

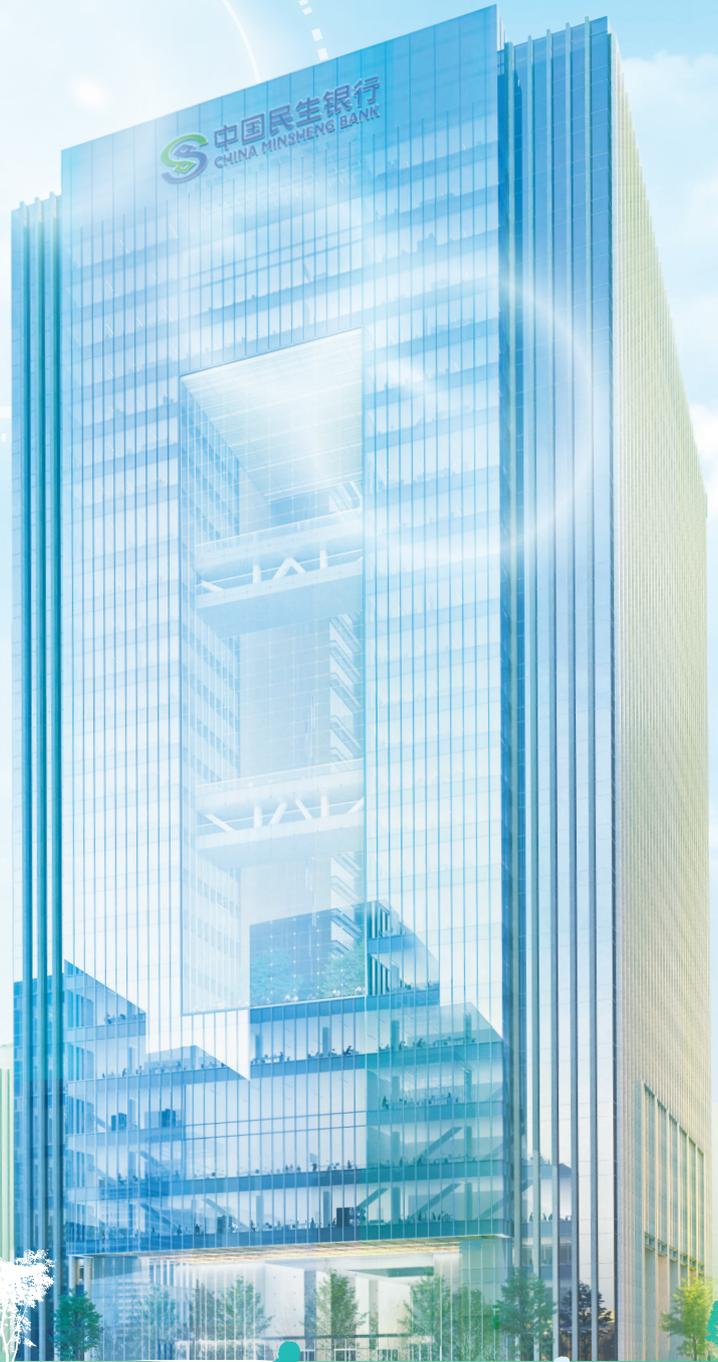


(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 01988 USD Preference Share Stock Code: 04609

2021

INTERIM REPORT



IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, and the Directors, Supervisors and Senior Management of the Company warrant the truthfulness, accuracy and completeness of the contents of this Interim Report and there are no misstatements, misleading representations or material omissions in this Interim Report, and shall assume several and joint liability.

This Interim Report was considered and approved on 27 August 2021 at the twelfth meeting of the eighth session of the Board of the Company. Of the 18 Directors who were entitled to attend the meeting, 6 Directors attended the meeting in person. Twelve Directors, being the Vice Chairmen Zhang Hongwei, Lu Zhiqiang and Liu Yonghao, and Directors Shi Yuzhu, Wu Di, Song Chunfeng, Weng Zhenjie, Liu Jipeng, Li Hancheng, Xie Zhichun, Peng Xuefeng and Qu Xinjiu, participated in the meeting by teleconference or video conference. Of the 9 Supervisors who were entitled to attend the meeting as non-voting delegates, 9 Supervisors attended the meeting as non-voting delegates.

The interim financial reports of the Company were not audited.

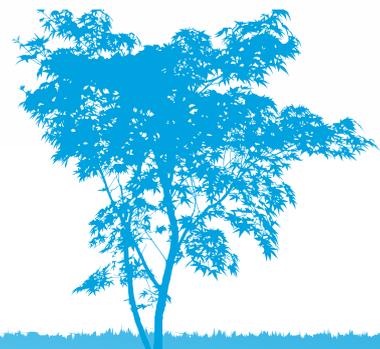
Gao Yingxin (Chairman), Zheng Wanchun (President), Li Bin (person in charge of finance and accounting) and Yin Xuwen (person in charge of the Finance and Accounting Department) warrant the truthfulness, accuracy and completeness of the financial reports included in this Interim Report.

No interim profit will be distributed and no capital reserve will be used for capitalisation for the interim period of 2021.

Unless otherwise specified, all amounts in this Interim Report are denominated in RMB.

The forward-looking statements about matters like future plans in this Interim Report do not constitute substantive commitments of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

Material Risk Warning: the Company has no foreseeable material risks. For potential risks, please refer to the section headed "XII. Risk Management" under "Chapter 3 Management Discussion and Analysis".



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DEFINITIONS

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

Bank, Company, China Minsheng Bank, Minsheng Bank	China Minsheng Banking Corp., Ltd.
Group	the Company and its subsidiaries
Minsheng Financial Leasing	Minsheng Financial Leasing Co., Ltd.
Minsheng Royal Fund	Minsheng Royal Fund Management Co., Ltd.
Minsheng Royal Asset Management	Minsheng Royal Asset Management Co., Ltd.
CMBC International	CMBC International Holdings Limited
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
former CBRC	former China Banking Regulatory Commission
former CIRC	former China Insurance Regulatory Commission
SSE	Shanghai Stock Exchange
SZSE	Shenzhen Stock Exchange
SEHK	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on SEHK
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
Articles of Association	the Articles of Association of China Minsheng Banking Corp., Ltd.
Reporting Period	the period from 1 January 2021 to 30 June 2021

STRATEGIC POSITIONING AND INITIATIVES OF THE COMPANY

In the face of the internal and external challenges, the Group adheres to its strategic direction and accelerates its reform with high-quality and sustainable development as its main strategy, digital transformation, development in key regions, and enhancement in risk control capability as the three focuses, consolidation of retail finance, expansion of medium, small and micro business finance, enhancement in corporate finance, and strengthening of financial markets business as the four drivers, with the aim of opening a new chapter of overall business development.

I. Mission, Vision and Strategic Positioning

(I) Mission

Serving the public, caring about people's livelihood

(II) Vision

Becoming a time-honoured bank

(III) Value Proposition

Customer first—Integrity, innovation, efficiency, win-win, and stability

(IV) Development Goal

The Company will adhere to the strategic direction while serving its customers whole-heartedly, and strive to achieve steady and sustainable development by expanding customer base, strengthening basic product and service capabilities, expanding the sources of high-quality liabilities, and optimising income structure, to build itself into a first-class commercial bank with distinctive features, continuous innovation, increasing value and steady operation in the next five years.

(V) Strategic Positioning

In order to achieve its development goals, the Company further focuses its strategic positioning and strives to become a bank for the non-state-owned enterprises (NSOEs), an agile and open bank, and a bank with considerate services.

A bank for the NSOEs. It is the Company's mission to serve the public, care about people's livelihood and wholeheartedly support the development of the real economy. The Company takes people as the foremost and serves the public by providing customers with excellent and comprehensive financial services. Leveraging on the characteristics and advantages of serving the NSOEs, medium, small and micro enterprises and economies involved in the rural revitalisation, the Company makes constant innovations on financial products and services, strives to become a bank with the best services for the NSOEs, and build a golden brand of China Minsheng Bank in the field of financial services to medium, small and micro enterprises. The Company continues to leverage on the advantages of system and mechanism as a non-state-owned bank that has the gene of innovation, and strives to better adapt to the changes in the market and customer demands.

STRATEGIC POSITIONING AND INITIATIVES OF THE COMPANY

An agile and open bank. The Company strives to accelerate the digital transformation, intensify the application of new technologies in all aspects of operation, management and decision-making process, improve the quality and efficiency of operation and management, realise all-round upgrade of smart banking, and provide customers with efficient and agile financial services. Focusing on the whole production process and life journey of customers, the Company seeks for breakthrough in medium, small and micro enterprises and personal finance to deeply integrate into the ecological scenarios, establish a new growth model of eco-bank, and promote scenario integration, data sharing and platform cooperation, with the aim to build an open bank that grows, shares and succeeds with its customers. The Company will also expand the application of emerging technologies while insisting on integration and openness to inspire enthusiasm for innovation, and constantly promote innovation in businesses and models.

A bank with considerate services. Focusing on the financial activities of customers with the Bank, the Company strives to optimise business process, improve basic service capabilities and enhance customer experience in all aspects. The Company will stay customer-centric to fully understand their needs, and build an integrated coordination system under “One Minsheng” to strengthen the culture of coordination, so as to provide customers with all-round and comprehensive services. The Company also strives to unite with customers and become customers of each other, in an aim to achieve win-win cooperation, grow together and create value together.

II. Strategic Measures

The Company adheres to the strategic positioning of “a bank for the NSOEs, an agile and open bank, and a bank with considerate services”, and strives to build it into “a first-class commercial bank with distinctive features, continuous innovation, increasing value and steady operation”.

Firstly, retail finance will be consolidated. Retail finance will serve as the Company’s prioritised, long-term and fundamental strategic business. The Company aims to build itself into an industry-leading retail bank through five core strategies including segmenting customer groups and carrying out in-depth operation, enriching product and service systems, empowering digital transformation with technology, cultivating strong capabilities of the Head Office, and strengthening consumer rights protection.

Secondly, financial services for medium, small and micro enterprises will be further expanded. The Company will adhere to its NSOE strategy, expand services for the basic customer base of medium, small and micro enterprises. Focusing on the five core strategies including breaking through customer acquisition model, innovating featured product system, promoting inclusive finance, establishing investment and financing ecosystem for technology and innovation enterprises and restructuring management models, the Company aims to become the host bank for medium, small and micro enterprises and build a distinctive brand in the field of services to small and medium-sized enterprises (SMEs) and the best domestic brand in small business finance.

Thirdly, corporate finance will be advanced. Focusing on the five core strategies including strengthening strategic customer base, enhancing institutional platforms, elaborating transaction banking business, devoting to investment banking business, and bettering green finance, the Company will steadily improve corporate finance and make it a “solid foundation” for the Bank’s business development, hence become a reliable strategic partner bank for its corporate customers.

STRATEGIC POSITIONING AND INITIATIVES OF THE COMPANY

Fourthly, financial markets business will be strengthened. Taking customer group management as the centre point, focusing on the four core strategies including all-round customer marketing, full-spectrum product supply, full calibre asset coordination and full-market asset allocation, the Company will develop first-class investment transaction and asset management capabilities, establish strong product supply platform, in an aim to facilitate the transformation to light capital and reshape the business development model of “low leverage, light capital, optimal structure and high return”.

Fifthly, digital transformation will be accelerated. Assuring the direction of transformation to digital finance, the Company sees systematic and comprehensive digital transformation as a new starting point for its future business layout. Through speeding up the establishment of a scenario-based eco-bank, the Company strives to seamlessly connect customers’ economic activities with their financial needs. By building up a more intelligent smart bank, the Company strives to comprehensively apply new technologies to all fields of commercial banking services and management to establish a brand new development model. In addition, the Company aims to build an agile and efficient digital bank with ultimate customer experience and increasing value with supporting mechanism including organisational structure adjustment, business structure and data base optimisation and resource input.

Sixthly, development in key regions will be more focused. Based on the positioning of the four key regions, which include Guangdong-Hong Kong-Macau Greater Bay Area, the Yangtze River Delta, Beijing-Tianjin-Hebei, and Chengdu-Chongqing in the map of China’s economic development, the Company will actively implement national strategies, make coordinated planning with scientific layout and match to differentiated policies and mechanisms, in an aim to make the four key regions primary drivers for high-quality business development of the whole Bank, thus to advance the high-quality and sustainable development of the whole Bank.

Seventhly, overall risk management will be further improved. The Company will improve the overall risk management system and establish the risk control synergy mechanism of three lines of defense to strengthen full coverage of all types of risks, improve risk preference transmission mechanism, and create core competitiveness of compliant operation. The Company will continue to enhance risk management capabilities, create an all-round digital risk control model, develop a more professional and efficient approval mechanism, improve the forward-looking risk prevention and control system, and build strong risk systems and teams. The Company will also address and intensify the collection and disposal of problem assets, strictly control new non-performing assets, thus to steadily improve the asset quality of the whole Bank.

Eighthly, system and mechanism support will be enhanced. The Company will optimise governance structure, and emphasise value growth and sustainable development. It will build platforms and mechanisms for innovation and develop a proactive, inclusive and responsible innovation culture. The Company will build an efficient synergy mechanism to form unified and strong power of action. Staying strategy-oriented, the Company will establish a forward-looking, professional and delicate resource allocation model. It will establish a new talent management system to stimulate organisational vitality. A streamlined and efficient organisational system will be developed to improve organisational efficiency. A long-term and stable evaluation and incentive mechanism will be in place to promote steady and sustainable development. The Company will also strengthen the guidance of Party building, practice social responsibility and build a “trustworthy and respectable” brand image.

BANK PROFILE

- | | | |
|------|---|---|
| I. | Registered Chinese Name of the Company: | 中國民生銀行股份有限公司
(Abbreviation: “中國民生銀行”) |
| | Registered English Name of the Company: | CHINA MINSHENG BANKING CORP., LTD.
(Abbreviation: “CMBC”) |
| II. | Legal Representative of the Company: | Gao Yingxin |
| III. | Authorised Representatives of the Company: | Xie Zhichun, Wong Wai Yee, Ella |
| IV. | Board Secretary: | Bai Dan |
| | Joint Company Secretaries: | Bai Dan, Wong Wai Yee, Ella |
| | Representative of Securities Affairs: | Wang Honggang |
| V. | Mailing Address: | No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China |
| | Postal Code: | 100031 |
| | Telephone: | 86-10-58560975; 86-10-58560824 |
| | Facsimile: | 86-10-58560720 |
| | Email: | cmbc@cmbc.com.cn |
| | Service Hotline: | 86-95568 |
| | Credit Card Service Hotline: | 86-400 66 95568 |
| VI. | Registered Address: | No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China |
| | Postal Code: | 100031 |
| | Website: | www.cmbc.com.cn |
| | Email: | cmbc@cmbc.com.cn |
| VII. | Branch Office and Place of Business in Hong Kong: | 3701-02, 3712-16, 37/F and 40/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong |

BANK PROFILE

VIII.	<p>Newspapers Selected by the Company for Information Disclosure:</p> <p>Website Designated by the CSRC for Publishing the A Share Interim Report:</p> <p>Website Designated by the SEHK for Publishing the H Share Interim Report:</p> <p>Place for Collection of the Reports:</p>	<p>China Securities Journal, Shanghai Securities News and Securities Times</p> <p>www.sse.com.cn</p> <p>www.hkexnews.hk</p> <p>Office of the Board of the Company</p>
IX.	<p>Legal Adviser as to PRC Law:</p> <p>Legal Adviser as to Hong Kong Law:</p>	<p>Grandall Law Firm, Beijing Office</p> <p>Clifford Chance</p>
X.	<p>Domestic Accounting Firm:</p> <p>Office Address:</p> <p>International Accounting Firm:</p> <p>Office Address:</p>	<p>PricewaterhouseCoopers Zhong Tian LLP</p> <p>11/F, PricewaterhouseCoopers Centre, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai</p> <p>PricewaterhouseCoopers</p> <p>22/F, Prince's Building, 10 Chater Road, Central, Hong Kong</p>
XI.	<p>A Share Registrar:</p> <p>Office Address:</p> <p>H Share Registrar:</p> <p>Office Address:</p> <p>Domestic Preference Share Registrar:</p> <p>Offshore Preference Share Registrar and Transfer Agent:</p>	<p>China Securities Depository and Clearing Corporation Limited (Shanghai Branch)</p> <p>No. 188 Yanggaonan Road, New Pudong District, Shanghai</p> <p>Computershare Hong Kong Investor Services Limited</p> <p>Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong</p> <p>China Securities Depository and Clearing Corporation Limited (Shanghai Branch)</p> <p>The Bank of New York Mellon SA/NV (Luxembourg Branch)</p>

BANK PROFILE

- XII. Places of Listing, Stock Names and Stock Codes:
- | | |
|----------------------------------|---|
| A Shares: SSE | Stock Name: MINSHENG BANK
Stock Code: 600016 |
| H Shares: SEHK | Stock Name: MINSHENG BANK
Stock Code: 01988 |
| Domestic Preference Shares: SSE | Stock Name: Minsheng Preference 1
Stock Code: 360037 |
| Offshore Preference Shares: SEHK | Stock Name: CMBC 16USD_PREF
Stock Code: 04609 |
- XIII. Initial Date of Registration: 7 February 1996
Initial Place of Registration: No. 4 Zhengyi Road, Dongcheng District, Beijing, China
- XIV. Date of Registration for Subsequent Change: 20 November 2007
Place of Registration: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
- XV. Unified Social Credit Code: 91110000100018988F
- XVI. Business Summary of the Company

Formally established in Beijing in 1996, the Company is the first national joint-stock commercial bank in the PRC primarily founded by non-state-owned enterprises.

Upon the approval of relevant regulatory authorities, the Company operates the following commercial banking businesses: taking in deposits from the general public, granting short, mid- to long-term loans, handling domestic and foreign settlements; handling the acceptance and discounting of negotiable instruments; issuing financial bonds; issuing, settling and underwriting government bonds as an agent; buying and selling government bonds and financial bonds; engaging in interbank lending; buying and selling foreign exchange and acting as an agent for the purchase and sale of foreign exchange; engaging in the business of bank cards; providing letter of credit services and guaranty; acting as an agent for the receipt and payment of money and acting as an insurance agent; providing safe deposit box service; and other businesses approved by relevant regulatory authorities.

For the changes of the Company's business philosophy during the Reporting Period, please refer to "Strategic Positioning and Initiatives of the Company".

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

I. Major Accounting Data and Financial Indicators

	January to June 2021	January to June 2020	Changes of the Reporting Period over the corresponding period of the previous year	January to June 2019
			Increase/ decrease (%)	
Operating results (RMB million)				
Operating income	86,350	96,759	-10.76	87,083
Net interest income	65,753	69,020	-4.73	57,357
Net non-interest income	20,597	27,739	-25.75	29,726
Operating expenses	20,366	20,659	-1.42	19,224
Impairment losses on credit	36,543	43,014	-15.04	29,313
Profit before income tax	28,940	33,083	-12.52	38,423
Net profit attributable to holders of equity shares of the Bank	26,556	28,453	-6.67	31,623
Net cash flow from operating activities	287,990	113,992	152.64	61,728
Data per share (RMB)				
Basic earnings per share	0.56	0.61	-8.20	0.72
Diluted earnings per share	0.56	0.61	-8.20	0.72
Net cash flow per share from operating activities	6.58	2.60	153.08	1.41
			Changes in percentage points	
Profitability indicators (%)				
Return on average assets (annualised)	0.76	0.83	-0.07	1.04
Return on weighted average equity (annualised)	10.43	11.48	-1.05	14.86
Cost-to-income ratio	22.49	20.31	2.18	21.12
Net fee and commission income to operating income ratio	14.69	15.05	-0.36	17.74
Net interest spread (annualised)	1.93	2.24	-0.31	1.99
Net interest margin (annualised)	2.02	2.22	-0.20	2.02

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	30 June 2021	31 December 2020	Changes from the end of the previous year to the end of the Reporting Period	31 December 2019
			Increase/ decrease (%)	
Scale indicators (RMB million)				
Total assets	7,069,708	6,950,233	1.72	6,681,841
Total loans and advances to customers	4,031,900	3,853,931	4.62	3,487,601
Of which: Corporate loans and advances	2,339,153	2,244,856	4.20	2,074,677
Personal loans and advances	1,692,747	1,609,075	5.20	1,412,924
Allowance for impairment losses on loans	103,426	97,637	5.93	84,647
Total liabilities	6,482,413	6,408,985	1.15	6,151,012
Total deposits from customers	3,852,340	3,728,174	3.33	3,604,088
Of which: Corporate deposits	3,019,739	2,961,617	1.96	2,878,931
Personal deposits	827,305	758,712	9.04	718,363
Other deposits	5,296	7,845	-32.49	6,794
Share capital	43,782	43,782	-	43,782
Total equity attributable to holders of equity shares of the Bank	575,436	529,537	8.67	518,845
Total equity attributable to holders of ordinary shares of the Bank	475,580	459,677	3.46	448,985
Net assets per share attributable to holders of ordinary shares of the Bank (RMB)	10.86	10.50	3.43	10.26
			Changes in percentage points	
Asset quality indicators (%)				
NPL ratio	1.80	1.82	-0.02	1.56
Allowance to NPLs	142.87	139.38	3.49	155.50
Allowance to total loans	2.57	2.53	0.04	2.43
			Increase/ decrease (%)	
Capital adequacy ratio indicators (RMB million)				
Net capital base	755,024	707,472	6.72	673,741
Of which: Net core tier-one capital	479,238	461,921	3.75	455,088
Net other tier-one capital	100,293	70,427	42.41	70,871
Net tier-two capital	175,493	175,124	0.21	147,782
Risk-weighted assets	5,623,652	5,425,856	3.65	5,117,026
			Changes in percentage points	
Core tier-one capital adequacy ratio (%)	8.52	8.51	0.01	8.89
Tier-one capital adequacy ratio (%)	10.31	9.81	0.50	10.28
Capital adequacy ratio (%)	13.43	13.04	0.39	13.17
Total equity to total assets ratio (%)	8.31	7.79	0.52	7.94

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Notes:

1. According to the requirements in the Notice on Strictly Implementing Accounting Standards for Enterprises and Effectively Enhancing Enterprises' Work on the 2020 Annual Reports (Cai Kuai [2021] No. 2) 《關於嚴格執行企業會計準則 切實加強企業2020年年報工作的通知》(財會〔2021〕2號), the Group reclassified credit card installment income from fee and commission income to interest income since 2020. The relevant financial indicators of the comparative periods have been restated.
2. Return on average assets = net profit/average balance of total assets at the beginning and the end of the period.
3. Earnings per share and return on weighted average equity: calculated according to regulations including the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (2010 Revision) 《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂)) promulgated by the CSRC, etc. The effect of the distribution of dividends for preference shares and perpetual bond interest was taken into account in calculating the above indicators.
4. Cost-to-income ratio = (operating and other operating expenses – tax and surcharges)/operating income.
5. Net interest spread = average return ratio on interest-earning assets – average cost ratio of interest-bearing liabilities.
6. Net interest margin = net interest income/average balance of interest-earning assets.
7. Total loans and advances to customers, total deposits from customers and the compositions of which did not include accrued interests.
8. Allowance for impairment losses on loans includes allowance for impairment losses on loans measured at amortised cost, and allowance for impairment losses on loans at fair value through other comprehensive income.
9. Other deposits include issuing certificates of deposit, outward remittance and remittance payables.
10. NPL ratio = total NPLs/total loans and advances to customers.
11. Allowance to NPLs and allowance to total loans were calculated according to Notice on Adjusting the Regulatory Requirements on Allowance for Impairment Losses on Loans of Commercial Banks (Yin Jian Fa [2018] No. 7) 《關於調整商業銀行貸款損失準備監管要求的通知》(銀監發〔2018〕7號) promulgated by the CBIRC. As at the end of the Reporting Period, the regulatory standards for allowance to NPLs and allowance to total loans applicable to the Group and the Bank were 130% and 1.8%, respectively. Allowance to NPLs = allowance for impairment losses on loans/total NPLs; allowance to total loans = allowance for impairment losses on loans/total loans and advances to customers.

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

II. Supplementary Accounting Data and Financial Indicators

Major indicators (%)	Benchmark	30 June 2021	31 December 2020	31 December 2019
Liquidity ratio (consolidated in RMB)	≥25	47.52	49.72	54.06
Liquidity coverage ratio	≥100	130.65	128.37	133.66
Net stable funding ratio	≥100	104.25	104.57	104.30
Leverage ratio	≥4	7.50	6.93	6.87
Percentage of loans to the single largest loan customer	≤10	1.52	1.63	2.67
Percentage of loans to the top ten loan customers	≤50	8.56	9.73	12.31

Notes:

1. The above data were calculated based on the relevant regulations of the Chinese banking regulators. Except for the liquidity ratio, which was information of the Bank, all other indicators were information of the Group.
2. Percentage of loans to the single largest loan customer = total loans to the single largest loan customer/net capital base.
3. Percentage of loans to the top ten loan customers = total loans to the top ten loan customers/net capital base.

Migration ratio of loans (%)	30 June 2021	31 December 2020	31 December 2019
Pass	1.51	4.94	3.19
Special-mention	18.07	30.60	14.12
Substandard	62.11	89.49	46.56
Doubtful	20.55	56.75	38.93

MANAGEMENT DISCUSSION AND ANALYSIS

I. Review of Economic and Financial Conditions and Government Policies

During the Reporting Period, benefiting from strong policy support from various countries, increased supply of COVID-19 vaccines, and steady progress in vaccination, the global economy gradually stabilised. The International Monetary Fund raised its forecast for global economic growth in 2021 from 5.5% to 6.0% in its World Economic Outlook for April. However, emerging economies were relatively weak in terms of pandemic prevention and control and vaccine supply, and slower resumption of production and economic growth than that of the developed countries, thus forming a “dual track” recovery situation.

China’s achievements in the normalised pandemic prevention and control and in economic and social development have been sustained, and its economy has maintained a steady recovery. In the first quarter, due to the recurrence of local outbreaks, GDP grew by 0.4% from the previous quarter, the slowest pace since the second quarter of the previous year. In the second quarter, with the continuous improvement in pandemic prevention and control, the economy and the society gradually returned to normal. The growth rate of GDP rose to 1.3% as compared with the previous quarter. Due to the high base in the corresponding period of the previous year, the growth rate dropped from 18.3% in the first quarter to 7.9%, as compared with the corresponding period of the previous year, but the average growth of the two years rebounded from 5.0% in the first quarter to 5.5%. On the whole, the national economy showed a trend of “making reinforcement while maintaining stability and improving performance”, with expanded demand for production, increased market vitality, strong support for employment and people’s livelihood, positive results in high-quality development, and reasonable economic operation.

Based on the internal and external situation, China’s macro economic policies continued to provide relief for the main market entities, maintain the strength of necessary support without making a sharp turn, make adjustments and improvements in time according to the changes of the situation to further consolidate the basic state of the economy. China introduced a proactive fiscal policy which was conducive to improve quality and increase efficiency, and thus was more sustainable. It lowered the scale and rate of deficit, and enhanced fiscal sustainability. A moderate expenditure intensity was maintained and basic people’s livelihood security was strengthened. Continuous efforts were made to promote tax and fee reductions to boost the vitality of market entities. Effective investment was actively expanded, and special local government bonds in the amount of RMB3.65 trillion were arranged in the whole year, which was only RMB100 billion less than the previous year. Management of local debts was strengthened and the efficiency of capital use was increased to prevent the risks of government debts. China adopted a prudent monetary policy which was more flexible, precise, reasonable and moderate, with reasonable and sufficient liquidity maintained, and the transmission efficiency of monetary policy increased. The precise guiding role of structural monetary policy instruments was leveraged to encourage more capital flows to key areas and weak aspects such as technological innovation, small and micro enterprises, and green development. Benefits were continuously released from the loan prime rate (LPR) reform. The regulation of deposit interest rates was optimised. The reform of deposit interest rate quotation was initiated to guide the overall financing costs to decrease steadily. The management of RMB exchange rate expectations was enhanced to maintain the overall stability of the RMB exchange rate. The framework of modern monetary policy, the system of central bank’s policy interest rate and the framework of macro-prudential policy were improved. Regulatory policies were aimed at strengthening high-quality development and financial rule of law, improving long-term mechanisms, and maintaining a market environment for fair competition. Financial institutions were encouraged to improve the quality and efficiency of corporate governance, so that they were better positioned to prevent and resolve financial risks. Anti-monopoly was strengthened and the disorderly expansion of capital was prevented to ensure that financial innovation was carried out under the premise of prudential regulation.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, under the background of stabilising leverage and actively eliminating debt risks, the overall monetary environment showed a pattern of “structural tight credit + stable currency”, with an appropriate increase in money supply and scale of social financing, a reasonable growth in monetary credit, and the continuous optimisation of the credit structure. During the Reporting Period, the scale of social financing increased by RMB17.74 trillion in total, representing a decrease of RMB3.13 trillion from the corresponding period of the previous year. The accumulative increase of RMB loans was RMB12.76 trillion, representing an increase of RMB667.7 billion, as compared with the corresponding period of the previous year. Mid- to long-term loans of banks remained a relatively high level, and the growth of balances of mid- to long-term loans to the manufacturing industry and the inclusive small business loans continued to increase. The reform potential of LPR was continuously released. Affected by factors such as loan repricing and supporting entities, the net interest margin of the banking industry narrowed in the first half of the year. The asset quality continued to improve, and the non-performing loans (NPLs) ratio and the proportion of special-mention loan continued to decline, and overall risk offset capability in the industry was further consolidated. Benefiting from the improvement of asset quality caused by the economic recovery and the marginal relief of pressure on provisioning, commercial banks recorded total net profits of RMB1.1 trillion in the first half of the year, representing an increase of 11.1% as compared with the corresponding period of the previous year, showing the continuous improvement of business climate in the industry.

II. Objectives and Strategies

Adhering to the customer-centric principle and targeting at sustainable and high-quality development, the Bank has made good achievements in coordinating and advancing the tasks related to pandemic prevention and control and business development, reinforcing support for the real economy, setting a firm strategic direction, innovating the customer service model, reforming operation and management method, and strengthening the management and control of various financial risks.

Firstly, the Bank increased financial service support for the real economy. The Bank strengthened the quality and efficiency of financial services for medium, small and micro enterprises, and provided comprehensive, efficient, convenient and distinctive financial services. The Bank further increased the granting of credit to the manufacturing industry, and built a professional service system and a long-term mechanism. The Bank continued to increase extension of loans in areas such as inclusive finance, rural revitalisation and targeted poverty alleviation, and strengthened top-level design and policy support. The Bank specified the development direction of green finance, innovated the business model and product system of green finance, and strengthened supporting policies. The Bank actively supported the development of new trading models and provided services for customers engaged in cross border e-commerce, market procurement and international trade in an innovative way.

Secondly, the Bank adhered to the corporate mission of “serving the public, caring about people’s livelihood (服務大眾、情繫民生)” to serve as a bank for the NSOEs. The Bank maintained the strategic focus as a NSOE, and strengthened the segmented management of customers. The Bank strove to create more business opportunities with strategic customers, innovated the integrated marketing system of the Head Office, the branches and the sub-branches, established mutually beneficial and win-win strategic partnerships, provided all-round comprehensive financial services, in an aim to become a “strategic bank” for strategic customers. The Bank focused on the upstream and downstream of the supply chain of high-quality core enterprises, medium, small and micro enterprises with regional characteristics, new economic entities of rural revitalisation and scientific and technological innovation enterprises, innovated the integrated and scenario-based service model, established distinctive product system, in an aim to build the Bank’s distinctive brand in the SME sector and the best brand in small business finance in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Thirdly, the Bank promoted digital financial transformation to become an agile and open bank. The Bank improved its technology and data capabilities, completed the transformation of a “fully distributed” enterprise-level architecture, and formed a horizontal platform-based technology system with “middle-tier business PaaS, middle-tier data PaaS, middle-tier AI PaaS” as the core. The Bank built ecological scenarios based on platforms in relation to enterprise production, personal life journey and government agencies, incorporated digital, online financial and non-financial services, and improved products and services of new supply chain finance, settlement and cash management, open bank and intelligent risk control. New technologies and new techniques were fully applied to all areas of the Bank’s operation and management to provide customers with more convenient and efficient services.

Fourthly, the Bank established the “customer-centric” integrated service system to serve as a bank with considerate services. The Bank deepened its “customer-centric” business philosophy, focused on the financial life journey of customers to constantly improve marketing and services, enhance basic service capabilities, optimise product supply and business processes, and comprehensively improve customer experience. The Bank continued to promote the construction of the Group’s cross-selling and business coordination system, quickly responded to market changes and customer needs, and provided customers with integrated, all-round and comprehensive services, so as to grow and create values together with them.

Fifthly, the Bank strove to create new digital retail business with Minsheng’s characteristics. Focusing on improvement of customer experience and being digital-driven, the Bank accelerated the layout of ecosystem and establishment of scenarios to expand basic customer base, and consolidate basic products and services. With a focus on car owners, quasi-elderly care/elderly care, small business community ecosystems, small business supply chains and other distinctive and segmented retail customer groups, the Bank strove to create an integrated customer acquisition and coordinated business operation system, optimise standardised management of all customer groups and segmented management of distinctive customer groups, improve standardised and professional service capabilities for wealth management, and expand the integrated service model of payment + settlement.

Sixthly, the Bank implemented strategic focus on key regions. To closely follow the national strategic layout, the Bank formulated business strategies and implementation plans for four key regions, namely the Guangdong-Hong Kong-Macau Greater Bay Area, the Yangtze River Delta, Beijing-Tianjin-Hebei and Chengdu-Chongqing. The Bank specified the high-quality development goals, development strategies and implementation paths for key regions, and focused on breakthroughs in large infrastructure, SMEs, cross-border finance, high-net-worth customer groups and other business directions. It formulated policies for supporting resource guarantee and orderly promoted the gradual implementation of all policies and measures to continuously increase its market competitiveness in key regions.

Seventhly, the Bank enhanced its overall risk management capabilities. The Bank improved the overall risk management system, and enhanced the risk management capabilities of the first, second and third lines of defense. It strengthened the concept of “internal control and compliance are the core competitiveness”, and improved the internal control system. The Bank strengthened the refined management of various risks and the prevention and control of new types of risks, and improved the authorisation mechanism. The Bank promoted the professional operation and management mechanism for problem assets, and improved the efficiency of recovery and disposal of non-performing assets of the whole Bank. The Bank strengthened the internal control and compliance management of the subsidiaries to ensure the compliant operation of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Eighthly, the Bank strengthened basic management and refined management. The Bank strengthened asset and liability management, and promoted the steady, coordinated and sustainable development of assets and liabilities. It deepened structural adjustments, strengthened dynamic regulation, pushed forward the growth of scale of basic businesses, increased the support for key businesses and regions, and improved capital management and asset and liability risk management. The Bank strengthened financial management, insisted on resource allocation towards strategic businesses, digital finance and key regions, etc. to ensure strategic resource input. The Bank attached importance to mid- to long-term returns, and optimised budget management and cost management models. The Bank also deepened centralised operations to build a digital “grand operation platform”.

