670,811)	–	–	(317,455)	(988,266)
Net long/(short) position	2,182,491	(23,107)	215,113	150,773	2,525,270

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(c) Cross-border claims

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

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

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

	30 June 2016	31 December 2015
Due from banks and other financial institutions		
Asia Pacific excluding Mainland China	32,847	39,407
– of which attributed to Hong Kong	15,251	38,157
Europe	1,177,990	1,641,416
North America	111,994	330,593
Total	1,322,831	2,011,416

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	30 June 2016	31 December 2015
Amounts for overdue loans and advances to customers:		
Between 3 and 6 months	20,893	90,337
Between 6 and 12 months	1,901,546	1,352,806
Over 12 months	1,213,487	722,201
As a percentage of the total gross loans and advances to customers:		
Between 3 and 6 months	0.01%	0.06%
Between 6 and 12 months	0.99%	0.91%
Over 12 months	0.63%	0.49%
	1.63%	1.46%

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

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

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

	30 June 2016	31 December 2015
Amounts for overdue loans and advances to customers		
Heilongjiang region	2,868,947	2,288,156
Northeastern China	887,994	1,095,804
Southwestern China	2,405,266	1,489,792
Northern China	788,410	207,989
Other regions	184,621	83,534
	7,135,238	5,165,275

(e) Overdue from banks and other financial institutions

As at 30 June 2016, there were no overdue accounts from banks and other financial institutions in respect of principal or interest (31 December 2015: Nil).

(f) Overdue placements with banks and other financial institutions

As at 30 June 2016, there were no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2015: Nil).

(g) Exposures to Mainland China non-bank entities

	30 June 2016	31 December 2015
On-balance sheet exposure	201,580,745	155,305,035
Off-balance sheet exposure	67,195,704	59,081,748
Individually assessed allowance for impairment losses	794,262	459,996

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



The oil painting on the cover page, painted by Sidorenko Maksim Viktorovich, is one of the collections of Harbin Bank.

