



HARBIN BANK CO., LTD.

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

Stock Code: 6138

2023 INTERIM REPORT



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Harbin Bank Co., Ltd.
Interim Report 2023

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

Definitions

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

“Articles of Association”	the articles of association of Harbin Bank Co., Ltd.
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“CBIRC”/“CBRC”	the China Banking and Insurance Regulatory Commission (before 18 May 2023)/China Banking Regulatory Commission (before 17 March 2018)
“China” or “PRC”	the People’s Republic of China
“Company”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) of a nominal value of RMB1.00 each in the share capital of the Company, which is/are subscribed for or credited as paid in RMB
“Group” or “Bank”	the Company and all of its subsidiaries and branches
“H Share(s)”	overseas-listed foreign invested ordinary share(s) of a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed on the Hong Kong Stock Exchange and subscribed and traded in Hong Kong dollars
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“HBCF”	Harbin Bank Consumer Finance Co., Ltd.
“HB Leasing”	Harbin Bank Financial Leasing Co., Ltd.
“Heilongjiang Financial Holdings”	Heilongjiang Financial Holdings Group Co., Ltd.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC” or “Central Bank”	the People’s Bank of China
“Reporting Period”	the six months ended 30 June 2023
“NAFR”	the National Administration of Financial Regulation
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Supervisor(s)”	the supervisor(s) of the Company

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司(Abbreviation: 哈爾濱銀行)

English Name:

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

Legal Representative:

Deng Xinquan

Authorised Representatives for the Hong Kong Stock Exchange:

Deng Xinquan and Ngai Wai Fung

Board Secretary:

Wu Siliang

Joint Company Secretaries:

Wu Siliang and Ngai Wai Fung

Registered Address:

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Place Where this Report is Available:

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

Place of Listing, Stock Name and Stock Code:

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

Corporate Unified Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

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

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Clifford Chance LLP

Auditors:

Overseas auditor: BDO Limited

Domestic auditor:

BDO China SHU LUN PAN Certified Public Accountants LLP

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

The Company, headquartered in Harbin, was granted its finance permit to carry on financial business by the PBOC in February 1997, and obtained its corporate business license on 25 July 1997. At present, the Company has established 17 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu, Harbin, Daqing, etc. and 30 village and township banks in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang, etc. The Company, as a controlling shareholder, has promoted the establishment of each of HB Leasing, the first financial leasing company in Northeastern China, and HBCF, the first consumer finance company in Heilongjiang Province. As at 30 June 2023, the Group had 386 business outlets with branches and sub-branches across seven administrative regions in China.

As at 30 June 2023, the Bank had total assets of RMB787.2203 billion, total loans and advances to customers of RMB308.7117 billion and total customers deposits of RMB638.6100 billion.

As at 30 June 2023, the Bank ranked 183th in “Top 1000 World Banks 2023” published by The Banker in the United Kingdom, and ranked fourth among Chinese banking institutions in terms of profit growth; ranked 264th in “2023 Brand Finance Global 500” published by Brand Finance (a famous brand valuation consulting firm in the United Kingdom), and 41st in “2023 China Banking Top 100 (2023 年中國銀行業 100 強)” published by China Banking Association.

The Bank was awarded the “2022 Good News Award for Banking Financial Institutions Serving Agriculture, Rural Areas and Farmers” by China Banking Association, the “2022 Gold Medal Award of Chinese Financial Institutions • Golden Dragon Awards: Best Rural Revitalization Service Bank of the Year” by the Financial Times, the “Outstanding City Commercial Bank in Wealth Management” and “Outstanding Bank in Transformational Development” in the 3rd Golden Honor Awards by P&E Standard, and the “Intelligent Marketing Innovation Award of the 6th (2023) FinTech Innovation Contest” by the Joint Promotion Year of Cebnet.com.cn and Digital Finance. In addition, the “Unified Intelligent Risk Control Platform” (統一智能風控平台) of the Bank won the “Big Data Product Innovation Award of the Year” (年度大數據產品創新獎) by China Digital Intelligence Finance Conference. The Bank’s “Good Life Account” product won the “2023 Best Deposit Product in Regional Finance” in China granted by The Asian Banker.

Major Subsidiaries

The details of major subsidiaries of the Company as at 30 June 2023 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 Company %	Amount invested by the Company RMB million
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 Bao'an Rongxing Village and Township Bank Co., Ltd.	Bao'an, Shenzhen	220	70.00	140
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	180	83.33	174.4
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	270	99.63	269
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	269	100.00	269
Yanshi Rongxing Village and Township Bank Co., Ltd.	Luoyang, Henan	90	100.00	90
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	294	100.00	294
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	106	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	33.3	90.09	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	60	100.00	30

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 Company %	Amount invested by the Company RMB million
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	142	100.00	132
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	1,500	53.00	795
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30	100.00	30
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30	100.00	30
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50	80.00	40
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50	90.00	45
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50	98.00	49
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Zhongjiang, Sichuan	50	70.00	35
Langzhong Rongxing Village and Township Bank Co., Ltd.	Langzhong, Sichuan	50	90.00	45
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	Chengdu, Sichuan	100	70.00	70

Note: The Company has completed the merger of Bayan Rongxing Village and Township Bank Co., Ltd. and Yanshou Rongxing Village and Township Bank Co., Ltd., whereas the commercial cancellation registration procedures of which have not yet been completed.

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
	2023	2022	2023 vs 2022	2022
(In RMB million, except percentages)				
Results of operations			Rate of change	
Net interest income	4,421.1	5,318.6	-16.87%	9,007.2
Net fee and commission income	356.3	375.8	-5.19%	731.6
Operating income	6,655.0	6,993.2	-4.84%	12,870.5
Operating expenses	(2,269.2)	(2,167.7)	4.68%	(5,285.2)
Credit impairment losses	(3,885.9)	(3,876.3)	0.25%	(6,584.1)
Profit before tax	499.9	949.2	-47.33%	1,001.2
Net profit	700.4	588.0	19.12%	712.5
Net profit attributable to shareholders of the Company	588.7	494.6	19.03%	554.8
For each share (RMB)			Rate of change	
Net assets per share attributable to shareholders of the Company ⁽¹⁾	4.55	4.52	0.66%	4.50
Earnings per share ⁽²⁾	0.02	0.01	100.00%	0.002
Profitability indicators			Change	
Return on average total assets ⁽³⁾	0.19%	0.18%	increased by 0.01 percentage point	0.10%
Return on average equity ⁽⁴⁾	0.82%	0.44%	increased by 0.38 percentage point	0.04%
Net interest spread ⁽⁵⁾	1.47%	1.79%	decreased by 0.32 percentage point	1.58%
Net interest margin ⁽⁶⁾	1.36%	1.82%	decreased by 0.46 percentage point	1.55%
Net fee and commission income to operating income ratio	5.35%	5.37%	decreased by 0.02 percentage point	5.68%
Cost-to-income ratio ⁽⁷⁾	32.24%	29.37%	increased by 2.87 percentage points	39.41%

Summary of Accounting Data and Financial Indicators

	As of 30 June	As of 31 December	30 June 2023 vs. 31 December 2022
	2023	2022	31 December 2022
(In RMB million, except percentages)			
Capital adequacy indicators⁽⁸⁾			Change
Core tier 1 capital adequacy ratio	8.89%	8.64%	increased by 0.25 percentage point
Tier 1 capital adequacy ratio	12.75%	10.69%	increased by 2.06 percentage points
Capital adequacy ratio	13.97%	11.91%	increased by 2.06 percentage points
Total equity to total assets	8.12%	8.88%	decreased by 0.76 percentage point
Assets quality indicators			Change
NPL ratio ⁽⁹⁾	2.92%	2.89%	increased by 0.03 percentage point
Impairment coverage ratio ⁽¹⁰⁾	187.45%	181.54%	increased by 5.91 percentage points
Impairment losses on loans ⁽¹¹⁾	5.48%	5.25%	increased by 0.23 percentage point
Other indicators			Change
Loan-deposit ratio	48.34%	50.99%	decreased by 2.65 percentage points
Scale indicators			Rate of change
Total assets	787,220.3	712,733.1	10.45%
Of which: total loans and advances to customers	308,711.7	284,414.9	8.54%
Total liabilities	723,270.9	649,412.5	11.37%
Of which: total due to customers	638,610.0	557,825.8	14.48%
Share capital	10,995.6	10,995.6	–
Equity attributable to shareholders of the Company	61,702.1	61,174.5	0.86%
Non-controlling interests	2,247.3	2,146.1	4.72%
Total equity	63,949.4	63,320.6	0.99%

Summary of Accounting Data and Financial Indicators

Notes:

- (1) The equity attributable to shareholders of the Company divided by the share capital at the end of the period, after deducting other equity instruments at the end of the Reporting Period.
- (2) The net profit attributable to ordinary shareholders of the Company during the Reporting Period divided by the share capital at the end of the period.
- (3) The percentage of net profit during the Reporting Period to the average balance of the total assets at the beginning and the end of the Reporting Period.
- (4) The percentage of net profit attributable to ordinary shareholders of the Company during the Reporting Period to the average balance of total equity attributable to ordinary shareholders of the Company at the beginning and the end of the Reporting Period.
- (5) 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.
- (6) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (7) Calculated with the operating cost after deducting tax and surcharges and divided by the operating income.
- (8) Calculated in accordance with the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation).
- (9) Calculated with the total NPLs divided by the total loans to customers.
- (10) Calculated with the allowance for impairment loss on loans divided by the total NPLs.
- (11) Calculated with the allowance for impairment loss on loans divided by the total loans to customers.

Management Discussion and Analysis

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In the first half of 2023, in the face of a complicated and challenging international environment and the arduous task of domestic reform, development and stability, under the firm leadership of the Central Committee of the Communist Party of China headed by President Xi Jinping, China, by conscientiously implementing the strategies and decisions of the Central Committee of the Communist Party of China and the State Council, adhered to the general direction of seeking improvement in stability, implemented the new development philosophies in a complete, accurate and comprehensive manner and accelerated the establishment of a new development pattern so as to promote high-quality development. With better coordination between the domestic and overseas markets, and better coordination between development and security, by focusing on stabilising economic growth, employment and prices, there has been a gradual recovery in market demand, a sustained increase in production and supply, overall stability in employment and prices, steady growth in residents' average income and an overall upturn in economic performance. In the first half of 2023, the gross domestic product (GDP) amounted to RMB59.30 trillion, representing a year-on-year increase of 5.5%. On an industrial structure basis, the growth rates of primary, secondary and tertiary industries were 3.7%, 4.3% and 6.4%, respectively. At the end of June, the balance of M2 amounted to RMB287.3 trillion, representing a year-on-year increase of 11.3%; the balance of M1 amounted to RMB69.56 trillion, representing a year-on-year increase of 3.1%, and the balance of M0 amounted to RMB10.54 trillion, representing a year-on-year increase of 9.8%. The balance of RMB loans amounted to RMB230.58 trillion, representing a year-on-year increase of 11.3%, the balance of RMB deposits amounted to RMB278.62 trillion, representing a year-on-year increase of 11%, and social financing scale amounted to RMB365.45 trillion, representing a year-on-year increase of 9%. In the first half of 2023, the new RMB loans amounted to RMB15.73 trillion, representing a year-on-year increase of RMB2.02 trillion; and new RMB deposits amounted to RMB20.1 trillion, representing a year-on-year increase of RMB1.3 trillion.

In the first half of 2023, the governments at all levels in Heilongjiang province conscientiously implemented the decisions and deployment of the Central Committee of the Party and the State Council and work requirements of Heilongjiang provincial CPC committee and Government, unswervingly prioritized stability and sought progress in stability, focused on its tasks and objectives as well as weaknesses, and effective implementation of various policies and measures. Agricultural production saw a steady rise, the service sector and consumer market showed a faster recovery, and the economy of Heilongjiang remained generally stable in the first half of the 2023. In the first half of 2023, the regional gross domestic product (GDP) of Heilongjiang reached RMB660.48 billion, representing a year-on-year increase of 4.7%. Of which, in terms of industries, the added value of the primary industry was RMB49.21 billion, representing an increase of 3.8%; the added value of the secondary industry was RMB212.4 billion, representing a decrease of 0.1%; and the added value of the tertiary industry was RMB398.87 billion, representing an increase of 7.1%. The fixed asset investment within Heilongjiang decreased by 3.5% year-on-year, with investment in the tertiary industry recorded an increase of 5.9%. Investment in infrastructure showed strong support with a year-on-year growth of 23.6%, contributing to the growth rate of investment in Heilongjiang Province by 5.6 percentage points. Total retail sales of consumer goods reached RMB262.21 billion, representing a year-on-year increase of 9.6%. The disposable income per capita of urban and rural residents increased by 4.6% and 4.1%, respectively.

(II) Operation Overview

In the first half of 2023, under the strong leadership of the Company's Party Committee and the Board and the supervision of the Board of Supervisors and the Discipline Inspection and Supervision Group to the Bank, the Bank thoroughly learned and implemented the spirit of the 20th CPC National Congress and earnestly put the national economic and financial policies into practice. Besides, the Bank thoroughly applied and deeply carried out the "three tasks" of serving the real economy, preventing and controlling financial risks and deepening financial reform, comprehensively accelerated reform, innovation and development, and conducted risks prevention and diversification, so as to further consolidate the operation performance anchoring in steady improvement in "scale, quality and efficiency".

Steady growth in business scale

As at 30 June 2023, the total assets of the Group amounted to RMB787,220.3 million, representing an increase of RMB74,487.2 million or 10.5% as compared to the end of last year; total loans and advances to customers of the Group amounted to RMB308,711.7 million, representing an increase of RMB24,296.8 million or 8.5% as compared to the end of last year; and total due to customers of the Group amounted to RMB638,610.0 million, representing an increase of RMB80,784.2 million or 14.5% as compared to the end of last year.

Steady improvement in operating benefit

The Group recorded a net profit of RMB700.4 million in the first half of 2023, representing a year-on-year increase of RMB112.4 million or 19.1%; and a net profit attributable to shareholders of the parent company amounted to RMB588.7 million, representing a year-on-year increase of RMB94.1 million or 19.0%. The return on average total assets of the Group was 0.19%, representing a year-on-year increase of 0.01 percentage point, and the return on average equity of the Group was 0.82%, representing a year-on-year increase of 0.38 percentage point.

Stable loan quality

As at 30 June 2023, the balance of the Bank's NPLs was RMB9,019.2 million and the NPL ratio was 2.92%, representing an increase of 0.03 percentage point as compared to that at the end of last year. Impairment coverage ratio was 187.45%, representing an increase of 5.91 percentage points as compared to the end of last year; and impairment losses on loans was 5.48%, representing an increase of 0.23 percentage point as compared to the end of last year, showing the Bank's basically stable risk resilience.

Compliance with applicable laws and regulations

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

Management Discussion and Analysis

(III) Analysis of Key Issues

1. *Net interest margin*

In the first half of 2023, the Bank's net interest spread was 1.47%, representing a decrease of 0.32 percentage point as compared to the same period of last year, and its net interest margin was 1.36%, representing a decrease of 0.46 percentage point as compared to the same period of last year. The Bank continued to fulfill various national policy requirements, further strengthened its role in laying the foundation for the recovery of the real economy, increased credit investments, actively adapted to the downward trend of LPR, lowered the finance costs for the real economy, enhanced the quality and efficiency of financial services, and supported the high-quality development of local economies. The Bank proactively provided financial services to protect the general republic's efforts in realising ideal life by adopting measures including satisfying residents' demand for wealth preservation and appreciation, leading to a significant increase in the size of customer deposits. Meanwhile, the Bank spared no efforts in recovering its profitability by improving the allocation of investments in debt securities, enhancing the ability in generating non-interest income, actively optimising debt maturity and cost structure, and facilitating the revitalization of existing non-interest-earning assets. However, as the real economy is still at its stage of recovery, coupled with the above factors including the adjustments in assets and liabilities structure and the lowering and reset of market interest rates, both net interest spread and net interest margin recorded slight decreases as compared to the same period of last year. Looking forward to the second half of 2023, the internal and external environment still remain uncertain, while the pressure of the "asset shortage" in the banking industry still exists. In light of offering continuous benefits to the real economy, the competition in the deposit market is getting more intense, and the net interest spread and net interest margin are expected to remain under pressure. To this end, on the basis of supporting the development of the real economy, the Bank will further strengthen the active management of assets and liabilities. In line with the market environment, the Bank will also optimize the asset portfolio and credit structure, consolidate the customer base and expand the debt source through multiple channels, so as to gradually create a liquid and profitable asset portfolio as well as a diversified, stable, and cost-intensive financing structure, thereby ensuring that the net interest spread and net interest margin remain basically stable.

2. *Asset quality in key areas*

As at 30 June 2023, the balance of the Bank's NPLs was RMB9,019.2 million, and the NPL ratio was 2.92%, representing an increase of 0.03 percentage point as compared to the end of last year. Impairment coverage ratio was 187.45%, representing an increase of 5.91 percentage points as compared to the end of last year; and impairment losses on loans was 5.48%, representing an increase of 0.23 percentage point as compared to the end of last year, showing the Bank's basically stable risk resilience.

During the Reporting Period, the Bank conscientiously implemented various national credit policies and regulatory requirements, focused on green finance, key industries, industrial projects and leading enterprises according to the 14th Five-Year Plan in combination with regional characteristics, and increased support of credit funds for enterprises with strong capability of market cultivation. It set differentiated corporate customer access standards and risk limits in industry fields and key areas, so as to strictly control new business risks and improve the quality of new loan assets.

In terms of the prevention and control of regional risk, the Bank continued to optimise the loan resources allocation in different regions, strengthened centralised management of approval, improved approval independence, intensified the risk management and control in key areas, enhanced the withdrawal of low quality clients, further promoted the optimization and adjustment of credit structure, and improved the asset quality control capacity. The Bank strengthened its management of regional loans in terms of industry quota, products quota, credit facilities to related clients, credit facilities to non-local clients, collateral loans to third parties and loans overdue. Besides, it dynamically adjusted the approval and authorization of credit business, so as to prevent the occurrence of regional systematic risks.

3. Capital management

During the Reporting Period, the Bank fulfilled and implemented the requirements of its capital management plans, continuously strengthened its fundamental capital management capability, and further enhanced the role of capital in leading and restraining its business development. The Bank placed its capital in business areas with lower capital occupancy and higher yields in accordance with the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation). During the Reporting Period, the Bank has met the regulatory requirement for the capital adequacy ratios as required by the NAFFR.

As at 30 June 2023, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of the Bank were 8.89%, 12.75% and 13.97%, respectively, representing an increase of 0.25 percentage point, 2.06 percentage points and 2.06 percentage points, respectively, as compared to the end of last year. The increase in the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio was mainly due to the special bonds of RMB10 billion for replenishing other tier 1 capital and the decrease in risk-weighted assets. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB565,800.7 million, representing a decrease of RMB11,832.1 million, or 2.1% as compared to the end of last year. Looking forward to the second half of 2023, the Bank will continue to strengthen its capital management by: (1) continuing its differentiated competition strategy with characteristic development path to further enhance internal capital generation capability; (2) actively responding to changes in current situations and strengthening its active management of capital, continuously optimising its business structure and raising awareness of intensive capital use; and (3) establishing multi-layer and multi-channel mechanisms for capital replenishment to ensure that the capital adequacy level satisfies the regulatory requirements on an ongoing basis.

Management Discussion and Analysis

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

As at 30 June 2023, total investment by the Bank in debt financial instruments issued by financial institutions amounted to RMB162,168.8 million, representing an increase of 4.0% as compared to the end of last year. Pursuant to the requirements of the Notice on Regulating the Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigid review on risk and compliance with respect to use of capital. The Bank accurately measured risks, and set aside capital and made provisions accordingly based on the principle of “substance over formality” and the nature of the underlying assets. Following loan provision requirements, the Bank progressively raised the coverage ratio for investment in debt instruments issued by financial institutions to a relatively higher level in a steady, prudent and dynamic manner based on the expected credit loss model measurement. As at 30 June 2023, the balance of provision of the Bank’s investment in debt instruments issued by financial institutions amounted to RMB7,039.7 million, representing an increase of RMB992.1 million as compared to the end of last year, and the coverage ratio was 4.34%, representing an increase of 0.46 percentage point as compared to the end of last year.

5. *Net Stable Funding Ratio*

As at 30 June 2023, the net stable funding ratio of the Bank was 137.89%, which was in compliance with the net stable funding ratio of commercial banks required by the Measures for the Liquidity Risk Management of Commercial Banks (Order No. 3 [2018], CBIRC) (“in compliance with the regulatory standards”). The available stable funding (upon translation) was RMB554.976 billion, and the required stable funding (upon translation) was RMB402.475 billion.

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

Item	As at 30 June 2023	As at 31 March 2023	As at 31 December 2022
	(In RMB100 million, except percentages)		
Net stable funding ratio	137.89%	139.25%	121.37%
Available stable funding	5,549.76	5,446.59	4,896.42
Required stable funding	4,024.75	3,911.52	4,034.38

II. Analysis on Income Statement

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Interest income	14,343.4	13,702.4	641.0	4.7%
Interest expense	(9,922.3)	(8,383.8)	(1,538.5)	18.4%
Net interest income	4,421.1	5,318.6	(897.5)	-16.9%
Fee and commission income	441.3	436.6	4.7	1.1%
Fee and commission expense	(85.0)	(60.8)	(24.2)	39.8%
Net fee and commission income	356.3	375.8	(19.5)	-5.2%
Net trading income or loss	1,622.4	774.8	847.6	109.4%
Net gains or losses on financial investments	165.6	309.2	(143.6)	-46.4%
Net other operating income or loss	89.6	214.8	(125.2)	-58.3%
Operating income	6,655.0	6,993.2	(338.2)	-4.8%
Operating expenses	(2,269.2)	(2,167.7)	(101.5)	4.7%
Credit impairment losses	(3,885.9)	(3,876.3)	(9.6)	0.2%
Operating profit	499.9	949.2	(449.3)	-47.3%
Profit before tax	499.9	949.2	(449.3)	-47.3%
Income tax expense	200.5	(361.2)	561.7	-155.5%
Net profit	700.4	588.0	112.4	19.1%

In the first half of 2023, the Bank recorded a profit before tax of RMB499.9 million, representing a year-on-year decrease of 47.3%; and a net profit of RMB700.4 million, representing a year-on-year increase of 19.1%.

Management Discussion and Analysis

(I) Net Interest Income

In the first half of 2023, the Bank recorded a net interest income of RMB4,421.1 million, representing a year-on-year decrease of RMB897.5 million or 16.9%. The following tables set forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield ratio of these interest-earning assets and the average cost ratio of these interest-bearing liabilities for the periods indicated.

	For the six months ended 30 June					
	2023			2022		
	Average balance ⁽⁶⁾	Interest income	Average yield ratio	Average balance ⁽⁶⁾	Interest income	Average yield ratio
	(In RMB million, except percentages)					
Interest-earning assets						
Loans and advances to customers	291,755.2	8,210.7	5.68%	287,323.0	8,690.2	6.10%
Investments in debt securities ⁽¹⁾	222,619.5	4,414.8	4.00%	195,562.1	3,639.2	3.75%
Cash and balances with Central Bank	51,883.6	357.2	1.39%	47,181.7	312.5	1.34%
Due from banks and other financial institutions ⁽²⁾	69,483.7	767.6	2.23%	36,254.7	290.3	1.61%
Financial lease receivables	20,765.0	593.1	5.76%	24,581.6	770.2	6.32%
Total interest-earning assets	656,507.0	14,343.4	4.41%	590,903.1	13,702.4	4.67%

Management Discussion and Analysis

For the six months ended 30 June

	2023			2022		
	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	610,277.2	8,803.6	2.91%	497,342.2	7,026.8	2.85%
Due to banks ⁽³⁾	42,920.6	741.7	3.48%	55,059.6	839.8	3.08%
Debt securities issued and others	25,757.5	362.9	2.84%	28,865.8	458.9	3.21%
Due to Central Bank	1,443.4	14.1	1.97%	5,516.6	58.3	2.13%
Total interest-bearing liabilities	680,398.7	9,922.3	2.94%	586,784.2	8,383.8	2.88%
Net interest income		4,421.1			5,318.6	
Net interest spread⁽⁴⁾			1.47%			1.79%
Net interest margin⁽⁵⁾			1.36%			1.82%

Notes:

- (1) Include financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks, financial assets sold under repurchase agreements and borrowings from banks and other financial institutions.
- (4) Calculated as the difference between the average yield ratio of total interest-earning assets and the average cost ratio of total interest-bearing liabilities, based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the balance of interest-earning assets, 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 the changes in the Bank's interest income and interest expense attributable to changes in volumes and interest rates for the periods indicated. Changes in volumes are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities, while changes in interest rates are measured by changes in the average interest rates of the Bank's interest-earning assets and interest-bearing liabilities. The combined effects of changes in volumes and interest rates are included in changes in interest.

Management Discussion and Analysis

	For the six months ended 30 June		
	2023 vs. 2022		
	Increase/(decrease)		Net increase/
	Volume ⁽¹⁾	Interest rate ⁽²⁾	(decrease) ⁽³⁾
(In RMB million)			
Interest-earning assets			
Loans and advances to customers	134.1	(613.6)	(479.5)
Investments in debt securities	503.5	272.1	775.6
Cash and balances with Central Bank	31.1	13.6	44.7
Due from banks and other financial institutions	266.1	211.2	477.3
Financial lease receivables	(119.6)	(57.5)	(177.1)
Change in interest income	815.2	(174.2)	641.0
Interest-bearing liabilities			
Due to customers	1,595.6	181.2	1,776.8
Due to banks	(185.2)	87.1	(98.1)
Debt securities issued and others	(49.5)	(46.5)	(96.0)
Due to Central Bank	(43.0)	(1.2)	(44.2)
Change in interest expense	1,317.9	220.6	1,538.5

Notes:

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

(II) Interest Income

In the first half of 2023, the Bank realised an interest income of RMB14,343.4 million, representing a year-on-year increase of RMB641.0 million or 4.7%. The increase in interest income was primarily due to the increase in the average balance of total interest-earning assets to RMB656,507.0 million in the first half of 2023 from RMB590,903.1 million for the same period of last year.

1. Interest income from loans and advances to customers

In the first half of 2023, the Bank's interest income from loans and advances to customers was RMB8,210.7 million, representing a year-on-year decrease of RMB479.5 million or 5.5%, primarily due to the Bank's credit size increased as compared with the same period of last year, mainly resulting from the Bank's proactive role in serving the real sector by strengthening its financial services and credit investment. However, due to the decline in market interest rates, the recovery stage of the financing demand of the entities and the adjustment of credit structure of the Bank, the yield declined by 0.42 percentage point as compared with the same period of last year. Interest income declined slightly year-on-year as yield impacts outweighed size impacts.

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

	For the six months ended 30 June					
	2023			2022		
	Average balance	Interest income	Average yield ratio	Average balance	Interest income	Average yield ratio
	(In RMB million, except percentages)					
Corporate loans	162,426.2	4,157.6	5.16%	164,293.0	4,326.2	5.31%
Personal loans	117,800.7	3,960.1	6.78%	122,904.1	4,363.8	7.16%
Discounted bills	11,528.3	93.0	1.63%	125.9	0.2	0.32%
Total loans and advances to customers	291,755.2	8,210.7	5.68%	287,323.0	8,690.2	6.10%

2. Interest income from investments in debt securities

In the first half of 2023, the Bank's interest income from investments in debt securities was RMB4,414.8 million, representing a year-on-year increase of RMB775.6 million or 21.3%, primarily due to the Bank's efforts in increasing bond investments, improving the value of capital contributions, and optimising asset structure, contributing to a year-on-year increase of RMB27,057.4 million in the average balance of investments in debt securities.

Management Discussion and Analysis

3. Interest income from cash and balances with Central Bank

In the first half of 2023, the Bank's interest income from cash and balances with Central Bank was RMB357.2 million, representing a year-on-year increase of RMB44.7 million or 14.3%, primarily due to the increase in the volume of due to customers, contributing to an increase of RMB4,701.9 million in the average balance of cash and balances with Central Bank as compared to the same period of last year.

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

In the first half of 2023, the Bank's interest income from amounts due from banks and other financial institutions was RMB767.6 million, representing a year-on-year increase of RMB477.3 million or 164.4%, primarily due to a year-on-year increase of RMB33,229.0 million in the average balance and an increase of 0.62 percentage point in the average yield ratio as compared to the same period of last year owing to the Bank's enhanced utilization of capital and increase in the scale of inter-bank assets.

5. Interest income from financial lease receivables

In the first half of 2023, the Bank's interest income from financial lease receivables was RMB593.1 million, representing a year-on-year decrease of RMB177.1 million, primarily due to the recovery period for the financing needs from the real economy, resulting in a decrease of RMB3,816.6 million in the average balance of financial lease receivables as compared to the same period of last year.

(III) Interest Expense

In the first half of 2023, the Bank's interest expense was RMB9,922.3 million, representing a year-on-year increase of RMB1,538.5 million or 18.4%, primarily due to the increase in the average balance of total interest-bearing liabilities from RMB586,784.2 million for the same period of last year to RMB680,398.7 million in the first half of 2023.

1. Interest expense on due to customers

In the first half of 2023, the Bank's interest expense on due to customers was RMB8,803.6 million, representing a year-on-year increase of RMB1,776.8 million or 25.3%, primarily due to a year-on-year increase of RMB112,935.0 million in the average balance of due to customers owing to the Bank's continuous improvements in deposit product services system and customer base.

For the six months ended 30 June

	2023			2022		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
(In RMB million, except percentages)						
Corporate deposits						
Demand	87,389.7	862.5	1.99%	73,443.0	386.6	1.06%
Time	109,870.0	1,784.9	3.28%	105,874.7	1,695.5	3.23%
Subtotal	197,259.7	2,647.4	2.71%	179,317.7	2,082.1	2.34%
Personal deposits						
Demand	46,136.4	67.6	0.30%	44,378.2	80.9	0.37%
Time	366,881.1	6,088.6	3.35%	273,646.3	4,863.8	3.58%
Subtotal	413,017.5	6,156.2	3.01%	318,024.5	4,944.7	3.14%
Total deposits from customers	610,277.2	8,803.6	2.91%	497,342.2	7,026.8	2.85%

2. *Interest expense on due to banks*

In the first half of 2023, the Bank's interest expense on due to banks was RMB741.7 million, representing a year-on-year decrease of RMB98.1 million or 11.7%, due to the decrease in the average balance of due to banks from RMB55,059.6 million for the same period of last year to RMB42,920.6 million in the first half of 2023 owing to the Bank's adjustments in liability structure based on market and liquidity conditions.

3. *Interest expense on debt securities issued and others*

In the first half of 2023, the Bank's interest expense on debt securities issued and others was RMB362.9 million, representing a year-on-year decrease of RMB96.0 million or 20.9%, due to the Bank's adjustments in its liability structure based on market and liquidity conditions, resulting in a decrease of RMB3,108.3 million in the average balance of debt securities issued as compared to the same period of last year. Under the impact of business expiration and fluctuations in market capital prices, the cost ratio of debt securities issued was down by 0.37 percentage point as compared to the same period of last year.

Management Discussion and Analysis

(IV) Net Interest Spread and Net Interest Margin

In the first half of 2023, the Bank's net interest spread decreased from 1.79% for the same period of last year to 1.47%, and its net interest margin decreased from 1.82% for the same period of last year to 1.36%, mainly due to the combined effects from factors such as the real economy being at recovery stage, adjustments in asset structure, the lowering and reset of market interest rates, resulting in a slight year-on-year narrow-down in net interest spread and net interest margin.

(V) Non-interest Income

1. Net fee and commission income

In the first half of 2023, the Bank's net fee and commission income was RMB356.3 million, representing a year-on-year decrease of RMB19.5 million or 5.2%, primarily due to the decrease in the Bank's advisory and consultancy fee.

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Fee and commission income	441.3	436.6	4.7	1.1%
Advisory and consultancy fee	74.9	140.2	(65.3)	-46.6%
Settlement fee	28.7	24.6	4.1	16.7%
Agency and custodian fee	203.7	152.2	51.5	33.8%
Of which: non-principal protected wealth management agency fee	167.1	129.0	38.1	29.5%
Bank card fee	114.2	118.7	(4.5)	-3.8%
Others	19.8	0.9	18.9	2,100.0%
Fee and commission expense	(85.0)	(60.8)	(24.2)	39.8%
Net fee and commission income	356.3	375.8	(19.5)	-5.2%

In the first half of 2023, the Bank's advisory and consultancy fee income was RMB74.9 million, representing a year-on-year decrease of RMB65.3 million or 46.6%, primarily due to changes in the volume of the advisory and consultancy business.

In the first half of 2023, the Bank's settlement fee income was RMB28.7 million, representing a year-on-year increase of RMB4.1 million or 16.7%, primarily due to changes in the volume of the settlement business.

In the first half of 2023, the Bank's agency and custodian fee income was RMB203.7 million, representing a year-on-year increase of RMB51.5 million or 33.8%, primarily due to the increase in the income from fees on wealth management businesses.

In the first half of 2023, the Bank's bank card fee income was RMB114.2 million, representing a year-on-year decrease of RMB4.5 million or 3.8%.

In the first half of 2023, the Bank's other fee and commission income was RMB19.8 million, representing a year-on-year increase of RMB18.9 million.

2. *Net trading income or loss*

In the first half of 2023, the Bank's net trading income was RMB1,622.4 million, representing a year-on-year increase of RMB847.6 million or 109.4%, primarily due to the increase in the trading income or loss of financial assets measured at fair value through profit or loss and increase in the gains or losses from the fair value changes thereon.

3. *Net gains or losses on financial investments*

In the first half of 2023, the Bank's net gains on financial investments were RMB165.6 million, representing a year-on-year decrease of RMB143.6 million or 46.4%, primarily due to the decrease in the net gains on disposal of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income.

4. *Net other operating income or loss*

In the first half of 2023, the Bank's net other operating income was RMB89.6 million, representing a year-on-year decrease of RMB125.2 million or 58.3%, which was mainly due to changes in exchange rates.

Management Discussion and Analysis

(VI) Operating Expenses

In the first half of 2023, the Bank's operating expenses were RMB2,269.2 million, representing a year-on-year increase of RMB101.5 million or 4.7%.

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs	916.9	943.2	(26.3)	-2.8%
Tax and surcharges	123.5	114.0	9.5	8.3%
Depreciation and amortisation	391.3	394.7	(3.4)	-0.9%
Others	837.5	715.8	121.7	17.0%
Total operating expenses	2,269.2	2,167.7	101.5	4.7%

Staff costs are the largest component of the Bank's operating expenses, representing 40.4% and 43.5% of our total operating expenses in the first half of 2023 and the first half of 2022, respectively.