III. Overview of Operations

During the Reporting Period, the Bank thoroughly implemented the decisions and deployments of the CPC Central Committee and the State Council, earnestly implemented the work requirements of the CPC China Minsheng Bank Committee and the Board of the Head Office. Centring on the strategic positioning of “a bank for the NSOEs, an agile and open bank, and a bank with considerate services”, with “customers, liabilities, risks, compliance, reforms and strategies” as the key points, and with the mission of serving the real economy, the Bank solidly advanced various tasks to firmly follow the path of steady and sustainable development.

Operation Performance. During the Reporting Period, the Group recorded net profit attributable to holders of equity shares of the Bank of RMB26,556 million, representing a decrease of RMB1,897 million, or 6.67%, as compared with the corresponding period of the previous year. Operating income amounted to RMB86,350 million, representing a decrease of RMB10,409 million, or 10.76%, as compared with the corresponding period of the previous year. The main reasons for the decline in operating income were the Bank’s active implementation of the national policy of lowering fees and surcharges, strict implementation of the credit control policies for the real estate industry, reduction in the pricing of newly granted loans, increased allocation of high-quality liquid assets, such as treasury bonds and policy financial bonds, decline in return on investment, narrowed interest margin, and a decrease of RMB3,533 million in net interest income as compared with the corresponding period of the previous year. The Bank conscientiously implemented the regulatory requirements, and reduced non-standardised investments, of which non-principal-guaranteed wealth management and bills-based asset management investments had been fully settled, with the related non-interest income decreasing by RMB4,577 million as compared with the corresponding period of the previous year. Due to the fluctuated bond market as a whole and the lack of trading opportunities as in the corresponding period of the previous year, the bond spread yield decreased by RMB2,834 million as compared with the corresponding period of the previous year.

During the Reporting Period, annualised return on average assets of the Group and annualised return on weighted average equity attributable to holders of ordinary shares of the Bank were 0.76% and 10.43%, respectively, representing decreases of 0.07 percentage points and 1.05 percentage points as compared with the corresponding period of the previous year, respectively. Basic earnings per share was RMB0.56, representing a decrease of RMB0.05 as compared with the corresponding period of the previous year. Net assets per share attributable to holders of ordinary shares of the Bank was RMB10.86, representing an increase of RMB0.36 as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Scale. During the Reporting Period, the Bank's reform and transformation continued to be deepened, customer group management was solidly advanced, and the business structure was adjusted at an accelerated pace. On the asset side, under the development concept of promoting loans and optimising structure, the proportion of total loans and advances to customers in total assets continued to increase. Meanwhile, by closely focusing on the national direction of optimisation and adjustment of credit structure, the Bank increased credit support for related areas in line with the new development concept, and strictly implemented the macro-prudential management requirements for the real estate industry. The growth of loans to key regions and key customers was higher than the average growth of all loans of the whole Bank. As at the end of the Reporting Period, total assets of the Group amounted to RMB7,069,708 million, representing an increase of RMB119,475 million, or 1.72% as compared with the end of the previous year. Total loans and advances to customers amounted to RMB4,031,900 million, representing an increase of RMB177,969 million, or 4.62%, as compared with the end of the previous year, accounting for 57.03% of total assets, representing an increase of 1.58 percentage points as compared with the end of the previous year. On the liability side, the Bank continued to consolidate its basic customer base, actively expanded its effective customer base, constantly improved basic products and services, reduced high-cost deposits, and promoted the growth of low-cost settlement deposits. As a result, the deposit structure continued to optimise, and the cost of deposits decreased significantly. As at the end of the Reporting Period, total liabilities of the Group amounted to RMB6,482,413 million, representing an increase of RMB73,428 million, or 1.15%, as compared with the end of the previous year. Deposits from customers amounted to RMB3,852,340 million, representing an increase of RMB124,166 million, or 3.33%, as compared with the end of the previous year. Personal deposits accounted for 21.48% of deposits from customers, representing an increase of 1.13 percentage points as compared with the end of the previous year.

Asset Quality. During the Reporting Period, the Group continued to strengthen credit risk management, enhanced asset quality management and control, improved risk measurement and early warning capabilities, took multiple measures simultaneously to intensify the disposal of non-performing assets, and continued to improve the overall risk management level. During the Reporting Period, the Group's asset quality indicators improved steadily, and its risk offsetting capabilities were constantly enhanced. As at the end of the Reporting Period, total NPLs of the Group amounted to RMB72,391 million, representing an increase of RMB2,342 million, as compared with the end of the previous year. The NPL ratio was 1.80%, representing a decrease of 0.02 percentage points as compared with the end of the previous year. The ratios of loans overdue for more than 90 days and more than 60 days to NPLs were both less than 100%. The allowance to NPLs and the allowance to total loans were 142.87% and 2.57%, respectively, representing an increase of 3.49 percentage points and an increase of 0.04 percentage points, respectively, as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Analysis of Major Items of Statement of Profit or Loss

(I) Changes of major items of statement of profit or loss

During the Reporting Period, the Group recorded net profit attributable to holders of equity shares of the Bank of RMB26,556 million, representing a decrease of RMB1,897 million, or 6.67%, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Operating income	86,350	96,759	-10.76
Of which: Net interest income	65,753	69,020	-4.73
Net non-interest income	20,597	27,739	-25.75
Operating expenses	20,366	20,659	-1.42
Impairment losses on credit	36,543	43,014	-15.04
Impairment losses on other assets	501	3	16,600.00
Profit before income tax	28,940	33,083	-12.52
Less: Income tax expenses	2,203	4,303	-48.80
Net profit	26,737	28,780	-7.10
Of which: Net profit attributable to holders of equity shares of the Bank	26,556	28,453	-6.67
Profit or loss attributable to non-controlling interests	181	327	-44.65

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Operating income

During the Reporting Period, operating income of the Group amounted to RMB86,350 million, representing a decrease of RMB10,409 million, or 10.76%, as compared with the corresponding period of the previous year.

The amounts, percentages and changes of major items of the Group's operating income are as follows:

Item (RMB million)	January to June 2021		January to June 2020		
	Amount	% of total	Amount	% of total	Change (%)
Net interest income	65,753	76.15	69,020	71.33	-4.73
Interest income	140,736	162.99	147,538	152.48	-4.61
Of which: Interest income from loans and advances to customers	100,219	116.08	103,863	107.34	-3.51
Interest income from financial investments	30,019	34.76	32,143	33.22	-6.61
Interest income from long-term receivables	3,911	4.53	3,362	3.47	16.33
Interest income from placements with banks and other financial institutions	3,379	3.91	4,779	4.94	-29.29
Interest income from balances with central bank	2,574	2.98	2,599	2.69	-0.96
Interest income from financial assets held under resale agreements	475	0.55	540	0.56	-12.04
Interest income from balances with banks and other financial institutions	159	0.18	252	0.26	-36.90
Interest expenses	-74,983	-86.84	-78,518	-81.15	-4.50
Net non-interest income	20,597	23.85	27,739	28.67	-25.75
Net fee and commission income	12,684	14.69	14,562	15.05	-12.90
Other net non-interest income	7,913	9.16	13,177	13.62	-39.95
Total	86,350	100.00	96,759	100.00	-10.76

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Net interest income and net interest margin

During the Reporting Period, net interest income of the Group amounted to RMB65,753 million, representing a decrease of RMB3,267 million, or 4.73%, as compared with the corresponding period of the previous year. The net interest margin of the Group was 2.02%, representing a decrease of 0.20 percentage points as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021			January to June 2020		
	Average balance	Interest income	Average return (%)	Average balance	Interest income	Average return (%)
Interest-earning assets						
Total loans and advances to customers	3,959,450	100,219	5.10	3,675,563	103,863	5.68
Of which: Corporate loans and advances	2,304,204	52,716	4.61	2,234,119	57,500	5.18
Personal loans and advances	1,655,246	47,503	5.79	1,441,444	46,363	6.47
Financial investments	1,755,523	30,019	3.45	1,723,470	32,143	3.75
Balances with central bank	346,180	2,574	1.50	332,700	2,599	1.57
Placements with banks and other financial institutions	250,684	3,379	2.72	287,473	4,779	3.34
Long-term receivables	134,607	3,911	5.86	124,102	3,362	5.45
Balances with banks and other financial institutions	63,268	159	0.51	57,599	252	0.88
Financial assets held under resale agreements	45,181	475	2.12	47,790	540	2.27
Total	6,554,893	140,736	4.33	6,248,697	147,538	4.75

MANAGEMENT DISCUSSION AND ANALYSIS

Item (RMB million)	January to June 2021			January to June 2020		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Interest-bearing liabilities						
Deposits from customers	3,748,513	40,043	2.15	3,700,371	43,292	2.35
Of which: Corporate deposits	2,989,774	31,467	2.12	2,947,616	34,225	2.33
Demand	1,266,118	8,137	1.30	1,146,788	6,398	1.12
Time	1,723,656	23,330	2.73	1,800,828	27,827	3.11
Personal deposits	758,739	8,576	2.28	752,755	9,067	2.42
Demand	233,276	410	0.35	212,476	389	0.37
Time	525,463	8,166	3.13	540,279	8,678	3.23
Balances from banks and other financial institutions	1,094,029	13,852	2.55	1,176,266	14,317	2.45
Debt securities issued	859,229	13,025	3.06	768,857	12,047	3.15
Borrowings from central bank and other financial institutions and others	425,164	6,581	3.12	371,320	6,159	3.34
Placements from banks and other financial institutions	109,446	783	1.44	144,044	1,400	1.95
Financial assets sold under repurchase agreements	74,311	699	1.90	128,762	1,303	2.04
Total	6,310,692	74,983	2.40	6,289,620	78,518	2.51
Net interest income		65,753			69,020	
Net interest spread			1.93			2.24
Net interest margin			2.02			2.22

Note: In this table, outward remittance and remittance payables are included in corporate demand deposits; issuance of certificates of deposit is included in corporate time deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

The impact of changes in scale and changes in interest rate on interest income and interest expenses of the Group were as follow:

Item (RMB million)	Changes in scale from the corresponding period of the previous year to January to June 2021	Changes in interest rate from the corresponding period of the previous year to January to June 2021	Net Increase/decrease
Changes in interest income:			
Total loans and advances to customers	8,022	-11,666	-3,644
Financial investments	598	-2,722	-2,124
Balances with central bank	105	-130	-25
Placements with banks and other financial institutions	-612	-788	-1,400
Long-term receivables	285	264	549
Balances with banks and other financial institutions	25	-118	-93
Financial assets held under resale agreements	-29	-36	-65
Subtotal	8,394	-15,196	-6,802
Changes in interest expenses:			
Deposits from customers	563	-3,812	-3,249
Balances from banks and other financial institutions	-1,001	536	-465
Debt securities issued	1,416	-438	978
Borrowings from central bank and other financial institutions and others	893	-471	422
Placements from banks and other financial institutions	-336	-281	-617
Financial assets sold under repurchase agreements	-551	-53	-604
Subtotal	984	-4,519	-3,535
Changes in net interest income	7,410	-10,677	-3,267

Note: Change in scale is measured by the change of average balance; change in interest rate is measured by the change of average interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income

During the Reporting Period, interest income of the Group amounted to RMB140,736 million, representing a decrease of RMB6,802 million, or 4.61%, as compared with the corresponding period of the previous year, mainly due to the decreases of interest income from loans and advances to customers, and financial investments of the Group.

(1) Interest income from total loans and advances to customers

During the Reporting Period, interest income from loans and advances to customers of the Group amounted to RMB100,219 million, representing a decrease of RMB3,644 million, or 3.51%, as compared with the corresponding period of the previous year, mainly due to the decrease in average return ratio of loans and advances to customers. In regard to business types, interest income from corporate loans and advances amounted to RMB52,716 million, representing a decrease of RMB4,784 million, or 8.32%, as compared with the corresponding period of the previous year. Interest income from personal loans and advances amounted to RMB47,503 million, representing an increase of RMB1,140 million, or 2.46%, as compared with the corresponding period of the previous year. In regard to changing factors, the increase in the daily average scale of loans and advances led to an increase of RMB8,022 million in interest income, as compared with the corresponding period of the previous year, and the decrease in the average return ratio led to a decrease of RMB11,666 million in interest income, as compared with the corresponding period of the previous year.

(2) Interest income from financial investments

During the Reporting Period, interest income from financial investments of the Group amounted to RMB30,019 million, representing a decrease of RMB2,124 million, or 6.61%, as compared with the corresponding period of the previous year. The decrease was mainly due to the decline in average return ratio of financial investments, which led to a decrease of RMB2,722 million in interest income, as compared with the corresponding period of the previous year.

(3) Interest income from balances and placements with banks and other financial institutions and financial assets held under resale agreements

During the Reporting Period, interest income from balances and placements with banks and other financial institutions and financial assets held under resale agreements of the Group amounted to RMB4,013 million, representing a decrease of RMB1,558 million, or 27.97%, as compared with the corresponding period of the previous year, mainly due to the dual impact of the decrease in daily average scale of assets of financial institutions business and the decline in average return ratio.

(4) Interest income from long-term receivables

During the Reporting Period, interest income from long-term receivables of the Group amounted to RMB3,911 million, representing an increase of RMB549 million, or 16.33%, as compared with the corresponding period of the previous year, mainly due to the dual impact of the increase in the daily average scale of long-term receivables and the increase in average return ratio.

(5) Interest income from balances with central bank

During the Reporting Period, interest income from balances with central bank of the Group amounted to RMB2,574 million, representing a decrease of RMB25 million, or 0.96%, as compared with the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Interest expenses

During the Reporting Period, interest expenses of the Group amounted to RMB74,983 million, representing a decrease of RMB3,535 million, or 4.50%, as compared with the corresponding period of the previous year, mainly due to the decrease in interest expenses on deposits from customers, deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

(1) Interest expenses on deposits from customers

During the Reporting Period, interest expenses on deposits from customers of the Group amounted to RMB40,043 million, representing a decrease of RMB3,249 million, or 7.50%, as compared with the corresponding period of the previous year, mainly because of the decrease in average cost ratio of deposits. In regard to business types, interest expenses on corporate deposits amounted to RMB31,467 million, representing a decrease of RMB2,758 million, or 8.06%, as compared with the corresponding period of the previous year. Interest expenses on personal deposits amounted to RMB8,576 million, representing a decrease of RMB491 million, or 5.42%, as compared with the corresponding period of the previous year. In regard to changing factors, the increase in the daily average scale of deposits from customers led to an increase of RMB563 million in interest expenses, as compared with the corresponding period of the previous year, and the decrease in the average cost ratio of deposits from customers resulted in a decrease of RMB3,812 million in interest expenses, as compared with the corresponding period of the previous year.

(2) Interest expenses on deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements

During the Reporting Period, interest expenses on deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements of the Group amounted to RMB15,334 million, representing a decrease of RMB1,686 million, or 9.91%, as compared with the corresponding period of the previous year. The decrease was mainly due to the decline in the daily average scale of liabilities of financial institutions business, which led to a decrease of RMB1,888 million in interest expenses, as compared with the corresponding period of the previous year.

(3) Interest expenses on debt securities issued

During the Reporting Period, interest expenses on debt securities issued by the Group amounted to RMB13,025 million, representing an increase of RMB978 million, or 8.12%, as compared with the corresponding period of the previous year, mainly due to the increase in daily average scale of debt securities issued, which led to an increase of RMB1,416 million in interest expenses, as compared with the corresponding period of the previous year.

(4) Interest expenses on borrowings from central bank and other financial institutions and other interest expenses

During the Reporting Period, interest expenses on borrowings from central bank and other financial institutions and other interest expenses of the Group amounted to RMB6,581 million, representing an increase of RMB422 million, or 6.85%, as compared with the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Net interest margin

During the Reporting Period, net interest margin of the Group was 2.02%, representing a decrease of 0.20 percentage points, as compared with the corresponding period of the previous year. The decrease as compared with the corresponding period of the previous year in net interest margin was mainly due to a larger decline in the return on assets. Firstly, the Bank actively implemented the national policy of lowering fees and surcharges and increased the proportion of loans granted to customers with relatively high ratings, resulting in a significant drop in the yield on new loans. Secondly, the Bank strictly implemented the credit control policies for the real estate industry, which led to a decline in the scale and proportion of real estate development loans with relatively high yields. Thirdly, the Bank continued to adjust and optimise the structure of investment business by increasing the allocation in high-liquidity standardised bonds, such as treasury bonds and policy financial bonds, and reducing the scale and proportion of corporate credit investment, which resulted in a decline in investment yield, as compared with the corresponding period of the previous year.

During the Reporting Period, the Group increased its credit supply to hedge against the decline in yield of various assets. The proportion of credit assets with relatively higher yield in interest-earning assets increased by 1.58 percentage points, as compared with the corresponding period of the previous year, and the overall structure of yield of assets was optimised. Besides, the high-cost structured deposits were further reduced, and the volume and price control of mid- to long-term high-cost deposits was strengthened, which effectively reduced the cost of deposits and, to some extent, made up for the income gap caused by the decline in the yield of assets.

Looking forward to the second half of the year, pressure on narrowing net interest margin still existed. On the one hand, the Bank will continue to optimise its asset structure and further increase the proportion of credit assets in total assets, particularly by increasing the granting of retail loans and mid- to long-term credit assets. On the other hand, the Bank will continue to strengthen the control on cost of liabilities, ensure proper management of mid- to long-term high-cost deposits, optimise resource allocation and appraisal mechanisms, as well as increase the low-cost settlement deposits, thus achieving a further reduction in cost of deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Net non-interest income

During the Reporting Period, net non-interest income of the Group amounted to RMB20,597 million, representing a decrease of RMB7,142 million, or 25.75%, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Net fee and commission income	12,684	14,562	-12.90
Other net non-interest income	7,913	13,177	-39.95
Total	20,597	27,739	-25.75

1. Net fee and commission income

During the Reporting Period, net fee and commission income of the Group amounted to RMB12,684 million, representing a decrease of RMB1,878 million, or 12.90%, as compared with the corresponding period of the previous year, mainly due to the decrease in fee income from settlement and clearance services of RMB635 million, which was mainly caused by the increases in the costs of fund of domestic letter of credit and forfeiting, and changes in market environment. Meanwhile, the Bank also actively adjusted forfeiting business models and the structure of domestic letter of credit business in order to implement regulatory policy requirements. Under the new asset management regulations and the increasingly strict regulatory environment, net-worth transformation of wealth management products has been accelerated, and the channel businesses including inter-bank investment and non-standardised investment in wealth management products have been significantly compressed. Meanwhile, the Bank proactively adjusted the structure of asset custody business through the tightening of or withdrawal from certain high-risk businesses including private fund custody and supervision over online lending funds, which led to a decrease of RMB486 million in commission income from custodian and other fiduciary services, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Fee and commission income	15,359	16,798	-8.57
Of which: Bank card services	5,711	5,614	1.73
Agency services	3,862	3,451	11.91
Custodian and other fiduciary services	3,048	3,534	-13.75
Settlement services	1,086	1,721	-36.90
Credit commitments	1,083	1,320	-17.95
Others	569	1,158	-50.86
Fee and commission expense	2,675	2,236	19.63
Net fee and commission income	12,684	14,562	-12.90

MANAGEMENT DISCUSSION AND ANALYSIS

2. Other net non-interest income

During the Reporting Period, other net non-interest income of the Group amounted to RMB7,913 million, representing a decrease of RMB5,264 million, or 39.95%, as compared with the corresponding period of the previous year. The decrease was mainly due to the reduction in the scale of non-standardised investment at fair value through profit or loss of RMB172,275 million, as compared with the end of the same period of the previous year, while relevant gains saw a decrease of RMB4,577 million, as compared with the corresponding period of the previous year. Overall, bond market remained volatile with less trading opportunities as compared with the corresponding period of the previous year, which led to a decrease of RMB2,834 million in bid-offer spread, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Net trading gain	1,072	3,337	-67.88
Net gain from investment securities	5,740	9,085	-36.82
Other operating income	1,101	755	45.83
Total	7,913	13,177	-39.95

(V) Operating expenses

During the Reporting Period, the Group continued to optimise its cost management model and lay greater emphasis on aspects including digital finance, basic business development and strategic key businesses, so as to facilitate the light-capital, sustainable and high-quality business development. Operating expenses amounted to RMB20,366 million, representing a decrease of RMB293 million, or 1.42%, as compared with the corresponding period of the previous year. The cost-to-income ratio was 22.49%, representing an increase of 2.18 percentage points, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Staff costs (including Directors' emoluments)	12,916	11,564	11.69
Depreciation and amortisation	2,754	2,809	-1.96
Tax and surcharges	945	1,005	-5.97
Short-term lease expenses, low-value lease expenses and property management expenses	389	383	1.57
Business expenses and others	3,362	4,898	-31.36
Total	20,366	20,659	-1.42

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) Impairment losses on credit

During the Reporting Period, impairment losses on credit of the Group amounted to RMB36,543 million, representing a decrease of RMB6,471 million, or 15.04%, as compared with the corresponding period of the previous year.

Item (RMB million)	January to June 2021	January to June 2020	Change (%)
Loans and advances to customers	26,691	36,989	-27.84
Financial assets measured at amortised cost	6,932	3,144	120.48
Long-term receivables	1,735	315	450.79
Financial assets at fair value through other comprehensive income	575	797	-27.85
Other	610	1,769	-65.52
Total	36,543	43,014	-15.04

(VII) Income tax expense

During the Reporting Period, income tax expenses of the Group amounted to RMB2,203 million, representing a decrease of RMB2,100 million, or 48.80%, as compared with the corresponding period of the previous year, mainly due to the dual impact of the decline in profit before income tax and the increase in non-taxable income.

V. Analysis of Major Items of Statement of Financial Position

(I) Assets

As at the end of the Reporting Period, total assets of the Group amounted to RMB7,069,708 million, representing an increase of RMB119,475 million, or 1.72%, as compared with the end of the previous year.

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Total loans and advances to customers	4,031,900	57.03	3,853,931	55.45
Add: Accrued interests on loans	26,016	0.37	24,908	0.36
Less: Allowance for impairment losses on loans at amortised cost	101,825	1.44	96,542	1.39
Net loans and advances to customers	3,956,091	55.96	3,782,297	54.42
Net financial investments	2,029,466	28.71	2,120,650	30.51
Cash and balances with central bank	415,363	5.88	401,525	5.78
Balances and placements with banks and other financial institutions and financial assets held under resale agreements	329,823	4.67	295,456	4.25
Long-term receivables	131,987	1.87	127,853	1.84
Property and equipment	52,961	0.75	51,129	0.74
Other	154,017	2.16	171,323	2.46
Total	7,069,708	100.00	6,950,233	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

1. Loans and advances to customers

As at the end of the Reporting Period, total loans and advances to customers of the Group amounted to RMB4,031,900 million, representing an increase of RMB177,969 million, or 4.62%, as compared with the end of the previous year. Total loans and advances to customers accounted for 57.03% of total assets, representing an increase of 1.58 percentage points as compared with the end of the previous year.

2. Financial investments

As at the end of the Reporting Period, total financial investments of the Group amounted to RMB2,024,333 million, representing a decrease of RMB84,226 million, or 3.99%, as compared with the end of the previous year, and accounted for 28.63% of total assets, representing a decrease of 1.71 percentage points as compared with the end of the previous year.

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Financial assets measured at amortised cost	1,250,295	61.77	1,321,923	62.70
Of which: Bonds	1,145,002	56.56	1,179,567	55.94
Trust and asset management plans	102,840	5.08	139,747	6.63
Other investments	2,453	0.13	2,609	0.13
Financial assets at fair value through profit and loss	347,032	17.14	322,480	15.29
Of which: Bonds	59,650	2.95	74,851	3.55
Asset management plans	9,375	0.46	10,168	0.48
Other investments	278,007	13.73	237,461	11.26
Financial assets at fair value through other comprehensive income	427,006	21.09	464,156	22.01
Of which: Bonds	421,066	20.80	460,126	21.82
Other investments	5,940	0.29	4,030	0.19
Total	2,024,333	100.00	2,108,559	100.00

Note: Other investments include equity instruments, investment fund, wealth management and others.

MANAGEMENT DISCUSSION AND ANALYSIS

The bonds held by the Group in terms of issuers are as follows:

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Government	967,446	59.51	964,047	56.23
Policy banks	101,411	6.24	90,682	5.29
Banks and non-banking financial institutions	188,768	11.61	245,339	14.31
Corporates	368,093	22.64	414,476	24.17
Total	1,625,718	100.00	1,714,544	100.00

Financial bonds held by the Group were mainly policy financial bonds and financial bonds of commercial banks. The top ten financial bonds in terms of par value are as follows:

Item (RMB million)	Par value	Annual interest rate (%)	Maturity	Allowance for impairment losses
2020 financial bonds	8,400	3.34	2025/07/14	2.94
2020 financial bonds	7,410	3.23	2025/01/10	1.79
2021 financial bonds	6,140	2.98	2024/01/08	1.63
2021 financial bonds	5,350	3.30	2026/03/03	1.69
2019 financial bonds	5,310	3.45	2029/09/20	1.52
2020 financial bonds	5,110	2.20	2023/04/01	0.79
2020 financial bonds	4,710	1.86	2023/04/09	0.69
2019 financial bonds	3,700	3.45	2022/07/09	1.93
2019 financial bonds	3,680	3.74	2029/07/12	1.20
2020 financial bonds	3,600	3.45	2025/09/23	1.26
Total	53,410			15.44

3. Balances and placements with banks and other financial institutions and financial assets held under resale agreements

As at the end of the Reporting Period, balances and placements with banks and other financial institutions and financial assets held under resale agreements of the Group amounted to RMB329,823 million, representing an increase of RMB34,367 million, or 11.63%, as compared with the end of the previous year, and accounted for 4.67% of the total assets, representing an increase of 0.42 percentage points as compared with the end of the previous year, mainly due to the increase in balances with banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Derivative financial instruments

Item (RMB million)	30 June 2021			31 December 2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency derivatives	2,413,311	29,670	27,249	1,940,939	39,988	37,279
Interest rate derivatives	1,116,597	977	1,268	1,399,900	1,193	1,497
Precious metal derivatives	46,472	1,377	3,633	47,559	869	3,673
Others	1,424	199	170	1,666	235	226
Total		32,223	32,320		42,285	42,675

(II) Liabilities

As at the end of the Reporting Period, total liabilities of the Group amounted to RMB6,482,413 million, representing an increase of RMB73,428 million, or 1.15%, as compared with the end of the previous year.

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Deposits from customers	3,892,249	60.04	3,768,151	58.79
Of which: Total deposits from customers (excluding accrued interest)	3,852,340	59.43	3,728,174	58.17
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	1,337,174	20.63	1,135,039	17.71
Debt securities issued	701,144	10.82	957,880	14.95
Borrowings from central bank and other financial institutions	436,609	6.74	423,370	6.61
Others	115,237	1.77	124,545	1.94
Total	6,482,413	100.00	6,408,985	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

1. Deposits from customers

As at the end of the Reporting Period, total deposits from customers of the Group amounted to RMB3,852,340 million, representing an increase of RMB124,166 million, or 3.33%, as compared with the end of the previous year. In respect of customer structure, the proportions of corporate deposits and personal deposits in total deposits were 78.39% and 21.48%, respectively. In respect of maturity structure, the proportions of demand deposits and time deposits in total deposits were 39.86% and 60.14%, respectively.

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Corporate deposits	3,019,739	78.39	2,961,617	79.44
Of which: Demand deposits	1,269,761	32.96	1,287,743	34.54
Time deposits	1,749,978	45.43	1,673,874	44.90
Personal deposits	827,305	21.48	758,712	20.35
Of which: Demand deposits	265,630	6.90	243,780	6.54
Time deposits	561,675	14.58	514,932	13.81
Certificates of deposit	1,936	0.05	2,929	0.08
Outward remittance and remittance payables	3,360	0.08	4,916	0.13
Total	3,852,340	100.00	3,728,174	100.00

2. Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements

As at the end of the Reporting Period, deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements of the Group amounted to RMB1,337,174 million, representing an increase of RMB202,135 million, or 17.81%, as compared with the end of the previous year, mainly due to the increase in the scale of mid- to long-term deposits from banks.

3. Debt securities issued

As at the end of the Reporting Period, total debt securities issued by the Group amounted to RMB701,144 million, representing a decrease of RMB256,736 million, or 26.80%, as compared with the end of the previous year, mainly due to the decreased scale of inter-bank negotiable certificates of deposit.

(III) Shareholders' equity

As at the end of the Reporting Period, total shareholders' equity of the Group amounted to RMB587,295 million, representing an increase of RMB46,047 million, or 8.51%, as compared with the end of the previous year. Of which, total equity attributable to equity shareholders of the Bank amounted to RMB575,436 million, representing an increase of RMB45,899 million, or 8.67%, as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Item (RMB million)	30 June 2021	31 December 2020	Change (%)
Share capital	43,782	43,782	–
Other equity instrument	99,856	69,860	42.94
Of which: Preference shares	29,867	29,867	–
Perpetual bonds	69,989	39,993	75.00
Reserves	191,396	190,648	0.39
Of which: Capital reserve	57,419	57,419	–
Surplus reserve	48,479	48,479	–
General reserve	86,717	86,599	0.14
Other reserves	-1,219	-1,849	Negative for both periods
Retained earnings	240,402	225,247	6.73
Total equity attributable to equity shareholders of the Bank	575,436	529,537	8.67
Non-controlling interests	11,859	11,711	1.26
Total	587,295	541,248	8.51

(IV) Off-balance sheet items

Item (RMB million)	30 June 2021	31 December 2020	Change (%)
Unused credit card commitments	522,275	478,980	9.04
Bank acceptances	360,975	403,532	-10.55
Guarantees	164,080	158,889	3.27
Letters of credit	86,209	116,333	-25.89
Capital commitments	19,664	15,775	24.65
Irrevocable credit commitments	9,867	13,016	-24.19

(V) Market share of major products and services

According to the Summary of Sources & Uses of Funds of Financial Institutions (in RMB and Foreign Currency) released by the PBOC in June 2021, among nine national joint-stock commercial banks in China, as at the end of the Reporting Period, the market share of total deposits of the Bank was 12.05%. Among the nine national joint-stock commercial banks in China, the market share of total loans of the Bank amounted to 12.58%. (Note: The nine national joint-stock commercial banks in China refer to China Merchants Bank, CITIC Bank, Industrial Bank, China Everbright Bank, Shanghai Pudong Development Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank and the Bank. All data above are based on the statistics of domestic institutions of the Bank. According to the Notice on Adjusting the Statistical Standards of Loans and Deposits for Financial Institutions (Yin Fa [2015] No. 14) released by the PBOC, with effect from 2015, the deposit-taking financial institutions shall include deposits from and placements with non-deposit-taking financial institutions in “Total Deposits” and “Total Loans”, respectively, for statistical purpose.)

MANAGEMENT DISCUSSION AND ANALYSIS

VI. Qualitative Analysis of Loans

(I) Loan distribution by five-category classification

As at the end of the Reporting Period, total special-mention loans of the Group amounted to RMB115,410 million, representing an increase of RMB734 million, as compared with the end of the previous year. Special-mention loans accounted for 2.86%, representing a decrease of 0.12 percentage points as compared with the end of the previous year. Total NPLs amounted to RMB72,391 million, representing an increase of RMB2,342 million, as compared with the end of the previous year. The NPL ratio was 1.80%, representing a decrease of 0.02 percentage points as compared with the end of the previous year.

Item (RMB million)	30 June 2021		31 December 2020		Change (%)
	Amount	% of total	Amount	% of total	
Performing loans	3,959,509	98.20	3,783,882	98.18	4.64
Of which: Pass	3,844,099	95.34	3,669,206	95.20	4.77
Special-mention	115,410	2.86	114,676	2.98	0.64
NPLs	72,391	1.80	70,049	1.82	3.34
Of which: Substandard	19,439	0.48	25,023	0.65	-22.32
Doubtful	35,306	0.88	24,477	0.64	44.24
Loss	17,646	0.44	20,549	0.53	-14.13
Total	4,031,900	100.00	3,853,931	100.00	4.62

(II) Loan distribution by product types

As at the end of the Reporting Period, total corporate loans (including discounted bills) of the Group amounted to RMB2,339,153 million, representing an increase of RMB94,297 million as compared with the end of the previous year, accounting for 58.02% of total loans, representing a decrease of 0.23 percentage points as compared with the end of the previous year. Total personal loans amounted to RMB1,692,747 million, representing an increase of RMB83,672 million as compared with the end of the previous year, accounting for 41.98% of total loans, representing an increase of 0.23 percentage points, as compared with the end of the previous year.

As at the end of the Reporting Period, total corporate NPLs (including discounted bills) of the Group amounted to RMB44,879 million, representing an increase of RMB6,294 million, as compared with the end of the previous year and the NPL ratio was 1.92%, representing an increase of 0.20 percentage points, as compared with the end of the previous year. Total personal NPLs amounted to RMB27,512 million, representing a decrease of RMB3,952 million, as compared with the end of the previous year and the NPL ratio was 1.63%, representing a decrease of 0.33 percentage points, as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Item (RMB million)	30 June 2021				31 December 2020			
	Total loans	% of total	Total NPLs	NPL ratio (%)	Total loans	% of total	Total NPLs	NPL ratio (%)
Corporate loans and advances	2,339,153	58.02	44,879	1.92	2,244,856	58.25	38,585	1.72
Of which: Discounted bills	230,898	5.73	1,021	0.44	227,859	5.91	977	0.43
Personal loans and advances	1,692,747	41.98	27,512	1.63	1,609,075	41.75	31,464	1.96
Of which: Loans to small and micro enterprises	573,163	14.22	12,620	2.20	523,799	13.59	14,532	2.77
Residential mortgage	554,366	13.75	1,237	0.22	515,296	13.37	1,108	0.22
Credit card overdrafts	457,252	11.34	12,981	2.84	462,309	12.00	15,180	3.28
Others	107,966	2.67	674	0.62	107,671	2.79	644	0.60
Total	4,031,900	100.00	72,391	1.80	3,853,931	100.00	70,049	1.82

(III) Loan distribution by industries

The Group closely followed the government's various macro, industrial and regional policy guidelines, actively implemented various regulatory requirements including macro and prudent management, and firmly served the real economy. It continued to optimise the structure of credit assets with focus on national advanced manufacturing, strategic emerging industries, new infrastructure construction projects, inclusive finance, rural revitalisation, green credit, SMEs and others. It strengthened its credit management for real estate and strictly implemented the differentiated credit policy of "Three Red Lines and Four Levels", so as to constantly optimise the structure of real estate customers. As at the end of the Reporting Period, loans of the Group were mainly concentrated on leasing and commercial services, manufacturing, and real estate. Of which, total loans to leasing and commercial services amounted to RMB523,403 million, representing an increase of RMB37,421 million as compared with the end of the previous year. Total loans to manufacturing amounted to RMB319,567 million, representing an increase of RMB19,244 million, as compared with the end of the previous year. Total loans to real estate amounted to RMB416,943 million, representing a decrease of RMB22,089 million as compared with the end of the previous year, and its proportion of total loans declined by 1.05 percentage points, as compared with the end of the previous year.

As at the end of the Reporting Period, the corporate NPLs of the Group were mainly concentrated in mining, manufacturing, wholesale and retail industries. Total NPLs from the three major industries amounted to RMB29,771 million, accounting for 66.34% of the corporate NPLs. Total NPLs for the mining, manufacturing, wholesale and retail industries increased by RMB3,611 million, decreased by RMB176 million, and increased by RMB1,362 million, respectively, as compared with the end of the previous year. The NPL ratios increased by 4.09 percentage points, decreased by 0.26 percentage points, decreased by 0.27 percentage points, respectively, as compared with the end of the previous year. In terms of NPL ratio, as loans to certain corporate customers with large transaction value were downgraded to NPLs, the NPL ratios of industries such as mining and real estate increased as compared with the end of the previous year.

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Item (RMB million)	30 June 2021				31 December 2020			
	Total loans	% of total	Total NPLs	NPL ratio (%)	Total loans	% of total	Total NPLs	NPL ratio (%)
Corporate loans and advances								
Leasing and commercial services	523,403	12.98	2,663	0.51	485,982	12.61	3,034	0.62
Real estate	416,943	10.34	4,349	1.04	439,032	11.39	3,040	0.69
Manufacturing	319,567	7.92	10,070	3.15	300,323	7.79	10,246	3.41
Wholesale and retail	226,108	5.61	7,398	3.27	170,477	4.42	6,036	3.54
Water, environment and public utilities management	168,341	4.17	407	0.24	149,509	3.88	73	0.05
Transportation, storage and postal service	133,673	3.32	4,483	3.35	107,441	2.79	4,411	4.11
Financial services	133,035	3.31	462	0.35	204,644	5.31	515	0.25
Construction	123,196	3.05	1,260	1.02	108,440	2.81	1,316	1.21
Mining	99,030	2.46	12,303	12.42	104,329	2.71	8,692	8.33
Production and supply of electric power, heat, gas and water	79,986	1.98	635	0.79	69,354	1.80	363	0.52
Accommodation and catering	15,577	0.39	215	1.38	15,863	0.41	236	1.49
Agriculture, forestry, animal husbandry and fishery	15,430	0.38	85	0.55	12,769	0.33	180	1.41
Public administration, social security and social organisations	6,324	0.16	–	–	6,840	0.18	–	–
Others	78,540	1.95	549	0.70	69,853	1.82	443	0.63
Subtotal	2,339,153	58.02	44,879	1.92	2,244,856	58.25	38,585	1.72
Personal loans and advances	1,692,747	41.98	27,512	1.63	1,609,075	41.75	31,464	1.96
Total	4,031,900	100.00	72,391	1.80	3,853,931	100.00	70,049	1.82

(IV) Loan distribution by geographical region

In accordance with the national macro policy, regulatory guidance requirements and policy changes, the Group implemented the government's coordinated regional development strategy, closely focused on the development for the four key regions of Guangdong-Hong Kong-Macau Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei and Chengdu-Chongqing, adopted differentiated regional credit policies, scientifically adjusted business authorisations, and increased the proportion of enlarged capital allocation in strategic regions. As at the end of the Reporting Period, total loans of the Group to the Yangtze River Delta, Bohai Rim and Western Region ranked top three, being RMB1,000,787 million, RMB637,434 million and RMB629,973 million, respectively, accounting for 24.82%, 15.81% and 15.62%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the NPLs of the Group were mainly concentrated on the Head Office, Central Region, and Bohai Rim, the total NPLs of which amounted to RMB18,300 million, RMB14,743 million, and RMB12,342 million, respectively, accounting for 62.69% of total NPLs. In terms of the increase of NPLs, Bohai Rim and Central Region especially had higher increased amount of RMB2,333 million and RMB2,288 million, respectively, as compared with the end of the previous year, with increase in NPL ratio of 0.32 percentage points and 0.33 percentage points, respectively, as compared with the end of the previous year, mainly due to the downgrading of certain corporate customers in the regions.

Item (RMB million)	30 June 2021				31 December 2020			
	Total loans	% of total	Total NPLs	NPL ratio (%)	Total loans	% of total	Total NPLs	NPL ratio (%)
Head Office	511,523	12.69	18,300	3.58	548,060	14.22	20,796	3.79
Yangtze River Delta	1,000,787	24.82	8,644	0.86	928,337	24.09	9,220	0.99
Pearl River Delta	556,692	13.81	5,115	0.92	523,433	13.58	5,264	1.01
Bohai Rim	637,434	15.81	12,342	1.94	618,101	16.04	10,009	1.62
North eastern Region	93,102	2.31	2,935	3.15	90,034	2.34	2,428	2.70
Central Region	505,219	12.53	14,743	2.92	481,042	12.48	12,455	2.59
Western Region	629,973	15.62	9,609	1.53	570,998	14.81	9,122	1.60
Institutions outside the Chinese mainland and subsidiaries	97,170	2.41	703	0.72	93,926	2.44	755	0.80
Total	4,031,900	100.00	72,391	1.80	3,853,931	100.00	70,049	1.82

Note: For details of the geographical distribution of institutions of the Group, please refer to Note 5 "Segment information" to the financial statements.

(V) Loan distribution by types of collateral

As at the end of the Reporting Period, the loan collateral structure of the Group remained stable. Total secured loans amounted to RMB2,334,116 million, representing an increase of RMB89,380 million as compared with the end of the previous year, accounting for 57.89% of total loans, representing a decrease of 0.36 percentage points, as compared with the end of the previous year. Total unsecured loans amounted to RMB992,284 million, representing an increase of RMB44,816 million as compared with the end of the previous year, accounting for 24.61% of total loans, representing an increase of 0.03 percentage points as compared with the end of the previous year. Total guaranteed loans amounted to RMB705,500 million, representing an increase of RMB43,773 million as compared with the end of the previous year, accounting for 17.50% of total loans, representing an increase of 0.33 percentage points as compared with the end of the previous year.

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Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Unsecured loans	992,284	24.61	947,468	24.58
Guaranteed loans	705,500	17.50	661,727	17.17
Loans secured by	2,334,116	57.89	2,244,736	58.25
Of which: Tangible assets other than monetary assets	1,741,872	43.20	1,686,307	43.76
Monetary assets	592,244	14.69	558,429	14.49
Total	4,031,900	100.00	3,853,931	100.00

(VI) Top ten loan customers

As at the end of the Reporting Period, the aggregate amount of total loans to the top ten loan customers of the Group was RMB64,614 million, accounting for 1.60% of total loans and advances to customers. The top ten loan customers were as follows:

Item (RMB million)	Amount	% of total loans
Customer A	11,500	0.29
Customer B	9,200	0.23
Customer C	6,616	0.16
Customer D	6,283	0.16
Customer E	6,000	0.15
Customer F	5,700	0.14
Customer G	5,005	0.12
Customer H	4,893	0.12
Customer I	4,713	0.12
Customer J	4,704	0.11

(VII) Restructured loans and overdue loans

As at the end of the Reporting Period, total restructured loans of the Group amounted to RMB20,951 million, representing an increase of RMB2,222 million as compared with the end of the previous year. The percentage of restructured loans to total loans and advances to customers was 0.52%, representing an increase of 0.03 percentage points as compared with the end of the previous year. Total overdue loans amounted to RMB82,688 million, representing an increase of RMB4,600 million as compared with the end of the previous year. The percentage of overdue loans to total loans and advances to customers was 2.05%, representing an increase of 0.02 percentage points as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Item (RMB million)	30 June 2021		31 December 2020	
	Amount	% of total	Amount	% of total
Restructured loans	20,951	0.52	18,729	0.49
Total overdue loans	82,688	2.05	78,088	2.03
Of which: Overdue within 3 months	24,866	0.62	26,338	0.68
Overdue from 3 months up to 1 year	35,471	0.88	28,543	0.75
Overdue from 1 year up to 3 years	17,441	0.43	18,207	0.47
Overdue more than 3 years	4,910	0.12	5,000	0.13

Notes:

1. Restructured loans (full name: loans after restructuring) are loans of which the terms of repayment under the loan agreement have been amended by the Bank as a result of deteriorated financial status of the borrower or inability of the borrower to repay the debt due.
2. Overdue loans are loans of which the repayment of principal or interest is overdue for one or more days.

(VIII) Repossessed assets

Item (RMB million)	30 June 2021	31 December 2020
Repossessed assets	5,293	6,180
Of which: Real estate and land use right	5,039	5,940
Motor vehicles	118	40
Others	136	200
Allowance for impairment losses	157	131

(IX) Changes in allowance for impairment losses on loans

Item (RMB million)	30 June 2021	31 December 2020
Opening balance	97,637	84,647
Charge for the period, net	26,691	76,990
Write-offs and transfer out during the period	-22,608	-67,110
Recoveries	2,383	4,388
Others	-677	-1,278
Ending balance	103,426	97,637

MANAGEMENT DISCUSSION AND ANALYSIS

Method for assessing allowance for impairment losses on loans:

According to the International Financial Reporting Standards No. 9 – Financial Instrument (IFRS 9) and the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7) issued by the Ministry of Finance, the Bank adopted the new accounting standards for financial instruments and used the expected credit loss model to calculate the allowance for impairment losses. According to the new accounting standards for financial instruments, for retail loans and non-retail loans in phase 1 and phase 2, the allowance for impairment losses is provided based on risk parameters such as probability of default (PD), and loss given default (LGD) estimated by the internal rating system. For non-retail loans in phase 3, the allowance for impairment losses is provided based on the expected recovery of cash flow for each single loan. Since the adoption of the new standards, the Bank continued to monitor and optimise the expected credit loss model and kept strengthening risk prediction capabilities. The provision of allowance for impairment losses on loans of the Bank was more forward-looking and the management of allowance for impairment losses of the Bank was further refined.

VII. Analysis of Capital Adequacy Ratio

(I) Capital adequacy ratio

The Group calculated its capital adequacy ratio in accordance with the Capital Rules for Commercial Banks (Provisional) (the “New Rules”) and other relevant regulatory provisions. The calculation of capital adequacy ratio covers the Bank and the financial institutions directly or indirectly invested by the Bank in accordance with the requirements of the New Rules. As at the end of the Reporting Period, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Group satisfied the requirements of the New Rules. Among the investees in which the Bank holds majority equity interest or control, there was one rural bank with regulatory capital shortfall of RMB66 million.

The table below sets out the capital adequacy ratio of the Group:

Item (RMB million)	30 June 2021		31 December 2020	
	The Group	The Bank	The Group	The Bank
Net core tier-one capital	479,238	449,323	461,921	437,830
Net tier-one capital	579,531	549,173	532,348	507,682
Total net capital base	755,024	719,568	707,472	678,609
Core tier-one capital	483,076	466,233	466,960	450,670
Core tier-one capital deductions	-3,838	-16,910	-5,039	-12,840
Other tier-one capital	100,855	99,856	70,831	69,860
Other tier-one capital deductions	-562	-6	-404	-8
Tier-two capital	175,493	170,400	175,124	170,935
Tier-two capital deductions	-	-5	-	-8
Total risk-weighted assets	5,623,652	5,376,498	5,425,856	5,136,410
Of which: Credit risk-weighted assets	5,215,548	4,977,159	5,019,411	4,738,017
Market risk-weighted assets	94,760	90,223	93,101	89,277
Operational risk-weighted assets	313,344	309,116	313,344	309,116
Core tier-one capital adequacy ratio (%)	8.52	8.36	8.51	8.52
Tier-one capital adequacy ratio (%)	10.31	10.21	9.81	9.88
Capital adequacy ratio (%)	13.43	13.38	13.04	13.21

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, net tier-one capital of the Group increased by RMB31,721 million, on-and off-balance sheet assets after adjustment decreased by RMB25,630 million, while the leverage ratio increased by 0.43 percentage points as compared with the end of March 2021. The leverage ratio of the Group is as follows:

Item (RMB million)	30 June 2021	31 March 2021	31 December 2020	30 September 2020
Leverage ratio (%)	7.50	7.07	6.93	6.86
Net tier-one capital	579,531	547,810	532,348	539,941
On-and off-balance sheet assets after adjustment	7,727,571	7,753,201	7,684,206	7,869,025

For details of the regulatory capital, please refer to the section headed “Investors Relations – Announcements and Disclosures – Regulatory Capital” on the Bank’s website (www.cmbc.com.cn).

(II) Credit risk exposure

The following table sets forth the exposure to credit risk of the Group measured according to the New Rules.

Item (RMB million)	30 June 2021	31 December 2020
On-balance sheet credit risk exposure	7,020,587	6,846,439
Of which: Asset-backed securitisation risk exposure	277,722	304,232
Off-balance sheet credit risk exposure	634,579	717,676
Counterparty credit risk exposure	27,623	26,861
Total	7,682,789	7,590,976

(III) Market risk capital requirements

The Group adopted standardised approach to measure market risk capital requirements. The following table sets forth capital requirements for different types of market risk of the Group as at the end of the Reporting Period.

Item (RMB million)	30 June 2021	31 December 2020
Interest rate risk	4,263	4,227
Stock risk	1,158	1,163
Exchange risk	1,976	1,937
Commodity risk	130	68
Option risk	22	7
Specific risk of asset-backed securitisation risk exposure in the trading books	32	46
Total	7,581	7,448

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Operational risk capital requirements

As at the end of the Reporting Period, the operational risk capital requirements of the Group measured according to basic indicator approach was RMB25,068 million.

VIII. Liquidity Indicators

(I) Liquidity coverage ratio

As at the end of the Reporting Period, the liquidity coverage ratio of the Group disclosed in accordance with the Rules for Disclosure of Liquidity Coverage Ratio of Commercial Banks is as follows:

Item (RMB million)	30 June 2021	31 December 2020
Liquidity coverage ratio (%)	130.65	128.37
Qualified current assets	958,136	959,398
Net cash outflow in 30 days	733,340	747,370

(II) Net stable funding ratio

As at the end of the Reporting Period, the net stable funding ratio of the Group disclosed in accordance with the Rules for Disclosure of Net Stable Funding Ratio of Commercial Banks is as follows:

Item (RMB million)	30 June 2021	31 March 2021	31 December 2020
Net stable funding ratio (%)	104.25	104.24	104.57
Stable funding available	3,897,189	3,817,492	3,750,279
Stable funding required	3,738,318	3,662,252	3,586,301

MANAGEMENT DISCUSSION AND ANALYSIS

IX. Segment Report

The business segments of the Group are categorised as corporate banking, retail banking and others for the purposes of management, reporting and evaluation. The geographical segments are categorised into eight including the Head Office, Yangtze River Delta, Pearl River Delta, Bohai Rim, Northeastern Region, Central Region, Western Region, institutions outside the Chinese mainland and subsidiaries for the purposes of management, reporting and evaluation.

(I) Segment operating results by business line

Item (RMB million)	Total assets (excluding deferred income tax assets)	Operating income	Profit before income tax
Corporate banking	4,591,253	44,036	10,359
Retail banking	1,685,022	34,611	14,817
Others	742,931	7,703	3,764
Total	7,019,206	86,350	28,940

(II) Segment operating results by geographical region

Item (RMB million)	Total assets (excluding deferred income tax assets)	Operating income	Profit before income tax
Head Office	3,200,942	28,405	5,046
Yangtze River Delta	1,280,804	14,145	9,590
Pearl River Delta	617,276	9,099	4,787
Bohai Rim	1,217,762	10,692	2,753
Northeastern Region	154,129	1,576	165
Central Region	501,384	7,955	1,582
Western Region	628,901	9,128	3,338
Institutions outside the Chinese mainland and subsidiaries	365,171	5,350	1,679
Inter-region adjustment	-947,163	-	-
Total	7,019,206	86,350	28,940

MANAGEMENT DISCUSSION AND ANALYSIS

X. Other Financial Information

(I) Items relating to fair value measurement

1. Internal control system relating to fair value measurement

In order to regulate fair value measurement, improve the quality of financial information, strengthen risk control and protect the legitimate interests of investors and all relevant parties, the Bank has formulated the Administrative Measures Regarding Fair Value based on the Accounting Standards for Business Enterprises, which expanded the scope of fair value measurement to cover certain financial assets and financial liabilities, clarified and refined the principles, methods and procedures for determining fair value. With the aim to enhance the rationality and reliability of the valuation of fair value, the Bank has assigned specific working responsibilities to relevant managing departments for fair value management, so as to continuously strengthen research on the valuation of its asset and liability businesses and improve internal valuation capabilities. The Bank will also gradually optimise the valuation models and systems and strengthen the verification of prices obtained externally. Moreover, the Bank had implemented corresponding internal control measures over the fair value measurement process, including double-checking on price enquiry and confirmation, and adopting an evaluation procedure on fair value measurement which requires the person in charge and reviewer to sign off in order to give effect to the measurement. Furthermore, by supervising and checking the range determined and measurement methodology and procedures of fair value, the internal audit departments improved internal control within the Bank.

The Bank has adopted new accounting standards including IFRS 9 — Financial Instruments, and Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, Accounting Standards for Business Enterprises No. 23 — Transfer of Financial Assets and Accounting Standards for Business Enterprises No. 24 — Hedge Accounting promulgated by the Ministry of Finance. During the Reporting Period, the SPPI test and product classification, valuation and impairment assessment of financial instruments were completed. Fair value measurement has been conducted in accordance with the new accounting standards.

2. Financial instruments measured at fair value

The Bank's financial instruments measured at fair value include: financial assets/liabilities at fair value through profit or loss, derivative financial instruments, and financial assets at fair value through other comprehensive income. In particular, the valuation methods of bond investment were listed as follows: for RMB bonds, in principle the valuation provided by China Central Depository & Clearing Co., Ltd. would apply. For bonds denominated in foreign currencies, market value was determined through a combination of Bloomberg quotes and enquiries. The valuation of derivative financial instruments was obtained from quotes in the open market and model valuation. The valuation of certain derivative financial instruments in which customers are interested was obtained from market enquiries, while the valuation of foreign exchange option was obtained from system model valuation. Derivative financial instruments mainly consisted of interest rate swaps in which customers have interests and proprietary instruments in which market risks had been basically hedged, including interest rate swaps as well as forwards, swaps and options of precious metals and foreign exchanges. Investment in public funds was valued by using market approach. Non-standardised investments, such as discounted bills and rediscounting, forfeiting, asset management plans, income rights, equity investments, subordinated tranches of assets backed securities and convertible bonds, were valued by using model valuation approach. The main valuation techniques include discounted cash flow approach, market approach and cost approach, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Overdue and outstanding liabilities

As at the end of the Reporting Period, the Group had no material outstanding liabilities that were overdue.

(III) Cash flow

During the Reporting Period, the Group's net cash flow from operating activities amounted to RMB287,990 million, and the net inflow increased by RMB173,998 million as compared with the corresponding period of the previous year, mainly due to the increase in net cash inflows from financial assets held for trading purposes and decrease in net cash outflows from loans and advances to customers. Net cash flow from investing activities amounted to RMB99,442 million, and net inflow increased by RMB142,909 million as compared with the corresponding period of the previous year, mainly due to the decrease in cash paid for investment. Net cash flow from financing activities amounted to RMB-251,515 million, and net outflow increased by RMB190,940 million as compared with the corresponding period of the previous year, mainly due to the decrease in cash received from issuing inter-bank negotiable certificates of deposit.

Item (RMB million)	January to June 2021	January to June 2020	Change
Net cash flow from operating activities	287,990	113,992	Increased by 173,998
Of which: Net cash flow from financial assets held for trading purposes	21,838	-85,956	Increased by 107,794
Net cash flow from loans and advances to customers	-199,090	-334,067	Decreased by 134,977
Net cash flow from investing activities	99,442	-43,467	Increased by 142,909
Of which: Cash inflow from recovery of investments and collection of investment yield	652,574	720,542	Decreased by 67,968
Cash outflow from payment for investment	-551,834	-759,394	Decreased by 207,560
Net cash flow from financing activities	-251,515	-60,575	Increased by 190,940
Of which: Cash inflow from issuance of debt securities	306,378	539,850	Decreased by 233,472
Cash outflow from repayment of debt securities issued	-570,993	-591,680	Decreased by 20,687

MANAGEMENT DISCUSSION AND ANALYSIS

XI. Performance of Key Business Lines

(I) Deposits and loans

1. Deposit business

During the Reporting Period, the Bank's deposit structure continued to improve while the cost of deposits kept declining. As at the end of the Reporting Period, total deposits of the Bank amounted to RMB3,828,425 million, representing an increase of RMB131,165 million, or 3.55%, as compared with the end of the previous year, accounted for 60.78% of total liabilities, representing an increase of 1.34 percentage points as compared with the end of the previous year. In particular, the balance of structured deposits was RMB44,389 million, representing a decrease of RMB125,757 million, or 73.91%, as compared with the end of the previous year, and a decrease of RMB522,828 million, or 92.17%, as compared with the end of the same period of the previous year. Core liabilities increased by RMB256,322 million, or 7.61%, as compared with the end of the previous year, and increased by RMB476,788 million, or 15.15%, as compared with the end of the same period of the previous year. Cost of deposits continued to fall as a result of the optimised deposit structure. During the Reporting Period, the Bank's cost ratio of deposits was 2.15%, down by 0.21 percentage points as compared with the corresponding period of the previous year.

During the Reporting Period, the Bank further concentrated its operations on basic customer groups and basic businesses, and took optimisation of business structure as one of its key tasks. By actively expanding its customer base, strengthening the integrated management of customer groups, focusing on key areas, and innovating products and services such as settlement, cash management and scenario-oriented supply chain finance, the Bank managed to enhance its ability to absorb low-cost settlement-based deposits. Meanwhile, the Bank relentlessly strengthened its management of high-cost deposits and determinedly reduced the high-cost structured deposits to steadily reduce the cost of deposits.

As at the end of the Reporting Period, the number of domestic customers with balance of deposits and that of new customers with deposit accounts opened during the year both increased, as compared with the corresponding period of the previous year, in addition to rapid growth in the number of both active corporate and retail customers. The Bank had 45,393.4 thousand domestic customers with balance of deposits, representing an increase of 1,399.8 thousand, or 3.18%, as compared with the end of the previous year, and an increase of 112.6 thousand, as compared with the corresponding period of the previous year. The Bank had 1,239.0 thousand new customers with deposit accounts opened during the year, representing an increase of 156.4 thousand, or 14.45%, as compared with the corresponding period of the previous year, and an increase of 484.5 thousand, as compared with the corresponding period of the previous year.

In the second half of the year, liquidity is expected to remain reasonably abundant and market competition will be in a better order, which will provide a favorable external environment for the deposit cost control. In addition, as the pressure on the deposit growth caused by the shrinking of the scale of high-cost structured deposits has been largely released, the uncertainties in the prospects of the deposit business will be diminished. The Bank will take a firm grasp of the emerging internal and external opportunities to constantly consolidate customer base, accelerate the growth of core liabilities, optimise deposit structure, insist on compliant and prudent operation, and strive to reduce deposit costs and enhance support to the real economy.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Loan business

During the Reporting Period, total loans of the Bank grew steadily with its credit structure continuing to improve. As at the end of the Reporting Period, total loans of the Bank amounted to RMB4,009,363 million, representing an increase of RMB176,233 million, or 4.60%, as compared with the end of the previous year, accounting for 58.40% of total assets, and representing an increase of 1.53 percentage points as compared with the end of the previous year.

During the Reporting Period, the Bank increased its support to the real economy, key areas and weak links of the economy in accordance with the decisions and arrangements of the CPC Central Committee and the State Council to coordinate the efforts in COVID-19 pandemic prevention and control and economic and social development, while actively adjusting its credit structure in line with the state's strategic guidance, and promoting the return of its business to its origin, with the aim of laying a solid foundation for its sustainable development.

The Bank actively responded to the national policies and regulatory requirements, prioritised serving the real economy as a key task while carefully implementing the macro prudential management requirements for the real estate industry. The Bank guided the credit facility resources towards the key areas such as SMEs, manufacturing industry, green finance, rural revitalisation and major infrastructure construction. As at the end of the Reporting Period, the Bank's loans to the key areas such as inclusive small and micro enterprises and the manufacturing industry maintained a rapid growth, which was significantly higher than the average growth of other loans. The balance of inclusive small business loans was RMB485,928 million, representing an increase of RMB37,574 million, or 8.38%, as compared with the end of the previous year. The balance of loans to the manufacturing industry was RMB317,631 million, representing an increase of RMB19,174 million, or 6.42%, as compared with the end of the previous year.

The Bank implemented the national strategy of coordinated regional development and developed regional features and advantages. It supported the development of key national strategic regions such as the Guangdong-Hong Kong-Macau Greater Bay Area, the Yangtze River Delta, Beijing-Tianjin-Hebei, and Chengdu-Chongqing, and increased the credit facilities extended to the economically challenged provinces in accordance with their needs. As at the end of the Reporting Period, loans extended to the key regions maintained a rapid growth, the growth rate increased by 5.74% as compared with the end of the previous year, which was significantly higher than the average loan growth rate of the Bank.

The Bank optimised the structure of loan customers in line with the strategic direction. During the Reporting Period, the Bank's customer structure underwent a significant improvement, with the percentage of retail loans continuing to rise. As at the end of the Reporting Period, the balance of retail loans was RMB1,674,984 million, representing an increase of RMB82,792 million, or 5.20%, as compared with the end of the previous year, accounting for 41.78% of the total loans, representing an increase of 0.24 percentage points as compared with the end of the previous year. Loans to domestic quality corporate customers with high ratings continued to grow steadily, amounting to RMB948,384 million as at the end of the Reporting Period, representing an increase of RMB74,926 million, or 8.58%, as compared with the end of the previous year, accounting for 46.53% of domestic corporate loans, representing an increase of 1.72 percentage points as compared with the end of the previous year.

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In the next stage, the Bank will continue to focus on the strategic direction of national development and use the conversion from the old to the new economic growth drivers as an opportunity to further promote the optimisation of its credit structure, provide inclusive and sustainable financial support to small and micro enterprises and the NSOEs, increase its support for the key areas and weak links in the national economy such as advanced manufacturing, green finance and rural revitalisation, in an aim to strengthen its support for the real economy. Meanwhile, the Bank will focus on key customers and regions to increase its support for strategic customers, supply chain finance and retail customers, and strengthen settlement services for credit customers, so as to improve comprehensive returns.

(II) Corporate banking business

During the Reporting Period, the Bank proactively responded to the new changes and challenges in the market and the regulatory environment while focusing on the strategic customers, aiming to become a strategic bank for its strategic customers. The Bank concentrated on the cultivation of SME customer group, aiming to develop distinctive features and brands of financial services for SMEs. The Bank focused on the expansion of high-quality liabilities, and improved the flexibility of business performance by stabilising liabilities. The Bank concentrated on business improvement in key regions to build up regional characteristics and advantages. It focused on improving marketing foundation and creating an ecological environment for expanding active customer groups. It also focused on innovation in its assessment mechanism, guided the execution of strategies and motivated organisational vitality. Meanwhile, the Bank emphasised the responsibility of corporate business as the first line of defense in risk prevention and expedited the strategic transformation and sustainable development of corporate banking business.

1. Differentiated customer group management

During the Reporting Period, the Bank adhered to the customer-centric philosophy, served the real economy and advanced customer group management, and established a differentiated service system for segmented and classified customer groups including basic customer group, strategic customer group, institutional customer group and SME customer group.

Basic customer group: customer base consolidated and improved. The Bank vigilantly implemented its “customer-centric” philosophy, strengthened classified management of customer groups by establishing customer value segmentation system and introducing customer cooperation process indicators to continuously improve customer value, and the customer base was further consolidated. During the Reporting Period, the Bank focused on key customer journeys and continuously improved customer service experience. For corporate account services, the Bank launched the product of “Standard Account Opening for Enterprises” that greatly shortened the account opening time for enterprise customers, while the number of new corporate customers with deposits and that of new basic customers with deposits of the Bank hit the best in the corresponding period in history. As at the end of the Reporting Period, the Bank had 1,433.9 thousand domestic corporate customers with deposits, representing an increase of 3.30% as compared with the end of the previous year. And the number of domestic corporate customers with outstanding general loan balances exceeded ten thousand, reaching 10,110, representing an increase of 4.16% as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic customer group: new model of customer service shaped. The Bank comprehensively reformed its strategic customer service system and mechanism by establishing the Strategic Clients Department as the marketing service unit, and launched “head office-to-head office” marketing for name list-based quality customers of the Bank according to its philosophy pursuing “coordination, professionalism, efficiency and value”, providing them with segmented, integrated and professional quality services. The Bank introduced the “five-in-one” team operation model for its strategic customers and adopted the integrated service plan of “one policy for one account” while promoting high-level marketing, laying a solid organisational foundation for good customer service. The Bank integrated the products and services of itself and its subsidiaries, published manuals of strategic customers rights, aiming to build an integrated management ecosystem featuring “value integration, benefit coexistence and resource sharing” to reshape customers’ journey, improve customer experience and create value for customers. During the Reporting Period, daily average deposits of the strategic customer group of the Bank were RMB898,275 million, representing an increase of RMB52,812 million, or 6.25%, as compared with the previous year. As at the end of the Reporting Period, total loans amounted to RMB814,029 million, representing an increase of RMB105,914 million, or 14.96%, as compared with the end of the previous year.

Institutional customer group: differentiated management according to industry classification. The Bank formulated classified marketing strategies for different customer groups and implemented them in a refined and differentiated manner, while consolidating its qualifications for institutional business. As at the end of the Reporting Period, the Bank had 27.7 thousand institutional customers, representing an increase of 5.32%, as compared with the end of the previous year.

SME customer group: “Minsheng SME Project” continued. The Bank is committed to serving the NSOEs, and continues to promote SME finance as one of its strategic businesses. During the Reporting Period, it persistently advanced its “Minsheng SME Project”, which was initiated to provide SME customers of different types and stages of development a full scope of financial support ranging from account and capital services, transaction and financing services, strategy and growth services to homeland and ecological services, and upgrade differentiated product system, based on the four plans, namely “Joint Hands, Rooting, Win-Win and Sparks (攜手、生根、共贏、螢火)”, and through its convenient, online, platform-based and integrated financial services, in an aim to facilitate the development of SMEs.

2. Comprehensive financial services

During the Reporting Period, the Bank continued to promote product innovation, enrich and improve its product system, and provide customers with integrated, professional and intelligent financial solutions, in order to continuously enhance cooperative stickiness of customers.

Corporate deposit business. During the Reporting Period, the Bank concentrated on expanding high-quality liabilities, consolidating the construction of settlement platform, cultivating strategic customers and core customers in the supply chain, intensifying batch acquisition of SME customers, improving settlement services for asset management customer group, enhancing the contribution of corporate customers to general deposits, actively optimising its liability structure in accordance with the development trend of liquidity and market interest rates, in an aim to promote the continuous and steady growth of general corporate deposits. As at the end of the Reporting Period, corporate deposits of the Bank amounted to RMB3,011,709 million, representing an increase of RMB66,407 million, or 2.25%, as compared with the end of the previous year. The structure of corporate deposits continued to improve, with daily average demand deposits accounting for 42.23%, representing an increase of 2.28 percentage points as compared with the previous year. The cost of corporate deposits continued to drop, with an average cost ratio of 2.13%, representing a decrease of 0.21 percentage points as compared with the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate loan business. During the Reporting Period, the Bank closely followed the national strategy and increased loans to the key regions such as the Guangdong-Hong Kong-Macau Greater Bay Area, the Yangtze River Delta, Beijing-Tianjin-Hebei and Chengdu-Chongqing. The Bank also increased loans to key areas in relation to green credit and rural revitalisation. The Bank supported the high-quality development of the manufacturing industry by granting more loans to advanced manufacturing, strategic and emerging industries, as well as the traditional industries undergoing transformation and upgrading. The Bank also placed more loans to traditional infrastructure such as urban infrastructure and public services, as well as new infrastructure such as 5G, ultra-high voltage power transmission, AI and industrial internet. The Bank grant more loans to the strategic customer group and continued to apply preferential pricing policies to key customers engaged in combating the COVID-19 pandemic. As at the end of the Reporting Period, corporate loans of the Bank amounted to RMB2,334,379 million, representing an increase of RMB93,441 million, or 4.17%, as compared with the end of the previous year.

Investment banking business. During the Reporting Period, the Bank upheld its value proposition of “customer first” and “returning finance to its economic origin”, continued to create more business opportunities with core customer groups and provide its customers with comprehensive and customised investment banking services and diversified investment banking products such as bond financing, structured financing, equity financing and cross-border financing, helping them optimise their financial structure and improve their business management expertise, with a view to building its branded investment banking empowerment model featuring “commercial banking + investment banking”, “capital + intelligence” and “investment banking first + investment & loan linkage” in the course of serving the development of the real economy and helping the enterprises enhance their values, thus to become a true “friend, butler and advisor” of its customers.

During the Reporting Period, the Bank actively responded to and implemented the key national strategies such as “carbon peak and carbon neutral”, “green finance” and “rural revitalisation” by further strengthening internal and external research and analysis, enhancing marketing and customer acquisition, optimising business processes and implementing major project operation mechanisms, and returned to the origin of investment banking business of commercial bank. During the Reporting Period, the underwriting of various types of bonds issued by the Bank amounted to RMB165,453 million, including RMB153,258 million in the interbank bond market, ranking 10th among the main underwriters of non-financial corporate debt financing instruments in the interbank bond market. The Bank made vigorous efforts in innovating bond products and assisted eight enterprises to successfully issue green bonds with an amount of RMB3,695 million, including green bills, carbon neutrality bonds and sustainable development-linked bonds, among which, the carbon neutrality asset-backed bills were the first in the market. The Bank also assisted five enterprises to successfully issue rural revitalisation bonds with an amount of RMB1,560 million to contribute to the rural revitalisation. The Bank further leveraged its advantages in M&A and syndicated business to deepen cooperation and resource sharing with its peers, with focus on industrial resource integration, restructuring of state-owned enterprises, return of Chinese stocks, and cross-border M&A, etc. While continuing to facilitate the traditional industries in their transformation and upgrade, the Bank multiplied its support to the development of emerging industries such as intelligent manufacturing, energy conservation and environmental protection, and bio-tech and pharmacy, and landed a series of major projects with great influence in the market, which effectively supported the development of the real economy and enhanced the brand image of its investment banking business. As at the end of the Reporting Period, the Bank’s M&A loans and syndicated loans totaled RMB135,975 million.