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

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs				
Salaries, bonuses and allowances	582.8	590.3	(7.5)	-1.3%
Social insurance	206.8	185.7	21.1	11.4%
Housing fund	78.7	82.8	(4.1)	-5.0%
Staff benefits	37.0	44.8	(7.8)	-17.4%
Labor union expenditure and education costs	10.2	8.9	1.3	14.6%
Early retirement benefits	1.4	2.8	(1.4)	-50.0%
Others	–	27.9	(27.9)	-100.0%
Total	916.9	943.2	(26.3)	-2.8%

Management Discussion and Analysis

In the first half of 2023, the Bank's staff costs were RMB916.9 million, representing a year-on-year decrease of RMB26.3 million or 2.8%.

In the first half of 2023, the Bank's tax and surcharges was RMB123.5 million, representing a year-on-year increase of RMB9.5 million or 8.3%.

In the first half of 2023, the Bank's depreciation and amortization were RMB391.3 million, representing a year-on-year decrease of RMB3.4 million or 0.9%.

In the first half of 2023, the Bank's other operating expenses were RMB837.5 million, representing a year-on-year increase of RMB121.7 million or 17.0%.

(VII) Credit impairment losses

In the first half of 2023, the Bank's credit impairment losses were RMB3,885.9 million, representing a year-on-year increase of RMB9.6 million or 0.2%.

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Impairment losses on loans and advances to customers at amortised cost	2,711.8	3,447.5	(735.7)	-21.3%
Impairment losses on financial assets at amortised cost	1,075.5	305.2	770.3	252.4%
Impairment losses on financial lease receivables	(7.8)	135.2	(143.0)	-105.8%
Others	106.4	(11.6)	118.0	-1,017.2%
Total	3,885.9	3,876.3	9.6	0.2%

Management Discussion and Analysis

(VIII) Income Tax Expenses

In the first half of 2023, the Bank's income tax expenses decreased by RMB561.7 million or 155.5% year on year to RMB-200.5 million.

	For the six months ended 30 June			
	2023	2022	Change in amount	Rate of change
	(In RMB million, except percentages)			
Current income tax expenses	428.0	598.4	(170.4)	-28.5%
Deferred income tax expenses	(628.5)	(237.2)	(391.3)	165.0%
Effective income tax expenses	(200.5)	361.2	(561.7)	-155.5%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 30 June 2023, the Bank's total assets increased by RMB74,487.2 million or 10.5% to RMB787,220.3 million as compared to the end of last year, mainly attributable to the increase in the Bank's investment in securities and other financial assets, as well as loans and advances to customers.

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Loans and advances to customers, net	294,258.5	37.5%	271,784.8	38.2%
Net investment in securities and other financial assets	323,841.2	41.1%	291,827.7	40.9%
Cash and balances with the Central Bank	97,642.6	12.4%	76,775.5	10.8%
Due from banks and other financial institutions	26,225.4	3.3%	25,852.3	3.6%
Reverse repurchases	992.3	0.1%	1,000.8	0.1%
Other assets	44,260.3	5.6%	45,492.0	6.4%
Total assets⁽¹⁾	787,220.3	100.0%	712,733.1	100.0%

Note:

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

1. Loans and advances to customers

As at 30 June 2023, the Bank's total loans and advances to customers increased by RMB24.2968 billion to RMB308.7117 billion, representing an increase of 8.5% as compared to the end of last year.

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans	168,759.1	54.7%	161,043.1	56.6%
Personal loans	120,604.9	39.1%	117,360.8	41.3%
Discounted bills	19,347.7	6.2%	6,011.0	2.1%
Total loans and advances to customers	308,711.7	100.0%	284,414.9	100.0%

(1) Corporate loans

As at 30 June 2023, the Bank's corporate loans increased by RMB7,716.0 million to RMB168.7591 billion, representing an increase of 4.8% as compared to the end of last year, mainly attributable to the Bank's increased support for its loan customers as the Bank continued to support the development of the real economy.

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprises ⁽¹⁾	70,509.8	41.8%	61,020.0	37.9%
Other corporate loans excluding loans to small enterprises	98,249.3	58.2%	100,023.1	62.1%
Total corporate loans	168,759.1	100.0%	161,043.1	100.0%

Note:

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

Management Discussion and Analysis

As at 30 June 2023, the Bank's loans to small enterprises increased by RMB9.4898 billion to RMB70.5098 billion, representing an increase of 15.6% as compared to the end of last year. As at 30 June 2023 and 31 December 2022, the Bank's loans to small enterprises accounted for 41.8% and 37.9% of the Bank's total corporate loans, respectively.

(2) Personal loans

As at 30 June 2023, the Bank's personal loans increased by RMB3.2441 billion to RMB120.6049 billion, representing an increase of 2.8% as compared to the end of last year, mainly attributable to the increase in loans to farmers by RMB2.5308 billion or 18.1% as compared to the end of last year.

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprise owners	24,358.3	20.2%	25,269.1	21.5%
Personal consumption loans	79,756.5	66.1%	78,132.4	66.6%
Loans to farmers	16,490.1	13.7%	13,959.3	11.9%
Total personal loans	120,604.9	100.0%	117,360.8	100.0%

As at 30 June 2023, personal consumption loans and loans to farmers increased by 2.1% and 18.1% as compared to the end of last year, respectively, and loans to small enterprise owners decreased by 3.6% as compared to the end of last year.

2. Investment in securities and other financial assets

As at 30 June 2023, the total amount of the Bank's investment in securities and other financial assets was RMB327.1609 billion, representing an increase of RMB32.4143 billion or 11.0% as compared to the end of last year. The increase in such assets in the first half of 2023 was mainly due to the fact that the Bank improved its capital utilization and continuously expanding channels of capital utilization under the premise of ensuring stable and sufficient liquidity.

Management Discussion and Analysis

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Financial assets measured at fair value through profit or loss	96,413.5	29.5%	82,534.4	28.0%
Financial assets measured at amortised cost	162,155.0	49.5%	153,047.3	51.9%
Financial assets measured at fair value through other comprehensive income	68,592.4	21.0%	59,164.9	20.1%
Total investment in securities and other financial assets	327,160.9	100.0%	294,746.6	100.0%

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt investments:				
Bond investments	159,175.3	48.6%	131,349.1	44.6%
Debt instruments issued by financial institutions ⁽¹⁾	162,168.8	49.6%	155,899.0	52.9%
Subtotal	321,344.1	98.2%	287,248.1	97.5%
Equity investment	5,816.8	1.8%	7,498.5	2.5%
Total investment in securities and other financial assets	327,160.9	100.0%	294,746.6	100.0%

Note:

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

As at 30 June 2023, the Bank's total investment in debt instruments issued by financial institutions was RMB162.1688 billion, representing an increase of RMB6.2698 billion or 4.0% as compared to the end of last year. The investments of this class as a percentage of total investment in securities and other financial assets decreased from 52.9% as at 31 December 2022 to 49.6% as at 30 June 2023.

Management Discussion and Analysis

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Government bonds	73,792.9	46.4%	65,193.5	49.6%
Bonds issued by financial institutions	9,678.0	6.1%	8,357.2	6.4%
Corporate bonds	47,785.5	30.0%	37,539.1	28.6%
Bonds issued by policy banks	27,918.9	17.5%	20,259.3	15.4%
Total bond investments	159,175.3	100.0%	131,349.1	100.0%

3. Other components of the Bank's assets

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

As at 30 June 2023, the Bank's total cash and balances with the Central Bank increased by RMB20.8672 billion to RMB97.6223 billion, representing an increase of 27.2% as compared to the end of last year.

As at 30 June 2023, the Bank's due from banks and other financial institutions increased by RMB234.4 million to RMB26.0330 billion, representing an increase of 0.9% as compared to the end of last year, mainly because the Bank adjusted the proportion of such assets based on its capital and changes in liquidity in the market.

As at 30 June 2023, the Bank's total reverse repurchases decreased by RMB7.8 million to RMB992.2 million, representing a decrease of 0.8% as compared to the end of last year, mainly because the Bank correspondingly adjusted the scale of such assets based on a comprehensive consideration of its capital and changes in liquidity in the market.

(II) Liabilities

As at 30 June 2023, the Bank's total liabilities were RMB723,270.9 million, representing an increase of RMB73,858.4 million or 11.4% as compared to the end of last year.

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Due to customers	650,202.8	89.9%	565,587.2	87.1%
Due to banks ⁽¹⁾	42,259.9	5.8%	41,408.5	6.4%
Repurchase agreements	700.0	0.1%	3,253.2	0.5%
Debt securities issued	20,636.7	2.9%	28,569.9	4.4%
Due to Central Bank	1,402.4	0.2%	2,968.8	0.4%
Other liabilities ⁽²⁾	8,069.1	1.1%	7,624.9	1.2%
Total liabilities⁽³⁾	723,270.9	100.0%	649,412.5	100.0%

Notes:

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

Management Discussion and Analysis

1. Due to customers

As at 30 June 2023, the Bank's total due to customers increased by RMB80.7842 billion to RMB638.6100 billion, representing an increase of 14.5% as compared to the end of last year.

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate deposits				
Demand deposits	84,536.4	13.2%	80,580.4	14.4%
Time deposits	120,399.5	18.9%	108,477.4	19.5%
Subtotal	204,935.9	32.1%	189,057.8	33.9%
Personal deposits				
Demand deposits	43,901.5	6.9%	48,926.3	8.8%
Time deposits	389,772.6	61.0%	319,841.7	57.3%
Subtotal	433,674.1	67.9%	368,768.0	66.1%
Total due to customers	638,610.0	100.0%	557,825.8	100.0%

2. Due to banks

As at 30 June 2023, the Bank's due to banks balance increased by RMB862.3 million to RMB41.8487 billion, representing an increase of 2.1% as compared to the end of last year.

3. Repurchase agreement

As at 30 June 2023, the Bank's repurchase agreement was RMB0.7000 billion, representing a decrease of RMB2.5500 billion or 78.5% as compared to the end of last year.

4. Debt securities issued

As at 30 June 2023, the Bank's debt securities issued were RMB20.6367 billion, representing a decrease of RMB7.9332 billion or 27.8% as compared to the end of last year.

(III) Shareholders' Equity

As at 30 June 2023, the Bank's total shareholders' equity increased by RMB628.8 million to RMB63.9494 billion, representing an increase of 1.0% as compared to the end of last year. As at 30 June 2023, total equity attributable to shareholders of the parent company increased by RMB527.6 million to RMB61.7021 billion, representing an increase of 0.9% as compared to the end of last year.

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Share capital	10,995.6	17.2%	10,995.6	17.3%
Other equity instruments	11,699.0	18.3%	11,699.0	18.5%
Reserves	20,169.6	31.5%	19,508.8	30.8%
Undistributed profits	18,837.9	29.5%	18,971.1	30.0%
Equity attributable to shareholders of				
the parent company	61,702.1	96.5%	61,174.5	96.6%
Non-controlling interests	2,247.3	3.5%	2,146.1	3.4%
Total equity	63,949.4	100.0%	63,320.6	100.0%

Management Discussion and Analysis

IV. Off-balance Sheet Commitments

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

	As at 30 June 2023	As at 31 December 2022
		(In RMB million)
Credit commitments:		
Bank bills acceptance	8,443.9	10,280.3
Issued letters of guarantee	297.9	188.0
Issued letters of credit	3,626.4	2,871.8
Credit limit of credit card	23,065.8	32,176.9
Subtotal	35,434.0	45,517.0
Capital expenditure commitments	219.1	13.1
Treasury bond redemption commitments	1,038.4	1,057.5
Total	36,691.5	46,587.6

In addition, as at 30 June 2023, the amount involved in the significant outstanding legal proceedings against the Group (as defendant or third-party defendant) with a dispute amount of over RMB10 million was RMB151.4 million, and the estimated liability of RMB17.0 million has been recognized in the balance sheet based on the best estimate. As at the date of this report, the Bank has no significant contingent liabilities. Details of off-balance sheet commitment contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements of this report.

V. Analysis of Loan Quality

During the Reporting Period, the Bank had adhered to the principle of stability and seeking improvement in stability, closely focused on the work goal of "Enhancing Development Quality", and with the general idea of "risk management driving business development and escorting business development", continued to reinforce its credit risk management and improve internal evaluation systems to enhance the accuracy of risk trend judgments. It continued to improve the standardised, normalised and refined management of the collateral risk valuation system, gradually adjusted the asset structure, and strengthened its efforts in the disposal of non-performing assets. In active response to the impact of external factors such as the downturn of the macro economy and the slowdown of regional economic growth, the Bank established a risk control model of preliminary risk control, developed the concept of pre-management featuring forward look and proactiveness, strengthened the management of potential risks from customers, reinforced the pre-management of existing businesses before their maturity, and developed a joint consultation mechanism on the risks from legal entity customers as well as a mechanism for early warning of new delinquency, thereby improve its risk management quality and efficiency with various measures. As at 30 June 2023, NPL ratio was 2.92%, representing an increase of 0.03 percentage point as compared to the end of last year. Impairment coverage ratio was 187.45%, representing an increase of 5.91 percentage points as compared to the end of the last year. Impairment losses on loans ratio was 5.48%, representing an increase of 0.23 percentage point as compared to the end of the last year. The ability of risk loss resilience was basically stable.

(l) 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 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Pass	280,639.4	90.8%	260,142.4	91.5%
Special mention	19,053.1	6.2%	16,053.8	5.6%
Substandard	1,183.3	0.4%	864.3	0.3%
Doubtful	5,757.2	1.9%	6,009.3	2.1%
Loss	2,078.7	0.7%	1,345.1	0.5%
Total loans and advances to customers	308,711.7	100.0%	284,414.9	100.0%
NPLs amount and NPL ratio⁽¹⁾	9,019.2	2.92%	8,218.7	2.89%

Note:

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

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

Management Discussion and Analysis

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

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

	As at 30 June 2023			As at 31 December 2022		
	Loan amount	NPLs amount	NPL ratio	Loan amount	NPLs amount	NPL ratio
(In RMB million, except percentages)						
Corporate loans						
Loans to small enterprises	70,509.8	2,336.9	3.31%	61,020.0	2,201.6	3.61%
Other corporate loans excluding loans to small enterprises	98,249.3	2,080.7	2.12%	100,023.1	2,223.6	2.22%
Subtotal	168,759.1	4,417.6	2.62%	161,043.1	4,425.2	2.75%
Personal loans						
Loans to small enterprise owners	24,358.3	1,100.4	4.52%	25,269.1	1,027.6	4.07%
Personal consumption loans	79,756.5	3,141.8	3.94%	78,132.4	2,421.0	3.10%
Loans to farmers	16,490.1	359.4	2.18%	13,959.3	344.9	2.47%
Subtotal	120,604.9	4,601.6	3.82%	117,360.8	3,793.5	3.23%
Discounted bills	19,347.7	–	–	6,011.0	–	–
Total	308,711.7	9,019.2	2.92%	284,414.9	8,218.7	2.89%

During the first half of 2023, the Bank strictly controlled the credit risk of new businesses and continued to optimise risk access standards and policy requirements for industries, regions, customer structures and products in order to keep flexibility in achieving progress. It strengthened the centralised management and scientization of examination and approval, focused on the collection and disposal of major projects, paid close attention to source prevention and control and full-process management, advanced at both the collective and specific levels, and strengthened the management accountability for problematic loans and NPLs. It focused on exploring the potential of existing customers and risk mitigation with regard to corporate customers, strengthened the management of “three checks” on loans, standardized business operations systematically, and implemented prudent access for new customers. As of 30 June 2023, the NPL ratio of corporate loans decreased by 0.13 percentage point to 2.62% as compared to the end of last year. For retail customers, the Bank established a normalized monitoring post-supervision, intelligent post-loan management, elaborative overdue supervision system, and actively removed problematic customers through continuously refining the indicators featuring with default and early warning. As of 30 June 2023, the NPL ratio of personal loans increased by 0.59 percentage point to 3.82% as compared to the end of last year. As a local bank based in Heilongjiang Province, the Bank has fully implemented the various requirements of the national “rural revitalization” strategy by increasing support to the “agriculture, rural areas and farmers” areas, introducing more financial resources to the “agriculture, rural areas and farmers” areas, and taking innovation in financial products and services as the starting point for effectively connecting the poverty alleviation work backed by financial means with rural revitalization. The Bank has always been persistent in implementing new development concepts by improving its mechanism of rural financial work and refining its system of rural financial services, so as to serve as powerful support force for the solidifying and amplification of poverty alleviation achievements, the full development of rural revitalization and the modern construction of agriculture and rural areas. As of 30 June 2023, loans to farmers amounted to RMB16,490.1 million, representing an increase of RMB2,530.8 million as compared to the end of last year; the NPL ratio of loans to farmers was 2.18%, representing a decrease of 0.29 percentage point as compared to the end of last year.

(III) The Distribution of Loans and NPLs by Industry

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

	As at 30 June 2023				As at 31 December 2022			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Agriculture, forestry, husbandry and fishery	1,568.0	0.5%	151.9	9.69%	1,478.2	0.5%	105.1	7.11%
Mining	88.1	0.0%	–	–	91.1	0.0%	–	–
Manufacturing	7,895.6	2.6%	978.2	12.39%	6,948.9	2.4%	905.8	13.04%
Production and supply of electricity, heating, gas and water	6,719.0	2.2%	58.8	0.88%	4,922.9	1.7%	58.8	1.19%
Construction	10,802.9	3.5%	436.0	4.04%	10,716.8	3.8%	518.9	4.84%
Transportation, storage and postal services	2,703.0	0.9%	24.6	0.91%	2,796.6	1.0%	27.3	0.98%
Information transmission, software and information technology services	383.0	0.1%	20.0	5.22%	357.1	0.1%	43.1	12.07%
Wholesale and retail	29,643.8	9.6%	1,348.9	4.55%	24,950.2	8.8%	1,253.9	5.03%
Accommodations and catering	3,128.3	1.0%	124.7	3.99%	3,413.0	1.2%	149.7	4.39%
Finance	202.2	0.1%	4.2	2.08%	7.2	0.0%	4.2	58.33%
Real estate	29,413.3	9.5%	482.9	1.64%	29,847.5	10.5%	334.9	1.12%
Leasing and commercial services	64,722.8	21.0%	639.5	0.99%	64,013.2	22.5%	836.6	1.31%
Scientific research and technological services	561.5	0.2%	37.1	6.60%	535.6	0.2%	22.5	4.20%

Management Discussion and Analysis

	As at 30 June 2023				As at 31 December 2022			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Water conservation, environment and public utility management	9,755.7	3.2%	65.5	0.67%	9,875.1	3.5%	133.2	1.35%
Residential, repair and other services	176.3	0.1%	17.7	10.07%	174.1	0.1%	3.6	2.07%
Education	128.8	0.0%	23.7	18.39%	136.2	0.1%	23.7	17.40%
Health and social work	427.8	0.1%	3.8	0.89%	423.8	0.1%	3.8	0.90%
Culture, sports and entertainment	439.0	0.1%	0.0	0.01%	355.6	0.1%	–	–
Total corporate loans	168,759.1	54.7%	4,417.6	2.62%	161,043.1	56.6%	4,425.1	2.75%
Total personal loans	120,604.9	39.1%	4,601.6	3.82%	117,360.8	41.3%	3,793.6	3.23%
Discounted bills	19,347.7	6.2%	–	–	6,011.0	2.1%	–	–
Total	308,711.7	100.0%	9,019.2	2.92%	284,414.9	100.0%	8,218.7	2.89%

As at 30 June 2023, the Bank's corporate loans business concentrated on the leasing and commercial services, wholesale and retail and real estate industries. Among which, total loans to the leasing and commercial services industry were RMB64,722.8 million, representing an increase of RMB709.6 million as compared to the end of last year; total loans to the wholesale and retail industry were RMB29,643.8 million, representing an increase of 4,693.6 million as compared to the end of last year; and total loans to the real estate industry were RMB29,413.3 million, representing a decrease of RMB434.2 million as compared to the end of last year. The corporate NPLs of the Bank concentrated in the wholesale and retail industry and the manufacturing industry with NPLs of RMB1,348.9 million and RMB978.2 million, respectively. The Bank has always followed its microcredit strategy and implemented policies on inclusive finance as most of its customers are small and micro enterprises that are susceptible to the trend of the macro economy and the early COVID-19 pandemic and in need of time to restore normal cash flows. In accordance with the direction of national industrial policy support and taking into account regional economic structure and development characteristics, the Bank has formulated differentiated policy guidance with a focus on supporting high-tech enterprises, specialized and new enterprises to increase support for high-tech, green finance and other related areas. With increased financial support for new infrastructure industries, major projects and major works, we aim to help improve the quality of urban life and the health of residents. The Bank increased its support for the "agriculture, rural areas and farmers" areas, serving as a powerful support force for the solidifying and amplification of poverty alleviation achievements, the full development of rural revitalization and the modern construction of agriculture and rural areas. It adhered to the direction of inclusive finance policies and strived to improve the financial services to micro, small and medium-sized enterprises (MSMEs) and new citizens. Meanwhile, it set differentiated customer access standards and management requirements, strictly controlled new business risks, proactively took risk prevention and control measures, continued to intensify its efforts in collection and disposal, and actively resolved non-performing stock to enhance asset quality.

(IV) 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 2023				As at 31 December 2022			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Heilongjiang region	177,661.4	57.6%	3,383.8	1.90%	156,441.0	55.0%	2,808.4	1.80%
Other regions in								
Northeastern China	39,593.1	12.8%	2,174.0	5.49%	38,253.9	13.5%	2,103.6	5.50%
Southwestern China	58,188.1	18.8%	1,191.5	2.05%	57,847.4	20.3%	1,344.1	2.32%
Other regions	33,269.1	10.8%	2,269.9	6.82%	31,872.6	11.2%	1,962.6	6.16%
Total	308,711.7	100.0%	9,019.2	2.92%	284,414.9	100.0%	8,218.7	2.89%

Under the guidance of national macroeconomic policies, the Bank has implemented the strategy of coordinating development between regions and taken boosting Heilongjiang's economy as its task by concentrating on and fully exploring local resources, focusing on its own responsibilities and principal businesses, implementing work plans relating to key industries and major projects in Heilongjiang Province and Harbin City, and formulating a hundred of measures to support the development of key industries in Heilongjiang Province. The Bank continuously supported the manufacturing transformation and upgrading in Heilongjiang Province, focused on increasing medium-and long-term loans for manufacturing and increased its support for infrastructure construction projects in line with the requirements of local governments, and strengthened financial support for private enterprises and small and micro enterprises by actively promoting the implementation of a series of policies and measures such as the "Top Hundred Projects (百大項目)" in Heilongjiang Province, key projects in Heilongjiang Province and the list of key industrial projects in Harbin City. As of 30 June 2023, the loans in Heilongjiang region amounted to RMB177,661.4 million, representing an increase of RMB21,220.4 million as compared to the end of last year.

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 2023				As at 31 December 2022			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Unsecured loans	112,175.6	36.3%	2,747.8	2.45%	88,388.4	31.1%	2,014.9	2.28%
Guaranteed loans	83,202.8	27.0%	1,825.6	2.19%	78,810.7	27.7%	1,932.1	2.45%
Collateralised loans	100,468.1	32.5%	4,384.4	4.36%	104,389.7	36.7%	4,233.6	4.06%
Pledged loans	12,865.2	4.2%	61.4	0.48%	12,826.1	4.5%	38.1	0.30%
Total	308,711.7	100.0%	9,019.2	2.92%	284,414.9	100.0%	8,218.7	2.89%

During the Reporting Period, the Bank responded proactively to the slowdown in economic growth and the lasting effects of the COVID-19 pandemic. On one hand, from the perspective of the Bank's overall loan structure, collateralized and pledged loans accounted for a large part to 36.7% to ensure the controllability of the ultimate risks on loans. On the other hand, as a proactive response to regulatory policies, the Bank granted more inclusive loans to small and micro enterprises and the Dual-stabilization Loans, supported the real economy, and strongly supported the development of private sector and small and medium-sized enterprises, expanding unsecured and guaranteed loans. Meanwhile, the Bank strengthened its control based on multi-channel risk management, promoted the orderly exit of higher-risk customers and increased its efforts in the collection and disposal of non-performing assets to support the stability of asset quality.

(VI) Concentration of Borrowers

As of 30 June 2023, 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 2023, the Bank's 10 largest single borrowers (excluding group borrowers) in terms of loan balance.

Industry		As at 30 June 2023		
		Loan balance	% of total loans	% of net capital
(In RMB million, except percentages)				
1	L-Leasing and commercial services	5,300.0	1.72%	6.71%
2	L-Leasing and commercial services	5,100.0	1.65%	6.45%
3	L-Leasing and commercial services	3,229.7	1.05%	4.09%
4	K-Real estate	2,976.4	0.96%	3.77%
5	L-Leasing and commercial services	2,640.6	0.86%	3.34%
6	K-Real estate	2,537.5	0.82%	3.21%
7	K-Real estate	2,425.8	0.79%	3.07%
8	N-Water conservation, environment and public utility management	2,111.3	0.68%	2.67%
9	F-Wholesale and retail	2,041.0	0.66%	2.58%
10	L-Leasing and commercial services	1,860.0	0.60%	2.35%
Total		30,222.3	9.79%	38.24%

Management Discussion and Analysis

(VII) Overdue Loans and Advances to Customers

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Current loans and advances	256,696.5	83.2%	230,751.5	81.1%
Loans and advances past due: ⁽¹⁾				
For 1 to 90 days	22,251.0	7.2%	26,283.7	9.3%
For 91 days to 1 year	6,533.3	2.1%	8,770.2	3.1%
For 1 year and above	23,230.9	7.5%	18,609.5	6.5%
Subtotal	52,015.2	16.8%	53,663.4	18.9%
Total loans and advances to customers	308,711.7	100.0%	284,414.9	100.0%

Note:

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

During the first half of 2023, the Bank had always insisted on serving local economic development, preventing and controlling operating risks, reasonably guiding credit resources, enhancing the quality and efficiency of financial services, continuously strengthening asset quality management, and promoting the Bank's high-quality development in all aspects. Firstly, continuously helping customers affected by the pandemic to tide over difficulties in the post-pandemic era. With pandemic prevention and control policies being adjusted, the national economy and production and operation have gradually recovered, even though we still have to go through a transition period before the economic recovery. The Bank will continue to refine its works in relation to the financial support for the real economy and help customers normalize their operations. Secondly, enhancing asset quality management. The Bank has always adhered to the principle of "asset quality is our lifeline". It established a risk control model of preliminary risk control, developed the concept of pre-management featuring forward look and proactiveness, effectively curbed the deterioration of asset quality at source, and made "controlling new delinquencies" a key task for the whole Bank. Meanwhile, the Bank made steady progress in the collection and disposal of NPLs by intensifying the collection and disposal efforts and innovating the methods for collection and disposal.

(VIII) Movements of Allowance for Impairment Losses on Loans

Pursuant to the requirements of IFRS 9, the Bank made use of “expected credit loss model” for the measurement of impairment of underlying financial assets. The Bank adhered to the prudence principle and made provision for impairment losses on loans in the full amount. As at 30 June 2023, impairment losses on loans amounted to RMB16.9065 billion, which increased by RMB1.9865 billion as compared to the end of last year. The impairment losses on loans ratio was 5.48%, which increased by 0.23 percentage point as compared to the end of last year. Risk resilience holds stable.

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

Items	As at 30 June 2023	As at 31 December 2022
		(In RMB million)
Balance at the beginning of the period	14,920.0	13,780.8
Exchange difference	0.9	0.2
Charged during the period	2,711.8	5,110.0
Accreted interest on impaired loans	(276.2)	(395.5)
Write-offs and transferred	(654.9)	(3,899.5)
Recoveries of loans and advances previously written off	204.9	324.0
Balance at the end of the period	16,906.5	14,920.0

Management Discussion and Analysis

VI. Segment Report

(I) Geographical Segment Report

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

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

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

	Mainland China				Total
	Heilongjiang region	Other regions in Northeastern China	Southwestern China	Other regions	
	(In RMB million)				
For six months ended					
30 June 2023					
Operating income	5,093.3	82.7	1,086.9	392.1	6,655.0
Operating expenses	(1,715.5)	(150.3)	(202.5)	(200.9)	(2,269.2)
Credit impairment losses	(3,657.7)	(116.2)	28.9	(140.9)	(3,885.9)
Operating profit	(279.9)	(183.8)	913.3	50.3	499.9
As at 30 June 2023					
Segment assets	636,855.3	41,267.4	68,854.9	40,242.7	787,220.3
Segment liabilities	596,010.3	36,718.5	53,158.6	37,383.5	723,270.9

Management Discussion and Analysis

	Mainland China				Total
	Heilongjiang region	Other regions in Northeastern China	Southwestern China	Other regions	
(In RMB million)					
For six months ended					
30 June 2022					
Operating income	5,123.0	301.4	1,468.6	100.2	6,993.2
Operating expenses	(1,630.7)	(151.4)	(208.0)	(177.6)	(2,167.7)
Credit impairment losses	(3,074.8)	(250.8)	(144.0)	(406.7)	(3,876.3)
Operating profit	417.5	(100.8)	1,116.6	(484.1)	949.2
As at 30 June 2022					
Segment assets	541,879.1	32,046.8	46,305.8	41,423.2	661,654.9
Segment liabilities	473,905.7	32,523.8	46,576.6	45,816.2	598,822.3

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 six months ended 30 June			
	2023		2022	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Heilongjiang region	5,093.3	76.5%	5,123.0	73.3%
Other regions in Northeastern China	82.7	1.3%	301.4	4.3%
Southwestern China	1,086.9	16.3%	1,468.6	21.0%
Other regions	392.1	5.9%	100.2	1.4%
Total operating income	6,655.0	100.0%	6,993.2	100.0%

Management Discussion and Analysis

(II) Business Segment Report

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

	For six months ended 30 June			
	2023		2022	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Corporate finance business	2,176.1	32.7%	2,969.2	42.5%
Retail finance business	3,512.7	52.8%	3,470.3	49.6%
Financial institutions business	979.7	14.7%	539.8	7.7%
Other businesses	(13.5)	-0.2%	13.9	0.2%
Total operating income	6,655.0	100.0%	6,993.2	100.0%

VII. Capital Adequacy Ratio and Leverage Ratio

(I) Capital Adequacy Ratio

The Group continued to optimise its business structure and strengthen capital management. As at 30 June 2023, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of the Bank were 8.89%, 12.75% and 13.97% respectively, which were in line with the regulatory requirements provided in the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation). Due to the special bonds for other tier 1 capital replenishment amounting to RMB10 billion and the decrease of risk-weighted assets, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio increased by 0.25 percentage point, 2.06 percentage points and 2.06 percentage points respectively as compared to the end of last year.

Management Discussion and Analysis

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

	As at 30 June 2023	As at 31 December 2022
(In RMB million, except percentages)		
Core capital	51,017.4	50,382.2
Core tier 1 capital deductible items:		
Full deductible items	(725.3)	(473.9)
Net core tier 1 capital	50,292.1	49,908.3
Net other tier 1 capital	21,834.3	11,819.9
Net tier 1 capital	72,126.4	61,728.2
Net tier 2 capital	6,916.5	7,051.2
Net capital	79,042.9	68,779.4
Total credit risk-weighted assets	538,342.4	551,559.0
Total market risk-weighted assets	6,404.6	5,020.1
Total operational risk-weighted assets	21,053.7	21,053.7
Total risk-weighted assets	565,800.7	577,632.8
Core tier 1 capital adequacy ratio	8.89%	8.64%
Tier 1 capital adequacy ratio	12.75%	10.69%
Capital adequacy ratio	13.97%	11.91%

(II) Leverage Ratio

In accordance with the Administrative Measures on the Leverage Ratio of Commercial Banks (revised), the leverage ratio of the Bank was calculated as follows:

	As at 30 June 2023	As at 31 December 2022
(In RMB million, except percentages)		
Net tier 1 capital	72,126.4	61,728.2
Adjusted on – and off-balance sheet assets	835,011.2	772,211.6
Leverage ratio	8.64%	7.99%

Management Discussion and Analysis

VIII. Business Operation

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

(I) Retail Finance Business

The retail finance business of the Bank is positioned as a focus of the Bank's strategic transformation, which aims to accelerate the release of retail development potential by deepening the institutional mechanism construction. While gradually improving the wealth management system to serve the demand of customers and their families for wealth planning, the Bank strengthened eco-scenario construction to meet customers' needs for diversified investment and balanced asset allocation, and achieved breakthroughs in brand building and customer market positioning. To further implement the concept of "Good Life" proposed at the 20th National Congress of the Communist Party of China, the Bank is committed to providing customers with lifecycle financial services covering children, growth, family and elderly care through "Good Life" accounts, so as to achieve long-term promotion of customer activity and improve fund retention rate. Centered on digital inclusive finance, the Bank further strengthened customer relationship management with digitalisation and big data application for precision marketing, accelerated "online + offline" channel synergy and digital marketing transformation to provide powerful support for the transformation of comprehensive retail business from monolithic to integrated. The Bank had built a closed loop from retail finance business to customer service to deepen its image as a warm and connotational retail service brand and promote the sustainable and high-quality development of its retail finance business.

During the Reporting Period, the retail finance business of the Bank recorded an operating income of RMB3,512.7 million, accounting for 52.8% of the operating income of the Bank.

Retail customers

With the original mission of "creating value for customers", the Bank has transformed the retail finance from a banking perspective to a customer service perspective, and comprehensively upgraded the customer service experience. The Bank continues to build its olive-shaped customer structure. Retail customers have been extended from middle-end customers to both ends. For high-end customers, the Bank focused on their maintenance and improved its maintenance capability for such customers, thus enhancing the experience of private banking customers. For long-tail customers, the Bank focused on their activation and expanded their contribution, fully utilizing the role of the customer resource pool and strengthening the foundation of sustainable development. As at 30 June 2023, the Company had 14.5068 million retail deposit customers, representing an increase of 361.3 thousand as compared to the same period of last year. The number of customers with personal financial assets (in RMB and other currencies) over RMB50,000 amounted to 1,211.1 thousand, representing an increase of 237.4 thousand or 24.38% as compared to the same period of last year.

Retail deposits

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

As at 30 June 2023, the total retail deposits of the Bank (in RMB and other currencies) amounted to RMB433,674.1 million, representing an increase of RMB64,906.1 million or 17.6% as compared to the end of last year. The average balance of retail deposits (in RMB and other currencies) amounted to RMB413,017.5 million, representing a year-on-year increase of RMB94,993.0 million or 29.9%. According to the statistics provided by the Heilongjiang branch of the PBOC, as at the end of the Reporting Period, the Company's increment of retail deposits in Heilongjiang Province ranked first with the retail deposit balance ranked third. Among which, the balance of retail deposits of the Harbin branch of the Company ranked first in the regional market with a market share of 19.6% as at the end of the Reporting Period. It also ranked first in the regional market in terms of the increase in retail deposits.