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Institutional business. During the Reporting Period, the Bank enhanced the chain-oriented development of institutional customer group by refining the local government bonds, promoted the construction of institutional business platform, enriched institutional business products and solutions, and enhanced the level of comprehensive services. As at the end of the Reporting Period, daily average institutional deposits of the Bank amounted to RMB857,671 million, representing an increase of RMB76,974 million, or 9.86%, as compared with the previous year.

Transaction banking business. During the Reporting Period, the Bank focused on customers' journey and continued to integrate existing products, channels and services and strove to enhance settlement service capabilities, providing its customers with intelligent and convenient comprehensive financial service solutions to improve their experience.

During the Reporting Period, the Bank accelerated the pace of enriching and improving settlement and cash management product and service system, and provided group customers with inter-bank cash management solutions to meet their needs, thus to help them realise convenient and intelligent capital management. The Bank also provided customised products and services to meet the needs for flexible capital settlement in such scenarios as property sales and leasing fund supervision, bankruptcy liquidation, bidding and payroll processing. As at the end of the Reporting Period, the settlement and cash management of deposits of the Bank amounted to RMB1,441,814 million, representing an increase of RMB115,293 million, or 8.69%, as compared with the end of the previous year.

During the Reporting Period, the Bank continued to enrich its product portfolio in response to the financing needs of customers in domestic and international trade. The Bank vigorously implemented the policies facilitating cross-border trade settlement, continuously upgraded its intelligent product system for cross-border settlement, and accelerated the landing of cross-border fund pooling business. The Bank connected with a number of cross-border e-commerce platforms and market procurement platforms to provide optimal settlement services for new business format of trade. It seized the business opportunities in various scenarios, such as import procurement and international contract projects, to provide efficient and quality cross-border financial services. The Bank optimised its bills business process and expedite the online migration process, which had realised full online process of commercial bills discounting system in terms of automatic examination, online review and fund granting. The Bank also optimised the self-service discounting and upgraded the bill manager to improve the efficiency of business development. The Bank optimised its domestic letter of guarantee (L/G) products based on customer scenarios, matching products and solutions with the needs of customers for guarantees in various industries and scenarios. It also vigorously developed non-financing L/G and expanded the application scenarios of electronic L/G, a total of 49 versions of non-standard electronic L/G were launched online, the business volume of domestic L/G increased by 33.69% as compared with the corresponding period of the previous year.

3. Ecological model transformation

During the Reporting Period, the Bank focused on digital services for enterprises and continued to intensify its cultivation of the industrial Internet ecosystem by prioritising its supply chain business. The Bank's supply chain finance business closely followed its digital transformation strategy, with priority given to customer group management, while relentlessly promoting the implementation of integrated operation mechanism for large, medium, small and micro enterprises. By innovating its service model of digital supply chain finance, strengthening customer acquisition through its eco-platform, and iterating its online products to enhance customer experience, the Bank actively explored the services for the whole ecosystem of industry chains featuring integration of supply chain finance scenarios, platforms and customer experience.

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Promoting integrated operation of large, medium, small and micro businesses. The Bank has set up a working group for coordinating the integration of large, medium, small and micro businesses, established a coordinated development mechanism and implementation process for large, medium, small and micro customers in the supply chains, strengthened its efforts in guiding customer flow, and launched the coordinated business promotion with focus on three pilot scenarios i.e. “E-Credit Finance (信融 e)”, “Government Procurement Loan (政採貸)” and “E-Procurement (採購 e)”. Meanwhile, it started the tallying of relevant business systems and achieved a breakthrough in the number of long-tail customers in the chain.

Accelerating technology-empowered product innovation. The Bank focused on the diversified service demands in the supply chain market and refined the standardised functions and distinctive features of its products. During the Reporting Period, the Bank designed and refined its product parameters based on the new products such as the “E-Lease Finance (賃融 e)” and “E-Warehouse Receipt (倉單 e)” to form online product templates, and adopted component design for system architecture and functions, strengthening functional reusability. The Bank improved the automation of financing fund release process through technologies to reduce manual intervention and improve operation experience of enterprises.

Enhancing digital risk control for the whole process. The Bank gradually improved its supply chain risk control policies to build intelligent risk control system that matches the nature of supply chain. The Bank started the design of digital approval models and rules, and obtained industry chain data such as purchase orders, transactions and payments with technology empowerment to describe and apply the risk profiles of customers in the chain in automatic early-warning, to enhance digital risk control throughout the whole process and improve the efficiency of chain customer acquisition.

(III) Retail banking

During the Reporting Period, the Bank prioritised its retail business as a long-term, fundamental strategic business, and concentrated on the implementation of the new three-year planning for the retail business, while constantly improving the segmented management of retail customer groups and promoting the transformation of development and management models of its retail business, with the aim of expanding basic customer groups, improving basic services, and enhancing customer experience with drivers such as “digital intelligence + ecological scenario”.

1. Driven by ecological scenario

Online app ecosystem. The Bank strove to develop a full-scenario ecosystem covering “clothing, food, housing, travelling, entertainment, and shopping” with focus on personal life scenarios such as car owners, shopping centres and supermarkets, parent-children services and properties. The Bank also explored the means of customer acquisition and management in different scenarios through digital cooperation, i.e. by providing its account and payment services to its partners. It expanded the list of preferential merchants of credit card business and the integrated platforms of “Minsheng Butler (全民管家)”, which covered more than 50 types of daily life scenarios and nearly one thousand payment items in 160 cities across the country, aiming to enhance the activity and user experience of consumers with stable consumption. As at the end of the Reporting Period, the aggregate number of registered users of its Daily Life app was 26,599.1 thousand, with 1,244.1 thousand new registered users during the year.

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Offline network ecosystem. The Bank actively introduced government services, such as social security, taxation, industry and commerce, transportation, credit investigation, through offline channels to achieve intelligent sharing and precise connection between financial and government scenarios, and enrich the ecosystem of its outlets and services. It gave full play to the “geographical” and “interpersonal” characteristics of its community sub-branches to accelerate the development of ecosystem consisting of community services, elderly care, parent-children service, governmental services and community convenience. As a result, the financial assets of its community (small business) sub-branches continued to grow and reached RMB339,202 million, average financial assets of the community network amounted to RMB275 million. Total savings deposits amounted to RMB126,886 million. Total number of customers was 7,859.0 thousand, including 926.2 thousand at active level and above, further consolidating the advantage as the first mover in community finance.

Strategic customer cooperation ecosystem. Building on the advantage of successful integrated operation, the Bank introduced competitive top scenarios of strategic customers as well as small business and credit card scenarios to explore business model that features mutual efforts and benefits with its customers in ecosystem building, strategic partnership and customer flow direction.

2. Driven by digital intelligence

Digital marketing. The Bank continued to improve its digital marketing system by prioritising the promotion of strategy library application as one of its main tasks, aiming to accelerate the closed-loop marketing process based on customer data and explore the scenario-oriented application of customer data. The Bank explored to introduce new technologies to enhance the level of intelligence of strategies covering all customer groups and product lines. The Bank launched the strategy library 1.0, improved the retail user tagging model and system with more than 900 tags, realised full process management and automatic deployment of marketing strategies, supported the reservation and sharing of high-quality strategies, and further improved the accuracy of its services. Focusing on the card users with stable consumption, the Bank analysed four attributes of customers, namely basic attributes, behavioural attributes, preferential attributes and financial attributes, and produced over one thousand customer tags, thus achieved highly accurate portraying of target customer groups.

During the Reporting Period, the Bank conducted multi-channel contacts and high-frequency marketing over its key segmented customers, with a total of 787 marketing strategies for debit card customers, including 582 automated marketing strategies for general customer groups. With the purpose of promoting activity, transaction and enhancement, the Bank advanced the digital management of basic customer groups by making a total of 31.13 million contacts, 49.79% of which were made through digital and intelligent channels such as mobile banking, corporate WeChat account and intelligent voice calls. The Bank also recorded a coverage rate of 79.60% of key customer groups including new customers, recovered customers and payroll agency customers. The Bank’s digital marketing reached a total of 22.06 million customers, of which VIP customers accounted for 62.46%. The Bank’s data-driven credit card customer lifecycle management strategy continued to improve, covering 10 major lifecycle nodes and 25 segmented sub-nodes, with 113 marketing strategy groups being implemented simultaneously and 9.18 million customers being visited during the Reporting Period. The activation rate of renewed cards increased by 28.5% as compared with the corresponding period of the previous year after several upgrades of its activation promotion strategies. The retention rate of value customers canceling cards increased by 38.4% as compared with the corresponding period of the previous year after two iterations of retention strategies. The special promotions targeting low-risk and high-potential customers based on customer tagging and behaviour risk models as well as future value model were carried out, reaching a total of 4.7 million customers during the Reporting Period.

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The Bank prioritised the promotion of corporate WeChat account as the main strategic service channel to reconstruct and strengthen the connection with its customers. Since the launch of its AI-based automatic calling system in March 2021, more than 300 thousand outbound calls were made, which effectively enhanced its customer service capabilities. Leveraging the digital management capabilities of its industry-leading partners, the Bank has built an online scenario and product scenario-based marketing system for its wealth management customers.

Digital risk control. The Bank propelled its digital transformation with “data + model” while constantly strengthening its data governance, continuing to expand and integrate compliant and effective third-party data, constructing and enriching customer portraits to enable data cross-checking and improve data management efficiency. It optimised and iterated its fraud risk and credit risk modeling strategies, the scale of online non-mortgage consumer loans increased by 33.42% as compared with the end of the previous year, and its NPL ratio dropped to 0.45% from 0.52% as at the end of the previous year, showing a trend of scissors between the growth in scale and the drop in NPL ratio. The Bank has built an integrated online-offline decision-making framework for the approval of Easy Loan (民易貸), as a step of transition to an automated and intelligent risk control decision making framework that combines human and computer operation, which improved the efficiency of risk control decision making.

The Bank enhanced the digital assessment of small business. Based on the data of ecosystem of small and micro enterprises, such as tax payments, invoices and assets, the Bank improved online and offline assessment models and adopted composite credit granting strategy to enhance services to small business customers. The Bank strove to create more business opportunities with its small business customer group in the supply chain scenario through automated interaction made by the computer system, and optimised its online service system covering the whole process ranging from customer acquisition, approval to cash withdrawal as a step to upgrade its services to the small and micro real economies.

The Bank strove to establish a digital intelligent risk control system for credit card business featuring “whole process, full coverage and all products”. It introduced differentiated approval and quota strategy, applied intelligent decision making through core decision-making engine, and realised online application approval within 3 seconds at the quickest, with an automatic approval rate of 80%. The Bank also built an “Eagle Eye” monitoring and early-warning system, which scanned asset health based on quantitative assessment models and enabled active and early stage risk management, performing monitoring and early warning to 96% of assets. The Bank applied relationship tree analysis technology, transaction detection technology, and intelligent semantics identification technology and effectively improved its credit card fraud prevention and control capability, and saved its customers from a total loss of about RMB100 million. The Bank strengthened early warning and handling of suspected telecom frauds, identified and processed an average of 12 thousand high-risk transactions per month. It deployed intelligent AI voice-recognising robots and produced intelligent voice analysis graph of customer groups, and realised intelligent collection.

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Digital operation. The Bank accelerated the digital transformation and enhancement of comprehensive service capability of network outlets through business separation, coordinated services and integrated control, striving to build a multi-dimensional and integrated operation and service system featuring the integration of “lobby + remote banking + intelligent appliances + mobile operation”. It established intelligent performance evaluation system for its network outlets which emphasised the improvement in outlet performance and capacity structure through process control and performance evaluation. The Bank promoted the progress of digital finance and integrated operation by launching a mobile app to facilitate the submission of credit card application, which enabled its employees to perform marketing tasks at any time and from anywhere, enhancing the efficiency of the application submission by four times. The Bank applied Robotic Process Automation (RPA) technology in such fields as business processing, financial operations, human resources and regulatory compliance and established automated and intelligent business processes and improved the quality and efficiency of its back-office operations.

Digital services. The Bank strove to build a new digital service ecosystem for its credit card business with “technology empowerment and intelligent transformation”, and continued to improve its online and offline coordinated service system featuring “telephone hotline + intelligent customer service + video customer service”. Its intelligent customer service system of “Minsheng Little M (民生小 M)” took more than 56% of customer service of all channels. The Bank established a new mode of remote video service based on 5G mobile interconnection technology and provided its customers with highly secure, highly perceptible and immersive services with a satisfaction rate of over 98%. Relying on big data and intelligent identification technologies. The Bank provided “one-click access” to a daily average of more than 1.5 thousand elderly customers, as an effort to provide financial services with “warm power”.

Digital management. The Bank established a digital management system for its retail business to promote the construction of retail data infrastructure, data governance and data-based decision-making capabilities, iterate and optimise retail management cockpit, accelerate data sinking and standardisation, strengthen the application of intelligent management in retail business across the Bank, and promote retail data infrastructure construction and data governance. The Bank established retail technology demand and data application management teams to further strengthen the fundamental support of technology and data for retail business. In addition, it coordinated the retail demand management and platform construction to build a systematic bridge between business and development, and between data and application within the retail system.

Digital innovation. The Bank established a joint lab with Huawei on big data innovation for the purpose of improving customer experience, enhancing precise marketing capabilities, optimising risk management and reducing management costs, as well as accelerating the construction of credit card data application platforms and enhancing innovative R&D and application capabilities in machine learning and AI technologies, which was awarded the “Best AI Innovation Lab in China” in 2021 by The Asian Banker.

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3. Customer group management and products and services

During the Reporting Period, its retail finance business recorded a profit before tax of RMB14,817 million, representing an increase of 31.52% as compared with the corresponding period of the previous year. Retail business recorded an income of RMB34,611 million, representing a decrease of 5.68% as compared with the corresponding period of the previous year, accounting for 44.01% of the Bank's corporate and retail operating income, representing an increase of 3.69 percentage points as compared with the corresponding period of the previous year, of which, net interest income from retail business amounted to RMB26,954 million, representing a decrease of 3.18% as compared with the corresponding period of the previous year, accounting for 77.88% of the income from retail business. Net non-interest income from retail business amounted to RMB7,657 million, representing a decrease of 13.55% as compared with the corresponding period of the previous year, accounting for 22.12% of the income from its retail business and 40.22% of the Bank's net non-interest income. During the Reporting Period, the Bank recorded income from retail wealth management fees and commissions of RMB3,253 million, representing an increase of 9.38% as compared with the corresponding period of the previous year, and accounting for 42.48% of the net non-interest income from retail business, including RMB1,211 million from fund agency service, RMB497 million from insurance agency service and RMB1,481 million from wealth management agency service. Retail debit card fee income amounted to RMB5,275 million, representing a decrease of 0.23% as compared with the corresponding period of the previous year.

(1) Retail customers and total customer assets under management

As at the end of the Reporting Period, the Bank had 108,090.2 thousand retail customers¹, representing an increase of 2.57% as compared with the end of the previous year, among which, new active and above retail customers increased by 181.2 thousand as compared with the end of the previous year, representing an increase of 70.9 thousand as compared with the corresponding period of the previous year, which was 1.31 times of that of 2020.

The number of retail customers with high ratings was 2,363.5 thousand, representing an increase of 136.6 thousand as compared with the end of the previous year, with a retention rate of the existing customers with high ratings of 86.62%. The number of gold customers (欣然級) and above was 3,346.3 thousand, representing an increase of 155.0 thousand as compared with the end of the previous year. The number of retail loan customers was 2,554.7 thousand, representing an increase of 171.0 thousand as compared with the end of the previous year.

The number of small business customers was 14,618.8 thousand, representing an increase of 840.5 thousand, as compared with the end of the previous year, of which 1,526.9 thousand were legal persons of small and micro enterprises, representing an increase of 74.8 thousand as compared with the end of the previous year. The number of small business settlement accounts was 681.1 thousand. According to the national standards, the number of small business credit customers was 699.4 thousand, the number of small business loan customers was 533.1 thousand. The number of small business inclusive loan customers was 350.1 thousand.

¹ The number of retail customers refers to individual customers (including I, II, and III accounts), pure credit card customers, and small and micro enterprise legal person customers with normal customer status.

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The number of qualified private banking customers was 36,982, representing an increase of 2,034 as compared with the end of the previous year. Average financial assets per account amounted to RMB13,895.4 thousand. Financial assets of qualified private banking customers under management amounted to RMB513,880 million, representing an increase of 4.56% as compared with the end of the previous year.

The number of credit card customers was 43,545.1 thousand, representing an increase of 447.2 thousand as compared with the end of the previous year. The number of customers holding both credit card and debit card was 18,475.4 thousand, representing an increase of 443.1 thousand during the Reporting Period. The total number of credit cards issued was 62,631.2 thousand, representing an increase of 1.56% as compared with the end of the previous year, with 959.8 thousand new cards issued during the Reporting Period.

As at the end of the Reporting Period, total assets of retail customers under the management of the Bank amounted to RMB2,020,328 million, representing an increase of 5.76% as compared with the end of the previous year, among which, the financial assets of premium customers (悠然) and above amounted to RMB1,652,907 million, representing an increase of 5.94% as compared with the end of the previous year and accounting for 81.81% of the total assets of retail customers under the management of the Bank.

The Bank's retail deposits² amounted to RMB943,517 million, representing an increase of 7.14% as compared with the end of the previous year. Among which, structured deposits amounted to RMB22,156 million, representing a decrease of RMB27,311 million as compared with the end of the previous year, indicating a healthier deposit structure. Savings deposits amounted to RMB811,430 million, representing an increase of 9.05% as compared with the end of the previous year. Financial assets of retail small business customers amounted to RMB469,781 million, representing an increase of RMB50,824 million as compared with the end of the previous year. Among which, personal deposits of small business customers amounted to RMB208,731 million, representing an increase of RMB33,253 million as compared with the end of the previous year.

The Bank's retail wealth management products amounted to RMB802,030 million, representing an increase of 0.58% as compared with the end of the previous year, while sales of personal wealth management products amounted to RMB1,548,062 million, representing a decrease of 15.37% as compared with the corresponding period of the previous year. During the Reporting Period, agency sales of non-monetary public funds amounted to RMB99,779 million, representing an increase of 76.93% as compared with the corresponding period of the previous year. Agency sales of trust products amounted to RMB3,634 million, representing a decrease of 77.18% as compared with the corresponding period of the previous year. Insurance premium income amounted to RMB8,768 million, representing a decrease of 26.06% as compared with the corresponding period of the previous year.

² Retail deposits refer to savings deposits and deposits in legal person accounts of small and micro enterprise.

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(2) Retail loans and loan quality

As at the end of the Reporting Period, the Bank's retail loans and credit card overdraft business totaled RMB1,674,984 million, representing an increase of RMB82,792 million as compared with the end of the previous year and accounting for 41.78% of the Bank's total loans, representing an increase of 0.24 percentage points as compared with the end of the previous year. Among which, retail loans amounted to RMB1,217,732 million, representing an increase of 7.78% as compared with the end of the previous year and accounting for 30.37% of the Bank's total loans, representing an increase of 0.89 percentage points as compared with the end of the previous year.

Small business loans amounted to RMB560,331 million, representing an increase of RMB48,466 million as compared with the end of the previous year, and an increase of RMB18,952 million as compared with the corresponding period of the previous year. During the Reporting Period, small business loans released amounted to RMB333,797 million, of which RMB76,284 million, or 22.85%, were newly released loans. Inclusive small business loans³ amounted to RMB485,928 million, representing an increase of RMB37,574 million as compared with the end of the previous year. In the first half of the year, a total of inclusive small business loans of RMB285,368 million was released, with an average interest rate of 5.37%.

The percentage of small business asset customers with grading levels at 5 (inclusive) to 10 (inclusive) was 93.84%, and the percentage of customers in each grading levels are as follows:

Grading Level	Percentage	Grading Level	Percentage
Grade 1	0.81%	Grade 6	23.55%
Grade 2	1.67%	Grade 7	18.81%
Grade 3	1.62%	Grade 8	20.38%
Grade 4	2.06%	Grade 9	13.18%
Grade 5	7.24%	Grade 10	10.68%

Credit card loans amounted to RMB457,252 million, representing a decrease of 1.09% as compared with the end of the previous year, with a transaction volume of RMB1,296,924 million, representing an increase of 2.93% as compared with the corresponding period of the previous year. The number of transactions topped 761 million, representing an increase of 19.57% as compared with the corresponding period of the previous year. Mortgage loans amounted to RMB550,757 million, representing an increase of RMB39,183 million as compared with the end of the previous year. Non-mortgage consumer loans amounted to RMB106,644 million, representing an increase of RMB200 million as compared with the end of the previous year, of which the balance of new consumer finance products known as Easy Loan (民易貸)⁴ was RMB27,689 million, representing an increase of RMB5,111 million as compared with the end of the previous year.

³ The statistical calibre of inclusive small business loans does not include discounting and rediscounting.

⁴ The new consumer finance easy loan product is an intelligent personal credit consumer loan product launched by the Bank.

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During the Reporting Period, the quality of retail assets remained good and stable. As at the end of the Reporting Period, the Bank's retail NPLs (including credit card business) amounted to RMB27,281 million, representing a decrease of RMB3,975 million as compared with the end of the previous year, with a retail NPL ratio of 1.63%, representing a decrease of 0.33 percentage points as compared with the end of the previous year. The special-mention retail loans amounted to RMB19,055 million, with a special-mention loan ratio of 1.14%, representing a decrease of 0.22 percentage points as compared with the end of the previous year. During the Reporting Period, 63.50% of the Bank's new retail NPLs (excluding credit card business) were secured loans, with outstanding balance of RMB2,518 million.

The NPL ratio of retail small business loans was 2.21%, representing a significant decrease of 0.59 percentage points as compared with the end of the previous year. The NPL ratio of newly released small business loans issued since 2019 was 1.25%, showing a significant improvement in the quality of new customer groups. The NPL ratio of inclusive small business loans was 2.47%, representing a decrease of 0.63 percentage points as compared with the end of the previous year, which was the lowest in the past three years.

Distribution of Non-Performing Small Business Loans (2016-2020)

Unit: RMB100 million

Small business loans	30 June 2021			31 December 2020		
	Amount	Total NPLs	NPL ratio	Amount	Total NPLs	NPL ratio
Granted since 2016	5,592.55	117.31	2.10%	5,104.55	135.54	2.66%
Granted since 2017	5,566.17	108.55	1.95%	5,069.78	124.69	2.46%
Granted since 2018	5,470.46	91.14	1.67%	4,949.63	100.94	2.04%
Granted since 2019	5,306.82	66.10	1.25%	4,739.72	65.89	1.39%
Granted since 2020	5,101.52	31.60	0.62%	4,474.74	16.48	0.37%

As at the end of the Reporting Period, the NPLs of credit card business was RMB12,981 million, representing a decrease of 14.49%, as compared with the end of the previous year, with an NPL ratio of 2.84%, representing a decrease of 0.44 percentage points as compared with the end of the previous year. The special-mention loans was RMB11,443 million, representing a decrease of 12.05% as compared with the end of the previous year. The overdue loans was RMB24,424 million, representing a decrease of 13.36% as compared with the end of the previous year, showing decreases in both amount and proportion of special-mention loans, NPLs and overdue loans. The amount of new overdue loans of credit card business decreased by 19.74% as compared with the corresponding period of the previous year and 13.56% as compared with the second half of the previous year. The amount of new NPLs decreased by 4.02% as compared with the corresponding period of the previous year, showing improved results in controlling increases and clearing existing NPLs of credit card business.

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The NPL ratio of mortgage loans was 0.22%, which was generally the same as that at the end of the previous year. The NPL ratio of non-mortgage consumer loans was 0.62%, representing an increase of 0.03 percentage points as compared with the end of the previous year, and the NPL ratio of new consumer finance loans of the Easy Loan was 0.52%, representing a decrease of 0.32 percentage points as compared with the end of the previous year.

(3) Customer group development and management

The Bank's customer acquisition ability based on "external expansion" of external ecological scenarios has been steadily improved, while the customer acquisition ability based on "internal growth" of traditional financial scenarios has been constantly consolidated. The Bank strove to create business opportunities in core daily life scenarios such as car care, shopping centres and supermarkets and parent-children services, with the aim of crafting products of long life cycle, high frequency of iteration and high competitiveness. During the Reporting Period, the Bank acquired 1,349.4 thousand new segmented scenario-based retail customers through niche scenarios such as issuing car care cards with Tuhu.cn (途虎) and Tmall.com (天貓), Walmart Card (沃爾瑪商超卡), Children Benefit Card (益起童行卡) and Minsheng Farm Card (民生農場卡). Cardholders' assets under management increased by RMB54,979 million. The market advantage in the ecological field of car owner services has been gradually established.

Through the member-get-member (MGM) method, the number of new customers referred by existing customers increased, and the relevant financial assets increased by RMB13,314 million. With cross-marketing, the Bank achieved effective results in encouraging mutual business referrals between credit card and debit card holders, the number of new debit card customers from credit card customers reached 455.0 thousand, with a contribution rate of 19.66%. The Bank's collaboration mechanism of corporate-personal banking segments pushed the development of retail customer base towards the network and chain-based development pattern, resulting in a significant increase in the number of customers acquired through batch acquisition. During the Reporting Period, in terms of payroll agency business, there were 9,857 new corporate customers and 676.9 thousand new personal customers, and the total amount of payroll agency business reached RMB107,950 million, important breakthrough was made in the first group of key customers of payroll business.

The Bank accelerated the introduction of the Wealth Management Innovation 3.0 Project, and refined the allocation pyramid consisting five modules, i.e. product, equity, after-sales service, team and training, clearing the way for career growth and contribution empowerment of core wealth management teams. The Bank iterated its integrated operation model for small and micro customer groups to meet their needs for comprehensive services. To solve the pain points of bookkeeping companies in obtaining bookkeeping vouchers, the process of which is usually difficult, slow and complex, the Bank innovated the "Minsheng Cloud – Agency Bookkeeping" service and established the batch customer acquisition channels. The Bank focused on value customer groups and coordinated corporate-personal banking businesses to ensure the sustainable and reasonable development of mortgage business. The Bank focused on the strategy of "Agility and Openness" to enhance the role of consumer finance products in promoting the development of strategic corporate and retail customers, while accelerating the innovation of consumer finance products in such scenarios as auto consumption and home decoration.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank returned to the origin of payment service, strengthened product coordination and enhanced service value. In accordance with the “light-weighted, scenario-based, integrated and professional” development pattern of settlement for small business, The Bank upgraded its tripartite cooperation and accelerated the improvement of customer acquisition and comprehensive service solutions for customers, focusing on such fields as catering and education. During the Reporting Period, it acquired 137.5 thousand new customers signed up for its small business settlement products. The Bank continued to promote daily card usage and joint marketing with chain brands. Focusing on online and offline quality scenarios, The Bank launched the “National Online Shopping Carnival” with top e-commerce platforms, and provided special offers together with renowned shopping malls and star hotels, of which, the “Buy One Get One Free” special buffet offer covered nearly 200 five-star hotels in 40 cities, with the aim of accelerating the construction of online-offline integrated consumption ecosystem and promoting the scale of credit card payment. During the Reporting Period, the amount of transactions by electronic payment with credit card (including express payment, mobile payment, gateway payment and Daily Life App) reached RMB227,058 million, representing an increase of 33.82% as compared with the corresponding period of the previous year, with a total of 574 million transactions, representing an increase of 40.84% as compared with the corresponding period of the previous year.

The Bank developed distinctive customer groups such as senior-care customer group and female customer group of high values. It insisted on the integration of traditional services and intelligent services to continuously improve the service standards for senior customers and customised a “simplified and special version” of its mobile banking app for them, which can intelligently recommend suitable financial products for them. The Bank organised various forms of financial knowledge publicity and education activities to help the senior and other special groups improve their knowledge of financial products and services and ability to identify risks and protect themselves. It also joined hands with leading insurance companies to design and introduce distinctive pension and fixed and lifetime insurance products to enhance the quality of products and services for segmented customer groups. The Bank optimised and upgraded the rights and benefits of key products such as the Car Car Card (車車卡) and the Lady Flower Card (女人花卡) to meet the needs of targeted customers for personalised card usage.

(4) Product, service and channel construction

The Bank accelerated the construction of its basic product and service system to enhance the competitiveness of its retail basic products. It took a firm grip of the opportunities in the upcoming launch of the “Cross-Border Wealth Management Connect (WMC)” in the Guangdong-Hong Kong-Macau Greater Bay Area and accelerated the construction of its platform for WMC. The Bank has completed the upgrading of its foreign exchange business system, which optimised the foreign exchange service experience of customers such as international students and paid foreigners in China. The Bank also strove to develop the comprehensive service platform that integrates payroll processing, human resource management, taxation, welfare and reimbursement for its payroll service customers.

The Bank strove to create more business opportunities in the segmented fields to build a reliable wealth management brand. Based on the leading edge of its Minsheng Bedrock (民生磐石) and FOF products, the Bank strove to build brand advantages in segmented markets. The Bank initiated forward-looking plans in response to the market changes while taking a customer-centric approach to match the risk appetite of its customers, striving to establish its brands of “Safe, Solid, Stable and Winning” wealth management product series.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank developed its reliable investment brand of “Minsheng Bedrock (民生磐石)” series. Adhering to the principle of “Stable Income+ (收益穩固+)” the Bank researched on the product of “Fixed Income+ (固收+)”, and leveraged its expertise in allocating major types of assets that “covered both equity and debt and were suitable for both aggressive and conservative investments (股債兼收、進可攻退可守)” to join hands with a number of leading fund companies to launch the Minsheng Bedrock fund series with “professional and strict selection, exclusive and tailor-made solution (專業嚴選、獨家定制)”. As at the end of the Reporting Period, the “Minsheng Bedrock” products recorded a scale of RMB60.3 billion, representing an increase of RMB35.1 billion or 139% as compared with the end of the previous year, serving over 200 thousand customers, and delivering good market experience and a stable wealth management brand.

The Bank entered into the FOF market to seize market share. The Bank consolidated its brand name in fund allocation through FOF products, and formulated underlying product selection model based on quantitative models and style analysis, and carefully evaluated the full “portraits” of the fund companies and fund managers to establish the brand image highlighting the slogan of “Come to Minsheng Bank for FOF products (買FOF到民生)”. As at the end of the Reporting Period, its FOF funds through public offering recorded a scale of RMB40.1 billion, representing an increase of RMB16.6 billion, or 70%, as compared with the end of the previous year, accounting for one-third of the whole market, demonstrating strong competitiveness in this segmented sector and delivering its strongest voice to the market in the field of FOF funds through public offering.

In the future, Minsheng Bank will, in addition to continuously developing its Bedrock series and FOF series products, join hands with leading institutions in the industry, with focus on three-year equity products, to implement long-term investment concepts, enhance its customers’ profiting experience, and build a whole new brand series to provide more quality choices for the public to invest in equity assets. Through the launches of the Bedrock, FOF and Three-year series, it will build reliable wealth management brands and provide its customers with more stable and reliable wealth management services.

The Bank strengthened technology empowerment to enhance customer experience. Towards the goal of “expanding coverage and enhancing timeliness”, the Bank continued to optimise its customer experience monitoring system, with 9 new personal customer journeys put under the scope of monitoring, bringing the total number of monitored journeys to 28, with the evaluation mechanism gradually shifting from T+1 to real-time.

By applying IT system, connecting with external data, providing door-to-door service and one-stop service, relying on mobile operation of IPAD for small business and the Xiao Wei Bao (手機小微寶) app, the Bank promoted the mobile operation mode for small business loans to improve the process of electronic acceptance and approval. The Bank innovated and launched a video customer service model for credit card business based on 5G communication technology, constructing a coordinated customer service system featuring “telephone hotline + online customer service + video customer service”, providing efficient and convenient same-day card delivery and on-site card production. It launched the version 8.0 of the Daily Life app, which was the first of its kind to adopt the HUAWEI HarmonyOS (華為鴻蒙系統), contributing to the building of an open and secure full-scenario and distributed financial service system. The Bank optimised the fund investment page in its mobile app and upgraded the product promotion interface, information disclosure and customer position display, and realised the function of intelligent double recording for the first time. It also applied digital technology in customer emotion management, creating emotional scenarios at various points of customer’s business cycle and life cycle, further enhancing customer experience and stickiness through empathy with customers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank accelerated the transformation and upgrading of outlets. The Bank implemented the strategies of key region development and rural revitalisation, orderly increased the distribution of outlets in the four strategic regions and county areas while accelerating the deployment in key regions. It upgraded the integrated service experience in bank lobby and the outlets, completed the test run of new space design standard of its outlets and the creation of demonstration outlets, so as to optimise customer experience at outlets. The Bank upgraded the integrated bank lobby model and completed the transfer of the bank lobby operation management, personnel management and risk management functions from operational function to retail business function, forming a “one-piece” customer operation and management pattern at bank lobby. It also established an evaluation system for the performance of outlet operation, which strengthened the role of process control and performance evaluation in promoting the achievement of targets, and improved the effectiveness and capacity structure of the outlets through process monitoring and supervision. During the Reporting Period, the incremental growth in the scale of community financial assets accounted for 22.2% of the incremental growth in the scale of the Bank’s retail financial assets increment. The increase in the number of active customers accounted for 27.46% of the number of active customers of the Bank’s retail increment. The capacity of convenience outlets continued to increase during the contribution period, with a significant increase in the number of top outlets. The number of outlets with financial assets of over RMB500 million increased 22 to a total of 139, representing an increase of 18.8%.

(5) Physical distribution channels

The Bank has established an effective domestic distribution network that covered all provinces in the Chinese mainland with focus on the Yangtze River Delta, Pearl River Delta, Bohai Economic Rim and other regions. As at the end of the Reporting Period, the sales network of the Bank covered 132 cities in the Chinese mainland, including 140 branch-level institutions (including 41 tier-one branches, 90 tier-two branches and 9 remote sub-branches), 1,182 business outlets of sub-branches (including business departments), 1,094 community sub-branches, and 137 small business sub-branches.

(IV) Treasury business

1. Investment business

During the Reporting Period, the Bank continuously optimised its asset structure and improved investment efficiency. As at the end of the Reporting Period, net investments in trading and banking books of the Bank amounted to RMB2,008,102 million, representing a decrease of RMB89,265 million, or 4.26%, as compared with the end of the previous year. The proportion of net investments in trading and banking books in total assets of the Bank decreased by 1.87 percentage points as compared with the end of the previous year.

2. Financial institutions business

During the Reporting Period, the Bank continued to strengthen compliant operation, adhere to “new concepts, new positioning and new approaches (新理念、新定位、新方式)” and propel the transformation of financial institution customer group management. The Bank deepened the new concept of “financial institution customer-centric” and “creating value for customers”, and continued to improve unified marketing and the management system of unified credit granting and non-credit-based businesses. The effective customer coverage rate of the whole Bank continued to increase, the customer base continued to consolidate, and the comprehensive services to financial institution customers continued to improve.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Bank actively adjusted treasury business structure, stabilised liabilities, and achieved steady development of financial institutions business. As at the end of the Reporting Period, assets of financial institutions business of the Bank amounted to RMB347,129 million, representing an increase of 13.46% as compared with the end of the previous year. Liabilities (including IBNCD) of financial institutions business amounted to RMB1,793,360 million, representing a decrease of 2.51% as compared with the end of the previous year. During the Reporting Period, a total of 188 tranches of IBNCD were issued with an accumulated amount of RMB310,360 million. As at the end of the Reporting Period, total balance of IBNCD issued by the Bank amounted to RMB466,989 million.

3. Custody business

During the Reporting Period, the Bank implemented the philosophy of “making trade-offs, and achieving high-quality development (有取有捨、高質量發展)” for custody business to strengthen compliant operation and orderly promote the optimisation of custody business structure. The Bank deepened technology empowerment and strengthened the application of new technologies, with an aim to continuously promote digital and intelligent transformation of custody business. The Bank endeavoured to develop the platform of value-added custody services and integrate resources effectively to improve customer service capabilities. As at the end of the Reporting Period, assets under custody of the Bank amounted to RMB10.76 trillion.

In respect of pension business, in line with the national policies on improvement and development of multi-pillared pension schemes, the Bank expanded its product portfolio covering corporate annuity, occupational annuity, pension products and pension management products under its qualifications of annuity custody and account management. The Bank continued to improve operation management and customer services to provide quality pension fund management services for corporate and individual customers.

4. Wealth management business

During the Reporting Period, the Bank continued to promote the transformation of wealth management business. On the one hand, the Bank improved the layout of net-worth wealth management products covering those with long, medium and short term and major classes of assets, and launched various customised products dedicated for customer groups and regions. The number of customers of personal net-worth wealth management products achieved rapid growth. On the other hand, in strict compliance with the relevant requirements of new asset management regulations for the transitional period, the Bank orderly reduced their existing portfolio, the scale of which decreased by RMB177,803 million as compared with the end of the previous year. As at the end of the Reporting Period, the net-worth products of the Bank in compliance with new asset management regulations amounted to RMB671,050 million, representing an increase of 26.95% as compared with the end of the previous year. The proportion of net-worth products in the total scale of wealth management products increased from 61.38% as at the end of the previous year to 78.70%.

MANAGEMENT DISCUSSION AND ANALYSIS

In the process of transformation of wealth management business, on the one hand, the Bank greatly strengthened risk management of wealth management business and gradually established a risk management system covering the entire process from product creation, pre-investment investigation, asset approval, fund release management, asset monitoring and post-investment analysis, which contributed to comprehensive improvements in risk measurement, monitoring and control capabilities of wealth management business. On the other hand, the Bank enhanced collection and disposal of existing problem assets and actively mitigated risks. Following the issuance of new asset management regulations and the Administrative Measures on Wealth Management Business 《理財業務管理辦法》, the Bank formulated plans to reduce existing products based on regulatory requirements and proceeded in accordance with such plan. During the Reporting Period, the Bank met the requirements for the progress of rectifications every quarter as planned. In the process of reducing existing assets, the Bank gradually brought back problem assets to the balance sheet. According to the requirements of the Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments 《企業會計準則第22號 — 金融工具確認和計量》 issued by the Ministry of Finance, the Bank strictly classified risks and calculated the allowance for impairment losses according to the expected losses. Meanwhile, the Bank continued to consolidate the collection and disposal of assets that were brought back to the balance sheet, with an aim to promote risk mitigation.

On 9 December 2020, the Bank received the Reply of the CBIRC on Establishing Minsheng Wealth Management Co., Ltd. (民生理財有限責任公司). Currently, the Bank is pushing forward the submission of documents on the application for starting operation to the CBIRC and accelerating the preparation works for establishment, in an aim to obtain approval for opening the wealth management subsidiary as early as possible.

5. Precious metals and foreign exchange trading

During the Reporting Period, the on-floor trading volumes of gold and silver (including agency sales for legal persons and individuals) of the Bank in the precious metals markets (i.e. the Shanghai Gold Exchange and the Shanghai Futures Exchange) amounted to 851.33 tons and 37,433 tons, respectively. Total trading value amounted to RMB352,260 million. The Bank was one of the top ten traders for inquiry trading at Shanghai Gold Exchange in terms of trading value and was one of the most active proprietary dealers at Shanghai Futures Exchange. The Bank was also one of the most important importers of block gold in China.

During the Reporting Period, the Bank conducted the business of gold lease to enterprises and financial institution customers with a volume of 36.8 tons, ranking fifth in the market. The volume of physical gold of the Bank's own brand sold to individual customers was 527.68 kg. The Bank effectively satisfied the demands of customers with diversified products. The market potential is very promising.

During the Reporting Period, the transaction volume of domestic spot settlement and sales of foreign currencies of the Bank amounted to USD331,716 million, representing an increase of 8.83% as compared with the corresponding period of the previous year. The transaction volume of forward settlement and sale of foreign currencies and RMB foreign exchange swap of the Bank amounted to USD615,473 million, representing an increase of 71.72% as compared with the corresponding period of the previous year. The Bank actively promoted the establishment of foreign exchange risk neutral mechanism, with an aim to facilitate enterprises to conduct foreign exchange hedging through derivatives.

MANAGEMENT DISCUSSION AND ANALYSIS

(V) Asset quality management

During the Reporting Period, the Group continued to enhance asset quality and maintain provision of allowances. As such, asset quality indicators achieved steady improvements and risk compensation capabilities were enhanced continuously. As at the end of the Reporting Period, the Group's NPL ratio was 1.80%, representing a decrease of 0.02 percentage points as compared with the end of the previous year. Both the ratios of loans overdue for more than 90 days and 60 days to NPLs were less than 100%. Allowance for impairment losses on loans was RMB103,426 million, representing an increase of RMB5,789 million as compared with the end of the previous year. The allowance to NPLs was 142.87%, representing an increase of 3.49 percentage points, as compared with the end of the previous year, while the allowance to total loans was 2.57%, representing an increase of 0.04 percentage points, as compared with the end of the previous year.

During the Reporting Period, the Group adopted measures to strengthen credit risk prevention and control as well as asset quality management, mainly including:

Firstly, the Group strictly controlled new credit granting risks. During the Reporting Period, the Group continued to optimise asset structure and provide further credit policy support to quality enterprises in the four key regions (i.e. the Guangdong-Hong Kong-Macau Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei and Chengdu-Chongqing). The Group strengthened the admittance management of customers and credit granting by strictly conducting inspections of credit facilities. The proportion of key regions, major industries and customers with high ratings continued to increase. The Group optimised assets allocation of the whole Bank to keep the good quality of new credit assets. The Group strengthened monitoring and early-warning efforts and strictly implemented the new mechanism to monitor major customers and important public sentiment, with an aim to improve the timeliness of monitoring and early-warning system. A sharing and processing mechanism for major risks information was also established. The Group enhanced the prevention and control of risks in key areas by examining risk exposures of key fields such as real estate business, government financing platform, and pledge of stock equity in non-listed companies. Through risk concentration assessment and active withdrawal mechanism, the Group scaled back and withdrew from businesses of risky customers in advance.

Secondly, the Group strengthened the efforts in disposals of non-performing assets. By optimising the collection and management mechanism, the Group insisted on prioritising cash collection and increasing channels for disposals with classified and multiple approaches, with an aim to propel the collection and disposal of non-performing assets. Through exploring the potential for disposals of non-performing assets, the Group tackled large and difficult projects under the policy of "one account one policy (一戶一策)" and integrated specialised disposal resources within the Bank, so as to create coordination to improve disposal effectiveness. The Group consolidated basic management of disposals by promoting the preparation of operation manual on special assets to improve standardised and refined business operations. Adhering to the principle of "keeping records of accounts written off and pursuing collection when the rights are still available (賬銷案存、權在力催)", the Group adopted refined and classified management of loans written off to improve recovery value.

MANAGEMENT DISCUSSION AND ANALYSIS

Thirdly, the Group properly arranged the inclusion of wealth management products in the balance sheet. According to the Guiding Opinions on Improving the Compliance of the Asset Management Operations of Financial Institutions 《關於規範金融機構資產管理業務的指導意見》, the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks 《商業銀行理財業務監督管理辦法》, and the Arrangement for the Stable Transformation of Asset Management Business during the Transition Period of New Regulations Optimising Asset Management 《優化資管新規過渡期安排引導資管業務平穩轉型》 and other relevant regulatory regulations, the Group proceeded the inclusion of assets with wealth management risks in the balance sheet in an orderly manner. For the assets after the inclusion, the Group strictly classified risks and provided allowance in accordance with the relevant regulations on financial asset impairment loss management. Meanwhile, the Group continued to enhance the collection and disposal of such assets and constantly mitigate risks.

(VI) Fintech

1. Digital transformation

During the Reporting Period, the Bank actively promoted the implementation of the bankwide digital finance strategy by establishing a “fully distributed” enterprise-level architecture and forming a horizontal platform-based technology system, which took “the middle-tier business PaaS, middle-tier data PaaS and middle-tier AI PaaS” as the core, to enhance its technology and data capabilities. By focusing on “ten major events” of fintech, developing open banking, building a direct bank ecosystem platform, creating an integrated and intelligent risk control system for corporate banking and retail banking, establishing the new generation of operational risk control system of “Fengling (風鈴)”, promoting the “Smart Banking Experience Store”, and facilitating intelligent “remote banking”, the Bank carried out the construction of “ecosystem-oriented banking” and “smart banking”, so as to guarantee the production safety and network security while conducting technology innovation.

The Bank completed the transformation of the “fully distributed” enterprise-level architecture. The self-operating and controlling distributed platform systems of core products have been established in all aspects, including distributed technology platforms, distributed electronic accounts of direct bank, distributed retail loans, distributed payment platforms and distributed core systems, which formulated the “digital” technology foundation that would support the rapid growth of digital finance in the next 5 to 10 years. The distributed core projects successfully completed the imperceptible online data migration of 100-million-level customers, with zero system downtime and zero service interruption.

The Bank built the middle-tier AI PaaS and enhanced the middle-tier business PaaS and middle-tier data PaaS. The middle-tier AI PaaS, which was based on the integrated platform of machine learning model, provided 5 capabilities of “model training, AI-based production, AI-based asset management, AI-based administration, and AI-based services” to the Head Office and the branches. **The middle-tier data PaaS** created a data science empowerment system, which included “data science products, data empowerment solutions, data science tools, and data science platforms”, and emphasised **innovative data products**, including self-innovated big data-based risk control models such as “Lingxi (靈犀), Xinzhu (新竹), Baichuan (百川), Sky Eye (天眼), Qiming (啟明), and Qianxing (牽星)”. It covered the whole-process risk management of credit business, provided differentiated pricing functions, and has been applied for pilot operation in the business scenarios such as small business and credit card business, etc., so as to strengthen basic application capabilities of data. **The Bank built a bankwide unified knowledge graph platform.** Based on the Bank’s industrial and commercial data and data of guarantee and credit supply provided to corporate customers, it has built more than 100 million corporate relationship graphs.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank established an integrated and intelligent risk control system for corporate banking and retail banking. The Bank restructured the non-retail risk management platform to accumulate scenario data, deeply integrate data models, support real-time identification and automatic blocking of risks, and provide customers with new functions such as one-stop online approval and authorisation in respect of account opening and credit application, in an aim to promote the transformation to “scenario-based, real-time, and intelligent” risk control capabilities, so as to adapt to the new requirements of “fast, stable and accurate” financial risk control. **The Bank created risk control scenario platforms for the B-end, the C-end and the G-end** to export the capability of shared services in the risk areas by accurately grasping the demand of the “B-end”, integrating the scenario-based services to the “C-end”, linking to the “G-end” for cooperation and a win-win situation, thus to integrate financial products, and provide comprehensive solutions. **The Bank upgraded the micro-service architecture** in order to develop the capability of coordinated process design, enhance flexibility, and provide quick support to the reform of digital risk management and control systems.

The Bank promoted the Marketing Cloud Workbench 2.0 and supported the Head Office and the branches to carry out online marketing activities. By building up a three-dimensional marketing engine of “ten marketing elements, marketing life cycle, activity types”, it fully supported activities, strategies, rights and interests, and billboard for data, forming 9 types of general models for marketing activities. It also provided support for the Head Office and the branches in online publication of marketing strategies and realisation of full-process online approval in respect of scenarios, businesses and channels, and improved the efficiency of marketing operation.

The Bank established a three-tier coordination mechanism of “IT department at the Head Office, regional R&D centres, and IT departments at the branches”. The Bank added 5 new regional R&D centres in Shenzhen, Chengdu, Xi’an, Hefei and Wuhan respectively to provide targeted support to the agile and coordinated development of strategic projects in key regions. In addition to developing test cloud for the branches, the Bank expanded the cloud service systems of branches by creating production cloud, which was responsible for the production environment of a total of 36 branches and 39 business systems.

The Bank consolidated the responsibility system of “top-leader” in information security and focused on enhancing information security protection for the subsidiaries. For the ever-expanding bank security boarder, the Bank eliminated security threats one by one from a number of aspects, including banks, customers, and network environment. The Bank also provided “full protection” for the entire ecological cyberspace covering the Bank’s internal cyberspace, customers, and third-party partners, to effectively respond to major cyber-security emergencies and prevent online financial risks. Based on the principle of “Six Unifications” (六個統一), the Bank implemented the unified security protection strategy throughout the Group, and built a three-dimensional and in-depth **cyber-security protection system of the Group** with the Head Office as the centre and covering the whole network from the Credit Card Centre, Minsheng Financial Leasing, Minsheng Royal Fund to the technology companies, so as to improve the Group’s integrated security hazard prevention and control capabilities and technological service capabilities. According to the Data Security Law and other regulatory requirements, the Bank improved its personal financial information management and data security management systems. The Bank strengthened the security boundary protection of open bank, and completed the technical architecture integration of the open bank platform and the bank-enterprise direct connect system.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank's information technology service management has been in a leading position in the banking industry. The Bank was certified on level 5 of TMMi, the highest level in the maturity certification system of international authoritative testing organisation, representing that the Bank's software testing management has reached leading international standard. The Bank established a standardised test management system and adopted a risk-based test strategy to realise early identification and early handling of risks. The Bank also improved the integrated management of the Group's production and operation by upgrading the information technology service system and promoting certification of ISO20000 and ISO27001 management system in the branches and the subsidiaries. Furthermore, the Bank planned and built multi-active data centres that meet the fourth-level standard of UPTIMETIER, the highest level of international data centre infrastructure, to improve the ability to guarantee business sustainability.

2. Internet finance

During the Reporting Period, focusing on the digital finance strategy, the Bank fully applied cutting-edge technologies and continued to build the digital, intelligent, and scenario-based financial service systems and non-financial service systems, with further enhanced service capabilities of platforms, more diversified product service models, and significantly improved customer service experience. The development of finance for eco-systems of industries was in a favorable trend, and the market share and brand influence reached new highs.

(1) Retail online services

During the Reporting Period, adhering to the service concept of "openness, integration, refinement, and intelligence", the Bank built featured online retail platforms, created refined product service experience, and enhanced the intelligent service capabilities of platforms. During the Reporting Period, the Bank successively launched a series of convenient and beneficial services, such as online assets certification, electronic certificates of medical insurance, personal credit inquiry, and electronic invoices. The Bank provided intelligent services, such as intelligent search, smart calendar, and intelligent speech; and newly introduced smart calendar service system, such as reminders for payment, credit card repayment, maturity of wealth management products, and periodic fund transfer, which brought a comprehensive improvement of customer experience. The Bank also enriched non-financial services such as distinctive flowers, 3C digital, cultural and creative collection, nutrition and health care in the life circle section through building special areas in 21 branches, organising more than 140 customer feedback activities, so as to meet customers' demands for one-stop daily life services. By launching the live streaming room for mobile banking, the Bank provided customers with diversified audio and video services, to build a new service format with value-oriented contents. Furthermore, the Bank strove to deepen the digital operation and provided refined and intelligent services to meet the actual needs of customers and create value for them by intensifying the application of big data, AI and other technologies, strengthening customer insights, and continuously improving customer tagging and portraiting systems.

The Bank greatly promoted agile innovation, promptly responded to customers' needs and actively seized market opportunities. As the first bank to introduce keyboard banking in the industry, the Bank used Baidu's smartphone input method as the carrier to integrate services such as product browsing, popular events, outlets enquiry and appointment into various scenarios such as chatting with customers on WeChat, text messaging, web browsing, etc., which provided customers with seamless service experience that the funds can be withdrawn and used at any time. The Bank launched mobile banking 6.0 and took the lead to match with HUAWEI HarmonyOS in China, which increasingly enhanced the service of online platform products and market competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the number of retail online platform users of the Bank was 86,749.1 thousand, representing an increase of 14.78% as compared with the end of the same period of the previous year. The number of monthly active users on retail online platform was 22,691.5 thousand, representing an increase of 28.04% as compared with the end of the same period of the previous year. The Bank maintained its leading position in the banking industry in terms of customer transaction activity.

(2) Corporate online services

During the Reporting Period, the Bank focused on the establishment of the online corporate service system, launching the corporate online finance platform 3.0 which comprised online banking + mobile banking + WeChat banking + bank-enterprise direct connect platform to provide customised services. Through intelligent login service, convenient permission configuration, and comprehensively optimised basic services such as corporate online banking transaction details inquiry, receipt issuing and corporate treasury office, as well as innovatively introduced single and batch transfer and intelligent remittance, the Bank improved customer convenience and its business processing efficiency. The Bank continuously enriched its corporate product and service offerings, introducing new functions such as intelligent notice deposit, enterprise credit investigation report, online account opening for general accounts and corporate business cards, to meet customers' demands for asset appreciation, credit investigation inquiries and convenient account opening. It also made business operations more convenient and accurate by expanding intelligent services which utilised new technologies of fingerprint, face and OCR video and image recognition on mobile devices. Moreover, a full lifecycle management system of bank-enterprise direct connect was established to improve customer service level and greatly enhance customer service capabilities. A dedicated Bluetooth U-Key and a special signature device for bank-enterprise direct connect customers were developed and launched to effectively safeguard customer account funds and information.

As at the end of the Reporting Period, the Bank had 2,808.3 thousand users of corporate online platform, representing an increase of 13.07%, as compared with the end of the same period of the previous year; transaction volume of corporate online banking amounted to RMB31.29 trillion, representing an increase of 14.49%, as compared with the corresponding period of the previous year. The number of bank-enterprise direct connect customers was 2,862, representing an increase of 31.71%, as compared with the end of the same period of the previous year. Annual daily average deposits amounted to RMB672,125 million, representing an increase of 29.26%, as compared with the corresponding period of the previous year.

(3) Online payment services

During the Reporting Period, grasping the opportunities arising from transformation of payment industry, the Bank actively engaged in the innovation of payment products and industry solution. For retail customers, the Bank accelerated the development of mobile payment products by launching the service of WeChat and Alipay account binding without card numbers, making the card binding process more convenient. For corporate customers, it created comprehensive acceptance products, enriched capital settlement services, and offered featured functions such as bill split and guaranteed settlement to meet the platform merchants' diversified needs for settlement. The Bank pioneered in launching the corporate tokenisation payment function and made pilot applications in fund sales supervision. It developed solutions in key areas such as people's livelihood and government affairs, provided comprehensive online payment services, and realised the finance-empowered convenience for the people. For group enterprises, it provided combined services of "account + payment + equity" and embedded financial services into the enterprise ecological scenario, to help the development of the real economy.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the number of mobile payment transactions via debit cards (type I) amounted to 29,796.5 thousand, representing an increase of 73.94%, as compared with the corresponding period of the previous year. Total transaction volume was RMB20,193 million, representing an increase of 32.92%, as compared with the corresponding period of the previous year.

(4) Open bank services

During the Reporting Period, the Bank put great efforts in expanding open bank via “Going Out”, “Inviting In” and “Cooperative Innovation” to integrate and open its products and services, and built a financial service ecosystems by itself or with its partners. The Bank optimised and upgraded the open banking portal, creating a unified platform for information release and business acceptance applications for partners. In addition, it unified online submission of application materials services, simplified the complicated operating procedures of account managers and customers, and improved the efficiency of connecting cooperation projects in the open bank ecosystem. The Bank also set up the sandbox environment for joint debugging, supported partners to quickly access the test environment by self-service, and accelerated the speed of project production and launch. The product offering was enhanced continuously, with an aggregate of 306 APIs released, and 14 industry service solutions with the brand of “Minsheng Cloud+ (民生雲+)”, of which, “Minsheng Cloud – Agency Bookkeeping (民生雲•代賬)”, “Minsheng Cloud – Human Resource (民生雲•人力)” and “Minsheng Cloud – Freight (民生雲•貨運)”, were highly recommended.

“Minsheng Cloud – Agency Bookkeeping” is a lightweight comprehensive service solution for the agency bookkeeping industry, which solved the pain points of software platforms, agency bookkeeping companies and small and micro customers, improved the convenience and standardisation of corporate customers in the process of financial management, enabled multi-directional empowerment, and facilitated the digital transformation of small and micro enterprises. Partnered with 24 fiscal and tax platforms, it won the Gold Award for Innovation in the “2021 China Fintech Innovation Competition (2021年中國金融科技創新大賽)”. “Minsheng Cloud – Human Resource”, a comprehensive service system for enterprise’s payroll agency, human resources outsourcing and flexible employment industry, won the recognition of the leading industry players and was successfully put into production. “Industry Cloud (行業雲)” mode was piloted in the fields of human resources, and expense control and reimbursement, which showed initial results in obtaining customers and taking deposits, thus gaining the market expansion opportunity.

3. Direct bank

Riding on China’s digital economic development and leveraging advantages of innovative system and mechanism, the Bank is devoted to developing an online ecosystem platform of “zero-contact finance and inclusive finance (零接觸金融、普惠金融)” of direct bank and providing the public with convenient and secured scenario-based financial services. During the Reporting Period, the Bank continuously deepened the featured BBC service model of “finance cloud + industry cloud (金融雲+行業雲)”, and launched the “cloud bank ecosystem platform (雲銀行生態平台)” innovatively. Giving full play to digital transformation to align with operation scenarios of enterprises, the Bank offered a series of standardised, scenario-based and open-ended professional financial services, such as “chain-based wallet ecosystem (鏈式錢包生態)”, “cloud-based wallet ecosystem (雲錢包生態)” and “fund sales supervision ecosystem (基金銷售監督生態)” to corporate customers and their upstream and downstream small B-end customers and individual customers, facilitating them with its professional, safe and online financial services, such as payroll, wealth management, consumer loan and capital supervision. The Bank developed more than 600 standardised APIs, providing scenario-based financial solutions for over 1 thousand merchants ranging from telecommunication, transportation, logistics, industrial, education, health care and other sectors, serving 34,826.4 thousand customers in total. Financial assets under management amounted to RMB142,033 million. During the Reporting Period, the Bank won major awards including “Direct Bank of the Year (年度直銷銀行獎)” awarded by China Times (華夏時報), and continued to lead the development of the industry and set up a benchmark in the industry.

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4. Operational services

During the Reporting Period, the Bank comprehensively implemented national policies and regulatory requirements, effectively guaranteed the availability of financial services, accelerated the digital transformation of operational management, and continuously improved the ability of financial services to serve the real economy. It continued to provide quality, efficient and competitive operational services to customers inside and outside the Bank. With obvious advantage of centralised operation and multi-location data backup, its emergency response capability was maintained at all times. Priority service channels were established for local areas affected by the pandemic in China to ensure that services would not be interrupted or delayed. The Bank steadily promoted the intelligent process of key applications and built intelligent “remote banking” to improve customer experience, and kept on optimising the customised services with distinctive features. On the other hand, the Bank actively implemented the policies of the General Office of the State Council and fulfilled its social responsibilities. To give elderly customers special care and help, 95568 telephone banking initiated a new function which enabled the elderly to access customer service by one click.

(VII) Integrated service

During the Reporting Period, the Bank was committed to building “One Minsheng” business coordination system, providing customers with integrated and comprehensive services. The Bank established a scientific and efficient cross-department coordination mechanism which clarified the relations between different lines of business, sectors, institutions, the Head Office and the branches, removing the barriers between corporate business and retail business, so as to build a coordinated service system for strategic customer group with synergy between the Head Office and the branches. The Bank also promoted coordination between itself and its subsidiaries to set up a customer-centric comprehensive financial service system through clarifying coordination ideas, work objectives and coordination mechanisms, expanding the scope of cross-coordination, and reinforcing referral and two-way diversion of customers.

Adhering to the “One Minsheng” development concept, the Bank continuously improved its group-oriented management system and unified the strategic directions of the Bank and its subsidiaries. It implemented integrated planning and marketing, products and services, risk management, systems and platforms, resource allocation and performance appraisal. The Bank also smoothed the communication channels between the Head Office and the branches, strengthened the overall management of the Head Office over the subsidiaries, optimised and enhanced the coordinated and integrated comprehensive services.

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(VIII) Business outside the Chinese mainland

During the Reporting Period, the Hong Kong Branch actively followed the Bank's development strategy, focused on building differentiated competitive edges to give full play of its role as a platform for business outside the Chinese mainland. By advancing the three major businesses, namely corporate banking, financial markets, and private banking and wealth management, its business grew significantly.

Hong Kong Branch deepened customer group management and development, optimised asset structure, strengthened liability cost control and achieved a steady growth in net interest margin. As at the end of the Reporting Period, Hong Kong Branch recorded total assets of HKD196,239 million, with net income amounting to HKD1,283 million, representing an increase of 23.73% as compared with the corresponding period of the previous year. Of which, net interest income was HKD1,137 million, representing an increase of 24.53% as compared with the corresponding period of the previous year. Profit before income tax was HKD1,121 million, representing an increase of 11.37% as compared with the corresponding period of the previous year.

1. The Bank expanded the advantages of cross-border coordination and strove to strengthen featured businesses

During the Reporting Period, persisting on its "One Minsheng" development strategy, Hong Kong Branch expanded the advantages of cross-border coordination with a focus on Guangdong-Hong Kong-Macau Greater Bay Area, offering professional cross-border financial solutions to corporate customers. As at the end of the Reporting Period, it launched 11 major coordinated projects of strategic customers at the Head Office and the branch level, with cooperation assets of over RMB10 billion. In the capital market, Hong Kong Branch strove to expand featured businesses, realising remarkable returns from investment banking businesses, such as syndicated loans, M&A loans and structured financing. In terms of the size of syndicated loan projects in which it played as the book runner and the leading bank, its ranking rose to 8th in Hong Kong S.A.R. and Macau S.A.R., demonstrating the Bank's professional position in the syndicated loan sector outside the Chinese mainland.

2. The Bank's bond underwriting business reached a record high, leading the scale of asset custody business

During the Reporting Period, capitalising on the strategic position of Hong Kong as an international financial centre, the bond underwriting business of Hong Kong Branch continued to grow. As at the end of the Reporting Period, Hong Kong Branch ranked⁵ fifth globally in terms of the number of Chinese-issued USD bonds underwritten, a new high over the corresponding period of the previous year, reflecting the Bank's significant brand influence and market position in the bond market outside the Chinese mainland. The custody business of Hong Kong Branch developed rapidly due to its efforts put in cultivating a local custody customer base, enriching custody products and improving comprehensive service capabilities. As at the end of the Reporting Period, assets under the custody of Hong Kong Branch amounted to HKD87,879 million, representing an increase of 23.33% as compared with the end of the previous year. And Hong Kong Branch ranked 2nd among comparable Chinese joint stock commercial banks in terms of the size of assets under custody.

⁵ Source: Bloomberg, information of the Group.

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3. Wealth management business achieved positive results and local private banking business expanded actively

During the Reporting Period, Hong Kong Branch focused on cross-border wealth management business, and tapped into the cross-border financial needs of mid- to high-end individual customer groups based on online banking and mobile banking. Its cross-border comprehensive financial service capabilities were enhanced with enriched product offering and innovative value-added service models. To overcome the impact of customs closure for a long period of time, Hong Kong Branch actively expanded local private banking agency sales of insurance and had breakthrough in insurance referrals.

(IX) Major equity investments and management of consolidated financial statements

As at the end of the Reporting Period, the Bank had investments in the subsidiaries of RMB7,381 million. For details, please refer to the notes to the financial statements.

1. Minsheng Financial Leasing

Minsheng Financial Leasing, one of the first 5 financial leasing companies with banking background approved by the former CBRC, was established in April 2008 with a registered capital of RMB5,095 million. 54.96% equity interest of Minsheng Financial Leasing was held by the Bank. Minsheng Financial Leasing mainly engages in financial leasing of vehicles, vessels, commercial aircraft, business jets, large-scale equipment, etc., transfer and acquisition of lease assets, and investment of fixed income securities.

During the Reporting Period, Minsheng Financial Leasing maintained growth in a prudent way and achieved good results. As at the end of the Reporting Period, Minsheng Financial Leasing had total assets of RMB208,426 million, representing an increase of 6.03% as compared with the end of the previous year. During the Reporting Period, it recorded operating income of RMB3,453 million, representing an increase of 8.45% as compared with the corresponding period of the previous year, and profit before allowance of RMB2,061 million, representing an increase of 18.65% as compared with the corresponding period of the previous year. In respect of new investments, relying on fintech, the retail vehicle leasing business accounted for 53.02%, representing an increase of 44.67% as compared with the corresponding period of the previous year. The balance of retail vehicle leasing business amounted to RMB38,870 million, representing an increase of 30.49% as compared with the end of of the previous year.

2. Minsheng Royal Fund

Minsheng Royal Fund is a Sino-Foreign fund management joint venture established in November 2008 under the approval of the CSRC, with a registered capital of RMB300 million. 63.33% equity interest of Minsheng Royal Fund was held by the Bank. Minsheng Royal Fund mainly engages in fund raising, fund sales, asset management and other businesses approved by the CSRC.

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The performance of mid- to long-term investments of Minsheng Royal Fund was remarkable. Minsheng Royal Fund has won twenty “Golden Bull Awards (金牛獎)” in recent eight years, gaining high recognition by investors and the industry on its investment capacities and overall strengths. As at the end of the Reporting Period, Minsheng Royal Fund had total assets of RMB2,739 million and net assets of RMB1,414 million. During the Reporting Period, it recorded net profit of RMB103 million. A total of 88 public funds were managed by Minsheng Royal Fund with total amount of RMB165,176 million. Of which, non-monetary public funds under its management reached RMB133,512 million. Minsheng Royal Fund also managed 76 private equity management plans with a management scale of RMB31,167 million.

Minsheng Royal Fund initiated and established Minsheng Royal Asset Management on 24 January 2013, and currently holds 51.00% equity interest in it. Minsheng Royal Asset Management’s registered capital is RMB668 million, and the scope of business includes specific customer asset management and other businesses permitted by the CSRC. As at the end of the Reporting Period, assets managed by Minsheng Royal Asset Management amounted to RMB24,580 million.

3. CMBC International

CMBC International is a wholly-owned subsidiary of the Bank established on 11 February 2015 in Hong Kong S.A.R. under the approval of the former CBRC, with a registered capital of HKD3 billion. The principal business of CMBC International includes sponsorship of listing in Hong Kong S.A.R., financial advisory, underwriting and issuance of bonds, asset management and wealth management, stock brokerage, direct investment and structured finance. CMBC International is an important and strategic platform for the comprehensive development and international expansion of the Bank.

During the Reporting Period, CMBC International increased the investment in and application of fintech and improved customer’s experience online. It overcame the impact brought by the pandemic and the fluctuation of the capital market through optimising products and customer structure, as well as consolidating and enhancing its competitiveness in the industry. As at the end of the Reporting Period, CMBC International had total assets and total liabilities of HKD29,766 million and HKD24,567 million, respectively. Net assets amounted to HKD5,199 million, of which total equity attributable to holders of equity shares of the Bank was HKD4,178 million. During the Reporting Period, net income of CMBC International amounted to HKD539 million. Net profit was HKD314 million, of which net profit attributable to holders of equity shares of the Bank was HKD235 million, representing an increase of 18.69% as compared with the corresponding period of the previous year.

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4. Minsheng rural banks

Minsheng rural banks (collectively referred to as the “rural banks”) are the rural banks initiated and established by the Bank as a major promoter. As at the end of the Reporting Period, the Bank established a total of 29 rural banks with 85 business outlets. Total assets, total loans and total deposits of the rural banks amounted to RMB38,063 million, RMB23,801 million and RMB31,713 million, respectively, representing an increase of RMB297 million, RMB1,188 million and RMB528 million as compared with the end of the previous year, respectively. Net profit amounted to RMB118 million during the Reporting Period.

During the Reporting Period, the Bank adopted measures in compliance with the relevant requirements of the Board to maintain “effective risk control, steady business development and orderly internal management” to ensure the rural banks to enhance Party building, focus on their original functions and positioning in strict compliance with laws and regulations, proactively support the rural revitalisation strategy, and sincerely serve the “rural areas, agriculture and farmers”, small business finance as well as residents in communities. All rural banks strove to expand local markets, constantly explored service models for rural revitalisation and improved service quality. The rural banks have become important platforms of the Bank to perform social responsibilities and effectively expand brand and service coverage to county areas, and have received satisfactory response from customers, peers, the government and the public.

During the Reporting Period, strictly complying with regulatory requirements, the Bank performed its duties as the major promoter to further optimise the management system and mechanism of rural banks and improve functions of their IT systems, so as to strengthen support to management and guarantee for services. The Bank also continued to optimise the management system, promoted rural banks to improve Party building, corporate governance, business development, risk management, compliant operations, and team building. Furthermore, the Bank promoted rural banks to accelerate the optimisation of business structures and enhance their profitability, and provided assistance to key rural banks, with an aim to secure and facilitate their steady and high-quality development.

5. Consolidated management

During the Reporting Period, conforming to the integrated development strategy, the Bank further improved the management of the Group’s consolidated financial statements, and enhanced the Group’s coordinated development level.