Retail loans

During the Reporting Period, the Bank's retail credit business adhered to the principles of "wholesale", "scene" and "online", focusing on the three major customer groups, namely small and micro customers, farmers and consumers, strengthened the application of big data to position market segments accurately, and enhanced market competitiveness through accelerated product innovation and improved service quality, while also increasing the support of financial credit to the real economy. In addition, the Bank insisted on the whole-process risk management to establish a long-term risk monitoring mechanism, optimised business management processes by implementing differentiated approval strategy to enhance our capability on refined risk management and control. By intensifying digital transformation, the Bank strengthened the application the empowerment of financial technology to applications of financial technology, continued to enhance our its data mining and application capabilities, while improving our retail internal rating model, and to further enhance the the level of intelligent management of on our retail business.

As at 30 June 2023, the balance of the Bank's personal loans reached RMB120,604.9 million, representing an increase of 2.8% as compared to the end of last year, and accounted for 39.1% of the Bank's total loans to customers, among which the balance of loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB24,358.3 million, RMB79,756.5 million and RMB16,490.1 million, respectively, and accounted for 20.2%, 66.1% and 13.7%, respectively, of the Bank's total personal loans.

Bank cards

During the Reporting Period, the growth of the bank card business of the Bank remained steady. As of 30 June 2023, the total number of issued credit cards reached 1,827.3 thousand, representing an increase of 3.6% as compared to the end of last year, of which 63,200 were newly issued during the Reporting Period. The credit card asset balance amounted to RMB16.15 billion, representing an increase of 1.4% as compared to the same period of last year. The number of debit cards issued by the Company amounted to 17,991 thousand, of which the number of cards issued during the Reporting Period increased by 205.3 thousand.

Management Discussion and Analysis

In the first half of 2023, rooted in local livelihood services, the Company continued to improve the functions of debit cards, and actively constructed a platform for social security and banking services by opening 33 integrated service outlets for social security and banking, including 13 categories and 24 high-frequency services of pension insurance into the business scope of bank outlets, thus realizing one-stop services for social security business. The Company has innovatively launched cross-provincial processing service of social security cards in Heilongjiang Province, and has achieved real-time cross-provincial social security card issuance in its branches in Dalian, Tianjin, Shenyang, Chongqing, and Chengdu, which covers two provinces and two municipalities directly under the central government outside Heilongjiang Province, making it the first city commercial bank in China to operate cross-provincial processing service of social security cards of Heilongjiang Province in multiple regions. Such service can reduce the “two way travel” and “round-trip travel” of social security card processing, simplify and optimize the processing process to the most extent. As one of the first cooperative banks in Heilongjiang Province to activate the third-generation social security card service, as at 30 June 2023, the Company has set up 182 and 7 social security service outlets in and outside Heilongjiang Province and installed 343 card-making machines, and provided services such as issuance and replacement of the social security cards for 957.3 thousand residents in Heilongjiang Province.

Wealth management business

The Company has been accelerating its business transformation towards wealth management business. Driven by the needs of household asset allocation, it endeavors to reflect the due value of wealth management while fulfilling the goal of common prosperity. The diversity of product lines is realized by continuously enriching its product system. It continues to expand its strategic business cooperation, focusing on the financial scenarios such as healthcare for the elderly, children, education and issuing for others. The Company dedicates itself to providing professional, convenient and high-quality wealth management service to its customers and their family with combination of online and offline efforts. As at 30 June 2023, the Company realized total sales of personal wealth products, such as wealth management, fund and insurance, of RMB19.805 billion.

(II) Corporate Finance Business

In the first half of 2023, the Bank’s corporate finance business closely focused on the keynote of “pursuing progress and improvement while ensuring stability” with “returning to the basics, focusing on key areas, optimising the structure and reshaping the foundation” as its main goal. The Bank actively implemented the service philosophy of “being customer-oriented”, supported the development of the local real economy, and created a comprehensive financial service system for customers throughout their lifetimes, forming an integrated and comprehensive financial service pattern with “quick response to customer needs, service plans with collaborated design, and coordinated advancement of financial services”.

During the Reporting Period, the corporate finance business of the Bank recorded a profit before tax of RMB117.3 million, accounting for 23.47% of the profit before tax of the Bank, and an operating income of RMB2,176.1 million, representing a decrease of 26.7% as compared to the same period of last year and accounting for 32.7% of the operating income of the Bank.

Corporate customers

By leveraging the Bank's strengths in cross-regional operation layout and outlet resource and closely following the direction of the national strategy, the Bank adhered to customer-orientation and practicably satisfied the financing demand of customers, continuously improved product innovation and comprehensive service capabilities, and actively strengthened the cross-selling service model, realising precision marketing to core customers and comprehensive financial service management. The Bank returned to its local roots and concentrated its financial resources to give priority to supporting the high-quality development of Heilongjiang Province. The Bank continued to deepen its strategic cooperation with provincial and municipal enterprise groups, enhanced cooperation with customer groups and core customer groups in key regions and industries, actively participated in the development of top 100 enterprises in the province by strengthening support for key industries and major projects in the region, and continuously consolidated, enhanced and expanded its regional advantages. By increasing credit investment in the New District and the Free Trade Zone, the Bank focused on supporting the construction of infrastructure and the implementation of key industrial projects in the region to provide supporting financial services. The Bank focused on technological innovation and other key areas and promoted innovation in financial services, to guarantee its development and construction. At the same time, the Bank was fully engaged in institutional business marketing and empowered customer value creation to achieve the continuous growth in institutional customer base, and further strengthened corporate client base, striving to support the efficient development of Heilongjiang's economy in all aspects. As at 30 June 2023, the Company had 89 thousand corporate customers.

Corporate deposits

During the Reporting Period, the Bank, adhering to the service philosophy of "being customer-oriented", continuously deepened the construction of marketing service systems for the three major customer groups, namely institutional customers, credit customers and non-credit customers, strived to provide customers with specialized, refined, full-fledged, system-wide integrated financial services, proactively carried out green deposit marketing, further consolidated and optimized its deposit structure with steadily increasing the scale of corporate deposits. By fully leveraging local advantages, the Bank expanded the layout of institutional business, continuously strengthened "banking-government" strategic cooperation model, provided comprehensive and integrated financial services through deep cooperation in multi-dimensions, such as settlement, financing and system building, improved its regional expansion service capabilities for institutional customers, and realised the multi-level coverage of institutional business qualifications at provincial, city and county levels, so as to increase the scale of institutions' deposits through various initiatives. The Bank, focusing on high-quality state-owned enterprises, central enterprises, industrial parks, listed companies, core enterprises and other key customer groups in the region, conducted marketing to further consolidate its customer foundation and expand deposit sources through multiple channels. The Bank continuously improved scenario marketing system construction to meet customers' customized and personalized payment and settlement demands, so as to further enhance customers' satisfaction and sense of belonging. As at 30 June 2023, the balance of corporate deposits of the Bank amounted to RMB204,935.9 million. The stability of deposits was further enhanced.

According to the statistics of Heilongjiang Provincial Branch of the PBOC, the balance of corporate deposits of the Harbin branch of the Company ranked first in the regional market as at the end of the Reporting Period.

Management Discussion and Analysis

Corporate loans

During the Reporting Period, by adhering to the business philosophy of “Inclusive Finance, Harmonious Co-enrichment”, the Bank focused on work plans relating to key industries and major projects in Heilongjiang Province and Harbin City, and increased credit investment to provide robust financial support for local economic development. The Bank concentrated and increased financing support for infrastructure construction projects, particularly for those in areas relating to people’s livelihoods such as electricity and heat supply, with the aim of achieving comprehensive alignment with the list of key projects in Heilongjiang Province. The Bank fully supported the manufacturing’s transformation and upgrading in Heilongjiang Province, focused on increasing medium-and long-term loans for manufacturing and explored high-quality enterprises with high added value and core position in the industrial chain. In quick response to the financial needs of real estate enterprises, the Bank, riding on the opportunity of strategic cooperation agreements with the Municipal Housing and Urban-Rural Development Bureau of Harbin City and key real estate enterprises, achieved the launch of the real estate business in an orderly manner and supported the steady and sound development of the real estate market in Heilongjiang Province. The Bank strengthened financial cooperation among peers and proactively promoted the development of the syndicate business, so as to improve financial services. By continuously increasing visits to customers and actively organizing various forms of banking-enterprise communication, the Bank focused on strengthening financial support for private enterprises and small and micro enterprises. As at 30 June 2023, the total corporate loans of the Company amounted to RMB168,759.1 million, representing an increase of RMB7,716.0 million as compared to the beginning of the year and accounting for 54.7% of total loans.

Intermediary services

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

During the Reporting Period, the corporate finance business services of the Bank recorded a non-interest income amount of RMB85.5 million, representing a decrease of 8.5% as compared to the same period of last year.

Global Transaction Banking

During the Reporting Period, the Bank established the Global Transaction Banking Department and formulated business development plans. The Bank built supply chain finance product lines and accelerated business upgrade and transformation. Its supply chain finance business was selected as an excellent case by regulators; the scale of its treasury management platform business reached RMB8,700 million; it invested in an integrated budget management and electronic non-tax collection and payment system and established monitoring systems for pre-sale properties transaction funds in multiple regions.

(III) Financial Market Business

Regarding financial market business qualifications, the Company is a Class A settlement member of the national interbank bond market, a member of the underwriting syndicate of financial bonds of China Development Bank, a member of the underwriting syndicates of local government bonds of Heilongjiang Province, Sichuan Province, Liaoning Province, Tianjin municipality and Chongqing municipality, a quoting bank of China Bond Valuation, a member of the SHIBOR quoting syndicate of National Interbank Funding Center, and a member of the underwriting syndicate of debt financing instruments of non-financial enterprises. The Bank has multiple business qualifications including standing lending facilities and derivative transactions.

During the Reporting Period, financial institutions businesses of the Bank recorded an operating income of RMB979.7 million, accounting for 14.7% of the operating income of the Bank.

Bond Investments and Transactions

During the Reporting Period, due to the global economic downturn, weak recovery of domestic post-pandemic economy and changes in monetary policies of the Central Bank, the interbank bond market was generally volatile. Amid the complex environment, the Bank accurately predicted the market trend at different stages, timely made profits from trading bonds, and optimized its bond portfolio simultaneously. The Bank realized a bond income of RMB137 million.

As at 30 June 2023, the Bank's aggregate cash exchange in the interbank market amounted to RMB4.20 trillion. The Bank ranked 16th among the city commercial banks. The Bank actively participated in innovative trading varieties of the National Interbank Funding Center, such as X-bond, X-lending, X-bargain and ideal underwriting. The Bank has been awarded "Active X-Lending Institution in the National Interbank Market" for five consecutive months. It was also awarded "Active Borrowing Chat-to-Dialogue Institution" and "X-Bargain Best Performing and Active Institution" in April 2023, and "TOP50 for Strength in ideal", "Active Underwriter", "Innovative Bond Lending iDeal Chat-to-Dialogue Institution", and "Innovative Institution in X-Lending Pledged Local Debt Contracts" in May 2023. The brand and influence of the Bank's bond investment and trading have significantly increased.

Financial Interbank Business

During the Reporting Period, based on the guidance of regulatory policies, market development and its requirements for capital use, the Bank actively cooperated with non-bank financial institutions such as fund companies, consumer finance companies and financial leasing companies and increased investments in funds and interbank loans to indirectly support the financing needs of real enterprises and residents' consumption. As at 30 June 2023, the balance of the Bank's investments in mutual funds amounted to RMB36,753.5 million and the balance of placements with banks amounted to RMB17,705.0 million.

Interbank Investment Business

During the Reporting Period, the Bank closely monitored the changes in the economic environment and market and closely followed the national policies and policy guidance and orientation of the regulatory authorities. The Bank increased efforts in supporting the real economy and continued to optimize customer and product structure based on the market condition, regulatory policy, the development strategy and annual plan of the Bank. The Bank continuously increased the investment in standardised products and rationally deployed asset allocation. As at 30 June 2023, after excluding mutual funds, the balance of investment in debt instruments issued by financial institutions amounted to RMB125,415.3 million, which effectively supported the healthy development of the real economy.

Management Discussion and Analysis

Wealth Management Business

During the Reporting Period, the Bank continued to carry out its wealth management business in a steady manner. Adhering to the customer-oriented approach, the Bank stepped up product innovation. It launched Zhiying “Wenshunanxin”, a newly optimized closed product, and Zhiying “Wenlidibo”, a fixed-income open product, improved the fixed-income, fixed-income enhancement, hybrid and equity product systems, and provided multi-maturity wealth management products, so as to meet the diversified investment demand of customers and improve its product management capability. It strengthened research on large-scale asset allocation and developed its active management capability. It prevented market risks and credit risks and strictly controlled asset quality. It also enhanced its service standard and strengthened companionship for investors.

During the Reporting Period, the Bank raised funds of RMB16,353 million in total through its wealth management products. As at 30 June 2023, the balance of wealth management products amounted to RMB29,247 million.

(IV) Key Featured Businesses

1. Microcredit Business

Focusing on the spirit of the Central Economic Work Conference, the Company fulfilled its function as a financial institution and insisted on the characteristic development path of microcredit. Taking digital inclusive finance as the core, the Company expanded high-quality business scenarios, enriched product service systems, and provided customers with accurate, efficient, convenient and professional microcredit services by employing advanced information technology. As at 30 June 2023, the balance of the Company’s microcredit loans reached RMB191,114.7 million, representing an increase of RMB12,733.9 million as compared to the end of last year, accounting for 61.9% of the Company’s total loans to customers.

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

	As at 30 June 2023		As at 31 December 2022	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Loans to small enterprises	70,509.8	36.9%	61,020.0	34.2%
Personal loans	120,604.9	63.1%	117,360.8	65.8%
Total of microcredit loans	191,114.7	100.0%	178,380.8	100.0%

Small and micro enterprise finance business

During the Reporting Period, with the objective of promoting the healthy development of small and micro enterprises, the Company implemented the new development concept in a complete, accurate and comprehensive way, and adhered to the political and people-oriented principle of financial services. It enhanced the quality of financial services for small and micro enterprises and strengthened the availability of financial services to small and micro enterprises to facilitate the comprehensive recovery and innovative development of small and micro entities. As at 30 June 2023, the total inclusive loans to small and micro enterprises granted by the Company was RMB13.709 billion, representing an increase of 26% as compared to the same period of last year. The price of loans was 7.01%, representing a decrease of 0.51 percentage point as compared to the beginning of the year. The balance of loans was RMB36.000 billion, representing an increase of 4.31% as compared to the beginning of the year, and the number of customers was 175,800, up 917 from the beginning of the year.

During the Reporting Period, the Company further optimised its organizational structure and built an integrated “Headquarter-Branch-Subbranch” financial service system for small and micro enterprises. Regarding the headquarters, the former Microfinance Department (Microloan Finance Department) and Agriculture Finance Department were merged into the Microloan Finance Department (Agriculture Finance Department) after adjusting some of their duties in order to focus on key areas such as small and micro enterprises and individual industrial and commercial entities and enhance its financial support and service efficiency. As for branches, they set up differentiated microfinance departments and agriculture finance departments based on their regional realities to strengthen their financial services to small and micro enterprises. Regarding subbranches, it set up professional client service teams in the comprehensive subbranches to meet clients’ differentiated financial needs and business development.

During the Reporting Period, the Company accelerated the iteration of inclusive products such as “Business Fast Loan” and “Tax E-loan” based on sufficient market research and clear client positioning, improved the quality and efficiency of online and offline services through big data application and fin-tech empowerment, and further promoted the building of financial business operation system for small and micro enterprises. Meanwhile, the Bank strengthened its service teams by improving the professional standard of microfinance teams through a ladder-type talent training model, in a bid to promote the sustainable development of inclusive financial business.

During the Reporting Period, in strict compliance with the requirements of regulatory policies, the Company carried out comprehensive risk investigation, implemented the whole-process risk management, established a long-term risk monitoring mechanism through the optimized internal assessment system, early warning screening and whole-process internal control layout, and continued to improve the active risk management mechanism for small and micro businesses, so as to facilitate the high quality development of inclusive financial business.

As at 30 June 2023, the balance of the Company’s loans to small enterprises amounted to RMB70,509.8 million, representing an increase of 15.6% as compared to the end of last year. The balance of NPLs for the small enterprises was RMB2,336.9 million and the NPL ratio was 3.31%.

Consumer finance business

During the Reporting Period, the Company continued to put the business philosophy of “Inclusive Finance and Shared Prosperity” into practice with the mission of “Making People’s Lives Better,” and the responsibility of “Creating Returns for Shareholders, Taking Responsibility for Employees, and Fulfilling Customers’ Dreams.” The Bank has been constantly establishing an all-rounded comprehensive consumer finance service (product) system, expanding the quality business scenarios, and enriching innovative products and services and actively improving loan-granting efficiency, reaching more customers, enhancing the quality and effectiveness of financial services and so on. Always focusing on strategic planning and accelerating the in-depth integration of digital technologies such as big data, cloud computing and AI and traditional financial services, the Bank realised the integration of online and offline services. Through continuous development of service scenarios, as well as the research and development and application of cutting-edge technologies, the Bank improved the customer acquisition capabilities, risk control capabilities, and product operation capabilities of its consumer finance business, thereby broadening consumer financial service scenarios and customer coverage and improving the inclusiveness of consumer finance services. During the Reporting Period, the Company significantly improved its core competencies in consumer finance business in terms of digital risk control capabilities, refined operation capabilities, and intelligent management capabilities, further accelerating the process of digitalisation transformation. In the first half of 2023, the Bank was honored with the title of “Typical Case Regarding Consumer Rights Protection (消費者權益保護典型案例)” in 2022 by China Bank Insurance Review.

Management Discussion and Analysis

During the Reporting Period, the Bank adhered to the concept of “Inclusive Finance and Shared Prosperity” and contributed to the sustainable growth of the consumer market. The Bank expanded its portfolio of interest-earning assets. Focusing on meeting the daily consumption needs of cardholders, the Bank launched inclusive consumer installment products featured with simplified application procedures, expedited approval processes and preference interest rates targeting various living consumption scenarios, such as buying car, wedding, education, travel, healthcare, home renovations and house-renting. It supported the comprehensive financial services greatly in consumer consumption and contributed to the rebranding and value enhancement of the Bank. The Bank focused on improving people’s well-being, strengthened the use of big data and transformed its consumer credit business model by adopting a standardized, batch-oriented, scenario-oriented and online approaches. The Bank also accelerated the construction of an online consumer credit product system for high-quality customers to assist in consumption upgrading and quality improvements, ultimately advancing consumption recovery.

As at 30 June 2023, the balance of the Bank’s personal consumption loans amounted to RMB79,756.5 million.

2. Cross-border financial business

During the Reporting Period, the Company focused on the development strategy of “acquiring customers in bulk, establishing institutions, and integrating production and finance” for our cross-border financial business, and continuously explored the advantages of distinctive business and increased profits and value, achieving a breakthrough in various business indicators. As of 30 June 2023, the international settlement volume amounted to RMB43.2 billion, representing a year-on-year increase of 173%; the cross-border RMB business volume amounted to RMB62.279 billion, representing a year-on-year increase of 940.58%; the forfeiting business trading volume amounted to RMB3.0 billion; and the asset investment was RMB9.557 billion, representing a year-on-year increase of 78%.

During the Reporting Period, the Company maintained its management structure of cross-border financial business with an emphasis on advantages, scale, and value, and established a sub-branch-level department, i.e. Sino-Russia and Cross-border Finance Headquarters, which consists of five first-level departments. The Company also strengthened vertical management to improve operating efficiency and set up cross-border finance offices at the branch level to lay a strong foundation for market expansion.

During the Reporting Period, by adhering to the national, provincial and municipal strategies, the Company was deeply involved in the construction of the Harbin New District and Free Trade Zone and continued to improve the clearing service functions and assisted in the smooth completion of capital contribution of foreign-invested enterprises and the demand guarantee business for cross-border export of facilities in New District. There were more than 80 NRA accounts opened accumulatively. The Company also signed a comprehensive strategic cooperation agreement with the largest domestic electronics industry association and actively reached out to mainstream cross-border B2B companies to explore new channels to acquire customers for the platform.

During the Reporting Period, the Company launched the cross-border settlement system and cross-border corporate online banking system for the first time. The cross-border settlement system of Harbin Bank is the first professional settlement system in Northeast China featured with all domestic realized information technology application innovation and agency settlement for all channels.

3. *Modern agricultural finance business*

During the Reporting Period, the Company fully supported the implementation of the rural revitalisation strategy and the stability of the agricultural foundation. Through improving the standard of agriculture-benefiting finance services and supporting key agricultural-related fields, the Company facilitated the cultivation of new agricultural operation entities and large-scale land management, so as to provide a continuous internal driving force to accelerate the transformation of agricultural modernization to achieve high-quality and efficient development of agriculture, and make the rural areas livable and fit for work and the farmers rich in both material and spirit.

During the Reporting Period, the scale of the agriculture-benefiting finance business of the Company was effectively expanded with the loans for spring farming in the new cycle exceeding RMB13 billion. Remarkable results have been achieved in the optimization of the agriculture-benefiting structure with the investment of new agricultural subjects, as the main force of modern agriculture, accounting for more than 91% of the total, which promoted more than 20% of the large-scale land transfer and operation in the province. The Company continued to deepen and expand key agriculture-related fields by continuing to enrich the service content for new agricultural subjects, upgrading and implementing agricultural flash loans 4.0 version, and upgrading the “one branch, one policy” exclusive service strategy, to efficiently satisfy the financing needs of various agriculture-related industries such as bulk grain, economic crops, understory economy, modern animal husbandry, and black soil protection. The Company has enriched its cooperation relating to agriculture, such as establishing a comprehensive strategic partnership with the Heilongjiang Branch of Taiping General Insurance Co., Ltd. (太平財產保險有限公司) and expanding its collaboration with Heilongjiang Innovative Agricultural Property Rights Financing Co., Ltd. (黑龍江省創新農業物權融資有限公司) in the area of new-type property rights pledge. The Company’s agriculture-benefiting team worked efficiently in terms of its construction and organized the selection of “Advanced Individual in Inclusive Finance”, giving full play to the leading and motivating role of advanced model enterprise. The Company also helped enhance the development momentum of the counties through formulating targeted work plans, so as to further fulfill its social responsibilities as a financial enterprise. The Company was awarded the “Annual Best Bank Serving Rural Revitalization (年度最佳服務鄉村振興銀行)” in the selection event initiated and organized by the Financial Times. The “Harbin Bank Agricultural Loan Officer Takes You to Explore Beautiful Countryside (哈行農貸員帶你領略美麗鄉村)” submitted by the Company won the “2022 Banking Industry Good News Award (2022年銀行業好新聞獎)”.

As at 30 June 2023, the balance of the loans to farmers granted by the Company amounted to RMB16,490.1 million, with the scope of service covering the majority of rural village markets of 11 prefecture-level cities in Heilongjiang Province and 6 major Agricultural Cultivation Bureaus as well as some rural villages of Chengdu, Chongqing, Shenyang, Tianjin and Dalian which are located outside the province, greatly promoting the economic development of county areas and the prosperity of rural financial markets, and supporting the rural areas to achieve comprehensive revitalisation.

Management Discussion and Analysis

(V) Related Party Transactions as Defined by the NAFR

During the Reporting Period, the Bank identified related parties and related party transactions in accordance with the domestic management requirements of the Administrative Measures for Related Party Transactions of Banking and Insurance Institutions (the “Measures”). The Bank conducted the following significant related party transactions and ordinary related party transactions with its related parties in the first half of 2023:

I. Significant related party transactions

(i) Significant related party transactions between major shareholders and related companies

1. Harbin Economic Development

Harbin Economic Development is a state-owned enterprise, holding 29.63% Shares of the Bank and is a substantial shareholder of the Bank. Harbin Economic Development was established on 22 August 1992 with a registered capital of RMB2.3 billion and Mr. Ren Yi (任毅) being the legal representative. It is mainly engaged in financial investments in fixed-assets of municipally-owned enterprises and others and receipt of dividends in return. Harbin Economic Development is a wholly-owned subsidiary of Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司) (the “Harbin Investment Group”). Harbin Economic Development and its related parties are included in the management of related parties and related party transactions of the Bank in accordance with relevant provisions of the Administrative Measures for Related Party Transactions of Harbin Bank Co., Ltd. 《哈爾濱銀行股份有限公司關聯交易管理辦法》.

Harbin Investment Group was established on 28 October 2003 with a registered capital of RMB5 billion. Its legal representative is Zhao Hongbo (趙洪波), and its shareholders are Harbin Municipal People’s Government State-owned Assets Supervision and Administration Commission with a contribution of RMB4.5 billion and shareholding of 90%, and Heilongjiang Provincial People’s Government State-owned Assets Supervision and Administration Commission with a contribution of RMB0.5 billion and shareholding of 10%. Harbin Investment Group has established presence in five major industries, including financial asset operation, financial capital management, equity investment, heat supply operation and industrial investment.

The Bank’s significant related party transactions with Harbin Investment Group and its related parties: from 1 January 2023 to 30 June 2023, the Bank had a total of 35 related party transactions with Harbin Investment Group and its related parties with an aggregate amount of RMB4,238 million, which included 23 credit transactions with an amount of RMB3,764 million (please refer to Table 1 for details) and 12 non-credit transactions with an amount of RMB474 million (please refer to Table 2 for details). Upon entering into the above businesses, Harbin Investment Group and its related parties had credit facilities and guarantee facilities with the Bank, amounting to RMB7,554 million, with a business balance of RMB6,224 million, accounting for 9% of the Bank’s unaudited net capital as at the end of the first quarter of 2023.

Pricing Policy: the related party transactions between the Bank and Harbin Investment Group and its related parties were regular transactions of the Bank conducted in the ordinary and usual course of business, which followed the principle of market-oriented pricing, were conducted on terms that are not superior to those for similar transactions with non-related parties, met the principle of fairness required by the management of related party transactions, did not affect the independence of the Bank, and will not adversely affect the Bank’s operations, profitability and asset position.

Management Discussion and Analysis

The overall credit of significant related party transactions between the Bank and Harbin Investment Group and its related parties was considered and approved by the Risk Management and Related Transactions Control Committee and the Board of Directors, and the independent non-executive Directors expressed their opinions as follows: the business was the regular business of the Bank conducted in the ordinary and usual course of business, which followed the principle of market-oriented pricing, was conducted on terms that are not superior to those for similar transactions with non-related parties, met the principle of fairness required by the management of related party transactions, did not affect the independence of the Bank, will not adversely affect the Bank's operations, profitability and asset condition, and did not harm the legitimate rights and interests of small and medium-sized investors. The voting procedure of the resolutions on significant related party transactions was legal and in compliance with the relevant laws, regulations and Articles of Association.

Table 1: Breakdown of Related-Party Credit Transactions with Harbin Investment Group and its Related Parties for the period from January to June 2023
Unit: RMB'0,000

Name	Transaction			
	amount	Type of business	Term	Method of guarantee
Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司)	47,000	Bond investment (medium term note)	3 years (2023.3.17-2026.3.17)	Credit (Standardized bond products)
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	3,250	Working capital loans	3 years (2023.3.20-2026.3.19)	Guarantee
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	2,700	Working capital loans	3 years (2023.4.3-2026.4.2)	Guarantee
Harbin Daowai Real Estate Operation and Property Management Co., Ltd. (哈爾濱道外房產經營物業管理 有限責任公司)	11,700	Working capital loans	3 years (2023.4.4-2026.4.3)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	20,000	Working capital loans	1 year (2023.4.17-2024.4.16)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	20,000	Working capital loans	1 year (2023.4.17-2024.4.16)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	7,425	Working capital loans	3 years (2023.4.20-2026.4.19)	Guarantee
Harbin Property Heating Supply Group Co., Ltd. (哈爾濱物業供熱集團有限責任公司)	37,500	Working capital loans	3 years (2023.5.4-2026.5.3)	Guarantee
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	3,600	Working capital loans	3 years (2023.5.16-2026.5.15)	Guarantee
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	18,400	Working capital loans	3 years (2023.5.19-2026.5.18)	Guarantee

Management Discussion and Analysis

Name	Transaction		Term	Method of guarantee
	amount	Type of business		
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	14,720	Working capital loans	3 years (2023.5.20-2026.5.19)	Guarantee
Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司)	12,190	Working capital loans	3 years (2023.5.22-2026.5.21)	Guarantee
Harbin Heat Power Co., Ltd. (哈爾濱市熱力有限公司)	18,000	Working capital loans	3 years (2023.5.31-2026.5.30)	Guarantee
Harbin Daoli Real Estate Operation and Property Management Co., Ltd. (哈爾濱道里房產經營物業管理有限責任公司)	23,000	Working capital loans	3 years (2023.5.31-2026.5.30)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	19,550	Working capital loans	3 years (2023.6.8-2026.6.7)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	1,750	Working capital loans	3 years (2023.6.19-2026.6.18)	Guarantee
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	8,885	Working capital loans	3 years (2023.6.19-2026.6.18)	Guarantee
Harbin Xiangfang Property Heat Supply Co., Ltd. (哈爾濱香坊物業供熱有限責任公司)	19,500	Working capital loans	3 years (2023.6.19-2026.6.18)	Guarantee
Harbin New Residential Zone Heat Supply Property Co., Ltd. (哈爾濱住宅新區供熱物業有限責任公司)	14,800	Working capital loans	3 years (2023.6.21-2026.6.20)	Guarantee
Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司)	40,000	Working capital loans	3 months (2023.6.27-2023.9.26)	Pledge of deposit
Harbin Nangang Real Estate and Property Management Co., Ltd. (哈爾濱市南崗房產經營物業管理有限責任公司)	19,800	Working capital loans	3 years (2023.6.28-2026.6.27)	Guarantee
Harbin Property Financing Guarantee Co., Ltd. (哈爾濱市房屋置業融資擔保有限責任公司)	10,000	Guarantee business	1 year (2023.3.10-2024.3.9)	Guarantee business
Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司)	2,650	Domestic letter of credit	1 year (2023.6.13-2024.6.12)	Guarantee
Total	376,420			

Management Discussion and Analysis

Table 2: Breakdown of Related-Party Non-Credit Transactions with Harbin Investment Group and its Related Parties for the period from January to June 2023
Unit: RMB'0,000

Name	Transaction		Commencement date and deadline
	amount	Subject	
Investment Group Corporation Limited (哈爾濱投資集團有限責任公司)	3,000	Corporate structured deposits	(2023.1.19-2023.3.8)
Investment Group Corporation Limited (哈爾濱投資集團有限責任公司)	3,000	Corporate structured deposits	(2023.1.19-2023.3.8)
Investment Group Corporation Limited (哈爾濱投資集團有限責任公司)	40,200	Corporate deposit with term of three full months	(2023.6.26-2023.9.26)
Harbin Property Financing Guarantee Co., Ltd. (哈爾濱市房屋置業融資擔保有限責任公司)	1,000	Margin deposit	(2023.2.7-2024.2.7)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	3	Margin deposit	(2023.3.30-2026.3.30)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	30	Margin deposit	(2023.6.26-2024.6.26)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	45	Margin deposit	(2023.6.26-2026.6.26)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	39	Margin deposit	(2023.6.14-2025.6.14)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	50	Margin deposit	(2023.6.14-2026.6.14)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	7	Margin deposit	(2023.5.30-2026.5.30)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	15	Margin deposit	(2023.5.19-2025.5.19)
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	13.5	Margin deposit	(2023.5.18-2026.5.18)
Total	47,402.5		

(II) Significant Related Party Transactions of Subsidiaries

1. HBCF

HBCF was established on 24 January 2017. Its registered place is No. 4, 1st Floor, Building A1, No. 1536, Qunli Fourth Avenue, Daoli District, Harbin. Its registered capital is RMB1.5 billion. It is a financial enterprise initiated and established by the Bank as the controlling shareholder with the approval of the former CBRC.

The Bank contributed RMB795 million to HBCF, accounting for 53% of the registered capital. Duxiaoman (Chongqing) Technology Co., Ltd. contributed RMB450 million to HBCF, accounting for 30% of the registered capital. Shanghai Site Fude Property Co., Ltd. contributed RMB95 million to HBCF, accounting for 6.33% of the registered capital. Suzhou Tongcheng Software Co., Ltd. contributed RMB75 million to HBCF, accounting for 5% of the registered capital. Beijing Bosheng Youshi Technology Development Co., Ltd. contributed RMB50 million to HBCF, accounting for 3.33% of the registered capital. China Circle International Trade, Inc. contributed RMB25 million to HBCF, accounting for 1.67% of the registered capital. Heilongjiang Xinda Auction Co., Ltd. contributed RMB10 million to HBCF, accounting for 0.67% of the registered capital.

HBCF is a legal entity controlled by the Bank and included in the management of related parties and related party transactions of the Bank.

2. HB Leasing

HB Leasing was established on 11 June 2014. Its registered place is Room 211, No. 66 Shimao Avenue, Building 12, Sci-Tech Innovation and Entrepreneurship Square, Harbin Hightech Zone. Its registered capital is RMB2 billion. It is a financial enterprise engaged in financial leasing business initiated and established by the Bank as the controlling shareholder with the approval of the former CBRC. It is also the first bank-based financial leasing company established in Northeast China.

The Bank contributed RMB1,600 million to HB Leasing, accounting for 80% of the registered capital. Dongning Lizhi Building Decoration Engineering Co., Ltd. contributed RMB300 million to HB Leasing, accounting for 15% of the registered capital. Harbin Express Auto Sales Co., Ltd. contributed RMB100 million to HB Leasing, accounting for 5% of the registered capital.

HB Leasing is a legal entity controlled by the Bank and included in the management of related parties and related party transactions of the Bank.

3. The Bank's policy on related party transactions with HBCF and HB Leasing

The overall credit of significant related party transactions between the Bank and its subsidiaries was considered and approved by the Risk Management and Related Transactions Control Committee and the Board of Directors, and the independent non-executive Directors expressed their opinions as follows: the business was the regular business of the Bank conducted in the ordinary and usual course of the Bank's business, which followed the principle of market-oriented pricing, was conducted on terms that are not superior to those for similar transactions with non-related parties, met the principle of fairness required by the management of related party transactions, did not affect the independence of the Bank, will not adversely affect the Bank's operations, profitability and asset condition, and did not harm the legitimate rights and interests of small and medium-sized investors. The voting procedure of the resolutions on significant related party transactions was legal and in compliance with the relevant laws, regulations and Articles of Association.

4. The Bank's significant related party transactions with HBCF
As at the end of June 2023, the Bank had a total of 42 related-party credit transactions with HBCF, amounting to RMB14.07 billion with a balance of RMB6.22 billion, all of which were inter-bank loan transactions. The balance of the credit transactions of HBCF in the Bank accounted for 9.01% of the Bank's net capital as at the end of the first quarter of 2023.
5. The Bank's significant related party transactions with HB Leasing
As at the end of June 2023, the Bank had a total of 7 related-party credit transactions with HB Leasing, amounting to RMB6.9 billion with a balance of RMB6.9 billion, all of which were inter-bank loan transactions. The balance of the credit transactions of HB Leasing in the Bank accounted for 9.99% of the Bank's net capital as at the end of the first quarter of 2023.

II. Ordinary Related Party Transactions

It is stipulated in the Article 57 of the Measures that, "The following related party transactions conducted by banking and insurance institutions may be exempted from consideration and disclosure in the manner of a related party transaction: A related party transaction with a related natural person of less than RMB500,000 or with a related legal person of less than RMB5,000,000 for a single transaction, and the cumulative amount after such transaction does not reach the conditions of significant related party transactions; subscription in cash by one party for stocks, company bonds or corporate bonds, convertible bonds or other derivatives publicly issued by the other party; demand deposit transactions; where the same natural person serves as an independent director of both a banking and insurance institution and other legal person(s) and there are no other circumstances that constitutes a related party, transactions between the legal person and such banking and insurance institution; transactions with the pricing set by the state; other circumstances approved by the CBIRC". Therefore, except for the related party transactions exempted from disclosure as mentioned above, the Bank discloses ordinary related party transactions.

As at 30 June 2023, there were a total of 180 ordinary related party transactions that the Bank was required to disclose, with a total amount of RMB2.283 billion, mainly including credit transactions, inter-bank credit transactions and deposit transactions with related parties. Among which, inter-bank credit transactions with related parties were all inter-bank transactions conducted between the Bank and its related party banks, which can be excluded from the scope of calculating the proportion of credit balances and the statistics of significant related party transactions according to the requirements under Clause 3 of the Article 16 of the Measures.

1. Related-party credit transactions: the Bank had 5 natural person loan transactions with insiders involved in the review and approval of core businesses, such as credit granting and asset transfer, and its related parties, with a total amount of RMB4.5 million. There were 39 natural person credit card loan transactions with a total amount of RMB9 million.

The credit amount for the related-party credit transactions under guarantee business granted by the Bank to Heilongjiang University Student Startup Financing Guarantee Co., Ltd. (黑龍江省大學生創業融資擔保有限公司), a related party of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司), was RMB100 million. The Bank had one reverse repurchase agreement of RMB1 billion with Longjiang Bank Corporation (龍江銀行股份有限公司), a related party of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司).

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The Bank had 1 interbank certificates of deposit of RMB195 million with Xiamen Bank Co., Ltd., a related party of Fubon Life.

There were 19 inter-bank credit transactions with subordinate village and township banks, with a total amount of RMB710 million.

2. Related-party asset transfer transactions: the Bank had 2 related-party fund transfer transactions with Longjiang Bank Corporation (龍江銀行股份有限公司), a related party of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司), for the purchasing of the interbank forfeiting business, the total transaction amount of which was RMB116 million. The pricing policy was based on the market price of interbank forfeiting business.
3. Deposit transactions with related parties (excluding demand deposit): as of 30 June 2023, there were 155 ordinary party related transactions for personal deposits (excluding demand deposit, and the transaction amount of RMB0.5 million or above in a single transaction), with a total transaction amount of RMB167 million.

(VI) Information on Controlling Subsidiaries

1. *Village and township banks*

As at 30 June 2023, the Company had a controlling interest in 30 village and township banks with 45 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 30 June 2023, the total assets of the 30 village and township banks amounted to RMB27,242 million, of which the total amount of loans amounted to RMB12,522 million, representing an increase of 4.00% as compared to the total amount of loans granted by 30 village and township banks as at the end of last year and the balance of deposit amounted to RMB21,693 million, representing an increase of 7.81% as compared to the balance of deposit within 30 village and township banks as at the end of last year.

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

2. *HB Leasing*

Since its establishment, HB Leasing has made some achievements in respect of asset scale, accumulated leased amount, business innovation model, etc., and initially maintained a leading position in the domestic leasing market to farmers. As at 30 June 2023, the total assets of HB Leasing amounted to RMB24,394 million, representing an increase of 0.66% as compared with the end of last year.

HB Leasing always strives to serve the real industry and the “Agriculture, Rural Areas and Farmers” and remains steadfast in its agricultural strategies. With “strategic focus, returning to the basics, outstanding characteristics and elevating values” as its corporate goals and “pragmatic and efficient, innovative development as well as openness and win-win results” as its business philosophy, HB Leasing strives to build a first-class domestic financial leasing company with distinct business features, scientific corporate governance, outstanding regional advantages, sophisticated product system, tightened risk prevention and control and leading management technology. By adhering to the characteristic and differentiated development path with a focus on maintaining operation efficiency through management, HB Leasing strives to develop its featured businesses, proactively creates new income source, explores the agriculture and agricultural equipment industries, puts great efforts into developing the agricultural machinery leasing business, and continues to build and optimise the agricultural machinery leasing and retail business model under the empowerment of science and technology based on its “contactless leasing service model”. Through the leasing of special products and business innovation, HB Leasing has been on the right development path of leasing business.

3. *HBCF*

HBCF is a licensed consumer financial company approved by the former CBIRC, the 19th company to be established nationwide and also the first to receive strategic investments from internet giants in China. It is also the second company in the country to be granted the qualification of a high-tech enterprise. With the Company as its major founder, the registered capital of HBCF was RMB1.5 billion as of the end of the Reporting Period.

HBCF adheres to the development philosophy of “Inclusive Finance, Harmonious Co-enrichment”. Capitalising on the extensive experiences in product, customer and technology that the Company has accumulated across over a decade of in-depth operation in microcredit business, and leveraging shareholders’ resource advantages in leading financial technology and diverse business scenarios, HBCF gives full play to its advantages such as first-class core team, agile technological research and development, strong ability of risk control on self-development, excellent asset quality and rapid market response, and deeply engages with a focus on consumption scenarios. It mainly targets customers who are young and ambitious with consumption credit needs, with relatively stable jobs, a certain extent of debt repayment ability and certain growth and development potential in the future, as well as small and micro owners, entrepreneurs of small business and new citizens with certain consumption capacity and profitability, whose short-term consumption credit needs are not related to housing vehicles and cars. HBCF is committed to build itself into a leading domestic consumer financial company with sound risk quality, good economic benefits and a high market reputation.

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As at 30 June 2023, the total assets of HBCF amounted to RMB19,184 million, representing an increase of 25.90% as compared to the end of last year; the balance of loans amounted to RMB18,263 million, representing an increase of 21.16% as compared to the end of last year; and the total number of people served exceeded 37.50 million.

In line with the regulatory guiding opinions and requirements, HBCF builds a compliance culture, strengthens internal control implementation and adheres to the development philosophy of “Inclusive Finance”. With deepening the application of financial data elements as the basis, it aims to support the structural reform on the supply side of finance and focuses on accelerating the digital transformation of financial institutions. By making targeted efforts in improving the scientific and technological governance system, consolidating the base of digital infrastructure, promoting technological innovation, activating digital business dynamics, strengthening innovative and prudent regulation, practicing digital inclusive finance and other aspects, HBCF accelerates the improvement of modern financial system that is suitable for digital economic development, so as to contribute financial strength for the construction of a new development pattern.

(VII) Distribution Channels

1. *Physical network*

As at 30 June 2023, the Company had a total of 311 branch outlets, including 17 branches, 292 sub-branches, 1 branch-level financial service centre for small enterprises and 1 headquarter business department.

2. *Electronic banking*

The Bank has built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking and offline self-service terminals. E-channels have become the main business channels of the Bank.

(1) **Self-service banking**

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account opening and transfer, account inquiry, passcode changing, wealth management and social security card issuance. In the first half of 2023, the refined management of self-service channels has been further improved as a result of the establishment of a domestic-made self-service terminal platform. While enriching the equipment functions, the Bank continues to reasonably allocate and guide customers to use the self-service terminals and enhanced the efficiency and customer experience of self-service terminals of the Bank. As at 30 June 2023, the Bank had 1,236 self-service terminals, including 457 BCDMs, 249 ATMs, 253 smart cabinets, 219 non-cash super counters and 58 CRS III for social security cards.

(2) **Online banking**

The Bank continues to expand the functions of online banking. Currently, personal online banking provides customers with account services, transfer and remittance, membership management, investment and wealth management, credit card, loan management and other functions, while corporate online banking provides customers with account management, transfer and remittance, issuing and paying for others, investment and wealth management, electronic commercial drafts, bill pools and other functions. As at 30 June 2023, the Bank had 5,148.0 thousand e-membership customers, representing an increase of 10.43% as compared to the same period of last year.

(3) Phone banking

The Bank provides 24-hour phone banking services, which include account inquiries, transfer, verbal report of card loss, operator inquiry and outgoing calls, to customers through the unified national customer service hotline 95537. In the first half of 2023, the phone banking customer service centre handled a total of 1,054 thousand calls (including credit card forwarding and HBCF forwarding), representing a decrease of 9.2% as compared to the same period of last year.

The Bank provides services including credit card inquiry, complaint and advice, activation and reporting for loss and application for instalments through the unified national customer service hotline for credit card 4006695537. In the first half of 2023, the credit card customer service centre handled a total of 749.5 thousand calls, representing a decrease of 7.75% as compared to the same period of last year.

(4) Mobile banking

The Bank continued to expand the functions of mobile banking. While providing customers with basic services such as account management, investment and wealth management, transfer and remittance, living payment and credit card etc., the Bank also focused on featured businesses such as microfinance and agriculture-benefiting finance, and provided guidance and constructed relevant scenarios for mobile banking customers. Meanwhile, the Bank launched personalised and customised services for special customer groups such as social security customers and elderly customers. It put inclusive services into practice and enriched life channel functions in mobile banking, achieving the integration of online and offline financial services. As at 30 June 2023, the Bank had 3,905.7 thousand active mobile banking users, representing an increase of 14.02% as compared to the same period of last year.

(5) WeChat banking

The Bank continued to upgrade the customer service and marketing capabilities of WeChat banking and launched a business hall mini program on WeChat platform offering a variety of financial services including wealth management, deposits, loans and insurance. At the same time, it provided diversified value-added everyday services such as online medical insurance payment and provident fund inquiry and withdrawal. As at 30 June 2023, WeChat banking had over 4,674.2 thousand followers, representing an increase of 32.46% as compared to the same period of last year.

(VIII) Information Technology

In the first half of the year, the Bank focused on the strategic development objective of the group, adhered to the working principal of “focusing on strategy, problem-solving, being truthful and pragmatic, and value enhancement”, and accelerated the application and promotion of new technologies. During the Reporting Period, various key information technology systems operated smoothly. Steady enhancement was achieved in technological management, technological support and technological service capabilities.

- 1. Strengthening the top-level design and promoting the digital transformation.** According to the Group’s “Digital Inclusive Finance” strategic requirements, the Bank has developed the “Overall Implementation Plan for Digital Transformation of Harbin Bank” 《哈爾濱銀行數字化轉型工作總體實施方案》. By focusing on the objective of “consolidating infrastructure support, empowering business development and promoting digital transformation”, with data as driving force and financial technology as means, the Bank strived to improve its financial technology services, and promote the digital transformation of the Group on the basis of digital transformation of technology operating lines to enhance the construction of digital financial capabilities.

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- 2. Consolidating the foundation and strengthening technological operational capacity.** Key operation and maintenance indicators, fault handling efficiency, production success rate and self-owned controllability rate were continuously improved. The availability rate of core business systems reached 99.996%, while the resolution rate of scientific and technological service support was 98.84%. An operation and maintenance guarantee mechanism for the first-, second- and third-line system has been established with the implementation of the standardized disposal process. The integrated monitoring and operation and maintenance systems were put into operation to display the monitoring and alarm priority relationship of each business system in real time and quickly locate faults, thereby enhancing scientific and technological support capabilities.
- 3. Continuously improving the science and technology governance system.** We strengthened the construction of compliance culture and strictly followed compliance audit requirements. In the first half of the year, 298 audit items were checked on a sample basis, accounting for 12% of the total number of production items. We strengthened the establishment of science and technology system and promoted the standardization, instrumentation and datalization of information technology management systems to improve management efficiency, avoid implementation deviations and reduce resource consumption.
- 4. Accelerating technology empowerment and improving the quality and efficiency of financial services.** 204 projects were initiated to accept 935 valid business demands, among which 862 business demand items were developed and completed, marking a completion rate of 92%. Meanwhile, we increased our efforts to ensure and support the key projects. Intelligent double recording (intelligent audio and video recording) system, related party transaction system, cross-border clearing system and new-generation bill business were launched on schedule. We developed the capital pool management function of the core system to realize the specific demand for the automatic pooling and allocation of funds between the Group's subsidiaries and the parent company. The construction of mobile banking B-end financial services continued to ensure meeting the needs of the three-generation social security card issuance business, and realized signing contracts with customers for text messages and online banking businesses, which effectively supported the business development of the Bank.
- 5. Constantly promoting data governance work.** We built a data management team to focus on the allocation of data resources and the construction of indicators and standard systems, so as to promote the efficient and orderly development of data. We shifted from the old external data management platform to the new one to address the problems of the original external data management platform, such as difficulties in locating deficiencies and the low efficiency of secondary development. In addition, we have developed and deployed more than 40 standardized data query tools to support independent query, independent summary and analysis of business departments, which strongly support the application of business data.
- 6. Constantly enhancing the level of financial risk control.** We have successfully completed the network security for the Chinese People's Political Consultative Conference and the National People's Congress in 2023, implemented the admittance control mechanism for the office and production front-end equipment throughout the Bank, conducted penetration testing of the internet information system, timely identified security risk in the internet system of the Bank, and improved the reliability of the system. It effectively ensures the safe and stable operation of the business system.

IX. Risk Exposure and Management

Adhering to the core philosophy of “creating value through risk management”, the Bank continued to focus on cultivating a risk culture of “compliance and stability” and coordinated and promoted the construction of a comprehensive risk management system that is commensurate with its development strategy, organisational structure, business scale and risk characteristics. The Bank integrated risk management into the whole process of strategic development, performance targets and value enhancement, and into all aspects of business development, so as to ensure the effective operation of management mechanisms. The Bank continued to optimise its risk identification, measurement, monitoring and control processes covering the whole range, process and cycle, and effectively strengthened its internal control mechanisms of pre-prevention, in-process control, post-event monitoring and correction, promoting the continuous improvement of risk management capabilities.

During the Reporting Period, the Bank further improved its comprehensive risk management system, maintained strategic determination, strengthened risk research and judgment, and dynamically adjusted its strategies to actively prevent and respond to various risks, ensuring the stable and sustainable development of the Bank’s businesses.

(I) Credit Risk

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

During the Reporting Period, adhering to the principle of stability and seeking improvement in stability, closely focusing on the work goal of “Enhancing Development Quality”, and with the general idea of “risk management driving business development and escorting business development”, the Bank continuously enhanced its credit risk management. **Return to the basis of business and strengthen policy guidance.** Based on the requirement of local economic development and the guidance of regulatory policies, the Bank returned to the basic and local business while focusing on the main responsibility and business. With the goal of “taking root in black soil and gathering momentum for the economic development of Heilongjiang”, the Bank improved the quality and efficiency of financial services for the local economy and the real economy. The Bank continued to deepen the strategic cooperation between its local branches and state-owned and private enterprises groups, and actively participated in the construction of various key industries and major projects. The Bank closely monitored the macroeconomic situation and kept abreast of the changes of market environment and regulatory policies to improve its credit risk systems and policies. With the national strategies and cutting-edge technology in high-tech industry development as its guidance, the Bank actively contributed to the sectors of “new infrastructure and new urbanization initiatives and major projects”, green finance as well as “agriculture, rural areas and farmers”, increased policy guidance and financial assistance for the real economy especially small and micro enterprises, technological innovation, and green development, and implemented the strategic plan for inclusive finance and green finance. **Strengthen the active management of credit risk and improve the quality and efficiency of risk control.** The Bank continued to refine its internal evaluation systems to enhance the accuracy of risk trend judgments. Moreover, the Bank continued to improve the standardised, normalised and refined management of the collateral risk valuation system and actively strengthened risk control over weak links in the entire process of collateral management, effectively reducing the hidden dangers and losses of

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credit risk. The Bank has established a risk control model with forward risk management and control and set up a forward-looking and proactive pre-management philosophy by strengthening potential risk management for customers, enhancing the pre-management of existing business before expiration, and instituting a joint discussion mechanism for corporate customer risks and a new overdue early warning mechanism. As such, multiple measures have been taken to improve the quality and efficiency of risk control. **Deepen the reform of the unified credit granting system and raise the refined management level of credit risk.** Taking the opportunity of optimizing the organizational structure of the whole Bank, the Bank further strengthened unified credit management, clarified the return of credit approval to the main responsibility and business, and realized the effective integration of retail and non-retail approval. The Bank sought to establish an auxiliary review mechanism to solve the problem of the system lags behind business development in actual work and improve the effectiveness of risk control measures. The Bank carried out in-depth follow-up research on major and difficult projects, predicted and effectively responded to business risks in advance, and put risk management and control first. It strengthened timeliness management to improve service efficiency; summarized and upgraded templates to standardize review and approval exercises; and used non-local committee mechanism to correct deviations in risk checks and balances. Strictly following national policies, regulatory guidance, and related systems inside and outside the Bank, it gave full play to the role of examination and approval in risk disclosure and risk control to effectively identify and control various risks. **Increase the efforts to dispose of non-performing assets, identify all underlying risks.** The Bank continued to increase its efforts to collect and dispose of non-performing assets, specially established the debt management department to identify all underlying risks and coordinate the collection, disposal, management and operation of non-performing assets. The Bank also improved its management system, solidified the effective work plan and supporting measures, scientifically formulated collection and disposal plans, and earnestly fulfilled its responsibilities by implementing the guarantee and responsibility system of bank leaders for key projects. It intensified supervision and guidance on collection and disposal, advanced key tasks, and implemented a working mechanism of overall distribution and joint handling to ensure the orderly collection and disposal of non-performing assets. Following the principles of marketization and the rule of law, the Bank intensified the collection and disposal efforts and innovated methods of collection and disposal by strengthening the collection and disposal measures, optimising assessment mechanisms and establishing an external communication mechanism, so as to broaden the channels for the disposal of non-performing assets, improve disposal quality and efficiency and solidly promote the collection and disposal of non-performing assets.

(II) Liquidity Risk

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

Adhering to the working philosophy of “liquidity security as the lifeline”, the Bank pursued the principle of prudent liquidity management and adopted a steady liquidity management strategy. Through a compliant, reasonable and effective liquidity management mechanism, it coordinated the liquidity security and capital income of the whole Bank and achieved the safe management and control of liquidity risks, achieving the goal of shock resistance, risk prevention and balance maintainance. The Bank paid close attention to specific situations or events that may cause liquidity risks, continuously analysed the macroeconomic situation, financial market trends and relevant policy orientations, and actively identified potential liquidity risk points based on the Bank’s operating environment, so as to measure and control related liquidity risks with liquidity risk management tools such as indicator analysis, scenario simulation, cash flow analysis and stress testing.

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Taking risk appetite as the core and relying on the management system, the Bank comprehensively sorted out and established a group liquidity risk management system that adapts to the new situation, new tasks, and new requirements. The Bank strengthened the unified management and control of the group liquidity risk regarding limit management, report management and emergency management, and implemented cash flow analysis requirements under normal and stress scenarios. It monitored changes in business behavior in a timely manner, as well as the impact of changes in available funds such as account balances, daytime credit limits and available collaterals on the daytime liquidity positions, and carried out regular and special stress tests. It also fully considered the composite scenarios that affect its own specific shocks and systemic shocks, and reasonably measured the changes in liquidity risk conditions under stress scenarios to provide support for liquidity management. Therefore, in both the normal operating environment and under stress, the Bank can have sufficient daytime liquidity and appropriate financing arrangements to meet the needs of asset allocation and liability repayment at maturity in a timely manner.

As at 30 June 2023, the liquidity coverage ratio of the Bank was 251.94%, which was in compliance with the liquidity coverage ratio of commercial banks required by the Measures for the Liquidity Risk Management of Commercial Banks (Order [2018] No. 3, CBIRC).

Item	As at 30 June 2023	As at 31 March 2023	As at 31 December 2022
	(In RMB100 million, except percentages)		
Liquidity coverage ratio (%)	251.94%	265.64%	234.02%
Qualified high-quality current assets	1,987.58	1,917.41	1,279.98
Net cash outflow in the next 30 days	788.91	721.80	546.95

(III) Market Risk

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

The Bank has established market risk management policies and procedures and risk appetite and limit systems, actively responded to external market changes and regulatory developments, continuously improved the market risk management system, sorted out regulations and established systems, checked for deficiencies and filled in gaps, so as to consolidate the foundation of market risk management and comprehensively improve the effectiveness of market risk management. The Bank continuously diversified its measurement methods of market risks by conducting stress testing, sensitivity analysis, duration analysis and PVBP analysis to strengthen market risk measurement according to the actual conditions. It also improved the market risk quota system, optimised the setting up of market risk quota system, and continuously conducted monitoring and reporting to strengthen market risk research, judgment and early warning capabilities, and improve market risk limit management and early warning management levels. Under external regulatory requirements and internal management policies on the bank book interest rate risk, the Bank continued to improve the construction of the bank book interest rate risk management system to clarify the governance structure, and fully utilized measurement methods of risks to increase judgment on the trends of market interest rate. The Bank measured the changes in net interest income

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and economic value under the various types of interest rate shock scenarios through reasonable use of gap analysis, scenario simulation, stress testing and other methods, thereby reasonably measuring the Bank's book interest rate risk. The Bank's book interest rate risk remained stable overall.

The Bank's exchange rate risk exists mainly in its foreign currency related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement and sale on behalf of customers. The Bank averts exchange rate risk primarily by measures such as limit management, currency exchange and foreign exchange derivative financial instruments management. During the Reporting Period, the Bank continued to conduct daily monitoring and reporting of exchange rate risk in accordance with its risk appetite and market risk limits and continuously optimised the foreign exchange limit management system, set transaction limits, stop-loss limits and exposure limits to conduct foreign exchange risk management on foreign exchange transactions. The Bank used foreign exchange exposure analysis and other measurement methods and conducted market risk stress tests on a regular basis to reasonably measure exchange rate risk levels, continued to optimise the structure of monetary assets, effectively maintained the risk-benefit balance of the overall foreign exchange assets, and improved the effectiveness and pertinence of exchange rate risk management.

(IV) Operational Risk

During the Reporting Period, the Company continued to adhere to the management principle of "emphasizing results over forms", relied on the organizational structure to seek favorable opportunities, sort out and re-examine the effectiveness of the operational risk management system, insisted on consolidating the foundation of operational risk management, and continuously optimized the methodology of operational risk management, built up a solid line of defence for the idea of internal control compliance, and strengthened the awareness of the bottom line of risk prevention and control. The Company has formulated and improved the operational risk management policy by strengthening the identification, assessment, monitoring and control of operational risks, and enhancing the quality and effectiveness of the implementation of operational risk prevention and control measures; comprehensively revised the operational risk-related management system, studied and promoted the optimisation and improvement of the operational risk system, and enhanced the adaptability of the system requirements to risk management; enriched the means of data collection on losses by focusing on the data clues of criminal-related cases, regulatory penalties and internal and external inspections, and strengthening the analysis and application of data collection on operational risk losses. By taking multiple measures mentioned above, the Company further enhanced its ability to refine the management of operational risk and gradually strengthened the practical management of operational risks.

(V) Information Technology Risk

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

During the Reporting Period, the Bank continued to strengthen the top-level design of information technology (IT) risk, optimize the organizational structure of IT risk management, and enhance the professional ability of IT risk management. In order to ensure that the IT regulatory requirements are fully implemented, the Bank carefully analyzed opinions on IT regulatory ratings and continued to promote their implementation, sort out the priorities of IT risk management, focus on the weaknesses of the Bank's IT risk management, and formulate rectification plans and track the progress of rectification and implementation.

During the Reporting Period, the Bank strengthened the construction and optimization of IT risk management indicators. To provide evaluation and decision-making basis for the effective identification and mitigation of risks, the Bank deepened the assessment of the effectiveness of key IT risk indicators, reconstructed the system of key IT risk indicators, enriched and improved the key points of IT risk assessment, and accurately grasped the current trend of IT risks through the indicators.

During the Reporting Period, the Bank continuously increased its efforts in monitoring IT security operations. For the system operation during important periods, the Bank flexibly deployed network security resources and strengthened its full-time operation security capability. During its daily operation, the Bank continuously enriched and optimized the monitoring and warning rules, improved the security protection capability of network defense equipment, and timely dealt with the problems found on the monitoring platform, so as to ensure the safe and stable operation of business and systems.

During the reporting period, the Bank continued to strengthen the management level of IT outsourcing. With the goals of improving the quality of service provided by outsourcers and risk management efforts, and reducing the likelihood of outsourcing risks, the Bank endeavored to build up a high-quality technical team, improve the ability to independently develop and maintain the system, and enhance the ability to identify and monitor the risks of outsourcers.

(VI) Compliance Risk Management

During the Reporting Period, the Company was committed to preventing and resolving financial risks, focusing on supervision, facilitating rectification, strengthening governance and promoting continuous improvement, with an aim to promote the compliance risk management of the Company to operate in the same track and direction as the steady development of the financial industry. **First**, the Company continuously established a system with a clear, stringent and scientifically designed structure and comprehensively applied the review mechanism, filing mechanism, abolition mechanism and evaluation mechanism of the system to standardize system management. Through the preparation and publication of the “System Handbook” and “Innovation with New Regulations” (規新思變), the Company strengthened the internalization of external regulations and the dissemination of the internal regulations to help compliant business development. **Second**, the Company continued to establish a legal risk prevention and control system with clear responsibilities and mutual checks and balances, implemented a chain of control processes, such as pre-access, pre-audit, in-process follow-up, post-evaluation and full support, centralised the management of lawyers to establish an efficient authorisation mechanism, and launched a series of training courses on internal legal control and compliance under the “Knowing the New Law” and “Learning the Law Before Meeting” programmes to refine the legal risk control network. **Third**, the Company continuously optimised its internal control management structure, improved the “Comprehensive Task System for Rectification and Implementation”, coordinated the management of rectification of internal and external risk issues, and continuously enhanced its rectification and governance capabilities. The Company also coordinated the whole inspection resources of the Bank, to effectively implement a comprehensive inspection of internal control and compliance and monitoring mechanism, and thoroughly identified problems and resolved key business risks. **Fourth**, the Company actively built an accountability mechanism with an integration of punishment and linkage and cooperation, a due diligence exemption mechanism, and an optimized accountability review structure and continuously improved the compliance performance assessment indicator system, to further strengthen the level of strict governance and rule by law. **Fifth**, the Company adopted the basic principle of focusing on a sound and consistently effective mechanism with short-term key punishment, continued to promote the handling of cases and risk mitigation, strengthened the investigation of case risks, convened case warning and education conferences by means of warning “people around us” for “things happened around us”, and continuously optimised the operational risk management system to prevent the occurrence of major operational risk events. **Sixth**, the Company actively optimized its anti-money laundering organizational structure and work system, fully exerted monitoring efficiency of the anti-money laundering related systems, and carried out standardised

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customer identification and suspicious transaction monitoring and analysis to promote the deepening of anti-money laundering work. **Seventh**, the Company continued to refine its internal control and compliance culture construction system, established a mechanism for emergency response to compliance risk events and lawsuits, improved the system of employee conduct standards, rolling out regular publicity on compliance culture, consistently carried out conceptual transmission and nurturing education, so as to firmly establish the internal control and compliance philosophy of “integrity, honesty, lawfulness and compliance”, and to enhance the enduring vitality of the internal control and compliance culture of the Company as well as the strong support for its operation and development.

(VII) Anti-money Laundering (AML) Management

During the Reporting Period, the Company thoroughly implemented the “risk-based” principle, strictly followed the guidance of various laws, regulations and supervisory requirements, and comprehensively promoted the construction of polices, systems and teams for AML. **First**, the Company optimized its anti-money laundering management structure based on development. It gradually adjusted the work of research and judgement of suspicious transactions, which is of higher risk and higher technical content, to centralised operations, strengthened the professional coordination of AML, focused on the integration and application of effective information, explored the clues of the transactions, and increased the value of intelligence, so as to form a pattern of anti-money laundering management with “high efficiency, high quality and low cost”. **Second**, the Company upgraded and promoted the construction of a new AML system. It strengthened the effectiveness of “machine control” to effectively implement regulatory requirements such as customer due diligence and money laundering risk assessment, and promoted the transformation of money laundering risk management from “human defense” to “technological defense” to ensure that the Company’s money laundering risk management efforts are effective and efficient. **Third**, the Company took multiple measures to improve the refined management of AML. In conjunction with the daily AML performance of each unit, the Company issued quarterly notices and compliance reminders to stimulate the performance of each unit and carried out advance control of key areas of risk, and strived to enhance the quality and effectiveness of the its AML work; strengthened the assessment of money laundering risk of new products, and implemented strict management measures to control the occurrence of risk. **Fourth**, the Company actively carried out AML activities through external propaganda and internal education. It thoroughly implemented AML laws and regulations to raise public awareness, concern and support for AML work, effectively practiced its corporate social responsibility, and fulfilled the legal obligations of financial institutions in AML and anti-terrorist financing.

X. Internal Control and Internal Audit

(I) Internal Control

During the Reporting Period, the Company followed the principles of comprehensiveness, prudence, effectiveness and independence, resolutely carried out the strategic requirements of risk prevention, strict internal control and strong compliance, and practiced a series of internal control optimization and improvement work around the five internal control elements of internal environment, risk assessment, control measures, information and communication and internal supervision, so as to ensure the Company’s operation and management was compliant with laws and regulations.

First, the Company established and maintained a sound and prudent internal control environment in compliance with laws and regulations. The Company has a clear and reasonable internal control management framework, including: as the decision-making body, the Board is responsible for the sound establishment, and effective implementation of internal control system; the management at various levels is responsible for coordinating the establishment and implementation of internal control system and its daily operation; the various branches and departments are responsible for establishing and continuously improving their own internal control systems in accordance with the requirements of laws and regulations; the compliance departments at different levels and the independent internal audit departments are responsible for the supervision and evaluation of the internal control system of the Bank, forming an internal control organizational structure with reasonable division of labour, clear responsibilities and reporting lines. At the same time, the Board of Directors and senior management of the Company attached great importance to the construction of compliance culture, persistently made internal control and compliance culture construction regular, systematical and intensive, and firmly built up its internal control and compliance philosophy of “honesty, integrity, lawfulness and compliance”, thereby supporting the Bank to comprehensively build a corporate culture of “compliance, steadiness, innovation and development”.

Second, the Company constantly improved its risk evaluation system. The Board, the senior management and responsible management personnel of the Company are well aware of various risk exposures under the operating and management process, such as credit risk, market risk, liquidity risk, compliance risk, operation risk, legal risk and reputation risk, and have established a comprehensive risk management system geared to the Bank. In practice, with inspection and investigation, rectification and accountability, performance appraisal, risk assessment, internal audit and other working mechanisms, the Company developed a working pattern in which business units and business lines, compliance and risk control lines, internal audit departments and other supervision units work together. Three defensive lines performed their duties and adopted scientific risk management techniques and methods to identify, monitor and evaluate risks faced in operations so as to ensure the synergy and effectiveness of risk assessment.

Third, the Company took multiple measures and implemented practical and effective risk control measures. The Company adhered to its principles in full coverage, balancing, prudence and conformity, and formulated comprehensive, systematic and standardized business and management systems for various business and management activities. In addition, it comprehensively used the system review mechanism, filing mechanism, abolition mechanism and evaluation mechanism to standardize system management. All levels and institutions of the Bank execute standardized and uniform business regulations and management process. At the same time, through the effective combination of internal control process, business operating system and management information system, the Bank monitored, warned about, and prevented hidden operational risks in a multi-dimensional, all-round and accurate manner. It continued to build an integrated internal control management system combining on-site inspection with off-site monitoring, effectively controlled various potential risks in the process of business development, and firmly upheld the bottom line of zero systematic risks.

Fourth, the Company was standardized and reasonable in the establishment of information transmission and communication channels. The Company established information reporting systems such as compliance reports, clarified the reporting responsibility mechanism, reporting path, reporting content, reporting frequency and reporting paradigm, ensured that branches, business departments, internal control management functions and other internal control personnel timely report the internal control results and potential risks in the operation and management work to the Board of Directors, management or relevant departments, and ensured that the decision makers could convey in a timely and effective manner all information on the strategies, policies, systems and relevant requirements to the employees so as to firmly establish a two-way information communication mechanism from two dimensions, namely top-down and down-top communication. Regarding external disclosure and information gathering, the Company also specified responsible departments, relevant processes and document circulation mechanisms to ensure compliance thereof and timely circulation of official documents.

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Fifth, the Company has continuously strengthened its multi-level, multi-dimensional and multi-channel internal supervision mechanism. The “two boards and one level” (i.e., Board of Directors, Board of Supervisors and top management) continuously and regularly analyzed, monitored and guided the internal control compliance management across the Bank, giving full play to the roles of leadership, decision-making, supervision and management. At the same time, all units of the Bank work together to ensure the independence, synergy and effectiveness of the supervision work. In view of the internal control defects found in internal supervision, the Company timely carried out rectification, improvement and upgrading, actively promoted the matching of supervision quality with the actual situation of risk prevention and control, comprehensively improved the quality and efficiency of internal control monitoring and promoted the effective operation of internal control mechanism.

(II) Internal Audit

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

During the Reporting Period, the internal audit department of the Company proactively complied with and implemented regulatory rules and the general requirements of the Bank’s Party Committee. Conforming to the internal audit requirements of the Board and the Audit Committee, with the identification and revelation of risks as the core and improvement of the Group’s operation and management and risk prevention and control capacity as the purpose, the Bank constantly promoted the professional and digital transformation of audit work, focused on key areas and institutions, paid attention to important links, centered on key minorities and put in place key tasks. In addition, the Bank promoted the construction of a centralized, unified, comprehensive, authoritative and efficient internal audit monitoring system to effectively perform the functions of internal audit in detecting and correcting mistakes and assisting operation and management, and strived to enhance the contribution of the value of internal audit to assist the Group in achieving the goal of comprehensive and high-quality development. The Board and senior management paid close attention to the audit discoveries and conversion of audit results, actively promoted problem rectification and process optimisation, as well as urged and promoted the effective performance of the audited parties to enhance risk prevention and control capacity and internal control quality.

XI. Prospects

Looking forward to the second half of the year, the current economic operation is facing new difficulties and challenges, mainly due to insufficient domestic demand, difficulties in the operation of certain enterprises, more hidden risks in key areas, and a complex and severe external environment. After a smooth turnaround in epidemic prevention and control, economic recovery has been a process of wave-like development and tortuous progress. China's economy has huge development resilience and potential, and the fundamentals of long-term improvement have not changed. According to the spirit of the conference of the Political Bureau of the CPC Central Committee, in terms of policy, the government will maintain a good use of policy, identify the performance direction and solidly promote high-quality economic development. Macroeconomic regulation will continue to be implemented precisely and forcefully, and counter-cyclical regulation and policy reserves will be further strengthened. The proactive fiscal policy and prudent monetary policy will be continuously pursued to extend, optimize, improve and implement the tax and fee reduction policy. The aggregate and structural monetary policies will also be brought into play to give strong support to scientific and technological innovation and development of the real economy and small and medium-sized enterprises. The government will maintain the basic stability of the RMB exchange rate at a reasonable equilibrium level, which will enliven the capital market and boost investor confidence.