In accordance with the Group’s normalised supervision mechanism of consolidated management, and in compliance with the relevant regulatory requirements and regulations, the Bank reviewed the Group’s 2020 consolidated financial statements, formulated and promoted the implementation of the work plan of the Group’s consolidated management in 2021, and continuously improved the quality and efficiency of its consolidated management. The Group continued to improve its consolidated management system, optimised the management functions of risk, assets and liabilities, related-party transactions, financial accounting, financial markets, big data and other modules, and gave full play to the supporting role of science and technology for consolidated management. Moreover, the Bank kept abreast of regulatory requirements to further enhance corporate governance and management of subsidiaries in terms of risk, capital, business coordination and internal transactions. It also refined relevant rules and regulations on a timely basis, conducted special audits and assessments, and strengthened professional guidance and training to vigorously promote strategic coordination and integrated risk control between the Bank and its subsidiaries, thus enhancing the Bank’s group-oriented development.

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XII. Risk Management

During the Reporting Period, the Bank adhered to the risk management principles of being customer-centric, regarding compliance management as core competitiveness, strengthening risk management of the three lines of defense and strengthening overall risk management. The Bank fully followed the spirits and key requirements of the CPC Central Committee meetings, aligned itself with state policies on industries, regions and finance, and met the macro-prudent regulatory requirements for the goals of supporting the real economy, preventing systematic risks, enhancing capital efficiency and value to create a compliant, sound and efficient risk management system to ensure stable risk management indicators and zero systemic, regional and great risks, so as to facilitate the quality development of the Bank.

(I) Credit risk

Credit risk is the risk that a borrower or a counter-party defaults in making repayments in full amount in a timely manner for whatever reasons. A platform consisting of risk strategies, credit policies, portfolio management and risk measurement tools has been established by the Bank to control risks and support strategic business transformation. The risk management system covers the whole process including pre-approval investigation, approval review, post-loan management, collection and preservation of assets. Credit risks of loans extension and non-credit business are also strictly controlled.

Firstly, the Bank gave full play to the role of the credit risk management department in the bank-wide credit risk management to strengthen the entire process, entire segments and all-round management of its credit risk management, while continuously improving the credit risk management level and management efficiency. Secondly, the Bank enhanced the leading role of credit policies. By strictly following the policy direction of the government as well as the economic and financial policies regarding pandemic prevention and control, the Bank carried out multi-dimensional studies on macro-economy, industries and regions and optimised policy-based access standards to industries through risk analysis and pre-judgment, so as to strongly support customer groups such as the NSOEs, SMEs, STEs as well as small and micro enterprises, green credit, rural revitalisation and other groups. The Bank vigorously supported the national strategic deployment on credit facilities to key regions and formulated regional credit policies to deeply explore the market opportunities of these regions. Thirdly, the Bank refined its portfolio management and actively supported the real economy. The Bank continued to optimise its asset structure through strengthening support to quality industries such as the advanced manufacturing industry, restricting concentration of financing provided to high-risk industries, allocating more resources to quality and high potential customers, adjusting credit limit and reducing numbers of low-efficient customers, as well as consolidating risk measurement and system basis for the formulation, monitoring and adjustment of portfolio management indicators. Fourthly, the Bank actively implemented the reform practice of quality development concept, pushed forward reform of credit review and approval mechanism for corporate customers, optimised the functional structure of the review and approval department, and built a high-quality, professional and dedicated review and approval team that meet the requirements of the new era. The Bank also comprehensively reviewed and optimised its support for medium, small and micro enterprises to enhance its ability to serve the real economy. Fifthly, the Bank made great efforts to prevent and control credit

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risks in key areas. Strictly following the regulatory requirement of “three red lines”, the Bank implemented measures in different categories to strictly control the total amount of credit granted to customers of real estate groups, positioned in strict compliance with policy bottomlines of government platform business, and strictly controlled working capital-based businesses of government platforms. For high-risk enterprises with high liability dependence and frequent capital market operations as well as enterprises with lagged behind production capacity and greatly affected by the pandemic, the Bank properly prepared proposals for reducing credit lines or exits and strict control of new credit risks. The Bank also continued to promote the application of innovative technologies such as big data acquisition, AI, image recognition and machine learning in the area of supporting credit decision-making to promote the deep integration of business scenarios and technologies, and explore realisation of digital approval in diversified scenarios. Sixthly, the Bank further optimised post-loan and post-investment management rules, refined the management system and mechanism, examined risk exposures of key industries, institutions, customers and products, and took effective responsive measures accordingly. The Bank strictly controlled the flow of credit funds to ensure compliant usage. It further refined the post-loan and post-investment management of existing credit and promoted implementation of post-loan and post-investment management mechanism. Seventhly, the Bank continued to improve the efficiency and effectiveness of early-warning management. The “Sky Eye (天眼)” system, a proactive risk monitoring and early-warning system for retail business, continued to operate and improve based on the principle of “model-driven, classified management, early-warning, active exit and effective transmission”. The Bank accelerated the promotion of monitoring and early-warning system for corporate business based on the big data-driven model, which was featured with centralised management by the Head Office and coordination between the Head Office and the branches. The effectiveness of risk early-warning management within the Bank was improved, which was reflected by the continuous improvement on the timeliness, effectiveness and accuracy of risk early-warning. Eighthly, ongoing enhancement was made in the collection of non-performing assets. By further optimising the management mechanism of collection and disposal, innovating disposal methods, adopting centralised collection and strengthening supervision and execution, the management was further enhanced with application of various approaches, such as repayment collection, transfer, repossession, litigation and writing-off, in the process of collection and disposal. Ninthly, the risk management tools continued to be upgraded and iterated. The Bank continued to optimise its big data-based and machine learning-based internal rating system and continued to widely apply the customer-side RAROC in the management of customer classification, risk policies, pricing of loans and performance appraisal, so as to further improve the customer-centric mechanism for balancing risks and returns. The Bank promoted the construction of credit risk management process system for inter-bank business, optimised the management rules and function modules of corporate business system, and established unified credit management mechanism and system functions for retail business. In addition, stress testing and model verification were conducted continuously to assist the management in making decision. Tenthly, the Bank implemented fintech and accelerated the digital transformation of risk management by initiating the development of intelligent risk control system.

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(II) Market risk

Market risk refers to the risk of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices) that inflicts losses in on- and off-balance sheet businesses of commercial banks. The Bank manages its interest rate risk, exchange rate risk, stock price risk and commodity price risk in accordance with regulatory requirements and rules of the Basel Accords. The Bank continuously improves its market risk management system in areas of system management, risk limits, mid-office supervision, measurement capability, compliance construction, system construction and data management according to the full coverage principle to cope with the increasingly volatile environment of the banking industry.

During the Reporting Period, the Bank steadily elevated management efforts as follows to further enhance the professional management of market risks. Firstly, the Bank constantly improved the market risk management system, promoted the addition and revision of the market risk management system as planned. The Bank established and improved the market risk monitoring system for on-balance sheet investment business and off-balance sheet wealth management business, and strengthened the guidance, management and monitoring of market risks for the subsidiaries. Secondly, the Bank improved the scientifically reasonable and dynamically adjusted market risk limit system, strengthened total control, guided reasonable allocation of market risk capital, and properly dealt with transmission of risk appetite. Thirdly, the Bank perfected the market risk limit monitoring system, strengthened market risk monitoring effort, reinforced market risk supervision statistics and capital monitoring management, and improved risk management standards. Fourthly, the Bank established and improved the access management mechanism for investment and transaction products. The Bank promoted system construction, optimised the access management process for investment and transaction products and improved the investment transaction library. Fifthly, the Bank improved the valuation management system of investment transaction business, accelerated construction of a valuation management system platform to realise data, models, and processes integration for ensuring complete, accurate and timely account valuation. Sixthly, the Bank comprehensively improved its market risk measurement capabilities, standardised management of market risk measurement model, continuously carried out market risk stress testing, and strengthened management of market valuation fluctuation for bonds. Seventhly, the Bank actively facilitated implementation of the new regulatory rules of FRTB, so as to satisfy the regulatory compliance requirements for the measurement of market risk capital while continuously optimising system functions. Eighthly, the Bank consolidated the foundation of market risk management and upgraded the data marts and management systems for market risks to effectively apply them in measurement, monitoring, statistics and management.

(III) Operational risk

Operational risk refers to the risk of loss due to deficient and flawed internal procedures, personnel and IT system as well as external events. The major operational risk of the Bank comprises internal and external fraud, employment system, safety of working places, and events related to customers, products and operations, damages of tangible assets, interruption of business, paralysis of IT system and management of execution, transfer and processes.

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During the Reporting Period, the Bank strengthened integration of operational risks and internal control compliance management as follows to continuously optimise the operational risk management system. Firstly, the Bank established early identification mechanism of operational risk management, improved the methods and tools for identification and assessment, and promoted the identification and assessment of operational risks of key businesses by phases. Secondly, taking implementation of the Basel III New Standards as an opportunity, the Bank improved the mechanism for collecting loss information and regulatory penalties to promote and optimise the operational risk management system. Thirdly, the Bank strengthened business continuity management by formulating contingency rehearsal plans for important businesses, and conducted research and study on business continuity management of the subsidiaries. Fourthly, in standardising management of outsourcing risks, the Bank organised and carried out special investigations and studies to optimise the scope of business outsourcing and supplier access standards. Fifthly, the Bank strengthened the functions of the two lines of defense against IT risks by editing and publishing the “Manual for IT Risk 《信息科技風險管理手冊》”, and carried out inspections of IT management risks of the subsidiaries.

(IV) Liquidity risk

Liquidity risk refers to the risk of a commercial bank which is unable to obtain sufficient funds in a timely manner or unable to cope with increased assets or fulfill debt obligations at reasonable costs. The Bank continued to improve its capability of identifying, measuring, monitoring, controlling and mitigating liquidity risks by establishing a scientific organisational structure for liquidity risk management, delineating liquidity risk management responsibilities and formulating effective liquidity management systems, processes, strategies and policies.

During the Reporting Period, the Bank closely monitored the changes in economic and financial situation, monetary regulatory policies and market liquidity, strengthened forward-looking analysis and judgment on the market and dynamic forecasts of liquidity conditions, and continuously strengthened refined liquidity management to optimise the structure of assets and liabilities to ensure the safe and steady operation of the Bank’s liquidity as well as reasonable and abundant funds. As such, liquidity risks were kept generally under control while major regulatory indexes for liquidity risks were within reasonable range. Firstly, the Bank improved its liquidity risk governance structure, further strengthened the overall coordination of risk management within the Bank, and comprehensively enhanced risk management. Secondly, it consolidated and improved its customer base and made every effort to promote growth of core liabilities. Thirdly, it strictly strengthened management of maturity structure of inter-bank liabilities, strictly controlled the scale of short-term liabilities, and stably controlled liquidity risk exposure. Fourthly, it carried out financing through multiple channels, increased stable sources of liabilities and enhanced the stability of liability structure. Fifthly, the Bank promoted the allocation of qualified and high-quality bond assets and increased the reserve of high-quality liquidity assets, further improving the structure of high-quality liquidity assets across the Bank. Sixthly, it continued to strengthen early warning of liquidity risk, improved liquidity contingency plans and enhanced liquidity risk emergency response capabilities by conducting liquidity risk contingency rehearsals and liquidity risk stress tests. Seventhly, the Bank continued to refine the functions of the risk management system and enhance systematisation of risk indicator measurement and forecast to effectively support the refined management of liquidity risks.

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(V) Country risk

Country risk refers to the risk of borrower or debtor in a certain country or region failing or unwilling to repay debts to banking financial institutions, or banking financial institutions suffering from commercial losses in a country or region or incurring other losses due to economic, political and social changes and incidents in such country or region. The Bank managed and controlled country risk through a series of management tools, including evaluation and rating of country risk, setting country risk limit for the Bank and compiling statistics, carrying out analysis and monitoring regarding country risk exposure.

During the Reporting Period, the Bank further improved its country risk management system and enhanced its refined management. Firstly, the Bank formulated and published the Management Plan for the Rating and Limit of Country Risk of China Minsheng Bank for 2021 《中國民生銀行 2021 年度國別風險評級與限額管理方案》, according to which the Bank carried out country risk rating and annual risk limit management for 202 countries and regions in line with regulatory requirements, and adjusted the country risk ratings and limits for certain countries or regions based on the daily monitoring results. Secondly, the Bank completed the annual country risk stress test to measure the country risk losses incurred under changes of ratings of different countries. Thirdly, the Bank completed the 2020 country risk quantitative calculation and analysis as requested by the Basel Committee on Banking Supervision Global Systemically Important Banks (G-SIBs). Fourthly, with concern over the impact of the COVID-19 pandemic on the politics and economy of the countries, the Bank carried out country risk limit monitoring to continuously monitor country risk exposures and public sentiment to major country risks. Fifthly, the Bank strengthened the management of country risk reserves, promoted the application of such reserves in management accounting, and made monthly provision for country risks. The country risk exposures of the Bank are mainly in countries and regions with “low” and “relatively low” country risk ratings, staying at a relatively low level.

(VI) Interest rate risk in banking book

Interest rate risk in banking book refers to the adverse changes in the level of interest rate, term structure and other factors which lead to loss on the economic value and overall income of banking book, primarily caused by the mismatch of the maturity profiles and benchmark rates between financial positions and instruments of the whole banking book as well as embedded options. It can be classified into gap risk, benchmark risk and option risk according to the risk categories.

During the Reporting Period, the Bank firstly refined the governance structure of interest rate risk in the banking books to further strengthen the coordination of risk monitoring and evaluation, limit management and stress testing within the Bank for comprehensive improvement of risk management. Secondly, the Bank improved the interest rate risk identification, measurement, monitoring and control system of the banking books, comprehensively adopted methods such as repricing gap analysis (重定價缺口分析), duration analysis (久期分析), sensitivity analysis (敏感性分析) and stress testing (壓力測試) for risk analysis and monitoring, closely monitored changes in external market interest rates and internal business structure, strengthened forward-looking research and judgment, and dynamically adjusted the asset-liability structure and maturity management strategy to ensure steady operation of interest rate risk indicator of the banking book. Thirdly, according to interest rate risk appetite of the banking book and management strategies, the Bank refined and decomposed management limits and indicators, strengthened risk warning and assessment supervision, enhanced monitoring frequency, and reasonably carried out management in areas of maturity mismatch, investment account, duration and valuation fluctuation to ensure that various management indicators were maintained at reasonable level. Fourthly, the Bank continued to optimise and improve the functions of the asset and liability risk management system, and enhance the analysis and mining capabilities of risk data to support the development of data-based risk management strategies.

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(VII) Reputation risk

Reputation risk of a banking institution mainly refers to the risk that the behaviours of the banking institution, the behaviours of practitioners or external events, etc., have led to negative comments on the banking institution by stakeholders, the public, the media, etc., thereby damaging its brand value which is detrimental to its normal operation and even affect market stability and social stability. Reputation incidents refer to related actions or activities that cause significant damage to the reputation of a banking institution.

Through establishing and improving relevant governance structures, the Bank has established and improved a full-process management system and working mechanism to promote normalised construction, proactively prevent and resolve reputation risks and effectively respond to handling of reputation incidents to minimise the negative impact on all parties, hence protecting, restoring and enhancing the market image and brand reputation of the Bank. The Bank regarded reputation risk management as one of its major tasks for ensuring normal business operations, creating environment for harmonious public opinions, maintaining good image in the industry and performing the responsibilities of a corporate citizen. During the Reporting Period, the Bank fully implemented the Administrative Measures on Reputation Risk of Banking and Insurance Institutions (Trial) 《(銀行保險機構聲譽風險管理辦法(試行))》 and revised the Administrative Measures on Reputation Risk of China Minsheng Bank 《(中國民生銀行聲譽風險管理辦法)》, thus improving the management mechanism, enhancing disposal efficiency and strengthening corporate reputation, creating a better public opinion environment for the Bank's business development in the context of comprehensive risk management. Firstly, in accordance with the requirements of the Board and the Senior Management, the Bank strengthened normalised management of reputation risk by carrying out timely study and judgement on the reports and actively making retrospective reviews (總結複盤) to rapidly restore and enhance image. Secondly, the Bank evaluated potential threat of risk contagion in a timely manner to predict potential public opinion risks, deploy special monitoring, and formulate plans in advance. Thirdly, the Bank actively resolved reputation risk events, achieved rapid action and effective handling to minimise operating losses and negative impacts to the greatest extent. Fourthly, the Bank actively publicised its achievements in innovating businesses and operation, supporting the real economy, actively lowering fees and surcharges, facilitating poverty alleviation, serving rural revitalisation and advancing "elderly-adaptive" finance and other aspects.

(VIII) Information technology risk

Information technology risk refers to the operational, legal and reputational risks and other risks due to natural factors, human factors, technical flaws and management defects in relation to the application of information technology in a commercial bank.

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During the Reporting Period, the Bank implemented IT risk management in all areas, including IT governance, information system development and maintenance and information security, and continued to improve IT risk management and promote business development. Firstly, the Bank optimised the IT governance mechanism, promoted bank-wide digitalisation and enhanced smart financial services capabilities. Secondly, the Bank completed customer data migration at 100 million-level for the distributed core system, constructed the product platform for the distributed core system, and formed the “fully distributed” enterprise-level system structure under self-operation and control, thus consolidated the foundation of digital financial technology. Thirdly, the Bank strengthened the construction of mature service capabilities of the production and operation quality control system as well as the data centre, continued to optimise the disaster recovery system structure, and improved the business continuity management system to ensure the safe and steady operation of the production system. Fourthly, the Bank continuously strengthened the construction of basic security technology support platform, enhanced the actual network security attack-and-defense capabilities, improved the data security management policy system, continuously strengthened management and control of data security, and implemented integrated technology management to enhance group-wide information security protection capabilities. Fifthly, the Bank improved its IT risk management and control mechanism, optimised IT risk management process, strengthened the construction of internal compliance policy system, and carried out risk assessment and inspections in key areas such as customer information security, to prevent and control IT risks.

(IX) Internal control, compliance and anti-money laundering

During the Reporting Period, according to its reform and development deployments, the Bank continued to reshape its compliance culture, consolidate its management foundation and optimise the management mechanism, and organised and participated in the special activities such as “The Year of Construction of Internal Control and Compliance Management (內控合規管理建設年)” initiated by the CBIRC, thus to fully enhance the effectiveness of anti-money laundering and achieved remarkable results. Firstly, the Bank deployed in advance the special activity for employee behaviour management as part of “The Year of Construction of Internal Control and Compliance Management”, and carried out all activities for the year. The Bank promoted major regulatory tasks for the year such as self-assessment on high-quality development of credit services, and supervised the rectification of issues found in regulatory inspections. Secondly, the Bank thoroughly implemented the core concepts of compliance, and organised bank-wide completion of signing the Responsibility Letter for Internal Control and Compliance Management (內控合規管理責任書) and the Letter of Commitment on Compliance (合規承諾書). Thirdly, it published the Codes of Conduct and Prohibited Behaviours for Employees (員工行為守則及行為禁止規定), carried out special rectifications for violation of credit card arbitrage and illegal acceptance, strengthened behaviour management inspection and investigation of practitioners and notification of violations, and explored the establishment of a grid management system for practitioners. Fourthly, the Bank promoted the disposal of policies for over 5 years and over 2 years,

MANAGEMENT DISCUSSION AND ANALYSIS

formulated standards for policy construction of branches, and carried out special inspections on policy management. Fifthly, it organised project for bank-wide internal control compliance inspection, supervised implementation of inspection plans, and paid close attention to the rectification of key issues. Sixthly, the Bank promoted special tasks for prevention of violation cases and crackdown of illegal activities, implemented the requirements for reporting and handling regulatory case information, and developed a three-dimensional case prevention management system. Seventhly, it issued administrative measures for due diligence and exemption, formulated rules for liability identification of non-performing assets, organised and promoted liability identification for key projects, and strictly implemented internal control and compliance assessment. Eighthly, the Bank carried out special rectification of equity and related-party transactions, completed the update of related party information in the year, and launched optimisation projects for bank-wide management of related parties.

In respect of anti-money laundering management, with implementation of anti-money laundering regulatory requirements of “giving priority to risks (風險為本)”, the Bank fulfilled its legal obligations and social responsibilities in respect of anti-money laundering by strictly implementing the regulatory opinion issued in the “looking back (回頭看)” inspection visits, and was praised by the PBOC for anti-money laundering data reporting. Effectiveness of anti-money laundering continued to improve. Firstly, the results of regulatory rating of anti-money laundering of the whole Bank has been steadily enhanced. As of the end of the Reporting Period, of the 18 tier-one branches that received the 2020 rating results, 5 were upgraded and 13 remained the same. Secondly, the Bank implemented the requirements of the regulatory authorities on the “looking back (回頭看)” inspection visits, strengthened communications with regulators and promoted rectification. Thirdly, the Bank continuously strengthened duty performance in anti-money laundering from chief executives, and accelerated resolution of important and difficult anti-money laundering issues. Fourthly, the Bank strengthened the anti-money laundering performance management of the first line of defense and deepened the governance of customer identity information. Fifthly, the Bank enhanced the management level of anti-money laundering cases and strengthened its ability in monitoring and identifying money laundering risks. Sixthly, by pushing the establishment of an anti-money laundering team of 50 people at the Head Office, the Bank promoted allocation of part-time and full-time posts of anti-money laundering, and organised special anti-money laundering training for the whole bank. Seventhly, the Bank initiated the restructuring of anti-money laundering system to further enhance work efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

XIII. Prospects

(I) Development trend of the banking industry

Looking into the second half of the year, in the international aspect, the world economy will still be in the process of recovery while the turmoil of the pandemic still cannot be ignored. The United States is about to start the discussions on reducing the scale of debt purchases and it needs to guard against external impact such as capital outflows. In the domestic aspect, with weakening base effect, the economic growth rate will return to a potential growth range of about 6%. Meanwhile, China's economic recovery will remain unstable and uneven, and the development will still face a number of risks and challenges, especially the rising costs of enterprises due to sharp rise in commodity prices and difficulties of medium, small and micro enterprises.

Macro policy will maintain continued, stabilised, and sustained. Strong stimulus policies will not be adopted, while forward-looking, accurate and effective policies will be enhanced to improve the cross-cycle adjustment and strengthen interval regulation and control, provide focused support to the real economy and promote employment. Proactive fiscal policy will improve policy efficiency, secure the bottom line of the "three guarantees" at the grassroots level. The budgetary investment and the progress of local government bonds issuance will be reasonably controlled to facilitate the formation of material workload at the end of this year and in the beginning of next year. The reduction policies for tax and fees will be further optimised and implemented to help the market entities restore and increase vitality. Efforts will be made to accelerate the effective implementation of direct funds and to tighten relevant supervision. More financial resources will be allocated to guarantee investments in key areas such as major projects, people's basic livelihood, rural revitalisation and technological innovation. Prudent monetary policies will remain flexible, precise, reasonable and moderate. Cross-cycle policies will be well-designed. And the task of serving the real economy will be placed in a more prominent position. RRR cuts will reflect structural features and will be more focused on supporting medium, small and micro enterprises and labor-intensive industries to help alleviate financing difficulties. The leading roles of relending, rediscounting, and monetary policy tools with direct access to the real economy will be further played, to guide financial institutions to increase supports for key areas and weak links such as small and micro enterprises, "rural areas, agriculture and farmers", and the manufacturing industry, to coordinate the integrated development of inclusive finance with green finance, technology and innovation finance, supply chain finance, thus to construct system and mechanism for finance to provide effective support to the real economy and improve adaptability and inclusiveness of financial system and financial services. The financial supply-side structural reforms will be deepened to effectively prevent and dissolve material financial risks, and strive to improve the quality and efficiency of serving the real economy.

With further improving financial strength in serving the real economy, the asset side of the banking industry is expected to maintain steady growth, the credit to loan ratio may continue to increase. Credit investment will focus on areas such as "supporting innovation, helping inclusiveness, increasing greenness, stabilising infrastructure, promoting retails and controlling real estates" to serve the building of a new development pattern. The asset side pricing in the banking system will continue to be steadily decreased, while cost control on the liability side will be further strengthened. The economic recovery and the gradual clearing of existing NPL will bring overall improvement of asset quality, despite that potential risks still exist.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Potential risks

Currently, the development of the COVID-19 pandemic and the external environment are still clouded by uncertainty, the global economic situation remains complex and challenging, the foundation for economic recovery is not solid enough. And there are still relatively great internal and external pressures for the economy to fully restore to normal operation and for the withdrawal of macro policies. Various types of risks deriving from the impact of the pandemic and the changes in international political and economic situation shall not be ignored.

Firstly, there are risks arising from uncertainty in external environment. With unsynchronised global prevention and control of the pandemic, the COVID-19 variants are spreading in many countries which is detrimental to the overall recovery of global macro-economy. As a result of the uncertainties in the pace, scope and effectiveness of vaccination, some emerging economies may lag behind, and in turn increase country risks. The uncertainties in external demands and recovery of supply will increase the risks in foreign trades. Secondly, there are risks arising from uncertainty in the domestic environment. The “three red lines” have tightened the overall financing of real estate companies, while upgraded purchase and loan restrictions in various areas also affected the capital return of real estate companies, resulting in rising credit risks of the real estate industry. China has strengthened standardised management of local finance in terms of income and expenditure, debt risks of local government in weak regions with low ratings increased. China’s macro-economic recovery is still hindered by unsynchronised and unbalanced development, with slower recovery in sectors such as wholesale and retail, transportation, warehousing and postal service, accommodation and catering, leasing and commercial services, whereby the recovery of consumption is slower than that of investment and exports, recovery of offline consumption is slower than online consumption, and some enterprises still face operating pressure, along with the risks of emission change in high-emission and high-energy-consuming industries, such as power, steel and construction, all those factors will bring potential pressure on the asset quality of commercial banks. Thirdly, there are risks arising from increasing volatility of the financial markets. Since the outbreak of the pandemic, unconventional fiscal and monetary policies of developed countries have further pushed up asset prices and inflation levels, resulting in increasing weakness of the financial system. With accelerating recovery of developed economies such as the United States, and higher expectations on the Fed’s tightening of monetary policy, the global markets of foreign exchange, gold and other commodities will all experience varying degrees of volatility, thus bringing higher requirements on market risk management. Fourthly, the management of operational and compliance risks is facing challenges. With continuous integration of technology and finance as well as rapid development of online banking business, the blending boundaries of various risks will increase the difficulty in banks’ identification and management of operational risks. The international situation of anti-money laundering and anti-terrorist financing remains challenging, and with the tightening regulatory standards for anti-money laundering at home and abroad, anti-money laundering efforts of commercial banks also face many challenges. Fifthly, IT risk management is also facing challenges. As the digital transformation of banks accelerates with their business processes going online and becoming more intelligent, the requirements for IT security and personal information protection are expected to be tightened.

In the face of the new situation, the Bank will resolutely carry out the decisions and deployments of the CPC Central Committee, the State Council and the regulatory authorities, insist on pursuing progress while ensuring stability, put risk prevention and control in a more important position, and return to the origin to support the development of the real economy. The Bank will also continuously enhance the management capabilities of all risks to promote the steady and healthy development of its business.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. Changes in Ordinary Shares

	30 June 2021		Changes over the Reporting Period	31 December 2020	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
I. Shares subject to restriction on sales	-	-	-	-	-
1. State-owned shares	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-
Of which: Held by domestic legal person	-	-	-	-	-
Held by domestic natural person	-	-	-	-	-
4. Foreign investor shares	-	-	-	-	-
Of which: Held by overseas legal person	-	-	-	-	-
Held by overseas natural person	-	-	-	-	-
II. Shares not subject to restriction on sales	43,782,418,502	100.00	-	43,782,418,502	100.00
1. Ordinary shares in RMB	35,462,123,213	81.00	-	35,462,123,213	81.00
2. Domestic listed foreign invested shares	-	-	-	-	-
3. Overseas listed foreign invested shares	8,320,295,289	19.00	-	8,320,295,289	19.00
4. Other	-	-	-	-	-
III. Total number of ordinary shares	43,782,418,502	100.00	-	43,782,418,502	100.00

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

II. Shareholders

(I) Top ten shareholders of the Company and their shareholdings:

Total number of holders of ordinary shares at the end of the Reporting Period	431,313	Total number of holders of preference shares whose voting rights had been restored at the end of the Reporting Period	0
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Particulars of shareholding of the top 10 holders of ordinary shares

Name of shareholder	Type of shareholder	Shareholding percentage (%)	Number of shares held as at the end of the Reporting Period (share)	Changes over the Reporting Period (share)	Number of shares held subject to restriction on sales (share)	Shares pledged or frozen	
						Status	Number
HKSCC Nominees Limited	Others	18.92	8,284,494,733	537,529	-		Unknown
Dajia Life Insurance Co., Ltd. - Universal Product	Domestic legal person	10.30	4,508,984,567	-	-		Nil
Dajia Life Insurance Co., Ltd. - Traditional Product	Domestic legal person	6.49	2,843,300,122	-	-		Nil
China Oceanwide Holdings Group Co., Ltd.	Domestic non-state-owned legal person	4.61	2,019,182,618	-	-	Pledged Frozen	1,626,782,617 388,800,000
Tsinghua Tongfang Guoxin Investment Holding Co., Ltd.	Domestic legal person	4.31	1,888,530,701	-	-	Pledged	1,850,802,321
New Hope Liuhe Investment Co., Ltd.	Domestic non-state-owned legal person	4.18	1,828,327,362	-	-		Nil
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	3.15	1,379,679,587	-	-	Pledged	1,379,678,400
Huaxia Life Insurance Co., Ltd. - Universal Insurance Product	Domestic non-state-owned legal person	3.14	1,375,763,341	-	-		Nil
China Shipowners Mutual Assurance Association	Domestic non-state-owned legal person	3.02	1,324,284,453	-	-		Nil
Orient Group Incorporation	Domestic non-state-owned legal person	2.92	1,280,117,123	-	-	Pledged	1,270,709,488

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Shareholding of top 10 holders of ordinary shares not subject to restriction on sales

Name of shareholder	Number of shares held not subject to restriction on sales	Class of shares
HKSCC Nominees Limited	8,284,494,733	H Shares
Dajia Life Insurance Co., Ltd. – Universal Product	4,508,984,567	A Shares
Dajia Life Insurance Co., Ltd. – Traditional Product	2,843,300,122	A Shares
China Oceanwide Holdings Group Co., Ltd.	2,019,182,618	A Shares
Tsinghua Tongfang Guoxin Investment Holding Co., Ltd.	1,888,530,701	A Shares
New Hope Liuhe Investment Co., Ltd.	1,828,327,362	A Shares
Shanghai Giant Lifetech Co., Ltd.	1,379,679,587	A Shares
Huaxia Life Insurance Co., Ltd. – Universal Insurance Product	1,375,763,341	A Shares
China Shipowners Mutual Assurance Association	1,324,284,453	A Shares
Orient Group Incorporation	1,280,117,123	A Shares

Statement on the related relationship or concerted actions among the aforesaid shareholders

1. Dajia Life Insurance Co., Ltd. - Universal Product and Dajia Life Insurance Co., Ltd. - Traditional Product are the same legal person.
2. Save as mentioned above, the Company is not aware of any related relationship or concerted action among the above shareholders.

Notes:

1. The number of shares held by the holders of H shares was recorded in the register of members as kept by the H Share registrar of the Company.
2. HKSCC Nominees Limited acted as an agent representing the total amount of H shares held by all institutional and individual investors that registered in the account of such investors as at 30 June 2021.
3. On 29 April 2021, the respective relationship of parties acting in concert between Huaxia Life Insurance Co., Ltd. and Orient Group Incorporation and between Huaxia Life Insurance Co., Ltd. and Orient Group Co., Ltd. has been terminated, and the Termination Agreement to the acting in concert agreement has been entered into, respectively. From the date of execution of the Termination Agreement, there is no acting in concert arrangement between Huaxia Life Insurance Co., Ltd. and Orient Group Incorporation and between Huaxia Life Insurance Co., Ltd. and Orient Group Co., Ltd.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

(II) Substantial shareholders' and other persons' interests or short positions in the shares and underlying shares of the Company under Hong Kong laws and regulations

As at 30 June 2021, the following persons (other than the Directors, Supervisors and chief executives of the Company) had the following interests or short position in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and as the Company is aware:

Name of substantial shareholder	Class of shares	Long/short position	Capacity	Number of Shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued ordinary shares (%)
Dajia Life Insurance Co., Ltd.	A	Long	Beneficial owner	7,352,284,689	1	20.73	16.79
	H	Long	Beneficial owner	457,930,200	1	5.50	1.05
Dajia Insurance Group Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	7,352,284,689	1	20.73	16.79
	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	457,930,200	1	5.50	1.05
China Oceanwide Holdings Group Co., Ltd.	A	Long	Beneficial owner	2,019,182,618	2 and 3	5.69	4.61
Oceanwide Group Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	2,019,182,618	2 and 3	5.69	4.61
Tohigh Holdings Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	2,019,182,618	2 and 3	5.69	4.61
New Hope Group Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,930,715,189*	4 and 7	5.44	4.41
New Hope Liuhe Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,828,327,362*	4	5.16	4.18

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of substantial shareholder	Class of shares	Long/short position	Capacity	Number of Shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued ordinary shares (%)
New Hope Liuhe Investment Co., Ltd.	A	Long	Beneficial owner	1,828,327,362*	4	5.16	4.18
Li Wei	A	Long	Interest held by the corporation(s) controlled by the spouse of this substantial shareholder	1,930,715,189*	5 and 7	5.44	4.41
Liu Chang	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,930,715,189*	6 and 7	5.44	4.41
Oceanwide International Equity Investment Limited	H	Long	Beneficial owner	604,300,950			
		Long	Interest held by the corporation(s) controlled by this substantial shareholder	408,000,000			
				1,012,300,950	8	12.17	2.31
		Short	Beneficial owner	604,300,950	8	7.26	1.38
Alpha Frontier Limited	H	Long	Beneficial owner	713,501,653	9 and 10	8.58	1.63
Chongqing Cibi Business Information Consulting Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	713,501,653	9 and 10	8.58	1.63
Giant Investment Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	713,501,653	9 and 10	8.58	1.63

* As far as the Company is aware, the above numbers of shares reflected the interests or short positions of the relevant substantial shareholders as at 30 June 2021. However, these numbers of shares were not reported in the disclosure forms completed by these substantial shareholders because the changes in their interests did not result in a disclosure obligation in accordance with SFO.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Notes:

1. Dajia Insurance Group Co., Ltd. was deemed to have interests in the 7,352,284,689 A shares and 457,930,200 H shares of the Company by virtue of its control over 99.98% of the issued share capital of Dajia Life Insurance Co., Ltd.

The interests that Dajia Insurance Group Co., Ltd. and Dajia Life Insurance Co., Ltd. held in the 7,352,284,689 A shares and 457,930,200 H shares, as set out in the above table, were from the same block of shares.