In the second half of the year, as guided by President Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the Bank will comprehensively study and implement the gist of the 20th National Congress of the Communist Party of China and central, provincial and municipal economic work conference. Bearing in mind the three tasks of finance (i.e., serving the real economy, preventing and controlling financial risks, and furthering financial reform) and the business positioning of a city commercial bank (i.e., serving the real economy, serving small and medium-sized enterprises and serving local development), the Bank will adhere to the main theme of seeking progress while ensuring stability. In pursuit of high-quality development, the Bank will coordinate the reform, innovation and development with risk preventions and dealings to further improve the scale, quality and efficiency of operations and accelerate the process of entrepreneurship revitalization, so as to comprehensively promote high-quality development.

Changes in Share Capital and Information on Shareholders

I. Share Capital

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

II. Statement of Changes in Shares

Unit: Shares

	1 January 2023		Increase/decrease during the Reporting Period (+/-)					30 June 2023	
	Number	Percentage	Private placement	New shares issued	Bonus issued	Others	Subtotal	Number	Percentage
Domestic Shares									
1. Non-listed shares held by									
corporations	7,908,966,550	71.93%	-	-	-	-	-	7,908,966,550	71.93%
Including: (1) Shares held by									
state-owned									
enterprises	6,886,196,734	62.63%	-	-	-	-	-	6,886,196,734	62.63%
(2) Shares held									
by private									
enterprises	1,022,769,816	9.30%	-	-	-	-	-	1,022,769,816	9.30%
2. Non-listed shares held by									
natural persons	63,063,003	0.57%	-	-	-	-	-	63,063,003	0.57%
H Shares									
3. Overseas listed foreign shares	3,023,570,000	27.50%	-	-	-	-	-	3,023,570,000	27.50%
Total number of shares	10,995,599,553	100%	-	-	-	-	-	10,995,599,553	100%

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

Changes in Share Capital and Information on Shareholders

III. Shareholdings of Shareholders

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

Shareholdings of Top 10 Shareholders of the Company as at the end of the Reporting Period

Name of shareholder	Nature of shareholder	Number of shares held (shares)	Shareholding percentage (%) ²	Number of shares pledged or frozen	Type of shares
1 Harbin Economic Development and Investment Company Limited	State-owned	3,257,943,986	29.63%	–	Non overseas-listed shares
2 Heilongjiang Financial Holdings Group Co., Ltd.	State-owned	2,035,675,058	18.51%	–	Non overseas-listed shares
3 Fubon Life Insurance Company Limited	Foreign investment	725,712,000	6.60%	–	H Shares
4 Huaxia Life Insurance Co., Ltd.	Private enterprise	486,702,000	4.43%	–	H Shares
5 Harbin Heli Investment Holdings Co., Ltd. (哈爾濱合力投資控股有限公司)	State-owned	397,000,000	3.61%	–	Non overseas-listed shares
6 Finance Bureau of Daoli District, Harbin	State-owned	386,025,859	3.51%	–	Non overseas-listed shares
7 Finance Bureau of Nangang District, Harbin	State-owned	378,941,968	3.45%	–	Non overseas-listed shares
8 Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱高新技術產業開發區基礎設施開發建設有限公司) ¹	State-owned	301,315,846	2.74%	–	Non overseas-listed shares
9 CITIC Capital HB Investment, L.P.	Foreign investment	284,212,000	2.58%	–	H Shares
10 Beijing Xinrun Investment Co., Ltd. (北京新潤投資有限公司)	Private enterprise	255,418,587	2.32%	–	Non overseas-listed shares

Notes:

1. Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd., a shareholder of the Company, is 100% owned by the Asset Management Bureau of the Administrative Committee of Harbin High-tech Industrial Development Zone. It and Harbin Science and Technology Innovation Investment Co., Ltd. are related with each other. Harbin Science and Technology Innovation Investment Co., Ltd. held 96,220,000 shares of the Company, with aggregate shareholding of 397,535,846 shares, representing 3.62% of total shareholding.
2. The above shareholding percentage of non overseas-listed shares and H shares as at the end of the Reporting Period is calculated based on the total share capital of the Company, being 10,995,599,553 shares.

Changes in Share Capital and Information on Shareholders

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

As at 30 June 2023, according to the disclosure of interest information as shown on the website of the Hong Kong Stock Exchange, the interests or short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Bank) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Domestic Shares

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

Notes:

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

Changes in Share Capital and Information on Shareholders

2. Heilongjiang Financial Holdings directly holds 2,035,675,058 Domestic Shares of the Company and indirectly holds 4,300,000 and 616,718 Domestic Shares of the Company through its indirectly controlled corporation, namely Harbin Dazheng Microcredit Co., Ltd. (哈爾濱市大正小額貸款有限責任公司), and Heilongjiang Dazheng Investment Group Co., Ltd. (黑龍江省大正投資集團有限責任公司) respectively. According to the SFO, Heilongjiang Financial Holdings is deemed to be interested in a total of 2,040,591,776 Domestic Shares of the Company. In addition, Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province (黑龍江省財政廳). According to the SFO, the Department of Finance of Heilongjiang Province is also deemed to be interested in such 2,040,591,776 Domestic Shares. Heilongjiang Financial Holdings was established on 18 January 2019 with a registered capital of RMB11,111,585,000 and Yu Hong (于宏) being the legal representative. The business scope of Heilongjiang Financial Holdings is investment and asset management and capital investment services; non-public offering of securities investment funds; holding company services; and financial information services (business subject to approval by law shall be conducted upon approval by competent authorities).

H Shares

Name of shareholder	Capacity	Number of H shares held (long position)	Percentage of issued H share capital of the Company	Percentage of total issued share capital of the Company
Fubon Financial Holding Co., Ltd. ¹	Interest of controlled corporation	725,712,000	24.00%	6.60%
Huaxia Life Insurance Co., Ltd.	Beneficial owner	486,702,000	16.10%	4.43%
CITIC Capital Holdings Limited ²	Interest of controlled corporation	284,212,000	9.40%	2.58%

Notes:

1. Fubon Financial Holding Co., Ltd. held the interests in 725,712,000 H Shares of the Company through its 100% owned corporation, Fubon Life Insurance Co., Ltd. Fubon Life Insurance Co., Ltd. was established in March 2007 with a registered capital of TWD110,831,140,000 and Ming-Hsing (Richard) Tsai being the legal representative. The business scope of Fubon Life Insurance Co., Ltd. is provision of life insurance. Fubon Life Insurance Co., Ltd. held shares of CITIC Capital Holdings Limited and nominated director. Pursuant to PRC laws and regulations and as determined by the competent regulatory authorities, the two companies are therefore parties related to each other. Due to reasons including different requirements under the laws of Taiwan and Mainland China, Fubon Life Insurance Co., Ltd. is unable to issue a capital supplement undertaking to the Company. Therefore, Fubon Life Insurance Co., Ltd. has not obtained the approval on shareholder's qualification as at the date of this report.
2. CITIC Capital Holdings Limited held the interests in the relevant shares through a series of controlled corporations. Pursuant to the requirements of regulatory authorities, CITIC Capital HB Investment, L.P. (an indirect non-wholly subsidiary of CITIC Capital Holdings Limited) is applying for the approval on shareholder's qualification together with Fubon Life Insurance Co., Ltd., which has not been obtained as at the date of this report.

Save as disclosed above, to the knowledge of the Directors, none of other persons (excluding the Directors, Supervisors and the chief executive of the Bank) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2023.

Changes in Share Capital and Information on Shareholders

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

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

1. As at 30 June 2023, Harbin Economic Development, the largest shareholder of the Company, held 29.63% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100424004064C) issued by the Market Supervision and Administration Bureau of Harbin on 17 December 2019, and the Articles of Association of Harbin Economic Development and Investment Company Limited formulated on 27 November 2019, Harbin Economic Development is a validly subsisting economic entity with limited liability (sole proprietorship invested or controlled by non-natural person). Harbin Economic Development is owned as to 100% by Harbin Investment Group Corporation Limited, which in turn is owned as to 90% and 10% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission and the Heilongjiang Provincial People's Government State-owned Assets Supervision and Administration Commission respectively.
2. As at 30 June 2023, Heilongjiang Financial Holdings directly and indirectly held 18.56% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100MA1BF51Q38) issued by the Market Supervision and Administration Bureau of Harbin on 18 January 2019 and the Articles of Association of Heilongjiang Financial Holdings Group Co., Ltd., Heilongjiang Financial Holdings is a validly subsisting economic entity with limited liability (wholly state-owned). Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province.

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

As at 30 June 2023, no shares held by any shareholder with shareholding of 5% or more of the Company were pledged or judicially frozen.

VI. Controlling Shareholder and De Facto Controller

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

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

Please see "III. Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Company as at 30 June 2023.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Directors, Supervisors, Senior Management and Employees

Directors

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

Name	Gender	Age	Position	Term of office
Deng Xinquan	Male	58	Executive Director and Chairman of the Board	2021.3.10 - expiry of Eighth Session of the Board
Yao Chunhe	Male	45	Executive Director and President	2023.3.3 - expiry of Eighth Session of the Board
Zhao Hongbo	Male	54	Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Zhang Xianjun	Male	49	Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Yu Hong	Male	60	Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Lang Shufeng	Male	53	Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Sun Yan	Male	54	Independent Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Zhang Zheng	Male	51	Independent Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Hou Bojian	Male	64	Independent Non-Executive Director	2021.2.24 - expiry of Eighth Session of the Board
Jin Qinglu	Male	50	Independent Non-Executive Director	2021.3.25 - expiry of Eighth Session of the Board

Supervisors

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

Name	Gender	Age	Position	Term of office
Zhao Baocai	Male	55	Employee Representative Supervisor and Chairman of the Board of Supervisors	2023.3.13 - expiry of Eighth Session of the Board of Supervisors
Jiang Yongmei	Female	51	Employee Representative Supervisor	2023.3.13 - expiry of Eighth Session of the Board of Supervisors
Wang Yuanfang	Male	47	Employee Representative Supervisor	2022.10.10 - expiry of Eighth Session of the Board of Supervisors
Li Dong	Male	64	External Supervisor	2021.2.24 - expiry of Eighth Session of the Board of Supervisors
Li Zhaohua	Female	57	External Supervisor	2021.2.24 - expiry of Eighth Session of the Board of Supervisors
Sun Yi	Male	52	External Supervisor	2021.2.24 - expiry of Eighth Session of the Board of Supervisors
Chen Wei	Female	53	Shareholder Representative Supervisor	2023.8.28 - expiry of Eighth Session of the Board of Supervisors

Directors, Supervisors, Senior Management and Employees

Senior Management

As at the date of publication of this report, the senior management of the Company is comprised of:

Name	Gender	Age	Position	Term of office
Yao Chunhe	Male	45	President	2023.3.3 - expiry of Eighth Session of the Board
Han Gang	Male	50	Vice President	2023.3.31 - expiry of Eighth Session of the Board
Zhou Jie	Female	48	Assistant to the President	2021.2.24 - expiry of Eighth Session of the Board
Yang Dazhi	Male	46	Assistant to the President	2021.2.24 - expiry of Eighth Session of the Board
Wang Ying	Female	52	Chief Audit Officer	2021.2.24 - expiry of Eighth Session of the Board
Liang Yong	Male	51	Chief Information Officer	2021.2.24 - expiry of Eighth Session of the Board
Wu Siliang	Male	39	Board Secretary and Joint Company Secretary	2022.8.26 - expiry of Eighth Session of the Board
Fang Shang	Male	51	Assistant to the President	2022.12.15 - expiry of Eighth Session of the Board
Sun Weichao	Male	51	Assistant to the President	2022.12.15 - expiry of Eighth Session of the Board
Sun Shengxue	Male	40	Chief Risk Officer	2023.7.17 - expiry of Eighth Session of the Board
Wu Mingfei	Male	53	Chief Credit Approval Officer	2023.7.17 - expiry of Eighth Session of the Board

Changes in Directors, Supervisors and Senior Management

During the Reporting Period, the Proposal on the Appointment of Executive Director was considered and approved at the 2022 first extraordinary general meeting of the Company held on 1 August 2022, and Mr. Yao Chunhe was appointed as an executive Director of the Company. The qualification of Mr. Yao Chunhe as a Director has been approved by the Heilongjiang Office of the former CBIRC, with effect from 3 March 2023. The Proposal on the Appointment of the President was considered and approved at the 2022 fourth extraordinary meeting of the Board held by the Company on 8 July 2022. Mr. Yao Chunhe was appointed as the president of the Company and his qualification as the president has been approved by the Heilongjiang Office of the former CBIRC, with effect from 3 March 2023. On 13 March 2023, Mr. Wang Haibin resigned as the chairman and an employee supervisor of the Board of Supervisors of the Company and Mr. Luo Zhonglin resigned as an employee supervisor and a member of the nomination committee of the Board of Supervisors of the Company. On the same date, Mr. Zhao Baocai and Ms. Jiang Yongmei were appointed as employee supervisors at the sixteenth meeting of the fifth session of the employee representative of the Company, and Mr. Zhao Baocai was elected as the chairman of the Board of Supervisors at the 2023 second extraordinary meeting of the Board of Supervisors. On 28 August 2023, Ms. Chen Wei was elected as a shareholder representative supervisor at the 2023 first extraordinary general meeting of the Company. The Proposal on the Appointment of Mr. Han Gang as the Vice President of Harbin Bank Co., Ltd. was considered and approved at the 2023 third extraordinary meeting of the Board held by the Company on 24 February 2023. The qualification of Mr. Han Gang as the vice president has been approved by the Heilongjiang Office of the former CBIRC, with effect from 31 March 2023. Mr. Qi Yilei, the former chief credit approval officer and Mr. Gong Tiemin, the former chief risk officer, resigned from their positions on 23 May 2023. The Proposal on the Appointment of Mr. Sun Shengxue as the Chief Risk Officer of Harbin Bank Co., Ltd. and the Proposal on the Appointment of Mr. Wu Mingfei as the Chief Credit Approval Officer of Harbin Bank Co., Ltd. were considered and approved at the 2023 seventh extraordinary meeting of the Board held by the Company on 23 May 2023. Each of the qualification of Mr. Sun Shengxue as the chief risk officer and Mr. Wu Mingfei as the chief credit approval officer has been approved by the Heilongjiang Office of the former CBIRC, with effect from 17 July 2023.

Changes in Information of Directors, Supervisors, Chief Executive and Other Senior Management

Mr. Zhang Xianjun (張憲軍), has been a non-executive Director of the Company since November 2020. Mr. Zhang has served as a director of Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司) since August 2023; the chairman of the board of directors of Heilongjiang Suibao Thermolectric Co., Ltd. (黑龍江歲寶熱電有限公司) since June 2021; the vice chairman and general manager of Harbin Hatou Investment Co., Ltd. (stock code: 600864.SH) since January 2021; a shareholder of Ningbo Jinxiang Qianyi Investment Partnership (Limited Partnership) (寧波錦享謙溢投資合夥企業(有限合夥)) with 39.93% equity interests since March 2018; a director and the chairman of Harbin Hatou Hengtai Investment Management Co. Ltd. (哈爾濱哈投恒泰投資管理有限公司) since January 2018; a director of Harbin Hatou Investment Co., Ltd. (stock code: 600864.SH) since November 2016; a director of Jianghai Securities Co., Ltd. since December 2014; the vice chairman and a director of Harbin Junxin Financing Guarantee Co., Ltd. (stock code: 430558.NQ) since August 2014. Mr. Zhang served as an executive director and the general manager of Harbin Economic Development and Investment Company Limited from December 2019 to February 2023; the general manager of Harbin Economic Development and Investment Company Limited from October to December 2019; the authorised representative of Shenzhen Zhongrong Hatou Bail-out Investment Partnership (Limited Partnership) (深圳中融哈投紓困投資合夥企業(有限合夥)) from November 2019 to July 2023; a director of Heilongjiang Jinxin Financial Leasing Co., Ltd. (黑龍江金信融資租賃有限公司) from August 2015 to March 2022; a director of Zhongrong International Trust Co., Ltd. from December 2014 to June 2022; the deputy general manager of Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司) (stock code: 430558.NQ) from August 2014 to April 2022; the head of the financial asset management department of Harbin Investment Group Corporation Limited from July 2014 to January 2021; an officer of the long-term development planning division, secretary of the office, secretary of the Youth League Committee, the deputy general manager and officer (ministerial level) of Harbin Investment Group Corporation Limited from March 2004 to June 2014; and a technician, a staff member of the Youth League Committee and the general manager of the labor union of Harbin Cement Factory (哈爾濱水泥廠) from August 1995 to March 2004. Mr. Zhang received a Master's degree in Business Administration from Harbin Engineering University in June 2009, and is currently a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Mr. Yu Hong (于宏), has been a non-executive Director of the Company since November 2020. Mr. Yu retired from Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) in July 2023. Mr. Yu has served a director of Longjiang Bank Corporation since October 2019. Mr. Yu served as the secretary of the Party Committee and chairman of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) from January 2019 to July 2023; the deputy inspector, deputy director general and a member of the Party Committee of the Department of Finance of Heilongjiang Province from January 2011 to January 2019; the associate chief officer, chief officer and deputy head of the agriculture division and the head of the treasury division and concurrently the general manager of the financial treasury payment center of the Department of Finance of Heilongjiang Province from June 1990 to January 2011; and an officer and associate chief officer of the Aquatic Products Bureau of Heilongjiang Province from September 1983 to June 1990. Mr. Yu graduated from the Party School of Heilongjiang Province majoring in economic management in February 1992.

Directors, Supervisors, Senior Management and Employees

Mr. Lang Shufeng (郎樹峰), has been a non-executive Director of the Company since November 2020. Mr. Lang has served as the secretary of the Party Committee and chairman of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) since July 2023; a director of Harbin Institute of Technology Artificial Intelligence Research Co. Ltd. (哈爾濱工業大學人工智能研究院有限公司) since December 2020; an executive director and general manager of Heilongjiang Credit Corporation (黑龍江省徵信有限責任公司) since January 2023. Mr. Lang served as the deputy secretary of the Party Committee and the general manager of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) from June 2019 to July 2023; the deputy secretary of the Party Committee, president, the secretary of the Party Committee and the chairman of Heilongjiang Xinzheng Investment Guarantee Group Co., Ltd. (黑龍江省鑫正投資擔保集團有限公司) from October 2010 to December 2019; the assistant to the general manager, executive deputy general manager and general manager of Heilongjiang Xinzheng Investment Guarantee Co., Ltd. (黑龍江省鑫正投資擔保有限責任公司) from October 2000 to October 2010; the manager of the investment department and the manager of the corporate management department of Heilongjiang Economic and Trade Development Group Corporation (黑龍江省經濟貿易開發集團總公司) from July 1996 to October 2000; the manager (temporary post) of a Sino-US joint venture Wudalianchi Wuhuan Mineral Water Company (五大連池五環礦泉水公司) from June 1995 to July 1996; and an officer of Heilongjiang Economic Development Company (黑龍江省經濟開發公司) from July 1993 to June 1995. Mr. Lang received an EMBA degree from Harbin Institute of Technology in April 2005, and is currently a senior accountant (researcher-level) as accredited by the Heilongjiang Human Resources and Social Security Bureau.

Ms. Chen Wei (陳巍), has been a shareholder representative supervisor of the Company since August 2023. Ms. Chen has served as the financial controller of Harbin New Area New Material Development Co., Ltd. (哈爾濱新區新材料發展有限公司) and Harbin Songjiang Auto Leasing Co., Ltd. (哈爾濱松江汽車租賃有限公司) since March 2023; the financial controller of Harbin New Area Internet of Things Co., Ltd. (哈爾濱新區物聯網有限公司) since August 2022; a supervisor of Harbin New Area Financial Park Management Co., Ltd. (哈爾濱新區金融園管理有限公司) since September 2020; the chairman of the labor union of Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱高新技術產業開發區基礎設施開發建設有限公司) since August 2019, the director of the finance department of Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. since October 2017; a supervisor of Harbin Xingyi Memory Technology Co., Ltd. (哈爾濱星憶存儲科技有限公司) since February 2017. Ms. Chen served as the accountant, deputy director of the finance department, director of investment and financing department and assistant to the general manager of Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. from November 2009 to August 2019, an accountant of Harbin Development Zone Heli Infrastructure Development Co., Ltd. (哈爾濱開發區合力基礎設施發展有限公司) from March 2002 to November 2009, an accountant of Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. from December 2001 to March 2002, an accountant of Harbin High-tech Soybean Food Co., Ltd. (哈高科大豆食品有限責任公司) from October 1998 to December 2001, an accountant of Harbin Chemical Construction Corporation (哈爾濱市化工建設總公司) from October 1991 to October 1998. Ms. Chen received a college degree from Harbin Cadre College of Economic Management in July 1996, and is currently a senior accountant as accredited by Heilongjiang Human Resources and Social Security Bureau (formerly known as the Personnel Department of Heilongjiang Province).

Directors, Supervisors, Senior Management and Employees

Mr. Han Gang (韓剛), has been the vice president of the Company since March 2023. Mr. Han has served as a member of the Party Committee of the Company and the secretary of the Party Committee of Harbin Branch since March 2021 and the president of Harbin Branch of the Company since October 2021. Mr. Han served as a deputy secretary to the discipline committee of the Company from January 2017 to February 2023; the deputy director and director of the discipline inspection supervisory office, the general manager of the security department, as well as the general manager of the monitoring and command center of the Company from February 2010 to January 2018; the vice general manager of the Human Resources Department, the vice general manager of the Security Department, the vice general manager (in charge of work) of the Security Department and the deputy director of the discipline inspection supervisory office the Company from July 2006 to February 2010; the assistant to the general manager of the Human Resources Department of the Company from June 2004 to July 2006; a clerk and assistant of the Personnel and Education Department of Harbin Commercial Bank Co., Ltd. from March 1999 to June 2004; a clerk of Daqing Road Sub-branch of Harbin Commercial Bank Co., Ltd. from February 1997 to March 1999; a clerk of business department of the practicing bank of Heilongjiang Banking School, a clerk of credit department of the Daqing Road Urban Credit Union of Harbin from December 1993 to February 1997. Mr. Han received a Master's degree in Software Engineering from the School of Software of East China Normal University in June 2012.

Mr. Sun Shengxue (孫升學), has been the chief risk officer of the Company since July 2023. Mr. Sun served as the standing vice president of the Debt Management Headquarter of the Company from February 2023 to July 2023; the standing president of the Debt Management Department of the Company from March 2022 to February 2023; the general manager of the Micro Finance Department (Research Center of Microcredit) and the general manager of the Mobile Finance Department of the Company from January 2020 to March 2022; the vice general manager (in charge of work) of the Mobile Finance Department of the Company from January 2018 to January 2020; the senior manager and apprentice assistant of the Credit Card Center of the Company from August 2015 to January 2018; the deputy position of Nanjing Branch Center and the responsible person of Changzhou Branch Center of the Credit Card Center of China Minsheng Bank successively from June 2013 to August 2015; a credit assessor of the Credit Assessment Department and the manager of the Credit Assessment Office of the Credit Card Center of China Minsheng Bank successively from July 2006 to June 2013. Mr. Sun received a Master's degree in Business Administration from Renmin University of China in July 2018 and currently is an advanced information systems project manager accredited by the Ministry of Human Resources and Social Security and the Ministry of Industry and Information Technology of the PRC.

Directors, Supervisors, Senior Management and Employees

Mr. Wu Mingfei (吳明飛), has been the chief credit approval officer of the Company since July 2023. Mr. Wu has served as the general manager of the Credit Granting Approval Department of the Company since February 2023. Mr. Wu served as the general manager of the Credit Granting Management Department of the Company from March 2022 to February 2023; the secretary of the Party Committee and the president of Daqing Branch of the Company from April 2019 to March 2022; the secretary of the Party Committee and the president of Suihua Branch of the Company from August 2015 to April 2019; the deputy general manager (in charge of work) of the Finance Market Department and the general manager of the Cross-border E-commerce Financial Platform from February 2012 to August 2015; the president of the Dazhi Sub-branch (governing sub-branch) of Harbin Management Department of the Company from February 2010 to February 2012; the vice president of the Dazhi Sub-branch (governing sub-branch), the vice president (in charge of work) of the Daoli Sub-branch (governing sub-branch), the president of the Daoli Sub-branch (governing sub-branch) of the Company successively from August 2002 to February 2010; an associate chief officer, an assistant to general manager and the deputy general manager of the Planning and Financial Department of the Company successively from February 2000 to August 2002; the manager of the Credit Department of the Company from May 1996 to February 2000; a teacher of the Heilongjiang Communist Party Cadre School of Agricultural Bank of China from July 1992 to May 1996. Mr. Wu received a Master's degree in Business Administration from Harbin Engineering University in December 2011 and currently is an senior economist accredited by the Heilongjiang Human Resources and Social Security Bureau.

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

Securities Transactions by Directors and Supervisors

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

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

Save as disclosed below, to the knowledge of the Company, as at 30 June 2023, the Directors, Supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the SFO of Hong Kong) which were required to be registered in the register pursuant to section 352 of the SFO of Hong Kong or to be disclosed to the Company and the Hong Kong Stock Exchange as provided by the Model Code:

Name	Position	Nature of interest	Class of shares	Number of shares held (long positions)	Percentage of issued domestic share capital of the Company (%)	Percentage of total issued share capital of the Company (%)
Deng Xinquan	Executive Director	Beneficial owner	Domestic Shares	1,205	0.00002	0.00001

During the Reporting Period, the Company did not grant any right to subscribe for shares or debentures of the Company or any associated corporations to its Directors, Supervisors and president (including their spouses or children under the age of 18).

Employees

(I) Personnel Composition

As at 30 June 2023, the Company had 7,007 employees, among which 1,306 were headquarters staff, accounting for 18.64% of the total, and 2,338 were Harbin Branch staff, accounting for 33.37% of the total. Regarding the age composition, the average age of employees of the Company was 37.43 years old. 964 were 30 years old and below, accounting for 13.76% of the total. Regarding the educational background composition, there were 6,430 employees of the Company holding a bachelor's degree or above, accounting for 91.77% of the total. Regarding the number of years of services, the Company had 4,746 employees with 10 years or more banking experiences, accounting for 67.73% of the total. Staff turnover rate of the Company was 1.46%. Key talents' turnover rate was 0.50%.

As at 30 June 2023, the subsidiaries of the Company had 1,624 employees in total.

(II) Staff Training Programmes

During the Reporting Period, the Bank focused on the training needs of staff from different levels with respect to job competency and core competency improvement, with particular emphasis on the whole process of professional development of talents. It organized and implemented three talent revitalization programs of “newcomer cultivation, growth ladder and top-notch talents” with a focus on strengthening the building of talent team and continuing to empower talent growth. We created the “embark, endure, guide, escort, voyage, cruise, pilot” (啟航、續航、導航、護航、遠航、巡航、領航) training system with online and offline integration for the continued creation of excellent training programs. Both training completion rate and coverage rate in the first half of the year were 100%. In the first half of 2023, the Company arranged 281 training sessions in total, including 246 internal training sessions, and 35 external training sessions for selected staff of the Company. The total training hours amounted to 1,589.

(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 plans for each staff by breaking down its strategic objectives layer by layer, and carries out the mechanism of review every half year. Apart from the performance review on business, the Bank has also adopted multi-dimensional measurement to evaluate employee performance and a forced distribution method for the performance review results which ensures truthful staff performance evaluation. 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 its development needs based on scientific performance review results: firstly, the Bank has optimised the performance coefficient in annual bonus and further increased the weight of performance review results on annual bonus to establish a mechanism of “high bonus for high performance, low bonus for low performance”; secondly, the Bank adopted a points system for the performance review results to convert employees' annual performance review results into points, which may be redeemed for rank or salary promotion qualifications, ensuring the “fairness, openness, transparency” in the rank and salary promotion system; and thirdly, the enterprise annuity scheme has been launched and operated to further expand the remuneration and welfare system of the Bank and better guarantee the life of employees after retirement.

Directors, Supervisors, Senior Management and Employees

(IV) Remuneration Policy for Employees

The Bank has successfully established a broadband salary management system with diversified composition, standardised management and systematic implementation and adopted a market-oriented and region-diversified management scheme in order to scientifically and effectively motivate the Bank's employees and ensure the smooth implementation of the Bank's strategic development. The Bank's remuneration package is composed of fixed remuneration, variable remuneration and welfare income, and 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 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. Meanwhile, the Bank will pursue and deduct the performance remuneration of the senior management and key staff who have been exposed to risks within the scope of their duties due to obvious negligence or failure to fulfill their prudent management obligations.

(V) Retirement and Benefits

The Bank pays living expenses and other welfare benefits for employees who have not yet reached the statutory retirement age limit but are approved by the Bank to voluntarily retire from their employment from the internal retirement date to the statutory retirement age limit. For details of the retirement benefit scheme, please refer to Note 30 of "Notes to the Consolidated Financial Statements". Save as disclosed in Note 30 of "Notes to the Consolidated Financial Statements" in the interim report, there was no forfeiture of retirement benefits schemes contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) in the Group. As at 30 June 2023, no forfeited contribution under the retirement benefits schemes of the Group is available to reduce the contribution payable in future years.

I. Corporate Governance

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

During the Reporting Period, the Bank strictly complied with relevant overseas listing regulatory requirements, and strived to improve the Bank's corporate governance mechanism, as well as enhance and improve the Bank's corporate governance. The Bank has adopted the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, has met the relevant requirements of the PRC commercial bank administrative measures and corporate governance and has established a sound corporate governance system. Currently, the primary corporate governance documents of the Company include: the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Rules of Procedure for the Board of Directors' Meetings, the Rules of Procedure for the Board of Supervisors' Meetings, the Working Rules for the Independent Directors, the Terms of Reference of the Development Strategy Committee of the Board, the Terms of Reference of the Risk Management and Related Transactions Control Committee of the Board, the Terms of Reference of the Audit Committee of the Board, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board, the Terms of Reference of the Consumer Rights Protection Committee of the Board, the Terms of Reference of the President, the Administrative Measures for Related Party Transactions, the Information Disclosure Administrative Measures, etc. The Board believes that during the Reporting Period, the Bank had complied with the requirements of the code provisions set out in Part 2 of the Corporate Governance Code in Part 2 of Appendix 14 to the Hong Kong Listing Rules.

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

During the Reporting Period, the Bank did not issue any new bonds.

(II) Previous Financial Bonds Issuance

1. *2021 capital bonds without a fixed term*

According to the resolutions of the 22nd meeting of the sixth session of the Board of the Company held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB15.0 Billion Capital Supplemental Bonds, pursuant to which the Company was approved to issue capital supplemental bonds by way of public or non-public issuance to onshore or offshore investors, and the capital supplemental bonds not exceeding RMB15.0 billion (inclusive) shall, upon approval by regulatory authorities, be issued in a single or multiple series in accordance with the relevant procedures. The actual issuance size of the capital supplemental bonds is to be determined by the Board or its designated person within the abovementioned scope, in accordance with the capital needs of the Company and the market condition at the time of the issuance. The capital supplemental bonds are to be issued at the par value. All target subscribers shall subscribe for the capital supplemental bonds in cash. The initial term of the capital supplemental bonds shall not be less than 5 years. There will be no fixed expiration date prior to the exercise of redemption right by the Company. Interests on the capital supplemental bonds shall be paid in cash. The interest-bearing principal amount of the capital supplemental bonds shall be the aggregate

Important Events

amount of the relevant series of the capital bonds without a fixed term then issued and outstanding. After receiving the interests at the prescribed interest rate, the holders of the capital supplemental bonds shall not be entitled to any distribution of residual profits of the Company together with the ordinary shareholders. Relevant matters in respect of the proposed issuance of the capital supplemental bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 of the Company. The Bank received the Approval of Heilongjiang Office of the CBIRC for Harbin Bank to Issue the Capital Bonds Without a Fixed Term (Hei Yin Bao Jian Fu [2021] No. 44) on 5 February 2021 and the Administrative Approval Decision of the People's Bank of China (Banking Market Licence [2021] No. 92) issued by the PBOC on 7 June 2021, approving the Bank's issuance of capital bonds without a fixed term in an amount not more than RMB15.0 billion, which shall be included in other tier 1 capital according to relevant regulations.

The Capital Bonds Without a Fixed Term of Harbin Bank Co., Ltd. in 2021 has an issuance size of RMB8.0 billion. The coupon rate of the bonds for the first five years is 4.8%, and is subject to adjustment every five years. The issuer's conditional redemption right is attached to the bonds which can be exercised on the annual interest payment date of the fifth year and the subsequent years. The proceeds raised from the issuance of bonds, after deducting the issuance costs, have all been used to replenish the Company's other tier 1 capital.

The second tranche of Capital Bonds Without a Fixed Term of Harbin Bank Co., Ltd. in 2021 has an issuance size of RMB3.0 billion. The coupon rate of the bonds for the first five years is 5.0%, and is subject to adjustment every five years. The issuer's conditional redemption right is attached to the bonds which can be exercised on the annual interest payment date of the fifth year and the subsequent years. The proceeds raised from the issuance of bonds, after deducting the issuance costs, have all been used to replenish the Company's other tier 1 capital.

The Company has successfully issued the Capital Bonds Without a Fixed Term of Harbin Bank Co., Ltd. in 2022 with an issuance size of RMB0.7 billion. The coupon rate of the bonds for the first five years is 4.8%, and is subject to adjustment every five years. The issuer's conditional redemption right is attached to the bonds which can be exercised on the annual interest payment date of the fifth year and the subsequent years. The proceeds raised from the issuance of bonds, after deducting the issuance costs, have all been used to replenish the Company's other tier 1 capital.

III. Significant Connected Transaction

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

IV. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the amount involved in significant outstanding legal proceedings against the Bank (as a defendant or a third party defendant) amounted to RMB151.4 million. In the opinion of the Bank, such legal proceedings would not have any material impact on the Bank's operating activities. Save for the above, during the Reporting Period, there were no other material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

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

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

VI. Material Contracts and Their Performance

As at the end of the Reporting Period, the Bank did not enter into material contracts or perform such contracts.

VII. Review of Interim Report

The Company's 2023 unaudited interim consolidated financial statements prepared in accordance with International Financial Reporting Standards had been reviewed by BDO Limited, who had issued an unqualified review report.

The Company's 2023 interim results, 2023 interim report and 2023 unaudited interim consolidated financial statements had been reviewed by the Audit Committee of the Board and the Board of the Company.

VIII. Implementation of Share Scheme during the Reporting Period

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

Important Events

IX. Appointment and Dismissal of Auditors

The appointment of BDO China Shu Lun Pan CPAs LLP and BDO Limited as the respective domestic and overseas auditors of the Company for the year 2023 was considered and approved at the 2022 annual general meeting of the Company held on 19 May 2023.

X. Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Company had no material acquisition and disposal of subsidiaries, associates and joint ventures.

XI. Significant Investments Held

During the Reporting Period, the Company had not held any significant investments.

XII. Profit Distribution during the Reporting Period

The Proposal on the 2022 Profit Distribution Plan was considered and approved at the 2022 annual general meeting held on 19 May 2023, pursuant to which, the Company would not distribute cash dividends to all shareholders. The Company has not distributed and does not propose to distribute any interim dividend for the six months ended 30 June 2023.

XIII. Pledge of Assets

For the details of the Group's pledge of assets, please refer to "Commitments and Contingent Liabilities" in note 39 to financial statements of this report.

XIV. Significant Subsequent Events

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

Financial Statements

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

Report on Review of Interim Financial Information



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TO THE BOARD OF DIRECTORS OF HARBIN BANK CO., LTD.

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

Introduction

We have reviewed the interim financial information set out on pages 98 to 195, which comprise the condensed consolidated statement of financial position of Harbin Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2023 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate no. P05443

Hong Kong, 28 August 2023

Condensed Consolidated Statement of Profit or Loss

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2023	2022
		Unaudited	Unaudited
Interest income	4	14,343,371	13,702,392
Interest expense	4	(9,922,292)	(8,383,808)
Net interest income	4	4,421,079	5,318,584
Fee and commission income	5	441,322	436,646
Fee and commission expense	5	(85,063)	(60,789)
Net fee and commission income	5	356,259	375,857
Net trading income	6	1,622,436	774,791
Net gain on financial investments	7	165,638	309,187
Other operating income, net	8	89,643	214,777
Operating income		6,655,055	6,993,196
Operating expenses	9	(2,269,277)	(2,167,671)
Credit impairment losses	10	(3,885,898)	(3,876,280)
Operating profit		499,880	949,245
Profit before tax		499,880	949,245
Income tax credit/(expense)	11	200,476	(361,199)
Profit for the period		700,356	588,046
Attributable to:			
Equity holders of the Bank		588,654	494,622
Non-controlling interests		111,702	93,424
		700,356	588,046
Earnings per share (RMB yuan)			
Basic and diluted	13	0.02	0.01

Details of the dividends declared and paid or proposed are disclosed in note 12 to these financial statements.

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

Condensed Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2023	2022
		Unaudited	Unaudited
Profit for the period		700,356	588,046
Other comprehensive income/(expense) (after tax, net):			
Other comprehensive income/(expense) attributable			
to equity holders of the Bank	34	323,004	(151,255)
Item that will not be reclassified to profit or loss			
– Net gain/(losses) on investments in equity instruments			
designated at fair value through other comprehensive income		3,000	(9,884)
Items that may be reclassified subsequently to profit or loss			
– Net gain/(losses) on investments in debt instruments			
measured at fair value through other comprehensive income		390,299	(158,416)
– Allowance for credit impairment on investments in debt			
instruments measured at fair value through other			
comprehensive income		(70,295)	17,045
Subtotal of other comprehensive income/(expense) for the period, net of tax		323,004	(151,255)
Total comprehensive income for the period		1,023,360	436,791
Total comprehensive income attributable to:			
Equity holders of the Bank		911,658	343,367
Non-controlling interests		111,702	93,424
Total		1,023,360	436,791

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

	Notes	As at 30 June 2023	As at 31 December 2022
		Unaudited	Audited
Assets			
Cash and balances with the central bank	14	97,642,590	76,775,514
Due from banks and other financial institutions	15	26,225,389	25,852,261
Reverse repurchase agreements	16	992,349	1,000,750
Loans and advances to customers	17	294,258,525	271,784,821
Derivative financial assets	18	871,563	936,460
Financial investments	19	323,841,151	291,827,712
– financial assets at fair value through profit or loss	(a)	96,670,842	82,704,525
– financial assets at fair value through other comprehensive income	(b)	69,490,405	59,887,843
– financial assets at amortised cost	(c)	157,679,904	149,235,344
Finance lease receivables	20	21,515,986	20,816,866
Property and equipment	21	8,293,363	8,504,885
Deferred income tax assets	22	5,355,309	4,833,581
Other assets	23	8,224,049	10,400,204
Total assets		787,220,274	712,733,054
Liabilities			
Due to the central bank	24	1,402,424	2,968,794
Borrowings from banks and other financial institutions	25	20,557,287	14,405,435
Due to banks and other financial institutions	26	21,702,572	27,003,082
Derivative financial liabilities	18	1,022,654	1,023,142
Repurchase agreements	27	700,000	3,253,201
Due to customers	28	650,202,802	565,587,196
Income tax payable		357,559	390,694
Debt securities issued	29	20,636,723	28,569,900
Other liabilities	30	6,688,841	6,210,983
Total liabilities		723,270,862	649,412,427
Equity			
Share capital	31	10,995,600	10,995,600
Other equity instruments	32	11,699,007	11,699,007
Capital reserve	33	7,657,284	7,657,284
Other comprehensive income	34	370,961	50,810
Surplus reserves	35	3,920,073	3,920,073
General and regulatory reserves	36	8,221,288	7,880,595
Undistributed profits	37	18,837,944	18,971,130
Equity attributable to equity holders of the Bank		61,702,157	61,174,499
Non-controlling interests		2,247,255	2,146,128
Total equity		63,949,412	63,320,627
Total equity and liabilities		787,220,274	712,733,054

DENG Xinquan

Chairman

YAO Chunhe

President

YANG Dazhi

Assistant to the President
(in Charge of Finance)

Dong Kai

General Manager of Finance
and Accounting Department

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

Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

		Unaudited								
		Equity attributable to equity holders of the Bank								
		Other equity instruments		Other		General and		Non-		Total
Notes		Share capital	Perpetual bonds	Capital reserve	comprehensive income	Surplus reserves	regulatory reserves	Undistributed profits	controlling interests	
	Balance at 1 January 2023	10,995,600	11,699,007	7,657,284	50,810	3,920,073	7,880,595	18,971,130	2,146,128	63,320,627
	Movements in this period	-	-	-	320,151	-	340,693	(133,186)	101,127	628,785
	Total comprehensive income	34	-	-	323,004	-	-	588,654	111,702	1,023,360
	Profit distribution	-	-	-	-	-	340,693	(340,693)	(10,575)	(10,575)
	1. Appropriation to general and regulatory reserves	36	-	-	-	-	340,693	(340,693)	-	-
	2. Distribution to shareholders	-	-	-	-	-	-	-	(10,575)	(10,575)
	Distribution of interests of perpetual bonds	-	-	-	-	-	-	(384,000)	-	(384,000)
	Transfer of loss on disposal of financial asset at fair value through other comprehensive income to retained earnings	-	-	-	(2,853)	-	-	2,853	-	-
	Balance at 30 June 2023	10,995,600	11,699,007	7,657,284	370,961	3,920,073	8,221,288	18,837,944	2,247,255	63,949,412

		Unaudited								
		Equity attributable to equity holders of the Bank								
		Other equity instruments		Other		General and		Non-		Total
Notes		Share capital	Perpetual bonds	Capital reserve	comprehensive income	Surplus reserves	regulatory reserves	Undistributed profits	controlling interests	
	Balance at 1 January 2022	10,995,600	10,999,290	7,661,124	378,929	3,903,227	7,584,624	19,271,378	1,985,660	62,779,832
	Movements in this period	-	-	-	(143,055)	-	290,672	(188,250)	93,424	52,791
	Total comprehensive income	34	-	-	(151,255)	-	-	494,622	93,424	436,791
	Profit distribution	-	-	-	-	-	290,672	(290,672)	-	-
	1. Appropriation to general and regulatory reserves	36	-	-	-	-	290,672	(290,672)	-	-
	Distribution of interests of perpetual bonds	-	-	-	-	-	-	(384,000)	-	(384,000)
	Transfer of loss on disposal of financial asset at fair value through other comprehensive income to retained earnings	-	-	-	8,200	-	-	(8,200)	-	-
	Balance at 30 June 2022	10,995,600	10,999,290	7,661,124	235,874	3,903,227	7,875,296	19,083,128	2,079,084	62,832,623

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 2023

(Amount in thousands of RMB, unless otherwise stated)

Audited										
Equity attributable to equity holders of the Bank										
		Other equity instruments								
	Note	Share capital	Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance at 1 January 2022		10,995,600	10,999,290	7,661,124	378,929	3,903,227	7,584,624	19,271,378	1,985,660	62,779,832
Movements in this year		-	699,717	(3,840)	(328,119)	16,846	295,971	(300,248)	160,468	540,795
Total comprehensive income	34	-	-	-	(336,319)	-	-	554,769	157,728	376,178
Issuance of perpetual bonds		-	699,717	-	-	-	-	-	-	699,717
Capital contribution by non-controlling interests		-	-	(3,840)	-	-	-	-	3,840	-
Profit distribution		-	-	-	-	16,846	295,971	(312,817)	(1,100)	(1,100)
1. Appropriation to surplus reserves	35	-	-	-	-	16,846	-	(16,846)	-	-
2. Appropriation to general and regulatory reserves	36	-	-	-	-	-	295,971	(295,971)	-	-
3. Distribution to shareholders		-	-	-	-	-	-	-	(1,100)	(1,100)
Distribution of interests of perpetual bonds		-	-	-	-	-	-	(534,000)	-	(534,000)
Transfer of loss on disposal of financial asset at fair value through other comprehensive income to retained earnings		-	-	-	8,200	-	-	(8,200)	-	-
Balance at 31 December 2022		10,995,600	11,699,007	7,657,284	50,810	3,920,073	7,880,595	18,971,130	2,146,128	63,320,627

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 2023
(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2023	2022
		Unaudited	Unaudited
Cash flows from operating activities			
Profit before tax		499,880	949,245
Adjustments for:			
Depreciation and amortisation	9	391,298	394,654
Net trading gains	6	(1,622,436)	(774,791)
Dividend income	7	(23,178)	(2,215)
Interest income on financial investments	4	(4,414,821)	(3,639,188)
Credit impairment losses	10	3,885,898	3,876,280
Unrealised foreign exchange losses		(36,812)	(171,462)
Interest expense on issuance of bonds	4	352,385	447,089
Interest expense on lease liabilities	4	10,559	11,842
Accrued interest on impaired loans	4	(276,232)	(284,168)
Net gain on disposal of financial investments	7	(142,460)	(306,972)
Net gain on disposal of property and equipment	8	(1,082)	(128)
		(1,377,001)	500,186
Net (increase)/decrease in operating assets:			
Due from the central bank		(5,413,724)	1,092,917
Due from banks and other financial institutions		(7,825,000)	(2,377,674)
Loans and advances to customers		(24,296,831)	5,284,396
Finance lease receivables		(600,981)	(408,643)
Other assets		1,635,782	(718,788)
		(36,500,754)	2,872,208
Net increase/(decrease) in operating liabilities:			
Due to the central bank		(1,564,975)	802,738
Borrowings from banks and other financial institutions		6,115,548	1,304,891
Due to banks and other financial institutions		(5,253,268)	697,421
Repurchase agreements		(2,550,000)	(8,527,110)
Due to customers		80,784,165	8,994,501
Other liabilities		3,217,263	565,745
		80,748,733	3,838,186
Net cash flows from operating activities before tax		42,870,978	7,210,580
Income tax paid		(416,166)	(639,764)
Net cash flows from operating activities		42,454,812	6,570,816

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 2023

(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2023	2022
		Unaudited	Unaudited
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		(47,135)	(141,131)
Proceeds from disposal of property and equipment		1,194	13,678
Cash paid for investments		(312,921,767)	(200,641,786)
Proceeds from sale and redemption of investments		281,619,937	183,471,654
Return on investments		5,545,752	4,007,220
Net cash flows used in investing activities		(25,802,019)	(13,290,365)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Proceeds from issue of other debt securities		24,824,438	24,117,682
Payment for redemption of debt securities		(33,110,000)	(11,224,481)
Interest and issue expenses paid on debt securities		(384,000)	(430,328)
Payment for lease liabilities		(101,567)	(60,302)
Dividends paid on ordinary shares		(10,575)	–
Net cash flows (used in)/from financing activities		(8,781,704)	12,402,571
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the period		57,460,581	32,008,169
Effect of exchange rate changes on cash and cash equivalents		(16,502)	33,467
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	38	65,315,168	37,724,658
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		10,689,305	12,551,516
Interest paid		(5,743,441)	(9,628,756)

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 2023
(Amount in thousands of RMB, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE

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

The Bank obtained its finance permit No. B0306H223010001 from the National Administration of Financial Regulation (formerly known as China Banking and Insurance Regulatory Commission). The Bank obtained its business licence No. 912301001275921118 from the Market Supervision Administration of Harbin. As at 30 June 2023, the legal representative is Deng Xinquan and the registered office is located at No. 888 Shangjiang Street, Daoli District, Harbin, PRC.

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

The subsidiaries of the Bank as at 30 June 2023 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
			%		
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30,000	100.00	30,000	Village and township bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200,000	85.00	207,600	Village and township bank
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30,000	100.00	30,000	Village and township bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	220,000	70.00	140,000	Village and township bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	180,000	83.33	174,420	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	270,000	99.63	269,000	Village and township bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	269,000	100.00	269,000	Village and township bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	Luoyang, Henan	90,000	100.00	90,000	Village and township bank

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE (Continued)

The subsidiaries of the Bank as at 30 June 2023 are as follows: (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
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	294,000	100.00	294,000	Village and township bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	106,000	80.00	80,000	Village and township bank
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30,000	100.00	30,000	Village and township bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	33,300	90.09	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	60,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	142,000	100.00	132,000	Village and township bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50,000	100.00	50,000	Village and township bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30,000	96.67	29,000	Village and township bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100,000	80.00	80,000	Village and township bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50,000	100.00	50,000	Village and township bank
Chongqing Youyang Village and Township Bank Co., Ltd.	Youyang, Chongqing	60,000	100.00	60,000	Village and township bank
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, 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 2023
(Amount in thousands of RMB, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE *(Continued)*

The subsidiaries of the Bank as at 30 June 2023 are as follows: *(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
			%		
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50,000	80.00	40,000	Village and township bank
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50,000	90.00	45,000	Village and township bank
Tianshui Maji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50,000	98.00	49,000	Village and township bank
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Zhongjiang, Sichuan	50,000	70.00	35,000	Village and township bank
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	Chengdu, Sichuan	100,000	70.00	70,000	Village and township bank
Langzhong Rongxing Village and Township Bank Co., Ltd.	Langzhong, Sichuan	50,000	90.00	45,000	Village and township bank
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000,000	80.00	1,600,000	Leasing company
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	1,500,000	53.00	795,000	Consumer finance company

During the six-month period ended 30 June 2023, the major changes to the structure of the Group are as follows:

With the approval of the 2021 Annual General Meeting, wholly owned subsidiaries of Bayan Rongxing Village and Township Bank Co., Ltd. (“Bayan Village Bank”) and Yanshou Rongxing Village and Township Bank Co., Ltd. (“Yanshou Village Bank”) were merged by the Bank and converted into its branches at their original locations.

Other than the major changes mentioned as above, the Group’s structure remained unchanged during the six-month period ended 30 June 2023.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(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 2023 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 2022.

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 2022.

2.1 Standards and amendments effective in 2023

On 1 January 2023, the Group adopted the following new standards and amendments.

IFRS 17 and related amendments	Insurance contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Related Assets and Liabilities arising from Single Transaction

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

2.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2023

Standards	Subject of amendment	Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	1 January 2024

The above standard, amendments and interpretations have no significant impact on the condensed consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2022.

4. NET INTEREST INCOME

	For the six-month period ended 30 June	
	2023	2022
Interest income on:		
Loans and advances to customers	8,210,748	8,690,213
– Corporate loans and advances	4,157,630	4,326,229
– Personal loans	3,960,073	4,363,831
– Discounted bills	93,045	153
Reverse repurchase agreements	356,685	157,941
Financial assets at fair value through other comprehensive income	968,641	778,128
Financial assets at amortised cost	3,446,180	2,861,060
Due from the central bank	357,217	312,537
Due from banks and other financial institutions	410,916	132,351
Finance lease receivables	592,984	770,162
Subtotal	14,343,371	13,702,392
Interest expense on:		
Due to customers	(8,803,590)	(7,026,798)
Repurchase agreements	(6,733)	(116,324)
Due to banks and other financial institutions	(385,384)	(526,143)
Debt securities issued	(352,385)	(447,089)
Due to the central bank	(14,129)	(58,337)
Borrowings from banks and other financial institutions	(349,512)	(197,275)
Lease liabilities	(10,559)	(11,842)
Subtotal	(9,922,292)	(8,383,808)
Net interest income	4,421,079	5,318,584
Including: interest income on impaired loans	276,232	284,168

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

5. NET FEE AND COMMISSION INCOME

	For the six-month period ended 30 June	
	2023	2022
Fee and commission income		
Advisory and consulting fees	74,938	140,227
Settlement and clearing fees	28,728	24,623
Agency and custodian fees	203,740	152,249
Including: wealth management products	167,120	128,961
Bank card fees	114,172	118,675
Others	19,744	872
Subtotal	441,322	436,646
Fee and commission expense		
Settlement and clearing fees	(8,745)	(7,074)
Agency fees	(5,310)	(2,619)
Bank card fees	(22,472)	(19,614)
Others	(48,536)	(31,482)
Subtotal	(85,063)	(60,789)
Net fee and commission income	356,259	375,857

6. NET TRADING INCOME

	For the six-month period ended 30 June	
	2023	2022
Financial assets at fair value through profit or loss	1,622,436	774,791

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

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

7. NET GAIN ON FINANCIAL INVESTMENTS

	For the six-month period ended 30 June	
	2023	2022
Gain on disposal of financial assets at amortised cost	84,385	149,879
Gain on disposal of financial assets at fair value through other comprehensive income, net	58,075	157,093
Dividends from equity investments at fair value through other comprehensive income	23,178	2,215
Total	165,638	309,187

8. OTHER OPERATING INCOME, NET

	For the six-month period ended 30 June	
	2023	2022
Net gain on sale of property and equipment	1,082	128
Gain on foreign exchange, net	20,310	175,511
Leasing income	25,152	11,558
Government grants and subsidies	3,598	15,865
Others	39,501	11,715
Total	89,643	214,777

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

9. OPERATING EXPENSES

	For the six-month period ended 30 June	
	2023	2022
Staff costs:		
Salaries, bonuses and allowances	582,777	590,297
Social insurance	206,772	185,723
Housing fund	78,721	82,809
Staff benefits	37,045	44,796
Labour union expenditure and education costs	10,224	8,912
Early retirement benefits	1,382	2,752
Others	–	27,942
Subtotal	916,921	943,231
General and administrative expenses	720,042	626,952
Tax and surcharges	123,548	114,025
Depreciation and amortisation	391,298	394,654
Leasing expense	34,213	15,868
Auditors' remuneration	1,800	1,800
Others	81,455	71,141
Total	2,269,277	2,167,671

10. CREDIT IMPAIRMENT LOSSES

	For the six-month period ended 30 June	
	2023	2022
Provision for/(reversal of) impairment losses on:		
Loans and advances to customers at amortised cost	2,711,831	3,447,508
Financial investments at amortised cost	1,075,536	305,149
Financial investments at fair value through other comprehensive income	(22,121)	22,727
Finance lease receivables	(7,818)	135,237
Other assets	128,470	(34,341)
Total	3,885,898	3,876,280

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

11. INCOME TAX (CREDIT)/EXPENSE

(a) Income tax

	For the six-month period ended 30 June	
	2023	2022
Current income tax	427,969	598,431
Deferred income tax	(628,445)	(237,232)
Total	(200,476)	361,199

(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 (credit)/expense applicable to profit before tax at the PRC statutory income tax rate to income tax (credit)/expense at the Group's effective income tax rate is as follows:

	For the six-month period ended 30 June	
	2023	2022
Profit before tax	499,880	949,245
Tax at the PRC statutory income tax rate	124,970	237,311
Items not deductible for tax purposes	94,900	327,699
Non-taxable income (ii)	(330,515)	(226,180)
Adjustment for income tax from prior years	12	16,801
Effect of different tax rates for certain subsidiaries	(7,938)	(8,579)
Effect of unrecognised tax deductible losses	9,315	14,147
Others	(91,220)	–
Income tax (credit)/expense at the Group's effective income tax rate	(200,476)	361,199

Notes:

- (i) The non-taxable income mainly represents interest income arising from the PRC government bonds and local government bonds, and public fund dividends, which are exempted from income tax under Chinese tax regulations.

12. DIVIDENDS

The Bank proposed not to distribute any dividend for the years ended 31 December 2022 and 2021.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

13. EARNINGS PER SHARE

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

	For the six-month period ended 30 June	
	2023	2022
Net profit attributable to equity holders of the Bank	588,654	494,622
Less: Distribution of interests of perpetual bonds	(384,000)	(384,000)
Net profit attributable to ordinary shareholders of the Bank	204,654	110,622
Weighted average number of ordinary shares in issue (expressed in thousands) at the end of the period	10,995,600	10,995,600
Basic and diluted earnings per share (expressed in RMB per share)	0.02	0.01

The Group had no potentially dilutive ordinary shares for the six-month period ended 30 June 2023 (for the six-month period ended 30 June 2022: Nil).

Basic earnings per share for the six-month period ended 30 June 2023 and 2022 were computed by dividing distributions on non-cumulative perpetual bonds declared for the period was deducted from the amounts attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The Bank has declared an interest of RMB384 million on perpetual bonds during the six-month period ended 30 June 2023 (for the six-month period ended 30 June 2022: 384 million).

14. CASH AND BALANCES WITH THE CENTRAL BANK

	30 June 2023	31 December 2022
Cash	837,049	1,012,544
Mandatory reserves with the central bank (i)	43,495,181	38,447,365
Surplus reserves with the central bank (ii)	52,777,744	37,148,721
Fiscal deposits with the central bank	512,353	146,445
Subtotal	97,622,327	76,755,075
Accrued interest	20,263	20,439
Total	97,642,590	76,775,514

(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 2023 and 31 December 2022, 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 mainly include funds for the purpose of cash settlement.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
Nostro accounts:		
Banks operating in Mainland China	7,861,355	10,390,630
Other financial institutions operating in Mainland China	144,803	153,168
Banks operating outside Mainland China	321,868	644,768
Subtotal	8,328,026	11,188,566
Accrued interest	5,052	266
Less: Allowance for impairment losses	(6,207)	(1,137)
Subtotal	8,326,871	11,187,695
Placements with banks and other financial institutions:		
Banks operating in Mainland China	500,000	750,000
Other financial institutions operating in Mainland China	17,205,000	12,160,000
Banks operating outside Mainland China	–	1,700,000
Subtotal	17,705,000	14,610,000
Accrued interest	209,425	95,144
Less: Allowance for impairment losses	(15,907)	(40,578)
Subtotal	17,898,518	14,664,566
Total	26,225,389	25,852,261

As at 30 June 2023 and 31 December 2022, all the amounts due from banks and other financial institutions of the Group were in Stage 1, and measured the impairment losses based on expected credit loss (“ECL”) in the next 12 months.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

16. REVERSE REPURCHASE AGREEMENTS

	30 June 2023	31 December 2022
Reverse repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	992,150	999,989
Accrued interest	368	784
Less: Allowance for impairment losses	(169)	(23)
Total	992,349	1,000,750
Reverse repurchase agreement analysed by collateral:		
Bonds	992,150	999,989
Accrued interest	368	784
Less: Allowance for impairment losses	(169)	(23)
Total	992,349	1,000,750

As at 30 June 2023 and 31 December 2022, reverse repurchase agreements were in stage 1, and measured the impairment losses based on ECLs in the next 12 months.

17. LOANS AND ADVANCES TO CUSTOMERS

17.1 Analysis of loans and advances to customers by measurement category

	30 June 2023	31 December 2022
Loans and advances measured at amortised cost		
– Corporate loans and advances	168,759,060	161,043,133
– Personal loans	120,604,859	117,360,722
Subtotal	289,363,919	278,403,855
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	19,347,781	6,011,014
Total loans and advances to customers	308,711,700	284,414,869
Accrued interest	2,453,339	2,289,961
Less: allowance for impairment losses	(16,906,514)	(14,920,009)
Loans and advances to customers, net	294,258,525	271,784,821

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

17.1 Analysis of loans and advances to customers by measurement category (Continued)

As at 30 June 2023, loans and advances to customers measured at fair value through other comprehensive income of the Group amounted to RMB19,347,781 thousand were in stage 1 and the corresponding accumulated allowance for impairment losses on the above-mentioned loans and advances to customers amounted to RMB1,802 thousand. As at 31 December 2022, loans and advances to customers measured at fair value through other comprehensive income of the Group amounted to RMB6,011,014 thousand were in stage 1 and the corresponding accumulated allowance for impairment losses on the above-mentioned loans and advances to customers amounted to RMB401 thousand.

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

17.3 Analysis of loans and advances to customers

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 30 June 2023				
Total loans and advances at amortised cost	219,707,023	37,421,975	32,234,921	289,363,919
Accrued interest	1,581,542	859,771	12,026	2,453,339
Allowance for impairment losses	(3,149,104)	(2,764,148)	(10,993,262)	(16,906,514)
Loans and advances to customers at amortised cost, net	218,139,461	35,517,598	21,253,685	274,910,744
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 31 December 2022				
Total loans and advances at amortised cost	228,408,884	22,461,511	27,533,460	278,403,855
Accrued interest	2,244,806	45,014	141	2,289,961
Allowance for impairment losses	(2,570,973)	(1,945,512)	(10,403,524)	(14,920,009)
Loans and advances to customers at amortised cost, net	228,082,717	20,561,013	17,130,077	265,773,807

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

17.4 Movements in allowance for impairment losses of loan and advances to customers at amortised cost during the period/year are as follows:

	For the six-month period ended 30 June 2023			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2023	2,570,973	1,945,512	10,403,524	14,920,009
Charge for the period	694,825	929,854	1,087,152	2,711,831
Write-offs and transferred for the period	–	–	(654,933)	(654,933)
Stage conversion	(116,731)	(111,218)	227,949	–
Converted to Stage 1	99,157	(86,888)	(12,269)	–
Converted to Stage 2	(163,662)	173,850	(10,188)	–
Converted to Stage 3	(52,226)	(198,180)	250,406	–
Recovery of loans and advances previously written off	–	–	204,964	204,964
Exchange difference	37	–	838	875
Accrued interest on impaired loans	–	–	(276,232)	(276,232)
As at 30 June 2023	3,149,104	2,764,148	10,993,262	16,906,514

During the six-month period ended 30 June 2023, the loan principal transferred from stage 1 to stage 2 and stage 3 was RMB22,913 million, and corresponding impairment provision increased by RMB1,311 million. The loan principal transferred from stage 2 to stage 3 was RMB1,499 million, impairment provision increasing by RMB149 million. The loan principal transferred from stage 2 to stage 1 was RMB1,914 million, impairment provision decreasing by RMB74 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was RMB108 million, impairment provision decreasing by RMB17 million.

During the six-month period ended 30 June 2023, the Group transferred loans and advances amount of RMB65 million to independent third parties and the transfer price was RMB51 million.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

17.4 Movements in allowance for impairment losses of loan and advances to customers at amortised cost during the period/year are as follows: *(Continued)*

	For the year ended 31 December 2022			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2022	3,950,605	2,168,461	7,661,744	13,780,810
Charge/(Reversal) for the year	(939,323)	180,968	5,868,363	5,110,008
Write-offs and transferred for the year	–	–	(3,899,551)	(3,899,551)
Stage conversion	(440,312)	(403,917)	844,229	–
Converted to Stage 1	413,212	(355,463)	(57,749)	–
Converted to Stage 2	(345,264)	370,259	(24,995)	–
Converted to Stage 3	(508,260)	(418,713)	926,973	–
Recovery of loans and advances previously written off	–	–	324,024	324,024
Exchange difference	3	–	208	211
Accrued interest on impaired loans	–	–	(395,493)	(395,493)
As at 31 December 2022	2,570,973	1,945,512	10,403,524	14,920,009

During the year ended 31 December 2022, the loan principal transferred from stage 1 to stage 2 and stage 3 was RMB22,719 million, and corresponding impairment provision increased by RMB3,372 million. The loan principal transferred from stage 2 to stage 3 was RMB4,008 million, impairment provision increasing by RMB1,078 million. The loan principal transferred from stage 2 to stage 1 was RMB2,091 million, impairment provision decreasing by RMB342 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was RMB268 million, impairment provision decreasing by RMB75 million.

During the year ended 31 December 2022, the Group transferred loans and advances amount of RMB731 million to independent third parties and the transfer price was RMB692 million.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised 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 interest rates, currency rates and prices of precious metal relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	30 June 2023			31 December 2022		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards and swaps	2,152,745	–	(151,091)	2,138,695	–	(86,682)
Option contracts	138,089,482	871,563	(871,563)	140,672,856	936,460	(936,460)
Total	140,242,227	871,563	(1,022,654)	142,811,551	936,460	(1,023,142)

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(Amount in thousands of RMB, unless otherwise stated)

19. FINANCIAL INVESTMENTS

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

	30 June 2023	31 December 2022
Government debt securities	424,302	393,977
Financial debt securities	3,702,470	–
Corporate debt securities	2,431,046	2,386,278
Trust fund plans and asset management plans (i)	52,769,538	54,369,207
Subtotal	59,327,356	57,149,462
Equity instruments	332,689	337,295
Funds	36,753,467	25,047,692
Accrued interest	257,330	170,076
Total	96,670,842	82,704,525

As at 30 June 2023 and 31 December 2022, no debt securities measured at fair value through profit or loss were pledged.

- (i) The Group classified the trust fund plans and asset management plans that could not pass the SPPI testing as financial assets at fair value through profit or loss.

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For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

19. FINANCIAL INVESTMENTS (Continued)

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

	30 June 2023	31 December 2022
Government debt securities	35,729,279	30,768,000
Policy bank debt securities	14,678,662	6,442,816
Financial institution debt securities	3,583,634	3,854,697
Corporate debt securities	9,116,753	10,938,174
Subtotal	63,108,328	52,003,687
Equity investments	5,484,092	7,161,203
Accrued interest	897,985	722,953
Total	69,490,405	59,887,843

As at 30 June 2023, all debt securities at fair value through other comprehensive income were in stage 1 and the corresponding accumulated allowance for impairment losses amounted to RMB55,711 thousand. As at 31 December 2022, debt securities of RMB150,000 thousand (30 June 2023: Nil) at fair value through other comprehensive income of the Group were in stage 3, and the Group's accumulated allowance for impairment losses on the above-mentioned debt instruments amounted to RMB105,000 thousand (30 June 2023: Nil). Other debt securities at fair value through other comprehensive income were in stage 1, and the corresponding accumulated allowance for impairment losses amounted to RMB45,806 thousand.

As at 30 June 2023, debt securities of RMB1,191,118 thousand at fair value through other comprehensive income of the Group were pledged in debt securities lending and borrowing agreement. As at 31 December 2022, debt securities of RMB1,633,598 thousand and RMB2,081,113 thousand at fair value through other comprehensive income of the Group were pledged in fixed time deposits and due to the central bank respectively.

The Group irrevocably designated parts of its equity investments and classified as financial assets at fair value through other comprehensive income.

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(Amount in thousands of RMB, unless otherwise stated)

19. FINANCIAL INVESTMENTS (Continued)

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

Movements in allowance for impairment losses of debt securities of financial assets at fair value through other comprehensive income during the period/year are summarised as follows:

	For the six-month period ended 30 June 2023			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2023	45,806	–	105,000	150,806
Charge/(reversal) for the period	9,905	–	(33,427)	(23,522)
Written-offs	–	–	(71,573)	(71,573)
As at 30 June 2023	55,711	–	–	55,711

	For the year ended 31 December 2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2022	15,612	–	105,000	120,612
Charge for the year	30,194	–	–	30,194
Written-offs	–	–	–	–
As at 31 December 2022	45,806	–	105,000	150,806

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For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

19. FINANCIAL INVESTMENTS (Continued)

(c) Financial assets at amortised cost

	30 June 2023	31 December 2022
Government debt securities	37,639,315	34,031,478
Policy bank debt securities	12,370,760	13,816,505
Financial institution debt securities	2,769,974	2,769,969
Corporate debt securities	36,237,654	24,214,630
Inter-bank certificates of deposits	491,418	1,732,562
Trust fund plans and asset management plans	72,645,853	76,482,112
Subtotal	162,154,974	153,047,256
Accrued interest	2,739,479	2,327,101
Allowance for impairment losses	(7,214,549)	(6,139,013)
Net balance	157,679,904	149,235,344

As at 30 June 2023, debt securities of RMB450,000 thousand, RMB1,067,325 thousand, RMB7,782,190 thousand and RMB2,617,671 thousand at amortised cost of the Group were pledged in debt securities lending and borrowing agreement, due to the central bank, fixed time deposits and borrowing from banks and other financial institutions respectively.

As at 31 December 2022, debt securities of RMB3,301,638 thousand, RMB2,263,466 thousand, RMB7,697,694 thousand and RMB1,633,410 at amortised cost of the Group were pledged in repurchase agreements, due to the central bank, fixed time deposits and borrowing from banks and other financial institutions respectively.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

19. FINANCIAL INVESTMENTS (Continued)

(c) Financial assets at amortised cost (Continued)

Movements in the allowance for impairment losses of financial assets at amortised cost during the period/year are summarised as follows:

	For the six-month period ended 30 June 2023			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2023	788,574	804,663	4,545,776	6,139,013
Charge for the period	53,715	708,775	313,046	1,075,536
Stage conversion	(185,995)	(223,591)	409,586	–
Converted to Stage 1	–	–	–	–
Converted to Stage 2	(91,374)	91,374	–	–
Converted to Stage 3	(94,621)	(314,965)	409,586	–
As at 30 June 2023	656,294	1,289,847	5,268,408	7,214,549

	For the year ended 31 December 2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2022	760,830	746,569	3,552,281	5,059,680
Charge for the year	363,783	110,980	673,414	1,148,177
Written-offs	–	–	(68,844)	(68,844)
Stage conversion	(336,039)	(52,886)	388,925	–
Converted to Stage 1	–	–	–	–
Converted to Stage 2	(162,179)	162,179	–	–
Converted to Stage 3	(173,860)	(215,065)	388,925	–
As at 31 December 2022	788,574	804,663	4,545,776	6,139,013

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(Amount in thousands of RMB, unless otherwise stated)

20. FINANCE LEASE RECEIVABLES

	30 June 2023	31 December 2022
Finance lease receivables	24,246,868	23,564,314
Less: unearned finance lease income	(2,058,317)	(1,976,744)
Present value of minimum finance lease receivables	22,188,551	21,587,570
Accrued interest	147,230	157,318
Less: allowance for impairment losses	(819,795)	(928,022)
Net balance	21,515,986	20,816,866

As at 30 June 2023, the Group divided finance lease receivables into stage 1, stage 2 and stage 3. The gross amounts were RMB21,085,432 thousand, RMB935,270 thousand, and RMB315,079 thousand respectively, and allowances for impairment losses were RMB244,019 thousand, RMB377,781 thousand, and RMB197,995 thousand, respectively.