2. The 2,019,182,618 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 98.00% of the issued share capital was held by Oceanwide Group Co., Ltd., which was wholly-owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang (a Non-Executive Director of the Company) held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.

According to the SFO, Mr. Lu Zhiqiang, Tohigh Holdings Co., Ltd. and Oceanwide Group Co., Ltd. were deemed to have interests in the 2,019,182,618 A shares held by China Oceanwide Holdings Group Co., Ltd. (Mr. Lu Zhiqiang's interests in shares are disclosed in this Interim Report in the section headed "Interests of the Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations").

3. The interests that China Oceanwide Holdings Group Co., Ltd., Oceanwide Group Co., Ltd. and Tohigh Holdings Co., Ltd. held in the 2,019,182,618 A shares, as set out in the above table, were from the same block of shares.

4. The 1,930,715,189 A shares comprised 102,387,827 A shares directly held by South Hope Industrial Co., Ltd. and 1,828,327,362 A shares directly held by New Hope Liuhe Investment Co., Ltd. 51% of the issued share capital of South Hope Industrial Co., Ltd. was held by New Hope Group Co., Ltd., while New Hope Liuhe Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd., respectively. 24.86% and 29.08% of the issued share capital of New Hope Liuhe Co., Ltd. were held by New Hope Group Co., Ltd. and South Hope Industrial Co., Ltd., respectively.

According to the SFO, New Hope Group Co., Ltd. was deemed to have interests in the 102,387,827 A shares held by South Hope Industrial Co., Ltd. and in the 1,828,327,362 A shares held by New Hope Liuhe Investment Co., Ltd. Meanwhile, New Hope Liuhe Co., Ltd. was also deemed to have interests in the 1,828,327,362 A shares held by New Hope Liuhe Investment Co., Ltd.

5. Ms. Li Wei is the spouse of Mr. Liu Yonghao (a Non-Executive Director of the Company). According to the SFO, Ms. Li was deemed to have interests in the 1,930,715,189 A shares of the Company in which Mr. Liu Yonghao had interests (Mr. Liu Yonghao's interests in shares are disclosed in this Interim Report in the section headed "Interests of the Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations").

6. Ms. Liu Chang held 9.41% of the issued share capital of New Hope Group Co., Ltd. (see note 4 above). According to the SFO, Ms. Liu was deemed to have interests in the 1,930,715,189 A shares of the Company in which New Hope Group Co., Ltd. had interests. Ms. Liu Chang is the daughter of Mr. Liu Yonghao (a Non-Executive Director of the Company).

7. The interests that New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang held in the 1,930,715,189 A shares, as set out in the above table, were from the same block of shares.

8. The 1,012,300,950 H shares (Long position) comprised 604,300,950 H shares directly held by Oceanwide International Equity Investment Limited and 408,000,000 H shares directly held by Long Prosper Capital Company Limited, while the 604,300,950 H shares (Short position) (all of which were held through other unlisted derivatives) are directly held by Oceanwide International Equity Investment Limited. Long Prosper Capital Company Limited was a wholly-owned subsidiary of Oceanwide International Equity Investment Limited. 89.80% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd. 68.49% of the issued share capital of Oceanwide Holdings Co., Ltd. was held by China Oceanwide Holdings Group Co., Ltd. 98% of the issued share capital of China Oceanwide Holdings Group Co., Ltd. was held by Oceanwide Group Co., Ltd., which was wholly-owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang (a Non-Executive Director of the Company) held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

9. The 713,501,653 H shares (Long position) were held by Alpha Frontier Limited. 42.04% of the issued share capital of Alpha Frontier Limited was held by Chongqing Cibi Business Information Consulting Co., Ltd. (重慶賜比商務信息諮詢有限公司), which was wholly-owned by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu (a Non-Executive Director of the Company).

According to the SFO, Mr. Shi Yuzhu, Giant Investment Co., Ltd. and Chongqing Cibi Business Information Consulting Co., Ltd. were deemed to have interests in the 713,501,653 H shares held by Alpha Frontier Limited (Mr. Shi Yuzhu's interests in shares are disclosed in this Interim Report in the section headed "Interests of the Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations").

10. The interests that Mr. Shi Yuzhu, Giant Investment Co., Ltd., Chongqing Cibi Business Information Consulting Co., Ltd. and Alpha Frontier Limited held in the 713,501,653 H shares, as set out in the above table, were from the same block of shares.

Save as disclosed above and the section headed "Interests of the Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations", the Company is not aware of any other person having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2021 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

(III) Controlling shareholder and ultimate controller and their integrity

The Company does not have any controlling shareholder or ultimate controller. As at the end of the Reporting Period, the top 10 single shareholders of the Company held an aggregate of 43.93% of the Company's shares. Dajia Life Insurance Co., Ltd. – Universal Product is the single largest shareholder who held 10.30% of the total shares of the Company. There was no shareholder who could control more than half of the voting rights of the Board or at the general meetings in accordance with the shareholding percentage, the Articles of Association or any agreements.

(IV) Restriction commitments regarding additional shares for shareholders with shareholding of 5% or more in the Company

Not applicable.

(V) Purchase, sale or redemption of securities

During the Reporting Period, the Group had neither sold any securities of the Company nor repurchased or redeemed any securities of the Company.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

(VI) Substantial shareholders

1. Substantial shareholders with aggregate shareholding of 5% or more of the Company were as follows:

- (1) Dajia Life Insurance Co., Ltd.: It was incorporated on 23 June 2010; its registered capital was RMB30,790 million; its unified social credit code is 91110000556828452N; its legal representative is He Xiaofeng; its controlling shareholder is Dajia Insurance Group Co., Ltd.; the controlling shareholder and the ultimate controller of Dajia Insurance Group Co., Ltd. is China Insurance Security Fund Co., Ltd.; its principal business includes: various life insurance businesses such as life insurance, health insurance and accidental injury insurance, reinsurance of the above insurance businesses, insurance fund application business permitted under the PRC laws and regulations, and other businesses approved by the former CIRC. As at the end of the Reporting Period, no shares of the Company held by Dajia Life Insurance Co., Ltd. were pledged.
- (2) China Oceanwide Holdings Group Co., Ltd.: It was incorporated on 7 April 1988; its registered capital was RMB20,000 million; its unified social credit code is 911100001017122936; its legal representative is Lu Zhiqiang; its controlling shareholder is Oceanwide Group Co., Ltd.; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang and Oceanwide Foundation; its parties acting in concert are China Oceanwide International Investment Company Limited, Oceanwide International Equity Investment Limited and Long Prosper Capital Company Limited; its principal business includes: finance, real estate and investment management, etc. As at the end of the Reporting Period, China Oceanwide Holdings Group Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 1,626,782,617 ordinary shares, representing 3.72% of the total share capital of the Company. 388,800,000 ordinary shares of the Company held by China Oceanwide Holdings Group Co., Ltd. were under judicial freezing, representing 0.89% of the total share capital of the Company.

China Oceanwide International Investment Company Limited: It was incorporated on 15 October 2008; its registered capital was HKD1,548,058,790; its controlling shareholder is China Oceanwide Holdings Group Co., Ltd.; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang and Oceanwide Foundation; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., Oceanwide International Equity Investment Limited and Long Prosper Capital Company Limited; its principal business includes: investment holding, etc. As at the end of the Reporting Period, China Oceanwide International Investment Company Limited had pledged over 50% of the ordinary shares of the Company it held, being 8,237,520 ordinary shares, representing 0.02% of the total share capital of the Company.

Oceanwide International Equity Investment Limited: It was incorporated on 17 March 2016; its registered capital was USD50,000; its controlling shareholder is Wuhan CBD (Hong Kong) Company Limited; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang and Oceanwide Foundation; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., China Oceanwide International Investment Company Limited and Long Prosper Capital Company Limited; its principal business includes: investment holding, etc. As at the end of the Reporting Period, Oceanwide International Equity Investment Limited had pledged over 50% of the ordinary shares of the Company it held, being 604,300,950 ordinary shares, representing 1.38% of the total share capital of the Company.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Long Prosper Capital Company Limited: It was incorporated on 31 August 2016; its registered capital was USD50,000; its controlling shareholder is Oceanwide International Equity Investment Limited; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang and Oceanwide Foundation; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., China Oceanwide International Investment Company Limited and Oceanwide International Equity Investment Limited; its principal business includes: investment holding, etc. As at the end of the Reporting Period, Long Prosper Capital Company Limited had pledged over 50% of the ordinary shares of the Company it held, being 408,000,000 ordinary shares, representing 0.93% of the total share capital of the Company. From 15 to 27 July 2021 and 28 to 30 July 2021, a passive reduction agreed under the loan agreement has been triggered with respect to 142,198,000 ordinary shares and 119,159,500 ordinary shares of the Company, respectively, held and pledged by Long Prosper Capital Company Limited. Upon the reduction, Long Prosper Capital Company Limited had pledged over 50% of the ordinary shares of the Company it held, being 146,642,500 ordinary shares, representing 0.33% of the total share capital of the Company.

2. In Accordance with the Interim Measures on Equity Management of Commercial Banks under the order of the former CBRC (2018 No. 1), other substantial shareholders of the Company were as follows:

- (1) New Hope Liuhe Investment Co., Ltd.: It was incorporated on 25 November 2002; its registered capital was RMB576,555,600; its unified social credit code is 91540091744936899C; its legal representative is Wang Pusong; its controlling shareholder is New Hope Liuhe Co., Ltd.; its ultimate controller is Liu Yonghao; its ultimate beneficiary is Liu Yonghao; its party acting in concert is South Hope Industrial Co., Ltd.; its principal business includes: venture capital investment, investment management, financial advisory, wealth management consultancy, corporate reorganisation consultancy, market research, credit investigation, technology development and transfer, and technology consultancy services, etc. As at the end of the Reporting Period, no shares of the Company held by New Hope Liuhe Investment Co., Ltd. were pledged.

South Hope Industrial Co., Ltd.: It was incorporated on 17 November 2011; its registered capital was RMB1,034,313,725; its paid-up registered capital was RMB951,438,725; its unified social credit code is 9154009158575152X0; its legal representative is Li Jianxiong; its controlling shareholder is New Hope Group Co., Ltd.; its ultimate controller is Liu Yonghao; its ultimate beneficiary is Liu Yonghao; its party acting in concert is New Hope Liuhe Investment Co., Ltd.; its principal business includes: research and development of feeds, wholesale and retail, electronic products, hardware and electrical appliances, daily sundry goods, textiles, office equipment (excluding colour copier), building materials (excluding hazardous chemicals and wood materials), agricultural by-products and special products (excluding products specified by the State), chemical products (excluding hazardous chemicals), mechanical equipment, investment and consultancy services (excluding intermediary services). As at the end of the Reporting Period, no shares of the Company held by South Hope Industrial Co., Ltd. were pledged.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (2) Shanghai Giant Lifetech Co., Ltd.: It was incorporated on 12 July 1999; its registered capital was RMB245,400,640; its unified social credit code is 913101041346255243; its legal representative is Wei Wei; its controlling shareholder is Giant Investment Co., Ltd.; its ultimate controller is Shi Yuzhu; its ultimate beneficiary is Shi Yuzhu; it has no party acting in concert; its principal business includes: production and sales of food (through its subsidiaries), sales of cosmetics, cleaning products, healthcare equipment and kitchenware, technical development, consultancy services and transfer in healthcare food aspect, wholesale of non-physical goods: pre-packaged food (excluding cooked or braised and refrigerated or frozen food), investment management, asset management, investment consultancy, business information consultancy and business management consultancy. As at the end of the Reporting Period, Shanghai Giant Lifetech Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 1,379,678,400 ordinary shares, representing 3.15% of the total share capital of the Company.
- (3) China Shipowners Mutual Assurance Association: It was incorporated on 1 January 1984; its registered capital was RMB100,000; its unified social credit code is 51100000500010993L; its legal representative is Song Chunfeng; it has no controlling shareholder; it has no ultimate controller; it has no ultimate beneficiary; it has no party acting in concert; its principal business includes: marine mutual assurance, business training, marine information exchange, international cooperation and consultancy service. As at the end of the Reporting Period, no shares of the Company held by China Shipowners Mutual Assurance Association were pledged.
- (4) Orient Group Incorporation: It was incorporated on 16 August 1989; its registered capital was RMB3,714,576,124; its uniform social credit code is 91230199126965908A; its legal representative is Sun Mingtao; its controlling shareholder is Orient Group Co., Ltd.; its ultimate controller is Zhang Hongwei; its ultimate beneficiary is Zhang Hongwei; its party acting in concert is Orient Group Co., Ltd.; its principal business includes: food procurement; import and export of goods (or technologies) (except prohibited items, items restricted to state-owned enterprises and other restricted items must be authorised or approved by the relevant authorities); economic and technical cooperation with foreign entities; international project contracting; employment agency; property management; sales and distribution of building materials and light industrial materials, furniture and decoration materials, construction machines, hardware and electrical appliances, and sanitary wares; production and sales of electrical contact materials, development of silver-free electrical contacts; sales of foodstuff, plantation of paddy rice, as well as cultivation and development of premium seeds. As at the end of the Reporting Period, Orient Group Incorporation had pledged over 50% of the ordinary shares of the Company it held, being 1,270,709,488 ordinary shares, representing 2.90% of the total share capital of the Company.

Orient Group Co., Ltd: It was incorporated on 26 August 2003; its registered capital was RMB1,000 million; its unified social credit code is 911100007541964840; its legal representative is Zhang Xianfeng while its ultimate controller is Zhang Hongwei; its party acting in concert is Orient Group Incorporation; its principal business includes: project investment, investment management, real estate development, agent import and export, import and export of goods, economic and trade consultation, etc. As at the end of the Reporting Period, Orient Group Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 35,000,000 ordinary shares, representing 0.08% of the total share capital of the Company.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (5) Good First Group Co., Ltd.: It was incorporated on 2 May 1995; its registered capital was RMB133 million; its unified social credit code is 91310000612260305J; its legal representative is Wu Di; its controlling shareholder is Huang Xi; its ultimate controller is Huang Xi; its ultimate beneficiary is Huang Xi; its parties acting in concert are Tibet Heng Xun Corporate Management Co., Ltd. and Tibet Rong Jie Corporate Management Co., Ltd.; its principal business includes: research, development and sale of high-tech products; industrial investment; investments in education, agriculture, secondary industry, entertainment industry and healthcare products; sales of photographic equipment and new-type construction materials; wholesale and retail of chemicals (excluding hazardous chemicals and chemicals subject to supervision and control), textiles, hardware and electrical appliances, daily sundry goods, metal materials, construction materials, automobiles (excluding passenger cars) and parts, general machinery, electronic products and telecommunication devices and mineral products approved by the country. As at the end of the Reporting Period, Good First Group Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 205,180,000 ordinary shares, representing 0.47% of the total share capital of the Company.

Tibet Rong Jie Corporate Management Co., Ltd.: It was incorporated on 26 December 2014, its registered capital was RMB10 million; its unified social credit code is 915401953213242171; its legal representative is Chen Zhenling; its ultimate controller is Huang Xi; its ultimate beneficiary is Huang Xi; its party acting in concert is Good First Group Co., Ltd.; its principal business includes: corporate management service (other than investment management and investment consulting); service of corporate image, marketing and brand planning, exhibition and display service, market research (other than those involve state secrets and personal privacy); retail of building materials and ancillary materials, and metal materials; sales of feed, fertilisers, rubber products, chemical materials (excluding hazardous chemical products and precursor chemicals); investment on medical industry (excluding the engagement of equity investment business, excluding raising public fund, accepting public deposits, and extending loans, excluding public trading of security investment products or financial derivative products and excluding businesses in relation to financial products, wealth management products and relevant derivatives.) (Businesses that require pre-approvals according to laws shall be operated only upon approvals from the relevant authorities). As at the end of the Reporting Period, Tibet Rong Jie Corporate Management Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 145,800,000 ordinary shares, representing 0.33% of the total share capital of the Company.

Tibet Fujin Investment Co., Ltd.: It was incorporated on 3 May 2016, its registered capital was RMB300 million; its unified social credit code is 91540195MA6T1A2K32; its legal representative is Wu Di; its ultimate controller is Huang Xi; its ultimate beneficiary is Huang Xi; it is a wholly-owned sub-subsidiary of Good First Group Co., Ltd.; its principal business includes: investments on commercial, agricultural, medical, entertainment and education industries (excluding trust, financial asset management and securities asset management business, and excluding securities, insurance, fund and financial businesses and relevant restricted businesses). (Businesses that require pre-approvals according to laws shall be operated only upon approvals from the relevant authorities). As at the end of the Reporting Period, Tibet Fujin Investment Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 340,900,000 ordinary shares, representing 0.78% of the total share capital of the Company.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Tibet Heng Xun Corporate Management Co., Ltd.: It was incorporated on 26 December 2014, its registered capital was RMB10 million; its unified social credit code is 91540195321324233N; its legal representative is Hong Zhihua; its ultimate controller is Huang Xi; its ultimate beneficiary is Huang Xi; its party acting in concert is Good First Group Co., Ltd.; its principal business includes: service of corporate image, marketing and brand planning, exhibition and display service, market research (other than those involve state secrets and personal privacy), retail of building materials and ancillary materials, and sales of feeds and raw materials, chemical fertilisers, rubber products, chemical materials (other than hazardous chemical products and precursor chemicals), and metal materials. (Businesses that require pre-approvals according to laws shall be operated only upon approvals from the relevant authorities). As at the end of the Reporting Period, Tibet Heng Xun Corporate Management Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 105,300,000 ordinary shares, representing 0.24% of the total share capital of the Company.

- (6) Tsinghua Tongfang Guoxin Investment Holding Co., Ltd.: It was incorporated on 23 May 2007; its registered capital was RMB2,574,162,500; its unified social credit code is 91500000660887401L; its legal representative is Liu Qinqin; its largest shareholder is Tongfang Financial Holding (Shenzhen) Co., Ltd., a wholly-owned subsidiary of Tongfang Co., Ltd., a subsidiary controlled by CNNC Capital Holding Co., Ltd.; it has no controlling shareholder; it has no ultimate controller; its ultimate beneficiary is Tsinghua Tongfang Guoxin Investment Holding Co., Ltd.; its party acting in concert is Chongqing International Trust Company Limited; its business includes: transportation facilities maintenance; engineering management services; standardisation services; planning and design management; corporate headquarters management; corporate management; management services of commercial complex; international project contracting; property management; investments with its own funds (excluding financial businesses such as accepting public deposits or accepting public deposits in any form, extending loans or securities and futures); consultancy services in relation to investment information and policies for its related party companies; planning and consultancy services in relation to corporate restructuring and merger and acquisition. (Businesses that require pre-approvals according to laws and shall be operated only upon approvals from the relevant authorities). As at the end of the Reporting Period, Tsinghua Tongfang Guoxin Investment Holding Co., Ltd. had pledged over 50% of the ordinary shares of the Company it held, being 1,850,802,321 ordinary shares, representing 4.23% of the total share capital of the Company.

Chongqing International Trust Company Limited: It was incorporated on 22 October 1984; its registered capital was RMB15,000 million; its unified social credit code is 91500000202805720T; its legal representative is Weng Zhenjie; its controlling shareholders is Tsinghua Tongfang Guoxin Investment Holding Co., Ltd; it has no ultimate controller; its ultimate beneficiary is Chongqing International Trust Company Limited; its party acting in concert is Tsinghua Tongfang Guoxin Investment Holding Co., Ltd.; its principal business includes: funds trust, chattel trust, real estate trust, negotiable securities trust, other properties or property rights trusts; investment fund business as a promoter of investment fund or fund management companies; providing asset reorganisation, mergers and acquisitions, project financing, corporate wealth management, financial advisory and other services of enterprises; securities underwriting business approved by the relevant authorities of the State Council; intermediary business, consultancy, credit investigation; safe custody and safe deposits box business; use of inherent properties as balance with banks and other financial institutions, placements with banks and other financial institutions, loans, leasing and investment; providing collateral for others with inherent properties; interbank lending, and other businesses permitted under the laws and regulations and approved by the CBIRC (including businesses denominated in RMB and foreign currencies). As at the end of the Reporting Period, no shares of the Company held by Chongqing International Trust Company Limited were pledged.

INFORMATION ON PREFERENCE SHARES

I. Issuance and Listing of Preference Shares in the Past Three Years

For the purpose of improving capital structure of the Company, providing capital support to the implementation of all strategies, improving capital adequacy ratio and promoting continuous development, pursuant to the approval by the former CBRC (Yin Jian Fu [2016] No. 168) (銀監覆〔2016〕168號) and the approval by the CSRC (Zheng Jian Xu Ke [2019] No. 1158) (證監許可〔2019〕1158號), the Company issued preference shares (preference shares name: Minsheng Preference 1; code: 360037) in the amount of 200,000,000 shares to qualified investors on 15 October 2019 through a private offering in the domestic market. The nominal value of the preference shares was RMB100 per share and the preference shares were issued at par with a coupon rate of 4.38%, and the proceeds amounted to RMB20 billion in total. The net proceeds raised from the domestic preference shares issuance were approximately RMB19.97 billion after deduction of issuance expenses, all of which were used for replenishment of other tier 1 capital of the Company. The use of proceeds was as stated in the prospectus, details of which are set out in the Special Report on Deposit and Actual Use of Proceeds from 2019 Domestic Non-public Issuance of Preference Shares of China Minsheng Banking Corp., Ltd. 《中國民生銀行股份有限公司 2019 年度境內非公開發行優先股募集資金存放與實際使用情況專項報告》 issued by the Company on 31 March 2020. On 24 October 2019, the Company completed the procedures for registration and depository with China Securities Depository and Clearing Corporation Limited (Shanghai Branch) for the domestic non-public issuance of 200,000,000 preference shares, and the shares were listed for transfer on the SSE on 8 November 2019.

For details of the issuance terms of the preference shares, please refer to the announcements of the Company published on the website of the SSE, the HKEXnews website of the SEHK and the website of the Company.

II. Number of Holders of Preference Shares and Particulars of Shareholding

(I) Offshore preference shares

As at the end of the Reporting Period, the number of holders of offshore preference shares (or nominees) was 1.

As at the end of the Reporting Period, particulars of shareholding of the top 10 holder(s) (or nominees) of the Company's offshore preference shares are set out as follows (the following data was based on the registered holder of offshore preference shares as at 30 June 2021):

Name of shareholder	Type of shareholder	Class of shares	Changes over the Reporting Period	Shareholding percentage (%)	Total number of shares held (share)	Number of shares subject to restriction on sales held	Number of shares pledged or frozen
The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference shares	-	100	71,950,000	-	Unknown

INFORMATION ON PREFERENCE SHARES

Notes:

1. The number of shares held by the holder of offshore preference shares was recorded in accordance with the register of holders of offshore preference shares of the Company.
2. As the preference shares were issued through private offering in offshore market, information of nominees of the allotted investors was recorded on the register of holders of offshore preference shares.
3. The Company does not know if there is any related relationship or concerted action among the above holder of offshore preference shares and the top ten holders of ordinary shares.

(II) Domestic preference shares

As at the end of the Reporting Period, the number of holders of domestic preference shares (or nominees) of the Company was 23.

As at the end of the Reporting Period, particulars of shareholding of holder(s) of domestic preference shares (or nominees) of the Company with shareholding of 5% or more are set out as follows (the following data was based on the registered holders of domestic preference shares as at 30 June 2021):

Name of shareholder	Type of shareholder	Class of shares	Changes over the Reporting Period	Shareholding percentage (%)	Total number of shares held (share)	Number of shares subject to restriction on sales held	Number of shares pledged or frozen
CCB Trust Co., Ltd. – “Qian Yuan – Ri Xin Yue Yi” Open-Ended Wealth Management Single Fund Trust	Others	Domestic preference shares	–	10.00	20,000,000	–	Nil
Bosera Fund – ICBC – Bosera – ICBC – Flexible Allocation No. 5 Specific Multi – Customer Assets Management Plan	Others	Domestic preference shares	–	10.00	20,000,000	–	Nil
China Post & Capital Fund – Huaxia Bank – Huaxia Bank Co., Ltd.	Others	Domestic preference shares	–	9.00	18,000,000	–	Nil
CICC – ABC – CICC ABC Ruichi No. 1 Collective Asset Management Plan	Others	Domestic preference shares	17,780,000	8.89	17,780,000	–	Nil
Ping An Property & Casualty Insurance Company of China, Ltd. – Traditional – General Insurance Product	Others	Domestic preference shares	–	7.00	14,000,000	–	Nil

INFORMATION ON PREFERENCE SHARES

Name of shareholder	Type of shareholder	Class of shares	Changes over the Reporting Period	Shareholding percentage (%)	Total number of shares held (share)	Number of shares subject to restriction on sales held	Number of shares pledged or frozen
China Life Insurance Company Limited – Traditional – General Insurance Product – 005L – CT001SH	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil
Ping An Property & Casualty Insurance Company of China, Ltd. – Self-Owned Funds	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil
Taiping Life Insurance Co., Ltd. – Traditional – General Insurance Product – 022L – CT001SH	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil
China Resources SZITIC Trust Co., Ltd. – China Resources Trust • Hui Cui No. 1 Single Fund Trust	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil
Guotai Junan Securities Asset Management – Futong • Rixin H14001 RMB Wealth Management Product – Guojun Asset Management 0638 Targeted Asset Management Contract	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil
BOCOM Schroder Asset Management – BOCOM – BOCOM Schroder Asset Management Zhuoyuan No. 2 Collective Asset Management Plan	Others	Domestic preference shares	–	5.00	10,000,000	–	Nil

INFORMATION ON PREFERENCE SHARES

Notes:

1. The number of shares held by the holders of domestic preference shares was recorded in accordance with the register of holders of domestic preference shares of the Company.
2. There was related relationship between “Ping An Property & Casualty Insurance Company of China, Ltd. – Traditional – General Insurance Product” and “Ping An Property & Casualty Insurance Company of China, Ltd. – Self-Owned Funds”. Save as disclosed above, the Company does not know if there is any related relationship or concerted action among the above holders of domestic preference shares or among the above holders of domestic preference shares and the top 10 holders of ordinary shares.
3. “Shareholding percentage” refers to the number of shares held by the holders of domestic preference shares as a percentage of the total number of domestic preference shares of the Company.

III. Distribution of Dividends of Preference Shares

No dividend was distributed in respect of the preference shares of the Company during the Reporting Period.

IV. Repurchase or Conversion of Preference Shares

During the Reporting Period, no preference shares of the Company have been repurchased or converted into ordinary shares.

V. Recovery of Voting Rights of Preference Shares

During the Reporting Period, no voting rights of preference shares of the Company have been restored.

VI. Accounting Policies for Preference Shares and the Underlying Reasons

According to the requirements promulgated by the Ministry of Finance, such as the Accounting Standards for Business Enterprises No.37 – Presentation of Financial Instruments 《企業會計準則第 37 號 – 金融工具列報》, there was no need for the issued and existing domestic preference shares of the Company to be settled through delivery of cash or other financial assets or exchange of financial assets or financial liabilities. In the future, the Company will have no obligation to deliver a variable quantity of its equity instruments as other equity instruments for accounting purpose.

INFORMATION ON BONDS

As at the end of the Reporting Period, the Company has issued, redeemed and settled the following outstanding bonds:

I. Subordinated Bonds in 2011

Pursuant to the approval by the former CBRC (Yin Jian Fu [2010] No. 625) (銀監覆〔2010〕625號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Zhun Yu Zi [2011] No. 64) (銀市場准予字〔2011〕第64號), the Company issued a total of RMB10,000 million subordinated bonds through public offering in the national interbank bond market on 18 March 2011. As assessed by Dagong Global Credit Rating Co., Ltd., the credit rating of the subordinated bonds was AAA. Two types of subordinated bonds were issued for terms of 10 years and 15 years, respectively. Type I Bonds (bond name: 11 Minsheng 01; bond code: 1108001), having a term of 10 years and amounting to RMB6,000 million, were issued at the coupon rate of 5.50% and were early redeemed on 18 March 2016, while Type II Bonds (bond name: 11 Minsheng 02; bond code: 1108002), having a term of 15 years and amounting to RMB4,000 million, were issued at the coupon rate of 5.70%. The interest commencement dates of 11 Minsheng 01 and 11 Minsheng 02 were both 18 March 2011, while their settlement dates were 18 March 2016 and 18 March 2021, respectively.

These subordinated bonds granted the issuer a one-off early redemption option, that is, subject to the approval by the regulatory authorities of the banking industry, the Company might exercise a one-off redemption of all or part of the bonds at par value after the expiry of the fifth year but before the maturity date of Type I Bonds or after the expiry of the tenth year but before the maturity date of Type II Bonds. The exercise of the early redemption option by the issuer was not subject to the consent of bond holders. According to applicable rules, the proceeds from the issuance of bonds were fully accounted for as supplementary capital of the Company. Pursuant to the Capital Rules for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) adopted by the former CBRC on 1 January 2013, the proceeds were accounted for as tier-two capital of the Company based on required proportion. The use of proceeds was as stated in the prospectus.

The settlement of the Type I Subordinated Bonds of China Minsheng Banking Corp., Ltd. in 2011 was completed in 2016. On 15 January 2021, the Company received the Opinion on the Early Redemption of Subordinated Bonds (《關於提前贖回次級債券意見的函》) issued by the CBIRC, pursuant to which the exercise of early redemption option of subordinated bonds by the Company was approved. In accordance with the requirement, the Company published the Announcement on Exercising the Redemption Option of the Issuer of the Type II Subordinated Bonds of China Minsheng Banking Corp., Ltd. in 2011 (《2011年中國民生銀行股份有限公司次級債券品種二發行人贖回權行使公告》) on www.chinabond.com.cn. The redemption of Type II Subordinated Bonds of China Minsheng Bank in 2011 in the amount of RMB4,000 million was completed on 18 March 2021, and the interest for the year concerned amounting to RMB228,000,000 was distributed to the bond investors.

INFORMATION ON BONDS

II. Tier-Two Capital Bonds in 2016

Pursuant to the approval by the former CBRC (Yin Jian Fu [2016] No. 119) (銀監覆〔2016〕119號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 116) (銀市場許准予字〔2016〕第116號), the Company issued tier-two capital bonds (bond name: 16 Minsheng Tier-Two; bond code: 1628014) with a total amount of RMB20,000 million through public offering in the national interbank bond market on 30 August 2016. As assessed by Dagong Global Credit Rating Co., Ltd., the credit rating of the tier-two capital bonds was AAA. These tier-two capital bonds were issued for a term of 10 years with fixed coupon rate of 3.50%. The interest was payable on an annual basis. The interest commencement date of 16 Minsheng Tier-Two was 31 August 2016 and the original settlement date was 31 August 2026. Early redemption option will be exercised on 31 August 2021.

The tier-two capital bonds granted the issuer a one-off early redemption option. As long as the capital level of the Company is in compliance with the capital regulation requirements under the former CBRC upon the exercise of redemption option, the Company may, subject to the approval by the regulatory authorities of the banking industry, exercise one-off redemption of all or part of the bonds at par value at the last day of the fifth interest bearing year of the bonds. If the bonds fail to meet the standards of tier-two capital instruments due to changes of regulatory requirements during the term of the bonds, the Company may exercise early redemption option, subject to the prevailing regulatory requirements at that time and approval of the regulatory authorities of the banking industry. The exercise of early redemption option by the Company was not subject to the consent of bond holders. According to applicable rules, the proceeds from the bonds were fully accounted for as tier-two capital of the Company. The use of proceeds was as stated in the prospectus.

The settlement of the tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2016 will be completed in 2021. On 20 July 2021, the Company received the Opinion on the Early Redemption of Tier-Two Capital Bonds 《關於提前贖回二級資本債券意見的函》(Joint-Stock Banks Division [2021] No. 94)(股份制銀行部〔2021〕94號) issued by the CBIRC, pursuant to which the exercise of early redemption option of the above Tier-Two Capital Bonds by the Company was approved. In accordance with the requirement, the Company published the Announcement on Exercising the Redemption Option of the Issuer of Tier-Two Capital Bonds of China Minsheng Banking Corp., Ltd. in 2016 《2016年中國民生銀行二級資本債發行人贖回權行使公告》 on www.chinabond.com.cn. The redemption of Tier-Two Capital Bonds of China Minsheng Bank in 2016 in the amount of RMB20,000 million will be completed on 31 August 2021, and the interest for the year concerned amounting to RMB700 million will be distributed to the bond investors.

INFORMATION ON BONDS

III. Tier-Two Capital Bonds in 2017

Pursuant to the approval by the former CBRC (Yin Jian Fu [2017] No. 178) (銀監覆〔2017〕178號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2017] No. 140) (銀市場許准予字〔2017〕第140號), the Company issued the first tranche of tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2017 (bond name: 17 Minsheng Tier-Two 01; bond code: 1728016) with a total amount of RMB15,000 million and the second tranche of tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2017 (bond name: 17 Minsheng Tier-Two 02; bond code: 1728023) with a total amount of RMB15,000 million through public offering in the national interbank bond market on 12 September 2017 and 27 November 2017, respectively. As assessed by Dagong Global Credit Rating Co., Ltd., the credit ratings of the two tranches of tier-two capital bonds were both AAA. The two tranches of tier-two capital bonds were issued for a term of 10 years with fixed coupon rate of 4.70%, respectively. The interest was payable on an annual basis.

The two tranches of tier-two capital bonds both granted the issuer a one-off early redemption option. As long as the capital level of the Company is in compliance with the capital regulation requirements under the former CBRC upon the exercise of redemption option, the Company may, subject to the approval by the regulatory authorities of the banking industry, exercise one-off redemption of all or part of the bonds at par value at the last day of the fifth interest bearing year of the bonds. If the bonds fail to meet the standards of tier-two capital instruments due to changes of regulatory requirements during the term of the bonds, the Company may exercise early redemption option, subject to the prevailing regulatory requirements and approval of the banking regulatory authorities. The exercise of early redemption option by the Company was not subject to the consent of bond holders. The interest commencement dates of 17 Minsheng Tier-Two 01 and 17 Minsheng Tier-Two 02 were 14 September 2017 and 29 November 2017, respectively, while their settlement dates are 14 September 2027 and 29 November 2027, respectively. If the Company exercises the redemption option, the settlement date for the bonds to be redeemed shall be the settlement date specified in the redemption announcement concerned.

According to applicable rules, the proceeds from the issuance of the two tranches of bonds were fully accounted for as tier-two capital of the Company. The use of proceeds was as stated in the prospectus.