As at 31 December 2022, The Group divided finance lease receivables into stage 1, stage 2 and stage 3. The gross amounts were RMB20,356,467 thousand, RMB1,091,571 thousand, and RMB296,850 thousand respectively, and allowances for impairment losses were RMB202,358 thousand, RMB528,911 thousand, and RMB196,753 thousand, respectively.

As at 30 June 2023, the fair value of collateral that the Group holds relating to finance lease receivables amounted to RMB27,996,798 thousand (31 December 2022: RMB23,785,706 thousand). The collateral mainly consists of right to charge for tourist attractions, provision of other public services and receivables in trading nature.

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

	30 June 2023			31 December 2022		
	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	11,546,130	(1,140,187)	10,405,943	11,228,337	(1,060,810)	10,167,527
1 year to 2 years	7,565,369	(564,404)	7,000,965	7,072,125	(520,154)	6,551,971
2 years to 3 years	3,853,925	(206,030)	3,647,895	3,360,741	(200,550)	3,160,191
3 years to 5 years	1,268,399	(147,294)	1,121,105	1,873,850	(193,923)	1,679,927
More than 5 years	13,045	(402)	12,643	29,261	(1,307)	27,954
Total	24,246,868	(2,058,317)	22,188,551	23,564,314	(1,976,744)	21,587,570

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For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

20. FINANCE LEASE RECEIVABLES (Continued)

Movements in the allowance for the finance lease receivables during the period/year are summarised as follows:

	For the six-month period ended 30 June 2023			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2023	202,358	528,911	196,753	928,022
Charge for the period	33,948	(142,244)	100,478	(7,818)
Stage conversion	7,713	(8,886)	1,173	–
Converted to Stage 1	8,074	(7,556)	(518)	–
Converted to Stage 2	(218)	243	(25)	–
Converted to Stage 3	(143)	(1,573)	1,716	–
Write-offs and transferred	–	–	(117,301)	(117,301)
Recovery of finance lease receivables previously written off	–	–	16,892	16,892
As at 30 June 2023	244,019	377,781	197,995	819,795
	For the year ended 31 December 2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2022	292,169	551,795	557,871	1,401,835
Charge for the year	(77,153)	(31,878)	412,089	303,058
Stage conversion	(12,658)	8,994	3,664	–
Converted to Stage 1	–	–	–	–
Converted to Stage 2	(8,995)	8,995	–	–
Converted to Stage 3	(3,663)	(1)	3,664	–
Write-offs and transferred	–	–	(791,296)	(791,296)
Recovery of finance lease receivables previously written off	–	–	14,425	14,425
As at 31 December 2022	202,358	528,911	196,753	928,022

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(Amount in thousands of RMB, unless otherwise stated)

21. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2022	6,912,553	2,651,014	653,088	2,139,376	67,702	314,398	12,738,131
Additions	9,390	147,503	25,687	55,332	4,390	-	242,302
Transfer from construction in progress	2,345,710	(2,580,829)	-	235,119	-	-	-
Disposals	(139)	(1,156)	-	(13,774)	(3,007)	-	(18,076)
At 31 December 2022 and 1 January 2023	9,267,514	216,532	678,775	2,416,053	69,085	314,398	12,962,357
Additions	-	12,383	3,942	10,120	512	-	26,957
Transfer from construction in progress	598	(3,597)	-	2,999	-	-	-
Disposals	(40)	(3,428)	-	(1,267)	-	-	(4,735)
At 30 June 2023	9,268,072	221,890	682,717	2,427,905	69,597	314,398	12,984,579
Accumulated depreciation:							
At 1 January 2022	1,537,051	-	564,784	1,697,583	55,193	104,617	3,959,228
Depreciation charge for the year	213,180	-	39,798	141,656	7,872	7,953	410,459
Disposals	-	-	-	(10,378)	(2,864)	-	(13,242)
At 31 December 2022 and 1 January 2023	1,750,231	-	604,582	1,828,861	60,201	112,570	4,356,445
Depreciation charge for the period	146,256	-	21,322	61,805	1,587	3,977	234,947
Disposals	-	-	-	(1,203)	-	-	(1,203)
At 30 June 2023	1,896,487	-	625,904	1,889,463	61,788	116,547	4,590,189
Accumulated Impairment loss:							
At 31 December 2022 and 1 January 2023	-	-	-	-	-	101,027	101,027
Provided for the year	-	-	-	-	-	-	-
At 31 December 2022, 1 January 2023 and 30 June 2023	-	-	-	-	-	101,027	101,027
Net carrying amount:							
At 30 June 2023	7,371,585	221,890	56,813	538,442	7,809	96,824	8,293,363
At 31 December 2022	7,517,283	216,532	74,193	587,192	8,884	100,801	8,504,885

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21. PROPERTY AND EQUIPMENT (Continued)

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

	30 June 2023	31 December 2022
Held in China:		
10 to 50 years	7,272,712	7,415,315
Less than 10 years	98,873	101,968
	7,371,585	7,517,283

As at 30 June 2023, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,825 million (31 December 2022: RMB3,042 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

22. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

	30 June 2023		31 December 2022	
	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	23,150,250	5,742,635	20,342,141	5,040,547
Lease liabilities	425,072	104,805	141,428	33,822
Provisions	197,335	49,334	50,902	12,726
Salaries, bonuses, allowances and subsidies payable	130,833	30,990	117,627	28,355
Early retirement benefits	31,505	7,876	35,715	8,929
Deferred revenue	158,370	39,521	79,064	19,715
Others	401,148	90,374	223,862	47,286
Subtotal	24,494,513	6,065,535	20,990,739	5,191,380
Deferred income tax liabilities:				
Right-of-use assets	(415,317)	(102,252)	(96,587)	(22,446)
Changes in fair value of financial assets at fair value through profit or loss	(1,994,791)	(498,698)	(1,424,902)	(356,226)
Changes in fair value of financial assets at fair value through other comprehensive income	(437,102)	(109,276)	83,493	20,873
Subtotal	(2,847,210)	(710,226)	(1,437,996)	(357,799)
Total	21,647,303	5,355,309	19,552,743	4,833,581

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(Amount in thousands of RMB, unless otherwise stated)

22. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

(b) Movements in deferred income tax

	At 1 January 2023	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 30 June 2023
For the six-month period ended 30 June 2023				
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	5,040,547	702,088	–	5,742,635
Lease liabilities	33,822	70,983	–	104,805
Right-of-use assets	(22,446)	(79,806)	–	(102,252)
Provisions	12,726	36,608	–	49,334
Changes in fair value of financial assets at fair value through profit or loss	(356,226)	(142,472)	–	(498,698)
Changes in fair value of financial assets at fair value through other comprehensive income	20,873	–	(130,149)	(109,276)
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	–	(23,432)	23,432	–
Salaries, bonuses, allowances and subsidies payable	28,355	2,635	–	30,990
Early retirement benefits	8,929	(1,053)	–	7,876
Deferred revenue	19,715	19,806	–	39,521
Others	47,286	43,088	–	90,374
Total	4,833,581	628,445	(106,717)	5,355,309

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22. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

(b) Movements in deferred income tax (Continued)

	At 1 January 2022	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2022
For the year ended 31 December 2022				
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	4,465,550	574,997	–	5,040,547
Lease liabilities	12,086	21,736	–	33,822
Right-of-use assets	–	(22,446)	–	(22,446)
Provisions	34,549	(21,823)	–	12,726
Changes in fair value of financial assets at fair value through profit or loss	(158,453)	(197,773)	–	(356,226)
Changes in fair value of financial assets at fair value through other comprehensive income	(96,349)	–	117,222	20,873
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	–	7,849	(7,849)	–
Salaries, bonuses, allowances and subsidies payable	44,822	(16,467)	–	28,355
Early retirement benefits	9,807	(878)	–	8,929
Deferred revenue	8,998	10,717	–	19,715
Others	34,854	12,432	–	47,286
Total	4,355,864	368,344	109,373	4,833,581

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23. OTHER ASSETS

	30 June 2023	31 December 2022
Interest receivables (a)	455,037	497,987
Right-of-use assets (b)	425,456	463,733
Land use rights	3,973	4,068
Advance payments	393,885	850,236
Settlement and clearing accounts	1,155,620	2,725,321
Intangible assets (c)	425,187	473,909
Other receivables	1,451,830	1,515,285
Repossessed assets (d)	4,118,705	4,145,046
Others	113,745	21,945
Subtotal	8,543,438	10,697,530
Less: Allowance for impairment losses	(319,389)	(297,326)
Total	8,224,049	10,400,204

(a) Interest receivables

As at 30 June 2023, the gross carrying amounts of the Group's overdue interest receivables in Stages 1 and 2 were RMB3,892 thousand, RMB451,145 thousand respectively. The allowance for impairment losses were RMB34 thousand, RMB24,330 thousand respectively. As at 31 December 2022, the gross carrying amounts of the Group's overdue interest receivables in stage 1, 2 and 3 were RMB234,868 thousand, RMB262,964 thousand and RMB155 thousand, respectively. The allowance for impairment losses were RMB3,420 thousand, RMB36,380 thousand and RMB155 thousand, respectively.

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(Amount in thousands of RMB, unless otherwise stated)

23. OTHER ASSETS (Continued)

(b) Right-of-use assets

	Properties and buildings	Motor vehicles and others	Total
Cost:			
At 1 January 2023	835,026	84,541	919,567
Additions	53,134	2,174	55,308
Decrease	(43,729)	(7,496)	(51,225)
At 30 June 2023	844,431	78,219	923,650
Accumulated depreciation:			
At 1 January 2023	404,855	50,979	455,834
Additions	80,857	8,092	88,949
Decrease	(41,663)	(4,926)	(46,589)
At 30 June 2023	444,049	54,145	498,194
Net carrying amount:			
At 30 June 2023	400,382	25,074	425,456
At 1 January 2023	430,171	33,562	463,733
	Properties and buildings	Motor vehicles and others	Total
Cost			
At 1 January 2022	677,453	82,999	760,452
Additions	271,333	19,445	290,778
Decrease	(113,760)	(17,903)	(131,663)
At 31 December 2022	835,026	84,541	919,567
Accumulated depreciation			
At 1 January 2022	316,120	45,100	361,220
Additions	192,884	22,567	215,451
Decrease	(104,149)	(16,688)	(120,837)
At 31 December 2022	404,855	50,979	455,834
Net carrying amount			
At 31 December 2022	430,171	33,562	463,733
At 1 January 2022	361,333	37,899	399,232

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23. OTHER ASSETS (Continued)

(c) Intangible assets

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

(d) Repossessed assets

	30 June 2023	31 December 2022
Land use rights and buildings	4,118,705	4,145,046

24. DUE TO THE CENTRAL BANK

	30 June 2023	31 December 2022
Small enterprises supporting re-lending	1,090,230	2,610,051
Agricultural supporting re-lending	234,971	291,326
Poverty alleviation re-lending	76,851	65,650
Subtotal	1,402,052	2,967,027
Interest payable	372	1,767
Total	1,402,424	2,968,794

25. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
Unsecured borrowings	19,458,075	13,565,184
Pledged borrowings	925,005	702,348
Subtotal	20,383,080	14,267,532
Interest payable	174,207	137,903
Total	20,557,287	14,405,435

As at 30 June 2023, the pledged borrowings of RMB925 million (31 December 2022: RMB702 million) were secured by the finance lease receivables of RMB1,098 million (31 December 2022: RMB1,310 million).

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26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
Deposits:		
Banks operating in Mainland China	16,820,192	22,802,506
Banks operating outside Mainland China	2,263,895	1,791,392
Subtotal	19,084,087	24,593,898
Interest payable	210,197	270,336
Subtotal	19,294,284	24,864,234
Placements:		
Banks operating in Mainland China	2,306,543	2,000,000
Other financial institutions operating in Mainland China	75,000	125,000
Subtotal	2,381,543	2,125,000
Interest payable	26,745	13,848
Subtotal	2,408,288	2,138,848
Total	21,702,572	27,003,082

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

27. REPURCHASE AGREEMENTS

	30 June 2023	31 December 2022
Repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	700,000	3,250,000
Interest payable	–	3,201
Total	700,000	3,253,201
Repurchase agreements analysed by collateral:		
Bonds	–	3,000,000
Bills	700,000	250,000
Interest payable	–	3,201
Total	700,000	3,253,201

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28. DUE TO CUSTOMERS

	30 June 2023	31 December 2022
Demand deposits:		
Corporate customers	84,536,397	80,580,386
Personal customers	43,901,548	48,926,312
Subtotal	128,437,945	129,506,698
Time deposits:		
Corporate customers	110,399,502	108,477,376
Personal customers	389,772,559	319,841,767
Subtotal	500,172,061	428,319,143
Demand and time deposits	628,610,006	557,825,841
Convertible negotiated deposit (i)	10,000,000	–
Interest payable	11,592,796	7,761,355
Total	650,202,802	565,587,196

(i) Convertible negotiated deposit

After obtaining the proceeds from issuance of local government special bonds, the Department of Finance of Heilongjiang Province has deposited the relevant funds in the form of negotiated deposit into the special convertible negotiated deposit account in the Bank. The deposit is included in the Bank's other tier-one capital and is converted to ordinary shares in stages to replenish the Bank's capital and be included in its core tier-one capital when the conversion conditions specified in the agreement are triggered. The maturity of the deposit shall be set in accordance with the maturity requirements in batches. Among them, RMB2.0 billion is for the six-year maturity, RMB2.0 billion is for the seven-year maturity, RMB2.0 billion is for the eight-year maturity, RMB2.0 billion is for the nine-year maturity and RMB2.0 billion is for the ten-year maturity. The interest is paid semi-annually on the convertible negotiated deposit, and the interest rate shall match with the corresponding local government special bonds issuance interest rate.

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28. DUE TO CUSTOMERS *(Continued)*

(i) Convertible negotiated deposit *(Continued)*

The conversion for convertible negotiated deposit may be fully or partially converted into the ordinary shares of the Bank if one of the following triggering events occurs: (i) The core tier-one capital adequacy ratio of the Bank drops to 5.125% or below; or (ii) As confirmed by the regulatory authorities, the core tier-one capital adequacy ratio of the Bank is not less than 5.125%, but non-viability trigger events occurred to the Bank. The non-viability trigger event is defined as the earlier of: (a) the National Administration of Financial Regulation having decided that without a conversion, the Bank would become non-viable; or (b) the relevant authorities having decided that injection of capital or equivalent support by a public sector is necessary, without which the Bank would become non-viable. Subject to the above triggering conditions, if the core tier-one capital adequacy ratio of the Bank is still lower than 5.125% as calculated after all the convertible amount is converted into the ordinary shares of the Bank in accordance with the agreement, the Bank shall at the same time take other measures to ensure that the core tier-one capital adequacy ratio reaches 5.125%, otherwise the Harbin Municipal Finance Bureau has the right to suspend the conversion. Subject to the above triggering conditions, if the designated share-holding entity does not satisfy the relevant requirements of the Banking and Insurance Regulatory Authorities and the Harbin Municipal Government, or if the class and number of ordinary shares to be converted and the shareholding structure of the Bank after the conversion as calculated do not satisfy the relevant requirements of the Hong Kong Stock Exchange in respect of the minimum public float, no conversion shall be made until the conversion is in compliance with the relevant requirements of the Banking and Insurance Regulatory Authorities, the Hong Kong Stock Exchange and the Harbin Municipal Government. In principle, only one conversion can be made during the term of the convertible negotiated deposit.

29. DEBT SECURITIES ISSUED

	30 June 2023	31 December 2022
Negotiable certificates of deposit issued (i)	20,636,723	28,569,900

- (i) For the six-month period ended 30 June 2023 and the year ended 31 December 2022, the Group issued at discount 101 and 353 interbank negotiable certificates of deposit with face value of RMB100 through the domestic interbank bond market respectively. As at 30 June 2023, 98 negotiable certificates of deposit issued by the Group, with annual interest rates between 2.21% and 3.05% and maturities between one month and one year, were undue, amounting to RMB20,637 million. As at 31 December 2022, 126 negotiable certificates of deposit issued by the Group, with annual interest rates between 2.08% and 3.45% and maturities between one month and one year, were undue, amounting to RMB28,570 million.

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30. OTHER LIABILITIES

	30 June 2023	31 December 2022
Lease guarantee fee	2,055,592	2,040,051
Settlement and clearing accounts	2,039,459	1,427,622
Salaries, bonuses, allowances and subsidies payable (a)	282,451	675,529
Lease liabilities	433,980	450,889
Accounts payable from agency services	215,296	299,197
Accrued expenses	255,070	226,460
Sundry tax payables	307,192	220,266
Deferred revenue (b)	180,629	159,461
Dividends payable	31,386	74,127
Provisions	175,952	50,902
Other payables	711,834	586,479
Total	6,688,841	6,210,983

(a) Salaries, bonuses, allowances and subsidies payable

	30 June 2023	31 December 2022
Salaries, bonuses and allowances	153,717	602,078
Social insurance	54,586	14,207
Housing fund	34,026	13,100
Labour union expenditure and education costs	8,617	10,429
Early retirement benefits	31,505	35,715
Total	282,451	675,529

The Group has no forfeiture of pension scheme contributions (i.e. contributions processed by the employer on behalf of the employee who has exited the scheme prior to vesting of such contributions). As at 30 June 2023 and 31 December 2022, no forfeited contribution under the pension scheme of the Group is available for deduction of contribution payable in coming years.

Notes to the Condensed Consolidated Interim Financial Information

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30. OTHER LIABILITIES (Continued)

(b) Deferred revenue

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

	30 June 2023	31 December 2022
Intermediary services	180,629	159,461

31. SHARE CAPITAL

	2023		2022	
	Number of shares (thousand)	Nominal value	Number of shares (thousand)	Nominal value
Issued and fully paid ordinary shares at par value RMB1 per share	10,995,600	10,995,600	10,995,600	10,995,600
At the beginning and end of the period/year	10,995,600	10,995,600	10,995,600	10,995,600

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32. OTHER EQUITY INSTRUMENTS

	1 January 2023		Changes during the period		30 June 2023	
	Number of shares		Number of shares		Number of shares	
	(thousand)	Amount	(thousand)	Amount	(thousand)	Amount
Issuance of perpetual bonds						
2022 Perpetual bonds with no maturity date (i)	7,000	699,717	-	-	7,000	699,717
2021 Perpetual bonds with no maturity date – Phase 1 (ii)	80,000	7,999,830	-	-	80,000	7,999,830
2021 Perpetual bonds with no maturity date – Phase 2 (iii)	30,000	2,999,460	-	-	30,000	2,999,460
Total	117,000	11,699,007	-	-	117,000	11,699,007

	1 January 2022		Changes during the year		31 December 2022	
	Number of shares		Number of shares		Number of shares	
	(thousand)	Amount	(thousand)	Amount	(thousand)	Amount
Issuance of perpetual bonds						
2022 Perpetual bonds with no maturity date (i)	-	-	7,000	699,717	7,000	699,717
2021 Perpetual bonds with no maturity date – Phase 1 (ii)	80,000	7,999,830	-	-	80,000	7,999,830
2021 Perpetual bonds with no maturity date – Phase 2 (iii)	30,000	2,999,460	-	-	30,000	2,999,460
Total	110,000	10,999,290	7,000	699,717	117,000	11,699,007

(i) On 26 December 2022, being approved by relevant regulatory authorities in China, the Group issued perpetual bonds in an amount of RMB700 million with no fixed maturity date which the coupon rate of the Bond for the first five years is 4.8% respectively and is subject to adjustment every five years.

(ii) On 29 June 2021, being approved by relevant regulatory authorities in China, the Group issued perpetual bonds in an amount of RMB8,000 million with no fixed maturity date which the coupon rate of the Bond for the first five years is 4.8% and is subject to adjustment every five years.

(iii) On 12 November 2021, being approved by relevant regulatory authorities in China, the Group issued perpetual bonds in an amount of RMB3,000 million with no fixed maturity date which the coupon rate of the Bond for the first five years is 5.0% respectively and is subject to adjustment every five years. The perpetual bonds were successful issue on 16 November 2021.

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32. OTHER EQUITY INSTRUMENTS *(Continued)*

These perpetual bonds have no maturity date and will continue indefinitely until redeemed by the Bank in accordance with their terms. The Bank is entitled to redeem the perpetual bonds at fully or partially written down of par value on the fifth and each of the subsequent interest payment dates of the perpetual bonds if the Bank fulfilled the conditions in their terms. These perpetual bonds have no accumulated interest and the Bank can elect to defer or cancel payment of interest due pursuant to their terms, the aforesaid deferral or cancellation of interest shall not constitute a default by the Bank.

The perpetual bonds are classified as equity instruments as they do not include any contractual obligation:

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

During the six-month ended 30 June 2023, RMB384 million interest payment was paid by the Group to the holders of perpetual bonds. During the year ended 31 December 2022, RMB534 million interest payment was paid by the Group to the holders of perpetual bonds.

33. CAPITAL RESERVE

	Share premium	Other capital reserve	Total
At 1 January 2021, 31 December 2021 and 1 January 2022	7,624,993	36,131	7,661,124
Decrease during the year	–	(3,840)	(3,840)
At 31 December 2022, 1 January 2023 and 30 June 2023	7,624,993	32,291	7,657,284

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(Amount in thousands of RMB, unless otherwise stated)

34. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Other comprehensive income attributed to equity holders of the Bank in the condensed consolidated statement of financial position:

	Losses on debt instruments at fair value through other comprehensive income	Gains on equity instruments at fair value through other comprehensive income	Total
At 1 January 2022	292,396	86,533	378,929
Other comprehensive income after tax	(278,054)	(58,265)	(336,319)
Other comprehensive income in the previous period and transferred to retained earnings in the current period	–	8,200	8,200
At 31 December 2022 and 1 January 2023	14,342	36,468	50,810
Other comprehensive income after tax	320,004	3,000	323,004
Other comprehensive income in the previous period and transferred to retained earnings in the current period	–	(2,853)	(2,853)
At 30 June 2023	334,346	36,615	370,961

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34. COMPONENTS OF OTHER COMPREHENSIVE INCOME (Continued)

Transactions of other comprehensive income attributed to equity holders of the Bank in the condensed consolidated statement of comprehensive income:

For the six-month period ended 30 June 2023	Amount before tax	Income tax	Amount after tax
Items that will not be reclassified to profit or loss			
Changes in fair value of equity instruments designated at fair value through other comprehensive income	3,049	(49)	3,000
Items that may be reclassified to profit or loss in subsequent years			
Changes in fair value of debt instruments measured at fair value through other comprehensive income	510,773	(127,693)	383,080
Allowance for impairment losses on debt instruments at fair value through other comprehensive income	(93,727)	23,432	(70,295)
Other comprehensive income in the previous period and transferred to profit or loss in the current period	9,626	(2,407)	7,219
Total	429,721	(106,717)	323,004

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34. COMPONENTS OF OTHER COMPREHENSIVE INCOME (Continued)

Transactions of other comprehensive income attributed to equity holders of the Bank in the condensed consolidated statement of comprehensive income: (Continued)

For the six-month period ended 30 June 2022	Amount before tax	Income tax	Amount after tax
Items that will not be reclassified to profit or loss			
Changes in fair value of equity instruments designated at fair value through other comprehensive income	(13,179)	3,295	(9,884)
Items that may be reclassified to profit or loss in subsequent years			
Changes in fair value of debt instruments measured at fair value through other comprehensive income	(94,859)	23,715	(71,144)
Allowance for impairment losses on debt instruments at fair value through other comprehensive income	22,727	(5,682)	17,045
Other comprehensive income in the previous period and transferred to profit or loss in the current period	(116,362)	29,090	(87,272)
Total	(201,673)	50,418	(151,255)

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35. SURPLUS RESERVES

	Statutory surplus reserves	Discretionary surplus reserves	Total
At 1 January 2022	3,877,041	26,186	3,903,227
Appropriation during the year	16,846	–	16,846
At 31 December 2022, 1 January 2023 and 30 June 2023	3,893,887	26,186	3,920,073

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

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

36. GENERAL AND REGULATORY RESERVES

	30 June 2023	31 December 2022
Balance as at the beginning of the period/year	7,880,595	7,584,624
Increase during the period/year (i)	340,693	295,971
Balance as at the end of the period/year	8,221,288	7,880,595

(i) For the six-month period ended 30 June 2023, the appropriation made by the Group in the amount of RMB340,693 thousand (for the year ended 31 December 2022: RMB295,971 thousand).

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

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37. UNDISTRIBUTED PROFITS

	30 June 2023	31 December 2022
Balance as at the beginning of the period/year	18,971,130	19,271,378
Net profit for the period/year attributable to equity holders of the Bank	588,654	554,769
Net of:		
Appropriation to statutory surplus reserves	–	(16,846)
Appropriation to general and regulatory reserves	(340,693)	(295,971)
Distribution of interests of perpetual bonds	(384,000)	(534,000)
Transfer of loss on disposal of financial asset at fair value through other comprehensive income to retained earnings	2,853	(8,200)
Balance as at the end of the period/year	18,837,944	18,971,130

38. CASH AND CASH EQUIVALENTS

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

	30 June 2023	30 June 2022
Cash on hand (note 14)	837,049	1,006,605
Balances with the central bank (note 14)	52,777,744	22,596,346
Due from banks and other financial institutions	10,708,026	9,107,007
Reverse repurchase agreements	992,349	5,014,700
Total	65,315,168	37,724,658

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39. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Group had capital commitments as follows:

	30 June 2023	31 December 2022
Contracted, but not provided	219,032	10,321
Approved, but not contracted	101	2,805
Total	219,133	13,126

(b) Credit commitments

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

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

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

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

	30 June 2023	31 December 2022
Bank bill acceptances	8,443,852	10,280,304
Letters of guarantee issued	297,945	188,054
Letters of credit	3,626,380	2,871,766
Undrawn credit card limits	23,065,809	32,176,876
Total	35,433,986	45,517,000

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39. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(b) Credit commitments *(Continued)*

Credit risk-weighted amount of financial guarantees and credit related commitments

	30 June 2023	31 December 2022
Financial guarantees and credit related commitments	6,377,131	10,046,411

The credit risk-weighted amount of financial guarantees and credit related commitments refers to the amount as computed in accordance with the formula promulgated by the National Administration of Financial Regulation and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(c) Legal proceedings

As at 30 June 2023, significant legal proceedings exceeding RMB10,000 thousand outstanding against the Group (for itself or as a third party) amounted to RMB151,369 thousand (31 December 2022: RMB36,400 thousand). As at 30 June 2023, the Group expects that there will be a loss caused by these litigations and made provisions amounted to RMB17,000 thousand (31 December 2022: RMB18,061 thousand).

(d) Redemption commitments of government bonds

As an underwriting agent of the government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public. The Group 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 2023, the Bank had underwritten and sold bonds with an accumulated amount of RMB1,038 million (31 December 2022: RMB1,057 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.

(e) Assets pledged as security

Financial assets of the Group including securities and finance lease receivables have been pledged as security for liabilities or contingent liabilities, and mainly arise from repurchase agreements, time deposit agreements, due to the central bank and borrowings from banks and other financial institutions. As at 30 June 2023, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB14,206 million (31 December 2022: approximately RMB19,195 million).

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40. FIDUCIARY ACTIVITIES

	30 June 2023	31 December 2022
Designated funds	1,276,069	1,190,681
Designated loans	1,276,069	1,190,681

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

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

41. TRANSFERS OF FINANCIAL ASSETS

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

Repurchase agreements

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

As at 30 June 2023 and 31 December 2022, none of the above-mentioned financial assets or financial liabilities which did not qualify for derecognition was transferred to third parties.

Securitisation of credit assets

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

As at 30 June 2023 and 31 December 2022, all credit assets transferred by the Group in transactions of securitisation of credit assets have been derecognised.

As at 30 June 2023, the Group did not hold such asset-backed securities (31 December 2022: Nil).

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42. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

42.1 Unconsolidated structured entities managed by the Group

Wealth management products

When conducting the wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2023, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB29,247 million (31 December 2022: RMB43,223 million). For the six-month period ended 30 June 2023, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB167,120 thousand (for the six-month period ended 30 June 2022: RMB128,961 thousand).

For the purpose of asset-liability management, wealth management products may trigger short-term financing needs for the Group and other banks. However, the Group is not contractually obliged to provide financing. During the six-month period ended 30 June 2023, the Group did not provide any financing to the unconsolidated wealth management products (for the six-month period ended 30 June 2022: Nil).

42.2 Structured entities sponsored by other financial institutions

The Group has invested in some structured entities which are issued or managed by other institutions and are out of the consolidation scope, and the Group recognises its investment income. These structured entities include trust fund plans and asset management plans, funds, etc. These structured entities' nature and purpose are to earn management fees by managing the investors' assets, and the way of financing is to issue investment products to investors. For the six month period ended 30 June 2023 and the year ended 31 December 2022, the Group has not provided liquidity support for those kinds of structured entities.

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42. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

42.2 Structured entities sponsored by other financial institutions *(Continued)*

As at 30 June 2023, the interests held by the Group through direct investments in the structured entities sponsored by third party financial institutions are set out below:

	As at 30 June 2023			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total	Maximum exposure to loss
Trust fund plans and asset management plans	52,769,538	72,645,853	125,415,391	118,561,740
Funds	36,753,467	–	36,753,467	36,753,467

	As at 31 December 2022			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total	Maximum exposure to loss
Trust fund plans and asset management plans	54,369,207	76,482,112	130,851,319	124,705,452
Funds	25,047,692	–	25,047,692	25,047,692

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43. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

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

Name	Share percentage in the Bank	
	30 June 2023	31 December 2022
	%	%
Harbin Economic Development and Investment Company Limited	29.63	29.63
Heilongjiang Financial Holdings Group Co., Ltd.	18.51	18.51
Fubon Life Insurance Co., Ltd.	6.60	6.71

(ii) Subsidiaries of the Bank

Details of the subsidiaries of the Bank are set out in note 1.

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

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

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions

1. Transactions between the Group and related parties

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

Interest expense

Name	For the six-month period ended 30 June	
	2023	2022
Harbin Economic Development and Investment Company Limited	4	8
Heilongjiang Financial Holdings Group Co., Ltd.	18,275	22,172

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

	For the six-month period ended 30 June	
	2023	2022
Interest income	159	167
Interest expense	105	48

- (iii) Transactions between the Bank and its subsidiaries

	For the six-month period ended 30 June	
	2023	2022
Interest income	387,581	301,524
Interest expense	150,852	160,242

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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

(iv) Transactions with other related parties

	For the six-month period ended 30 June	
	2023	2022
Emoluments of key management personnel and their close family members	6,267	5,283

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

43. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties

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

Due to customers

	30 June 2023	31 December 2022
Heilongjiang Financial Holdings Group Co., Ltd.	994,687	846,265
Harbin Economic Development and Investment Company Limited	1,987	1,984

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

	30 June 2023	31 December 2022
Loans and advances to customers	9,317	12,541
Due to customers	25,025	11,574

(iii) Balances between the Group and its subsidiaries

	30 June 2023	31 December 2022
Due from banks and other financial institutions	13,650,000	16,675,000
Due to banks and other financial institutions	38,000	10,623,914
Due to customers	3,081	819,910

Notes to the Condensed Consolidated Interim Financial Information

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44. SEGMENT INFORMATION

(a) Operating segments

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

Corporate financial business

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

Retail financial business

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

Interbank financial business

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

Other business

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

The transfer prices among segments are determined by the capital sources and due time which should match with the level of lending and deposit rates and interbank market rates announced by the People's Bank of China (the "PBOC"). Expenses are distributed among different segments according to their benefits.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

44. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six-month period ended</u>					
<u>30 June 2023</u>					
External net interest income/ (expense)	2,240,161	(1,882,802)	4,074,279	(10,559)	4,421,079
Internal net interest (expense)/ income	(149,486)	5,314,759	(5,165,273)	–	–
Net fee and commission income	85,480	80,745	190,034	–	356,259
Other income, net (i)	–	–	1,880,654	(2,937)	1,877,717
Operating income	2,176,155	3,512,702	979,694	(13,496)	6,655,055
Operating expenses	(508,938)	(1,673,250)	(79,292)	(7,797)	(2,269,277)
Credit impairment losses on:					
Loans and advances to customers	(1,430,652)	(1,281,179)	–	–	(2,711,831)
Others	(119,264)	813	(1,033,873)	(21,743)	(1,174,067)
Operating profit/(loss)	117,301	559,086	(133,471)	(43,036)	499,880
Profit/(loss) before tax	117,301	559,086	(133,471)	(43,036)	499,880
Income tax credit					200,476
Profit for the period					700,356
Other segment information:					
Depreciation and amortisation	49,329	335,055	4,693	2,221	391,298
Capital expenditure	6,577	38,443	226	1,889	47,135
<u>As at 30 June 2023</u>					
Segment assets	551,794,101	201,775,805	28,871,319	4,779,049	787,220,274
Segment liabilities	206,506,356	448,263,774	64,714,771	3,785,961	723,270,862
Other segment information:					
Credit commitments	12,368,177	23,065,809	–	–	35,433,986

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

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

44. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six-month period ended</u>					
<u>30 June 2022</u>					
External net interest income/ (expense)	3,108,213	(362,099)	2,584,312	(11,842)	5,318,584
Internal net interest (expense)/ income	(232,372)	3,692,942	(3,460,570)	–	–
Net fee and commission income	93,410	139,442	143,005	–	375,857
Other income, net (i)	–	–	1,273,016	25,739	1,298,755
Operating income	2,969,251	3,470,285	539,763	13,897	6,993,196
Operating expenses	(451,886)	(1,617,722)	(88,684)	(9,379)	(2,167,671)
Credit impairment losses on:					
Loans and advances to customers	(2,066,398)	(1,381,110)	–	–	(3,447,508)
Others	(84,681)	1,982	(349,336)	3,263	(428,772)
Operating profit	366,286	473,435	101,743	7,781	949,245
Profit before tax	366,286	473,435	101,743	7,781	949,245
Income tax expense					(361,199)
Profit for the period					588,046
Other segment information:					
Depreciation and amortisation	54,648	332,353	3,471	4,182	394,654
Capital expenditure	18,923	119,119	1,200	1,889	141,131
<u>As at 30 June 2022</u>					
Segment assets	202,723,255	170,781,932	284,132,975	4,016,769	661,654,931
Segment liabilities	181,058,814	343,397,369	71,231,590	3,134,535	598,822,308
Other segment information:					
Credit commitments	13,867,574	30,718,699	–	–	44,586,273

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

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44. SEGMENT INFORMATION *(Continued)*

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

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

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For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

44. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China				Total
	Heilongjiang region	Northeastern China	Southwestern China	Other regions	
<u>Six-month period ended 30 June 2023</u>					
External net interest income	2,228,301	408,486	1,131,925	652,367	4,421,079
Internal net interest income/(expense)	693,280	(343,286)	(83,365)	(266,629)	–
Net fee and commission income	303,288	15,984	34,239	2,748	356,259
Other income, net (i)	1,868,402	1,540	4,130	3,645	1,877,717
Operating income	5,093,271	82,724	1,086,929	392,131	6,655,055
Operating expenses	(1,715,537)	(150,340)	(202,544)	(200,856)	(2,269,277)
Credit impairment losses on:					
Loans and advances to customers	(2,483,558)	(116,208)	28,881	(140,946)	(2,711,831)
Others	(1,174,067)	–	–	–	(1,174,067)
Operating (loss)/profit	(279,891)	(183,824)	913,266	50,329	499,880
(Loss)/Profit before tax	(279,891)	(183,824)	913,266	50,329	499,880
Income tax credit					200,476
Profit for the period					700,356
Other segment information:					
Depreciation and amortisation	284,031	27,696	51,565	28,006	391,298
Capital expenditure	33,402	10	957	12,766	47,135
<u>As at 30 June 2023</u>					
Segment assets	636,855,260	41,267,424	68,854,897	40,242,693	787,220,274
Segment liabilities	596,010,307	36,718,461	53,158,585	37,383,509	723,270,862
Other segment information:					
Credit commitments	19,239,043	4,138,135	8,554,932	3,501,876	35,433,986

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

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For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

44. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China				Total
	Heilongjiang region	Northeastern China	Southwestern China	Other regions	
<u>Six-month period ended 30 June 2022</u>					
External net interest income	2,631,996	452,479	1,561,322	672,787	5,318,584
Internal net interest income/(expense)	861,641	(157,421)	(111,145)	(593,075)	–
Net fee and commission income/(expense)	362,188	5,150	9,575	(1,056)	375,857
Other income, net (i)	1,267,135	1,249	8,819	21,552	1,298,755
Operating income	5,122,960	301,457	1,468,571	100,208	6,993,196
Operating expenses	(1,630,711)	(151,433)	(207,944)	(177,583)	(2,167,671)
Impairment losses on:					
Loans and advances to customers	(2,645,952)	(250,848)	(144,010)	(406,698)	(3,447,508)
Others	(428,772)	–	–	–	(428,772)
Operating profit/(loss)	417,525	(100,824)	1,116,617	(484,073)	949,245
Profit/(loss) before tax	417,525	(100,824)	1,116,617	(484,073)	949,245
Income tax expense					(361,199)
Profit for the period					588,046
Other segment information:					
Depreciation and amortisation	269,685	30,527	58,008	36,434	394,654
Capital expenditure	114,996	579	1,370	24,186	141,131
<u>As at 30 June 2022</u>					
Segment assets	541,879,112	32,046,810	46,305,821	41,423,188	661,654,931
Segment liabilities	473,905,678	32,523,749	46,576,647	45,816,234	598,822,308
Other segment information:					
Credit commitments	23,006,674	6,655,644	11,901,778	3,022,177	44,586,273

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

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The Board has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments to monitor financial risks within the Group, including the Risk Management Department to monitor credit risk and operational risk as well as the Asset and Liability Management department together with the Risk Management Department to monitor market and liquidity risks. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk, liquidity risk and operational risk and reporting directly to the Chief Risk Officer.

The Group maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the group is primarily due to loans, debt instruments, guarantees, commitment as well as other risks both on and off the statement of financial position.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- A stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry, or geographic location or have comparable economic characteristics.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

(i) **Credit risk measurement**

Measurement of ECLs

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

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

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

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

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Measurement of ECLs *(Continued)*

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Criteria for judging significant increases in credit risk

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

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

Quantitative criteria

- At the reporting date, the rating or the Probability of Default (“PD”) of the financial instruments reaches a certain extent, compared with the one at initial recognition.
- The debtors’ contractual payment (including principal and interest) are overdue more than 30 days.

Qualitative criteria

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

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For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Definition of credit-impaired financial asset

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

- The issuer or the debtor encounters significant financial difficulty;
- The debtor is in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, has granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- An active market for that financial asset disappears because of financial difficulties of the issuer or the debtor;
- The purchase or origination of a financial asset at a deep discount reflects the incurred credit losses; and
- Any principal, advances, interest and corporate bond investments held by debtors are overdue for more than 90 days.

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

Parameters of ECL measurement

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

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Parameters of ECL measurement *(Continued)*

Relative definitions are listed as follows:

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

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECLs both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs of various business types, such as Gross domestic product ("GDP"), Industrial added value, Consumer Price Index, and Producer Price Index.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. In this process, the Group mainly applies the experts' judgement. According to the result, the Group forecasts these economic indicators regularly and also determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

When calculating the weighted average ECL provision, the Group determines the optimistic, neutral and pessimistic scenarios and their weightings through a combination of macro-statistical analysis and expert judgement.

As at 30 June 2023, the Group has taken into account different macro-economic scenarios, made forward-looking forecasts of macro-economic indicators. Of which, the quarterly year-on-year GDP growth rate used to estimate ECL is 4.2% in the neutral scenario for the next year (from July 2023 to June 2024).

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills or investment securities. 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.

Corporate loans are mainly collateralised by properties or other assets. As at 30 June 2023, the carrying value of corporate loans covered by collateral amounted to RMB83,303 million (31 December 2022: RMB60,665 million).

Personal loans are mainly collateralised by residential properties. As at 30 June 2023, the carrying value of personal loans covered by collateral amounted to RMB48,917 million (31 December 2022: RMB41,945 million).

The Group prefers more liquid collateral with a relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair values of collateral of past due but not impaired loans and impaired loans are disclosed in note 45(a)(iv).

The credit business management department monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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

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

	30 June 2023	31 December 2022
Balances with the central bank	96,805,541	75,762,970
Due from banks and other financial institutions	26,225,389	25,852,261
Reverse repurchase agreements	992,349	1,000,750
Loans and advances to customers	294,258,525	271,784,821
Derivative financial assets	871,563	936,460
Financial investments		
– Financial assets at fair value through profit or loss	96,338,153	82,367,230
– Financial assets at fair value through other comprehensive income	64,006,313	52,726,640
– Financial assets at amortised cost	157,679,904	149,235,344
Finance lease receivables	21,515,986	20,816,866
Others	2,758,495	4,456,654
Subtotal	761,452,218	684,939,996
Credit commitments	35,345,492	45,483,641
Total maximum credit risk exposure	796,797,710	730,423,637

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Risk concentrations

By industry distribution

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

	30 June 2023	31 December 2022
Corporate loans and advances		
Agriculture, forestry, animal husbandry and fishing	1,567,933	1,478,161
Mining	88,103	91,074
Manufacturing	7,895,621	6,948,919
Production and supply of electricity, gas and water	6,718,998	4,922,892
Construction	10,802,892	10,716,808
Commercial trade	29,643,799	24,950,244
Transportation, storage and postal services	2,703,033	2,796,616
Lodging and catering	3,128,268	3,413,049
Information transmission, software and information technology services	382,967	357,065
Finance	202,200	7,200
Real estate	29,413,290	29,847,521
Leasing and commercial services	64,722,842	64,013,162
Scientific research and technological services	561,478	535,587
Water, environment and public utility management	9,755,691	9,875,138
Resident services and other services	176,339	174,134
Education	128,811	136,200
Health and social affair	427,770	423,780
Culture, sports and entertainment	439,025	355,583
Subtotal	168,759,060	161,043,133

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Risk concentrations (Continued)

By industry distribution (Continued)

	30 June 2023	31 December 2022
Discounted bills	19,347,781	6,011,014
Personal loans		
Personal business	24,358,310	25,268,997
Mortgages	12,458,766	13,138,592
Personal consumption	67,297,710	64,993,844
Loans to farmers	16,490,073	13,959,289
Subtotal	120,604,859	117,360,722
Total	308,711,700	284,414,869

By geographical distribution

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

	30 June 2023	31 December 2022
Heilongjiang region	177,660,955	156,440,954
Northeastern China excluding Heilongjiang	39,593,143	38,253,928
Southwestern China	58,188,120	57,847,408
Other regions	33,269,482	31,872,579
Total	308,711,700	284,414,869

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(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

(iii) Risk concentrations *(Continued)*

By type of guarantees

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

	30 June 2023	31 December 2022
Unsecured loans	112,175,554	88,388,383
Guaranteed loans	83,202,835	78,810,715
Loans secured by mortgages	100,468,128	104,389,713
Pledged loans	12,865,183	12,826,058
Total	308,711,700	284,414,869

(iv) Loans and advances to customers

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

	30 June 2023	31 December 2022
Corporate loans and advances		
– Neither past due nor impaired	151,685,108	128,146,978
– Past due but not impaired	17,642,090	23,114,805
– Impaired	18,779,643	15,792,364
Subtotal	188,106,841	167,054,147
Personal loans		
– Neither past due nor impaired	104,535,157	102,573,693
– Past due but not impaired	2,614,424	3,045,933
– Impaired	13,455,278	11,741,096
Subtotal	120,604,859	117,360,722
Total	308,711,700	284,414,869

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Neither past due nor impaired

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

	As at 30 June 2023		
	Pass	Special Mention	Total
Corporate loans and advances	150,567,141	1,117,967	151,685,108
Personal loans	104,224,519	310,638	104,535,157
Total	254,791,660	1,428,605	256,220,265

	As at 31 December 2022		
	Pass	Special Mention	Total
Corporate loans and advances	126,796,699	1,350,279	128,146,978
Personal loans	102,362,152	211,541	102,573,693
Total	229,158,851	1,561,820	230,720,671

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For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

Past due but not impaired

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

	As at 30 June 2023			
	Within 1 month	1 to 3 months	Over 3 months	Total
Overdue days				
Corporate loans and advances	5,600,718	12,041,372	–	17,642,090
Personal loans	1,247,656	1,366,768	–	2,614,424
Total	6,848,374	13,408,140	–	20,256,514

	As at 31 December 2022			
	Within 1 month	1 to 3 months	Over 3 months	Total
Overdue days				
Corporate loans and advances	6,182,131	16,932,674	–	23,114,805
Personal loans	1,508,201	1,537,732	–	3,045,933
Total	7,690,332	18,470,406	–	26,160,738

As at 30 June 2023, the fair values of collateral that the Group holds relating to corporate loans which are past due but not impaired amounted to RMB14,670,091 thousand (31 December 2022: RMB28,999,505 thousand), and the fair values of collateral that the Group holds relating to personal loans which are past due but not impaired amounted to RMB3,243,988 thousand (31 December 2022: RMB2,755,708 thousand).

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For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

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

	30 June 2023	31 December 2022
Corporate loans and advances	18,779,643	15,792,364
Personal loans	13,455,278	11,741,096
Total	32,234,921	27,533,460

As at 30 June 2023, the fair values of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB28,095,769 thousand (31 December 2022: RMB26,922,043 thousand). The collateral mainly consists of land, buildings, equipment and others.

Loans and advances rescheduled

Loans and advances rescheduled represent the loans and advances whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans and advances according to contractual terms. Forms of loans and advances rescheduled include deferral of payments, borrowing for repayment, deduction of interest or part of the principal, modification of the repayment method, improvement of collateral, changing the type of guarantee, etc. As at 30 June 2023, the gross value of the loans and advances rescheduled held by the Group amounted to RMB14,385 million (31 December 2022: RMB16,201 million).

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For the six-month period ended 30 June 2023
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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Finance lease receivables

	30 June 2023	31 December 2022
Finance lease receivables, net		
Neither past due nor impaired	21,085,432	20,356,468
Past due but not impaired	935,270	1,091,570
Impaired	315,079	296,850
Subtotal	22,335,781	21,744,888
Less: Allowance for impairment losses	(819,795)	(928,022)
Net balance	21,515,986	20,816,866

(vi) Financial assets

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

Financial assets at amortised cost

	As at 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
AAA	27,068,740	-	-	27,068,740
AA - to AA+	6,832,303	-	-	6,832,303
A+ or below	83,605	-	-	83,605
Unrated	103,676,575	13,599,773	13,633,457	130,909,805
Total	137,661,223	13,599,773	13,633,457	164,894,453
Less: Allowance for impairment losses	(656,294)	(1,289,847)	(5,268,408)	(7,214,549)
Net balance	137,004,929	12,309,926	8,365,049	157,679,904

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(vi) Financial assets (Continued)

Financial assets at amortised cost (Continued)

	As at 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
AAA	26,586,267	–	–	26,586,267
AA – to AA+	13,063,883	–	–	13,063,883
A+ or below	3,379,428	–	–	3,379,428
Unrated	90,958,159	9,570,510	11,816,110	112,344,779
Total	133,987,737	9,570,510	11,816,110	155,374,357
Less: Allowance for impairment losses	(788,574)	(804,663)	(4,545,776)	(6,139,013)
Net balance	133,199,163	8,765,847	7,270,334	149,235,344

Financial assets at fair value through other comprehensive income

	As at 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
AAA	13,425,981	–	–	13,425,981
AA – to AA+	10,400,950	–	–	10,400,950
A+ or below	–	–	–	–
Unrated	40,179,382	–	–	40,179,382
Total	64,006,313	–	–	64,006,313

	As at 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
AAA	13,356,112	–	–	13,356,112
AA – to AA+	13,771,702	–	–	13,771,702
A+ or below	–	–	150,000	150,000
Unrated	25,448,826	–	–	25,448,826
Total	52,576,640	–	150,000	52,726,640

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For the six-month period ended 30 June 2023
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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk

(i) Maturity analysis of contractual undiscounted cash flows

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

30 June 2023	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	45,315,707	-	-	-	-	-	52,326,883	97,642,590
Due from banks and other financial institutions and reverse repurchase agreements	7,152,025	3,833,361	4,857,980	11,920,779	-	-	-	27,764,145
Loans and advances to customers	-	17,877,104	18,145,353	86,826,714	102,551,287	62,259,602	39,530,779	327,190,839
Financial investments	36,895,875	4,985,445	14,080,639	49,129,612	116,293,182	113,438,259	36,272,852	371,095,864
Financial lease receivables	-	815,705	2,005,441	8,384,123	12,687,693	13,045	340,861	24,246,868
Other financial assets	1,241,503	154,192	111,612	302,735	405,320	112,460	430,673	2,758,495
Total financial assets	90,605,110	27,665,807	39,201,025	156,563,963	231,937,482	175,823,366	128,902,048	850,698,801

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

30 June 2023	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows – Continued								
Financial liabilities:								
Due to the central bank	-	1,923	20,389	1,386,453	-	-	-	1,408,765
Borrowings from banks and other financial institutions	-	3,847,769	5,070,180	14,527,267	1,266,428	-	-	24,711,644
Due to banks and repurchase agreements	1,490,640	3,294,218	2,003,979	16,011,595	-	-	-	22,800,432
Due to customers	142,276,016	48,358,831	81,059,987	142,636,955	259,627,494	5,454	-	673,964,737
Debt securities issued	-	2,530,000	7,530,000	10,750,000	-	-	-	20,810,000
Other financial liabilities	895,137	413,574	403,630	1,408,666	2,311,118	365,105	-	5,797,230
Total financial liabilities	144,661,793	58,446,315	96,088,165	186,720,936	263,205,040	370,559	-	749,492,808
Net position	(54,056,663)	(30,780,508)	(56,887,140)	(80,156,973)	(31,267,558)	175,452,807	128,902,048	101,205,993
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	173,353	2,122,072	731,827	-	-	-	3,027,252
Total outflow	-	(173,353)	(2,151,030)	(740,567)	-	-	-	(3,064,950)
Credit commitments	23,411,627	1,662,706	4,136,774	5,950,235	269,520	3,124	-	35,433,986

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

31 December 2022	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	38,181,704	-	-	-	-	-	38,593,810	76,775,514
Due from banks and other financial institutions and reverse repurchase agreements	11,147,439	8,074,310	519,792	7,336,308	-	-	-	27,077,849
Loans and advances to customers	-	17,411,439	10,332,104	81,614,902	88,700,956	84,989,056	49,968,736	333,017,093
Financial investments	25,047,693	2,196,951	5,133,655	44,756,280	128,966,310	84,656,611	41,789,844	332,547,344
Financial lease receivables	-	1,043,800	1,905,397	7,854,690	12,306,716	29,261	424,450	23,564,314
Other financial assets	2,739,587	184,198	132,521	338,163	473,110	131,043	458,032	4,456,654
Total financial assets	77,116,423	28,910,698	18,023,469	141,900,343	230,446,992	169,805,971	131,234,872	797,438,768

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

31 December 2022	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows – Continued								
Financial liabilities:								
Due to the central bank	-	1,108,913	719,188	1,148,642	-	-	-	2,976,743
Borrowings from banks and other financial institutions	-	3,408,265	5,146,212	5,520,423	562,431	-	-	14,637,331
Due to banks and repurchase agreements	1,956,291	3,596,615	6,452,768	18,927,395	-	-	-	30,933,069
Due to customers	140,674,205	42,104,676	51,140,232	142,117,037	209,846,035	861	-	585,883,046
Debt securities issued	-	5,300,000	8,470,000	15,150,000	-	-	-	28,920,000
Other financial liabilities	434,414	561,299	306,873	1,278,720	2,329,260	228,555	-	5,139,121
Total financial liabilities	143,064,910	56,079,768	72,235,273	184,142,217	212,737,726	229,416	-	668,489,310
Net position	(65,948,487)	(27,169,070)	(54,211,804)	(42,241,874)	17,709,266	169,576,555	131,234,872	128,949,458
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	69,544	138,361	2,872,034	-	-	-	3,079,939
Total outflow	-	(69,544)	(138,361)	(2,897,742)	-	-	-	(3,105,647)
Credit commitments	15,433,851	26,000	3,113,643	9,469,469	61	17,473,976	-	45,517,000

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(c) Market risk

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

The Group's market risk 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 in which the Group has 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 period end are kept unchanged and, therefore, has not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

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45. FINANCIAL INSTRUMENT 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.

Currency	Change in rate	Effect on profit before tax	
		30 June 2023	31 December 2022
USD	-1%	(35,372)	(38,973)
HKD	-1%	235	221
RUB	-1%	(337)	(77)

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.

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45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

30 June 2023	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	97,589,204	22,854	715	26,588	3,229	97,642,590
Due from banks and other financial institutions and reverse repurchase agreements	26,722,001	276,048	14,016	48,452	157,221	27,217,738
Loans and advances to customers	293,766,599	473,176	-	-	18,750	294,258,525
Derivative financial assets	-	871,563	-	-	-	871,563
Financial investments	320,264,172	3,576,979	-	-	-	323,841,151
Finance lease receivables	21,515,986	-	-	-	-	21,515,986
Other financial assets	2,756,769	1,633	-	93	-	2,758,495
Total financial assets	762,614,731	5,222,253	14,731	75,133	179,200	768,106,048
Financial liabilities:						
Due to the central bank	1,402,424	-	-	-	-	1,402,424
Borrowings from banks and other financial institutions	20,557,287	-	-	-	-	20,557,287
Due to banks and repurchase agreements	22,322,260	45,522	-	34,790	-	22,402,572
Derivative financial liabilities	-	1,022,654	-	-	-	1,022,654
Due to customers	649,977,653	62,840	629	6,706	154,974	650,202,802
Debt securities issued	20,636,723	-	-	-	-	20,636,723
Other financial liabilities	5,705,035	16	37,567	-	-	5,742,618
Total financial liabilities	720,601,382	1,131,032	38,196	41,496	154,974	721,967,080
Net position	42,013,349	4,091,221	(23,465)	33,637	24,226	46,138,968
Credit commitments	34,895,496	538,488	-	-	2	35,433,986

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For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

31 December 2022	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	76,719,981	22,219	712	31,069	1,533	76,775,514
Due from banks and other financial						
institutions and reverse						
repurchase agreements	26,015,072	580,544	15,204	37,113	205,078	26,853,011
Loans and advances to customers	271,673,814	86,437	–	–	24,570	271,784,821
Derivative financial assets	–	936,460	–	–	–	936,460
Financial investments	288,355,169	3,472,543	–	–	–	291,827,712
Financial lease receivables	20,816,866	–	–	–	–	20,816,866
Other financial assets	4,455,196	1,353	–	105	–	4,456,654
Total financial assets	688,036,098	5,099,556	15,916	68,287	231,181	693,451,038
Financial liabilities:						
Due to the central bank	2,968,794	–	–	–	–	2,968,794
Borrowings from banks and other						
financial institutions	14,405,435	–	–	–	–	14,405,435
Due to banks and repurchase						
agreements	30,148,551	81,387	–	26,345	–	30,256,283
Derivative financial liabilities	–	1,023,142	–	–	–	1,023,142
Due to customers	565,283,235	85,287	967	3,193	214,514	565,587,196
Debt securities issued	28,569,900	–	–	–	–	28,569,900
Other financial liabilities	5,068,315	113	36,397	–	–	5,104,825
Total financial liabilities	646,444,230	1,189,929	37,364	29,538	214,514	647,915,575
Net position	41,591,868	3,909,627	(21,448)	38,749	16,667	45,535,463
Credit commitments	44,922,253	594,288	–	–	459	45,517,000

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

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

30 June 2023	Less than three months	Three months to one year	One to five years	More than five years	Overdue/ non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	96,785,278	–	–	–	857,312	97,642,590
Due from banks and other financial institutions and reverse repurchase agreements	15,620,529	11,382,365	–	–	214,844	27,217,738
Loans and advances to customers	35,899,613	85,238,414	90,777,931	47,657,830	34,684,737	294,258,525
Derivative financial assets	–	–	–	–	871,563	871,563
Financial investments	17,133,177	41,906,411	96,008,365	95,624,471	73,168,727	323,841,151
Finance lease receivables	2,578,340	7,662,530	10,961,573	11,072	302,471	21,515,986
Other financial assets	–	–	–	–	2,758,495	2,758,495
Total financial assets	168,016,937	146,189,720	197,747,869	143,293,373	112,858,149	768,106,048
Financial liabilities:						
Due to the central bank	22,222	1,379,830	–	–	372	1,402,424
Borrowings from banks and other financial institutions	8,682,000	10,497,115	1,203,965	–	174,207	20,557,287
Due to banks and repurchase agreements	6,648,038	15,517,592	–	–	236,942	22,402,572
Derivative financial liabilities	–	–	–	–	1,022,654	1,022,654
Due to customers	263,242,986	139,463,428	235,899,370	4,222	11,592,796	650,202,802
Debt securities issued	10,023,439	10,613,284	–	–	–	20,636,723
Other financial liabilities	152,406	446,165	1,830,795	65,913	3,247,339	5,742,618
Total financial liabilities	288,771,091	177,917,414	238,934,130	70,135	16,274,310	721,967,080
Total interest sensitivity gap	(120,754,154)	(31,727,694)	(41,186,261)	143,223,238	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

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

31 December 2022	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	75,742,531	–	–	–	1,032,983	76,775,514
Due from banks and other financial						
institutions and reverse						
repurchase agreements	19,699,086	7,134,834	–	–	19,091	26,853,011
Loans and advances to customers	27,204,572	76,671,694	73,995,059	49,966,736	43,946,760	271,784,821
Derivative financial assets	–	–	–	–	936,460	936,460
Financial investments	5,888,849	37,567,935	109,708,728	69,264,041	69,398,159	291,827,712
Financial lease receivables	2,598,170	6,919,786	10,841,910	25,778	431,222	20,816,866
Other financial assets	–	–	–	–	4,456,654	4,456,654
Total financial assets	131,133,208	128,294,249	194,545,697	119,256,555	120,221,329	693,451,038
Financial liabilities:						
Due to the central bank						
	1,825,060	1,141,967	–	–	1,767	2,968,794
Borrowings from banks and						
other financial institutions	8,354,155	5,329,820	520,568	–	200,892	14,405,435
Due to banks and Repurchase						
agreements	11,039,664	18,820,984	–	–	395,635	30,256,283
Derivative financial liabilities	–	–	–	–	1,023,142	1,023,142
Due to customers	225,831,080	139,247,660	192,746,379	722	7,761,355	565,587,196
Debt securities issued	13,712,668	14,857,232	–	–	–	28,569,900
Other financial liabilities	13,168	42,224	264,259	131,238	4,653,936	5,104,825
Total financial liabilities	260,775,795	179,439,887	193,531,206	131,960	14,036,727	647,915,575
Total interest sensitivity gap	(129,642,587)	(51,145,638)	1,014,491	119,124,595	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT *(Continued)*

(d) Capital management

The Group's objectives on capital management are:

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, issue 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 National Administration of Financial Regulation. The required information is filed with the National Administration of Financial Regulation 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 the 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 requirements of the National Administration of Financial Regulation, commercial banks should meet the regulatory requirements of the capital adequacy ratio by the end of 2018. The regulatory requirements request a commercial bank to maintain its core tier 1 capital adequacy ratio above 7.5%, the tier 1 capital adequacy ratio above 8.5% and the capital adequacy ratio above 10.5%.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

45. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	30 June 2023	31 December 2022
Core capital		
Qualified part of share capital	10,995,600	10,995,600
Qualified part of capital reserves	7,657,284	7,657,284
Surplus reserve and general reserves	12,141,361	11,800,668
Undistributed profits	18,837,944	18,971,130
Qualified part of non-controlling interests	1,014,235	906,718
Other comprehensive income	370,961	50,810
Core tier 1 capital deductible items:		
Fully deductible items	(725,266)	(473,909)
Net core tier 1 capital	50,292,119	49,908,301
Net other tier 1 capital	21,834,238	11,819,903
Net tier 1 capital	72,126,357	61,728,204
Net tier 2 capital	6,916,505	7,051,161
Net capital	79,042,862	68,779,365
Total risk-weighted assets	565,800,658	577,632,754
Core tier 1 capital adequacy ratio	8.89%	8.64%
Tier 1 capital adequacy ratio	12.75%	10.69%
Capital adequacy ratio	13.97%	11.91%

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

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

30 June 2023	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	871,563	–	871,563
Financial assets at fair value through profit or loss				
– Debt securities	–	6,465,694	92,124	6,557,818
– Funds	–	36,753,467	–	36,753,467
– Trust investments and asset management plans	–	37,908,609	14,860,929	52,769,538
– Equity instruments	9,525	–	323,164	332,689
Subtotal	9,525	81,127,770	15,276,217	96,413,512
Financial assets at fair value through other comprehensive income				
– Debt securities	–	63,108,328	–	63,108,328
– Equity instruments	71,922	144,940	5,267,230	5,484,092
Subtotal	71,922	63,253,268	5,267,230	68,592,420
Loan and advance measured at fair value through other comprehensive income				
– Discounted bills	–	19,347,781	–	19,347,781
Total	81,447	164,600,382	20,543,447	185,225,276
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	1,022,654	–	1,022,654

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

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

31 December 2022	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	936,460	–	936,460
Financial assets at fair value through profit or loss				
– Debt securities	–	2,688,131	92,124	2,780,255
– Funds	–	25,047,692	–	25,047,692
– Trust investments and asset management plans	–	40,546,712	13,822,495	54,369,207
– Equity instruments	9,525	–	327,770	337,295
Subtotal	9,525	68,282,535	14,242,389	82,534,449
Financial assets at fair value through other comprehensive income				
– Debt securities	–	52,003,687	–	52,003,687
– Equity instruments	71,922	47,350	7,041,931	7,161,203
Subtotal	71,922	52,051,037	7,041,931	59,164,890
Loan and advance measured at fair value through other comprehensive income				
– Discounted bills	–	6,011,014	–	6,011,014
Total	81,447	127,281,046	21,284,320	148,646,813
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	1,023,142	–	1,023,142

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial assets and liabilities measured at fair value *(Continued)*

During the six-month period ended 30 June 2023 and year ended 31 December 2022, there is no significant transfer among each level.

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

The financial instruments classified as Level 2 by the Group are mainly debt investment, derivative financial instruments and discounted bills measured at fair value through other comprehensive income. 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; For derivative financial instruments, the fair values are determined based on discounted cash flow and other valuation methods; For discounted bills, the fair values are determined based on discounted cash flow. The determination are based on a valuation technique for which all significant inputs are observable market data.

The financial instruments classified as Level 3 by the Group are mainly unlisted equity instruments and trust fund plans and asset management plans. The valuation methods used are mainly market method and discounted cash flow method, and the unobservable parameters involved are mainly net assets, discount rate, liquidity discount, etc.

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.

As at 30 June 2023 and 31 December 2022, the Group and the Bank had no assets or liabilities measured at fair value that were discontinued.

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023

(Amount in thousands of RMB, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

Reconciliation of movements in Level 3 financial instruments measured at fair value is as follows:

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
As at 1 January 2022	2,341,854	7,239,874
Additions	12,837,977	86,744
Disposals/transfers	(753,117)	(190,018)
Loss through profit or loss	(184,325)	–
Loss through other comprehensive income	–	(94,669)
As at 31 December 2022 and 1 January 2023	14,242,389	7,041,931
Additions	391,655	288,997
Disposals/transfers	(11,681)	(2,066,305)
Gain/loss through profit or loss	653,854	–
Loss through other comprehensive income	–	2,607
As at 30 June 2023	15,276,217	5,267,230

Notes to the Condensed Consolidated Interim Financial Information

For the six-month period ended 30 June 2023
(Amount in thousands of RMB, unless otherwise stated)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Financial assets and liabilities not measured at fair value

Financial assets and financial liabilities not measured at fair value in the balance sheet mainly include: Balances with the central bank, Due from banks and other financial institutions, Reverse repurchase agreements, Loans and advances to customers measured at amortised cost, Investment in debt securities measured at amortised cost, Due to the central bank, Borrowings from banks and other financial institutions, Repurchase agreements, Due to customers, Debt securities issued, etc.

For debt securities measured at amortised cost and debt securities issued not reflected or disclosed at fair value, the following table sets forth their book value and fair value:

	As at 30 June 2023		As at 31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at amortised cost	154,940,425	165,778,203	146,908,243	158,465,028
Financial liabilities				
Debt securities issued	20,636,723	20,414,459	28,569,900	28,353,857

Other than the financial assets and financial liabilities disclosed in above table, other financial assets and financial liabilities that are not measured at fair value in the balance sheet, the valuation methods used is discounted cash flow method, the carrying amounts approximate the fair values.

47. SUBSEQUENT EVENTS

On 11 June 2021, the Group and Dongning Lizhi Building Decoration Engineering Co., Ltd. (東寧麗致建築裝飾工程有限公司) (“Dongning Lizhi”) entered into an equity transfer agreement that Dongning Lizhi agreed to dispose and the Group agreed to purchase 15% equity shares of HB Leasing. After completion of the equity transfer transaction, the Group will own 95% shareholding of the Harbin Bank Financial Leasing. The transaction is not yet completed as at 30 June 2023.

48. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 August 2023.

Unaudited Supplementary Financial Information

For the six-month period ended 30 June 2023

(In RMB thousands, unless otherwise stated)

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

(a) LIQUIDITY RATIO

	30 June 2023	31 December 2022
RMB current assets to RMB current liabilities	111.35%	97.97%
Foreign currency current assets to foreign currency current liabilities	226.55%	257.92%

These liquidity ratios are calculated based on relevant regulations provided by the former China Banking and Insurance Regulatory Commission and Chinese accounting policies.

(b) CURRENCY CONCENTRATIONS

	USD	HKD	RUB	Others	Total
30 June 2023					
Spot assets	4,360,023	38,183	–	256,101	4,654,307
Spot liabilities	(3,896,209)	(38,196)	–	(255,721)	(4,190,126)
Forward purchases	–	–	–	373	373
Forward sales	(2,307,572)	–	–	(457)	(2,308,029)
Net long/(short) position	(1,843,758)	(13)	–	296	(1,843,475)
31 December 2022					
Spot assets	4,169,539	37,352	–	301,001	4,507,892
Spot liabilities	(3,805,467)	(37,364)	–	(301,222)	(4,144,053)
Forward purchases	17,467	–	–	6,124	23,591
Forward sales	(2,226,478)	–	–	–	(2,226,478)
Net long/(short) position	(1,844,939)	(12)	–	5,903	(1,839,048)

Unaudited Supplementary Financial Information

For the six-month period ended 30 June 2023
(In RMB thousands, unless otherwise stated)

(c) INTERNATIONAL CLAIMS

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

International claims are included in Due from banks and other financial institutions.

International claims have been disclosed by major country or geographical area. A country or geographical area is reported when the claims from the country or area constitute 10% or more of the aggregate amount of international claims, after taking into account risk transfers.

	Banks	Others	Total
30 June 2023			
Asia Pacific excluding Mainland China	83,386	–	83,386
– of which attributed to Hong Kong	17,417	–	17,417
Europe	104,918	–	104,918
North America	133,564	–	133,564
Total	321,868	–	321,868
31 December 2022			
Asia Pacific excluding Mainland China	2,007,117	–	2,007,117
– of which attributed to Hong Kong	1,717,318	–	1,717,318
Europe	136,325	–	136,325
North America	201,326	–	201,326
Total	2,344,768	–	2,344,768

Unaudited Supplementary Financial Information

For the six-month period ended 30 June 2023

(In RMB thousands, unless otherwise stated)

(d) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers:

Overdue days	30 June 2023				Total
	Within 90 days	91 days to 1 year	1 to 5 years	Over 5 years	
Unsecured loans	2,159,889	1,955,608	5,984,460	141,239	10,241,196
Guaranteed loans	4,646,786	760,923	5,870,718	1,032,780	12,311,207
Loans secured by mortgages	14,840,974	3,378,354	8,027,155	1,100,810	27,347,293
Pledged loans	603,339	438,395	1,068,603	5,173	2,115,510
Total	22,250,988	6,533,280	20,950,936	2,280,002	52,015,206

Overdue days	31 December 2022				Total
	Within 90 days	91 days to 1 year	1 to 5 years	Over 5 years	
Unsecured loans	1,374,570	2,688,645	4,589,176	136,913	8,789,304
Guaranteed loans	8,691,986	2,173,704	5,394,155	10,328	16,270,173
Loans secured by mortgages	16,145,235	2,867,088	7,701,650	345,330	27,059,303
Pledged loans	71,901	1,040,761	431,814	173	1,544,649
Total	26,283,692	8,770,198	18,116,795	492,744	53,663,429

(ii) Overdue loans and advances to customers by geographical location:

	30 June 2023	31 December 2022
Heilongjiang region	21,216,781	22,358,405
Northeastern China excluding Heilongjiang	9,682,319	10,496,037
Southwestern China	9,984,212	8,560,131
Other regions	11,131,894	12,248,856
Total	52,015,206	53,663,429

Unaudited Supplementary Financial Information

For the six-month period ended 30 June 2023
(In RMB thousands, unless otherwise stated)

(e) OVERDUE AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 30 June 2023, there were no overdue amounts due from banks and other financial institutions in respect of principal or interest (31 December 2022: Nil).

(f) OVERDUE PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 30 June 2023, there were no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2022: Nil).

(g) EXPOSURES TO MAINLAND CHINA NON-BANK ENTITIES

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At 30 June 2023, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.

Documents for Inspection

- I. Financial Statements with Signature and Seal of Legal Representative, Person in Charge of Accounting Work and Person in Charge of Accounting Firms
- II. Original Audit Report with Accounting Firms' Seals and Certified Public Accountants' Signatures and Seals
- III. Text of Interim Report Autographed by Directors of the Company
- IV. Articles of Association of the Company