As at the end of the Reporting Period, the balance of the first tranche and second tranche of tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2017 was RMB30,000 million. During the Reporting Period, Dagong Global Credit Rating Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 30 July 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

IV. Special Financial Bonds for Small and Micro Enterprises in 2018

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2018] No. 189) (銀保監覆〔2018〕189號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2018] No. 211) (銀市場許准予字〔2018〕第211號), the Company issued the first and second tranches of special financial bonds for small and micro enterprises with a total amount of RMB60,000 million through public offering in the national interbank bond market on 19 November 2018 and 12 December 2018, respectively. As assessed by Dagong Global Credit Rating Co., Ltd., the credit ratings of the two tranches of financial bonds were AAA. The first tranche of the financial bonds of China Minsheng Bank in 2018 (bond name: 18 Minsheng Bank 01; bond code: 1828016), amounting to RMB40,000 million, was issued on 19 November 2018 for a term of three years with fixed coupon rate of 3.83%. The interest was payable on an annual basis. The second tranche of the financial bonds of China Minsheng Bank in 2018 (bond name: 18 Minsheng Bank 02; bond code: 1828020), amounting to RMB20,000 million, was issued on 12 December 2018 for a term of three years with fixed coupon rate of 3.76%. The interest was payable on an annual basis. The interest commencement dates of 18 Minsheng Bank 01 and 18 Minsheng Bank 02 were 22 November 2018 and 14 December 2018, respectively, while their settlement dates are 22 November 2021 and 14 December 2021, respectively.

The proceeds from the two issuances have been specifically used for extending loans to small and micro enterprises. The use of proceeds was as stated in the prospectus.

As at the end of the Reporting Period, the balance of the first tranche and second tranche of the financial bonds of China Minsheng Banking Corp., Ltd. in 2018 was RMB60,000 million. During the Reporting Period, Dagong Global Credit Rating Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 30 July 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

V. Tier-Two Capital Bonds in 2019

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2018] No. 469) (銀保監覆〔2018〕469號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2019] No. 5) (銀市場許准予字〔2019〕第5號), the Company issued the first tranche of tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2019 with a total amount of RMB40,000 million (bond name: 19 Minsheng Tier-Two 01; bond code: 1928002) through public offering in the national interbank bond market on 27 February 2019. As assessed by Golden Credit Rating International Co., Ltd., the credit rating of this tranche of tier-two capital bonds was AAA (please refer to www.chinabond.com.cn for details). This tranche of tier-two capital bonds was issued for a term of 10 years with fixed coupon rate of 4.48%. The interest shall be paid on an annual basis. The issuer shall have a conditional redemption option at the end of the fifth year. As long as the capital level of the Company is in compliance with the regulatory capital requirements under the CBIRC upon the exercise of redemption option, the Company may, subject to the approval by the CBIRC, exercise one-off redemption of all or part of the bonds at par value at the last day of the fifth interest bearing year of the bonds. If the bonds fail to meet the standards of tier-two capital instruments due to changes of regulatory requirements during the term of the bonds, the Company may exercise early redemption option, subject to the prevailing regulatory requirements at that time and approval of the CBIRC. The exercise of early redemption option by the Company was not subject to the consent of bond holders. The interest commencement date of 19 Minsheng Bank Tier-two 01 was 1 March 2019, while the settlement date is 1 March 2029. If the Company exercises the redemption option, the settlement date for the bonds to be redeemed shall be the settlement date specified in the redemption announcement concerned.

According to applicable rules, the proceeds from the issuance of bonds were fully accounted for as tier-two capital of the Company. The use of proceeds was as stated in the prospectus.

On 1 March 2021, interest for the year concerned amounting to RMB1,792,000,000 was distributed to the bond investors by the Company.

As at the end of the Reporting Period, the balance of the tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2019 was RMB40,000 million. During the Reporting Period, Golden Credit Rating International Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 25 June 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

VI. Undated Capital Bonds in 2019

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2019] No. 485) (銀保監覆〔2019〕485號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2019] No. 75) (銀市場許准予字〔2019〕第75號), the Company issued the undated capital bonds of China Minsheng Banking Corp., Ltd. in 2019 in a total amount of RMB40,000 million (bond name: 19 Minsheng Perpetual Bond; bond code: 1928013) through public offering in the national interbank bond market on 31 May 2019. As assessed by Golden Credit Rating International Co., Ltd., the credit rating of the undated capital bonds was AAA (please refer to www.chinabond.com.cn for details). The undated capital bonds were write-down capital bonds with issuing coupon rate of 4.85%, subject to adjustment at different intervals. The bonds will continue to be outstanding so long as the issuer's business continues to operate. The coupon rate shall be adjusted every five years from the payment due date. The interest shall be paid at the same agreed rate in each adjustment period of coupon rate. The interest shall be paid on an annual basis. The issuer shall have a conditional redemption option of the bonds. After the expiry of five years from the date of issuance, the issuer shall have the right to redeem all or part of the bonds on the interest payment date of each year (inclusive of the interest payment date of the fifth year after the date of issuance). Upon the issuance of the bonds, in the event that the bonds are not classified as other tier-one capital bonds due to unpredictable changes in regulations, the issuer shall have the right to redeem the bonds fully instead of partly. The interest commencement date of 19 Minsheng Perpetual Bond was 4 June 2019.

According to applicable rules, the proceeds from the issuance of bonds were fully accounted for as other tier-one capital of the Company. The use of proceeds was as stated in the prospectus.

On 4 June 2021, interest for the year concerned amounting to RMB1,940,000,000 was distributed to the bond investors by the Company.

As at the end of the Reporting Period, the balance of the undated capital bonds of China Minsheng Banking Corp., Ltd. in 2019 was RMB40,000 million. During the Reporting Period, Golden Credit Rating International Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 25 June 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

VII. First Tranche of Special Financial Bonds for Loans to Small and Micro Enterprises in 2020

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2018] No. 189) (銀保監覆〔2018〕189號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2018] No. 211) (銀市場許准予字〔2018〕第211號), the Company completed the book building on 18 March 2020 and issued the first tranche of special financial bonds for loans to small and micro enterprises of China Minsheng Banking Corp., Ltd. in 2020 with a total amount of RMB20,000 million (bond name: 20 Minsheng Small and Micro Enterprises Bond 01; bond code: 2028008) through public offering in the national interbank bond market on 20 March 2020. As assessed by Dagong Global Credit Rating Co., Ltd., the credit rating of the financial bonds was AAA (please refer to www.chinabond.com.cn for details). This tranche of financial bonds were issued for a term of three years with fixed coupon rate of 2.75%. The interest was payable on an annual basis. The interest commencement date of 20 Minsheng Small and Micro Enterprises Bond 01 was 20 March 2020 and its settlement date is 20 March 2023.

The proceeds from the issuance of the bonds will be specifically used for extending loans to small and micro enterprises. The use of proceeds was as stated in the prospectus.

On 20 March 2021, interest for the year concerned amounting to RMB550,000,000 was distributed to the bond investors by the Company.

As at the end of the Reporting Period, the balance of the first tranche of the financial bonds of China Minsheng Banking Corp., Ltd. in 2020 was RMB20,000 million. During the Reporting Period, Dagong Global Credit Rating Co, Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 30 July 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

VIII. Tier-Two Capital Bonds in 2020

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2020] No. 348) (銀保監覆〔2020〕348號) and the approval by the PBOC in the administrative permit (Yin Xu Zhun Yu Jue Zi [2020] No. 18) (銀許准予決字〔2020〕第18號), the Company completed the book building on 24 June 2020 and issued the tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2020 with a total amount of RMB50,000 million (bond name: 20 Minsheng Tier-Two; bond code: 2028022) through public offering in the national interbank bond market on 29 June 2020. As assessed by Golden Credit Rating International Co., Ltd., the credit rating of the tier-two capital bonds was AAA (please refer to www.chinabond.com.cn for details). The tier-two capital bonds were issued for a term of 10 years with fixed coupon rate of 3.75%. The interest shall be paid on an annual basis. The issuer shall have a conditional redemption option at the end of the fifth year. As long as the capital level of the Company is in compliance with the regulatory capital requirements under the CBIRC upon the exercise of redemption option, the Company may, subject to the approval by the CBIRC, exercise one-off redemption of all or part of the bonds at par value at the last day of the fifth interest bearing year of the bonds. If the bonds fail to meet the standards of tier-two capital instruments due to changes of regulatory requirements during the term of the bonds, the Company may exercise early redemption option, subject to the prevailing regulatory requirements at that time and approval of the CBIRC. The exercise of early redemption option by the Company was not subject to the consent of bond holders. The interest commencement date of 20 Minsheng Tier-Two was 29 June 2020 and its settlement date is 29 June 2030. If the Company exercises the redemption option, the settlement date for the bonds to be redeemed shall be the settlement date specified in the redemption announcement concerned.

According to applicable rules, the proceeds from the issuance of bonds were fully accounted for as tier-two capital of the Company. The use of proceeds was as stated in the prospectus.

On 29 June 2021, interest for the year concerned amounting to RMB1,875,000,000 was distributed to the bond investors by the Company.

As at the end of the Reporting Period, the balance of the tier-two capital bonds of China Minsheng Banking Corp., Ltd. in 2020 was RMB50,000 million. During the Reporting Period, Golden Credit Rating International Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 25 June 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

INFORMATION ON BONDS

IX. Undated Capital Bonds in 2021

Pursuant to the approval by the CBIRC (Yin Bao Jian Fu [2020] No. 973) (銀保監覆〔2020〕973號) and the approval by the PBOC in the administrative permit (Yin Xu Zhun Yu Jue Zi [2021] No. 38) (銀許准予決字〔2021〕第38號), the Company issued the first tranche of undated capital bonds of China Minsheng Banking Corp., Ltd. in 2021 in a total amount of RMB30,000 million (bond name: 21 Minsheng Perpetual Bond 01; bond code: 2128016) through public offering in the national interbank bond market on 19 April 2021. As assessed by Golden Credit Rating International Co., Ltd., the credit rating of the undated capital bonds was AAA (please refer to www.chinabond.com.cn for details). The undated capital bonds were write-down capital bonds with issuing coupon rate of 4.30%, subject to adjustment at different intervals. The bonds will continue to be outstanding so long as the issuer's business continues to operate. The coupon rate shall be adjusted every five years from the payment due date. The interest shall be paid at the same agreed rate in each adjustment period of coupon rate. The interest shall be paid on an annual basis. The issuer shall have a conditional redemption option of the bonds. After the expiry of five years from the date of issuance, the issuer shall have the right to redeem all or part of the bonds on the interest payment date of each year (inclusive of the interest payment date of the fifth year after the date of issuance). Upon the issuance of the bonds, in the event that the bonds are not classified as other tier-one capital bonds due to unpredictable changes in regulations, the issuer shall have the right to redeem the bonds fully instead of partly. The interest commencement date of 21 Minsheng Perpetual Bond 01 was 21 April 2021.

According to applicable rules, the proceeds from the issuance of bonds were fully accounted for as other tier-one capital of the Company. The use of proceeds was as stated in the prospectus.

As at the end of the Reporting Period, the balance of the first tranche of undated capital bonds of China Minsheng Banking Corp., Ltd. in 2021 was RMB30,000 million. During the Reporting Period, Golden Credit Rating International Co., Ltd. conducted the annual tracking and rating of the bonds and issued a corresponding report on 25 June 2021 with the bond rating of AAA, which was the same as the previous year. (Please refer to www.chinabond.com.cn for details).

CORPORATE GOVERNANCE

I. Corporate Governance Overview

During the Reporting Period, the Company continued to improve its corporate governance system, mechanism, rules and regulations, and constantly improved the scientificity, stability and effectiveness of corporate governance. Firstly, the Company continued to promote the organic integration of the Party's leadership with its corporate governance. By incorporating Party building into its Articles of Association, the Company further strengthened the legal status of Party organisations in the corporate governance structure. The Company leveraged the advantages of the leadership system of "two-way entry, cross-appointment", strictly implemented the preparatory research procedures, and integrated Party leadership into all aspects of corporate governance. Secondly, the Company actively promoted the implementation of the Code of Corporate Governance of Banking and Insurance Institutions, conscientiously studied and formed a systematic implementation plan, and strictly implemented the regulatory requirements. Thirdly, the Company improved the quality and effectiveness of the performance of duties by the Board, the Board of Supervisors and the Senior Management through various measures in different dimensions. The Company adjusted and optimised the duty performance operation mode of the special committees of the Board, leveraged the professional capabilities of departments, and consolidated the work of the special committees of the Board. The Company improved and perfected the normalised management mechanism for the performance of duties by the Board, and promoted the professional performance of duties by the Board and the Directors. The Company strengthened communication and exchanges between the Board and the governance entities including the Board of Supervisors and the Senior Management, and improved the discussion efficiency of the Board, the Board of Supervisors and the special committees. The Company strengthened the supervision of major resolutions and key requirements to ensure the implementation of decisions made by the Board and the matters supervised by the Board of Supervisors. Fourthly, the Company further improved its corporate governance system by revising various policies such as the Articles of Association, the Terms of Reference of the Risk Management Committee of the Board 《董事會風險管理委員會工作細則》 and the Administrative Measures on Writing off Bad Loans 《呆賬核銷管理辦法》, and formulated the Administrative Measures on Financial Services in Response to Emergencies 《應對突發事件金融服務管理辦法》, and the Market Risk Limit Plan of the Group for 2021 《2021 年度集團市場風險限額方案》, etc.

During the Reporting Period, the Board of the Company performed its duties effectively, which firmly safeguarded the scientific decision-making and efficient operation of the Board. The Company resolutely implemented the national policy arrangement, and promoted the centralisation of resources of the whole bank to support the key regions and areas of the state. While promoting and improving the long-term internal control and compliance mechanism, the Company continued to improve its risk management system and mechanism, discussed and received various types of risk management reports, and urged the Senior Management to effectively control various risks, and steadily promoted the improvement of asset quality. The Company actively implemented the regulatory requirements and consolidated the foundation for consumer rights protection. By virtue of "proactively seeking changes and laying out the future", the Company deepened communication with the investors, developed effective communication channels for all types of investors, and facilitated information exchange and transmission. The Company strictly implemented the regulatory requirements, earnestly performed information disclosure obligations, and continued to increase the information transparency of the Company.

CORPORATE GOVERNANCE

During the Reporting Period, the Board of Supervisors of the Company strengthened its own construction, improved policy systems, innovated supervision measures, and increased the efficiency of supervision. Guided by the policy requirements of the CPC Central Committee, the State Council and the regulatory authorities, the Company took the rectification under regulatory opinions as the focus of supervision, and continued to strengthen the supervision of key areas such as development strategy, business decision-making, financial management, risk management, and internal control and compliance. The Company revised the measures on performance evaluation, optimised the performance evaluation system, and improved the performance evaluation archives. The Company shifted forward the supervision threshold, organised Supervisors to attend meetings of the Board and its special committees as non-voting delegates, and independently expressed opinions on major issues such as writing-off of bad loans, accountability for violations, compliance culture, and rectification of problems. The Company organised and carried out in-depth surveys on important areas and key regions, and put forward supervision opinions and suggestions to improve the effectiveness of supervision.

During the Reporting Period, 2 shareholders' general meetings were convened by the Board of the Company in accordance with the law to consider 19 proposals. 6 Board meetings were convened to consider 59 proposals as well as to receive and study 31 special work reports. 22 meetings of the special committees of the Board were convened to consider 82 proposals as well as to receive and study 36 special work reports. 2 meetings of the Board of Supervisors were convened to consider 14 proposals and review 16 reports; and 7 special committee meetings of the Board of Supervisors were convened to consider 5 proposals and to consider 26 matters subject to review.

During the Reporting Period, with the aim of building a more established and high-level governance mechanism, the Company improved and perfected its corporate governance organisation system, and actively facilitated various improvement measures. Corporate governance complied with the relevant requirements of the Company Law, the CBIRC, the CSRC and the Articles of Association. The Company has fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules and most of the recommended best practices contained therein.

II. Shareholders' General Meetings

During the Reporting Period, the Company held two shareholders' general meetings, at which a total of 19 proposals were considered and approved. Details are as follows:

On 22 January 2021, the first extraordinary general meeting for 2021 of the Company was held in Beijing in which the shareholders voted on-site and online. For details of the resolutions of the meeting, please refer to the announcements published on the website of the Company, the website of the SSE and the HKEXnews website of the SEHK on 22 January 2021 and published in China Securities Journal, Shanghai Securities News and Securities Times on 23 January 2021.

CORPORATE GOVERNANCE

On 11 June 2021, the 2020 annual general meeting, the first A share class meeting for 2021 and the first H share class meeting for 2021 of the Company were held in Beijing, in which the shareholders voted on-site and online. For details of the resolutions of the meeting, please refer to the announcements published on the website of the Company, the website of the SSE and the HKEXnews website of the SEHK on 11 June 2021 and published in China Securities Journal, Shanghai Securities News and Securities Times on 12 June 2021.

III. Meetings of the Board and Its Special Committees

During the Reporting Period, 6 Board meetings were convened to consider a total of 59 proposals as well as to receive and study 31 special work reports. A total of 22 meetings of the special committees of the Board were convened to consider a total of 82 proposals as well as to receive and study 36 special work reports, including 4 meetings of the Strategic Development and Consumer Rights Protection Committee to consider 17 proposals as well as to receive and study 8 special work reports, 7 meetings of the Risk Management Committee to consider 30 proposals as well as to review and study 23 special risk reports, 3 meetings of the Audit Committee to consider 13 proposals as well as to receive and study 3 special work reports, 3 meetings of the Related Party Transactions Supervision Committee to consider 13 proposals as well as to receive and study 1 special work report, 3 meetings of the Nomination Committee to consider 6 proposals and 2 meetings of the Compensation and Remuneration Committee to consider 3 proposals as well as to receive and study 1 special work report.

During the Reporting Period, the Independent Directors of the Company strictly complied with the relevant requirements of the CBIRC and the Articles of Association, actively performed their duties, attended shareholders' general meetings, Board meetings and meetings of special committees of the Board on time, and utilised their professional capabilities and experience to receive and consider various issues of the Board and special committees of the Board. In accordance with the regulatory requirements, all Independent Directors fully leveraged their independence and professionalism to express independent opinions on matters such as profit distribution plans, major related-party transactions, and remuneration of the Directors and the Senior Management. In addition to attending various meetings, all Independent Directors worked a total of 17 shifts in the Bank to actively understand the major issues such as risk management, internal control and compliance and remuneration reform, and put forward targeted opinions and suggestions. In addition, the Independent Directors of the Company also actively visited subsidiaries and branches to conduct special surveys so as to gain an in-depth understanding of the operation management, internal control management and risk management of the Head Office and the branches, and offered advice and suggestions on the development with regional characteristics, improvement of internal control and risk management of the branches.

CORPORATE GOVERNANCE

IV. Meetings of the Board of Supervisors and Its Special Committees

During the Reporting Period, 2 meetings of the Board of Supervisors of the Company were convened to consider a total of 14 proposals and review 16 reports.

During the Reporting Period, the special committees of the Board of Supervisors of the Company convened 7 meetings, including 6 meetings of the Supervisory Committee, to consider 26 matters subject to review and 1 meeting of the Nomination and Examination Committee to consider 5 proposals.

During the Reporting Period, the members of the Board of Supervisors actively performed their supervisory duties by attending Board meetings and important meetings of the Senior Management as non-voting delegates, supervised the legality and compliance of the proposals and decision-making process, and embedded the supervision of the Board of Supervisors into the discussion process of the Board and the Senior Management. The Board of Supervisors paid attention to improving the effectiveness of meeting supervision, timely sorted out the supervisory opinions and suggestions formed at the meetings and formulated implementation plans one by one. It further reminded the Board and the Senior Management of the supervisory opinions through supervisory notices, supervisory inspection reports and other forms, and regularly evaluated the progress and effectiveness of the implementation of rectifications. Since 2021, it has compiled one analysis and supervision report of the operation of other banks and financial institutions, issued 22 supervisory notices and 4 briefing reports on implementing supervisory work. The supervisory opinions and suggestions provided by the Board of Supervisors were highly valued by the Board and the Senior Management, which promoted the healthy and steady development of the Company and the improvement of corporate governance.

During the Reporting Period, all External Supervisors of the Company were loyal, diligent, stuck to the code of professional ethics, performed their supervisory duties in compliance with laws and regulations, actively attended meetings, received reports, participated in surveys, and studied and proposed scientific and reasonable opinions and suggestions by fully leveraging their own professional advantages and work experiences to promote the independent and effective supervision of the Board of Supervisors.

V. Internal Control and Internal Audit

(I) Internal control evaluation

The Company has set up a comprehensive corporate governance structure with clear division of responsibilities among the Board, the Board of Supervisors and the management team and maintained an effective internal control management system. In compliance with the Law of the People's Republic of China on Commercial Banks 《中華人民共和國商業銀行法》, the Guidelines for Internal Control of Commercial Banks 《商業銀行內部控制指引》, the Basic Standard for Corporate Internal Control 《企業內部控制基本規範》 and other laws and regulations and regulatory rules, the Company has gradually formed a set of rational and comprehensive internal control systems, internal mechanisms and procedures for the prevention, control, subsequent supervision and rectification of risks.

CORPORATE GOVERNANCE

The Company gave full play to the role of internal audit in supervision and evaluation, constantly improved the evaluation and supervision system of internal control, optimised procedures and tools of internal control evaluation, improved the internal control system and enhanced refined internal control management. During the Reporting Period, in accordance with the principles of internal control evaluation and annual audit plan, the Company conducted comprehensive inspection of internal control evaluation on 2 affiliates comprising Minsheng Financial Leasing and Zhangpu Rural Bank, 4 tier-one branches comprising Beijing Branch, Shenzhen Branch, Lanzhou Branch and Hefei Branch and 5 tier-two branches/remote sub-branches in Lianyungang, Shangrao, Luoyang, Jiangmen and Xiangtan, during the first half of the year in aggregate, which covered key businesses and major risks. The Company supervised the effective implementation of the rectifications of internal control and risks-related issues through various measures, including daily monitoring, subsequent centralised audits and assessment on effectiveness of internal control. Accountability on violations found in inspections was also initiated according to the Company's regulations. Through constant internal control evaluations, the Company effectively improved the internal control system and enhanced the internal control management.

(II) Internal audit

The Company has set up an internal audit organisation — the Audit Department, which adopted an independent audit model with a vertical management structure topped by the Head Office. Currently, the Company had six regional audit centres in North, East, South, Central, Northeast and West China. The Company set up the Corporate Business Audit Centre, Retail Business Audit Centre, Financial Markets Business Audit Centre, IT Audit Centre, Public Service Audit Centre, Systematic Risk Audit and Data Application Centre, Planning and Project Management Centre, and Evaluation and Supervision Centre according to the characteristics of specialised operation of the Company. The Audit Department is responsible for performing independent inspection and evaluation on all businesses and management of the Company, supervising and examining the effectiveness of internal control and carrying out independent and objective evaluation and consultation of internal control. To ensure the independence and effectiveness of the internal audit, material audit findings and internal control defects would be directly reported to the Board and notices would be given to the Senior Management. The Company has formulated and improved standardised policies and systems for internal audit. An integrated audit examination system comprising on-site and off-site audit was established with off-site audit covering all asset and liability businesses of the Company. Risk-oriented audit on internal control was adopted, covering all business lines including corporate banking, retail banking, financial markets, trade finance, credit card, financial accounting and risk management as well as all internal control management procedures. The Company had principally achieved full coverage of audit on risk exposures in credit, operation, market and compliance.

The Company performed supervision and examination on the internal control of business units through various forms including comprehensive audits, special audits and economic accountability audits. During the Reporting Period, in accordance with the annual audit plan, the Audit Department efficiently completed the audit tasks for the first half of the year and carried out a total of 33 special audits and 115 economic accountability audits. It also issued 8 risk reminders and audit suggestions. Moreover, 18 reports concerning major events, updates and researches were issued. As a result, it gave full swing to the role of internal audit in supervision, evaluation and consultation. The problems identified in the audits were tracked and urged to be rectified. All these efforts had notably improved the internal control and management of the Company.

CORPORATE GOVERNANCE

VI. Directors, Supervisors and Senior Management

(I) Basic information

Name	Gender	Year of Birth	Position	Term of Office	Shares held at the beginning of the Reporting Period (share)	Shares held at the end of the Reporting Period (share)
GAO Yingxin	M	1962	Chairman & Executive Director	July 2020 – 2023 election	300,000	500,000
ZHANG Hongwei	M	1954	Vice Chairman & Non – Executive Director	January 2001 – 2023 election	–	–
LU Zhiqiang	M	1951	Vice Chairman & Non – Executive Director	November 2006 – 2023 election	–	–
LIU Yonghao	M	1951	Vice Chairman & Non – Executive Director	June 2009 – 2023 election	–	–
ZHENG Wanchun	M	1964	Vice Chairman	December 2020 – 2023 election	250,000	430,000
			Executive Director	March 2016 – 2023 election		
			President	January 2016 – 2023 election		
SHI Yuzhu	M	1962	Non-Executive Director	March 2017 – 2023 election	–	–
WU Di	M	1965	Non-Executive Director	March 2013 – 2023 election	–	–
SONG Chunfeng	M	1969	Non-Executive Director	March 2017 – 2023 election	–	–
WENG Zhenjie	M	1962	Non-Executive Director	February 2017 – 2023 election	–	–
YANG Xiaoling	M	1958	Non-Executive Director	March 2021 – 2023 election	–	–
ZHAO Peng	M	1973	Non-Executive Director	June 2021 – 2023 election	–	–
LIU Jipeng	M	1956	Independent Non – Executive Director	February 2017 – (Note 1)	–	150,000
LI Hancheng	M	1963	Independent Non – Executive Director	February 2017 – (Note 1)	–	–
XIE Zhichun	M	1958	Independent Non – Executive Director	March 2017 – (Note 1)	–	–
PENG Xuefeng	M	1962	Independent Non – Executive Director	March 2017 – (Note 1)	–	–
LIU Ningyu	M	1969	Independent Non – Executive Director	March 2017 – (Note 1)	–	–

CORPORATE GOVERNANCE

Name	Gender	Year of Birth	Position	Term of Office	Shares held at the beginning of the Reporting Period (share)	Shares held at the end of the Reporting Period (share)
QU Xinjiu	M	1964	Independent Non – Executive Director	March 2021-2023 election	–	–
YUAN Guijun	M	1963	Executive Director	March 2021 – 2023 election	–	150,000
			Executive Vice President	December 2020 – 2023 election		
ZHANG Juntong	M	1974	Chairman of the Board of Supervisors & Employee Supervisor	February 2017 – 2023 election	200,000	350,000
GUO Dong	M	1961	Vice Chairman of the Board of Supervisors & Employee Supervisor	March 2016 – 2023 election	200,000	350,000
LU Zhongnan	M	1955	Shareholder Supervisor	January 2007 – 2023 election	–	–
ZHAO Huan John	M	1963	Shareholder Supervisor	October 2020 – 2023 election	–	–
LI Yu	M	1974	Shareholder Supervisor	October 2020 – 2023 election	–	–
WANG Yugui	M	1951	External Supervisor	February 2017 – 2023 election	–	–
ZHAO Fugao	M	1955	External Supervisor	June 2019 – 2023 election	–	–
ZHANG Liqing	M	1963	External Supervisor	October 2020 – 2023 election	–	–
LI Jian	M	1966	Employee Supervisor	March 2020 – 2023 election	–	–
CHEN Qiong	F	1963	Executive Vice President	August 2018 – 2023 election	200,000	350,000
SHI Jie	M	1965	Executive Vice President	January 2017-2023 election	200,000	350,000
LI Bin	F	1967	Executive Vice President	January 2017 – 2023 election	200,000	350,000
LIN Yunshan	M	1970	Executive Vice President	January 2017 – 2023 election	200,000	350,000
HU Qinghua	M	1963	Executive Vice President	August 2018 – 2023 election	200,000	350,000
BAI Dan	F	1963	Chief Financial Officer	May 2012 – 2023 election	210,000	360,000
			Board Secretary	August 2018 – 2023 election		
ZHANG Yuebo	M	1962	Chief Audit Officer	February 2017 – 2023 election	200,000	350,000
OUYANG Yong	M	1963	Assistant President	June 2018 – 2023 election	200,000	350,000

Notes:

1. According to the Guidelines on Corporate Governance of Commercial Banks, Independent Directors must not serve for a term of more than six years in the same commercial bank. According to the Articles of Association of the Bank, the former Directors shall perform the duties of Directors in accordance with laws, administrative regulations, rules and Articles of Association before the newly elected Director takes office. Therefore, the actual terms of office of the Independent Directors, namely Mr. Liu Jipeng, Mr. Li Hancheng, Mr. Xie Zhichun, Mr. Peng Xuefeng and Mr. Liu Ningyu, will comply with the requirements above.

CORPORATE GOVERNANCE

2. According to the regulations of the CSRC, the commencement date of the terms of office of re-elected Directors, Supervisors and Senior Management in the above table shall be the date of their first appointment and qualification approval. As the qualification of Mr. Weng Zhenjie as Director is subject to the approval of the CBIRC, the commencement date of his term of office is temporarily taken as the date when he is elected at the shareholders' general meeting.
3. From 17 May 2021 to 18 May 2021, Senior Management of the Company purchased ordinary A shares of the Company with their own funds from the secondary market, and undertook that such shares purchased were subject to a lock-up period of two years from the date of purchase. For details, please refer to the announcement of the Company dated 18 May 2021 published on the HKEXnews website of the SEHK and the announcement dated 19 May 2021 on the website of SSE.
4. During the Reporting Period, none of the incumbent Directors, Supervisors and Senior Management or Directors, Supervisors or Senior Management resigned during the Reporting Period had been subject to any penalty imposed by the securities regulatory authorities during the past three years.

(II) Changes of information of Directors and Supervisors

1. Mr. Zhao Peng, a Non-Executive Director of the Company, ceased to serve as a director of Beijing Tong Ren Tang Co., Ltd. (listed on the SSE, stock code: 600085).
2. Mr. Weng Zhenjie, a Non-Executive Director of the Company, has been granted the honorary title of National Model Worker.
3. Mr. Liu Jipeng, an Independent Non-Executive Director of the Company, was appointed as an independent director of CECEP Solar Energy Co., Ltd. (listed on the SZSE, stock code: 000591). Mr. Liu ceased to serve as an independent non-executive director of Zhongjin Gold Corporation Limited. (listed on the SSE, stock code: 600489).
4. Mr. Li Yu, a Shareholder Supervisor of the Company, was appointed as the chief executive officer of Deyu Healthcare Management Group.

(III) Service contracts of Directors and Supervisors

In accordance with rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into contracts with its Directors and Supervisors in respect of compliance with the relevant laws and regulations, the Articles of Association of the Company and the provisions of arbitration. Except as disclosed above, the Company has not entered into and does not intend to enter into any service contracts with its Directors or Supervisors in respect of their services as Directors or Supervisors (excluding the service contracts which will expire within one year or are terminable by the Group within one year without payment of compensation, other than statutory compensation).

CORPORATE GOVERNANCE

(IV) Interests of the Directors, Supervisors and chief executives in the securities of the Company or its associated corporations under Hong Kong laws and regulations

1. As at 30 June 2021, the following Directors and Supervisors of the Company had the following interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and as the Company is aware of:

Name	Position	Class of shares	Long/short position	Capacity	Number of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued ordinary shares (%)
Gao Yingxin	Executive Director	A	Long position	Beneficial owner	200,000		0.0006	0.0005
		H	Long position	Beneficial owner	300,000		0.0036	0.0007
Zheng Wanchun	Executive Director	A	Long position	Beneficial owner	180,000		0.0005	0.0004
		H	Long position	Beneficial owner	250,000		0.0030	0.0006
Yuan Guijun	Executive Director	A	Long position	Beneficial owner	150,000		0.0004	0.0003
Liu Yonghao	Non-Executive Director	A	Long position	Interest held by his controlled corporation(s)	1,930,715,189	1	5.44	4.41
		H	Long position	Interest held by his controlled corporation(s)	240,789,500	2	2.89	0.55
Zhang Hongwei	Non-Executive Director	A	Long position	Interest held by his controlled corporation(s)	1,315,117,123	3	3.71	3.00
Lu Zhiqiang	Non-Executive Director	A	Long position	Interest held by his controlled corporation(s)	2,019,182,618	4	5.69	4.61
		H	Long position	Interest held by his controlled corporation(s)	1,020,538,470	5	12.27	2.33
		H	Short position	Interest held by his controlled corporation(s)	604,300,950	5	7.26	1.38
Shi Yuzhu	Non-Executive Director	A	Long position	Interest held by his controlled corporation(s)	1,379,679,587	6	3.89	3.15
		H	Long position	Interest held by his controlled corporation(s)	713,501,653	7	8.58	1.63

CORPORATE GOVERNANCE

Name	Position	Class of shares	Long/short position	Capacity	Number of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued ordinary shares (%)
Liu Jipeng	Independent Non-Executive Director	A	Long position	Beneficial owner	150,000		0.0004	0.0003
Zhang Juntong	Employee Supervisor	A	Long position	Beneficial owner	150,000		0.0004	0.0003
		H	Long position	Beneficial owner	200,000		0.0024	0.0005
Guo Dong	Employee Supervisor	A	Long position	Beneficial owner	150,000		0.0004	0.0003
		H	Long position	Beneficial owner	200,000		0.0024	0.0005

Notes:

- The 1,930,715,189 A shares comprised 102,387,827 A shares directly held by South Hope Industrial Co., Ltd. and 1,828,327,362 A shares directly held by New Hope Liuhe Investment Co., Ltd. 51% of the issued share capital of South Hope Industrial Co., Ltd. was held by New Hope Group Co., Ltd., while New Hope Liuhe Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd. respectively. 24.86% and 29.08% of the issued share capital of New Hope Liuhe Co., Ltd. were held by New Hope Group Co., Ltd. and South Hope Industrial Co., Ltd. respectively. According to the SFO, New Hope Group Co., Ltd. was deemed to be interested in the 102,387,827 A shares held by South Hope Industrial Co., Ltd. and 1,828,327,362 A shares held by New Hope Liuhe Investment Co., Ltd.

As Mr. Liu Yonghao held 90.59% of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the 1,930,715,189 A shares held by New Hope Group Co., Ltd. according to the SFO. Such interests held by Mr. Liu Yonghao and the interests held by New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang, the details of which are disclosed in the section headed "Substantial shareholders' and other persons' interests or short positions in the shares and underlying shares of the Company under Hong Kong laws and regulations" in this Interim Report, were from the same block of shares.

- The 240,789,500 H shares (Long position) were directly held by South Hope Industrial Co., Ltd. (see note 1 above).
- The 1,315,117,123 A shares were directly held by Orient Group Incorporation. 29.66% of the issued share capital of Orient Group Incorporation was held by Orient Group Co., Ltd. 94% of the issued share capital of Orient Group Co., Ltd. was held by Mingze Orient Investment Co., Ltd. (名澤東方投資有限公司), while Mingze Orient Investment Co., Ltd. was wholly-owned by Mr. Zhang Hongwei.
- The 2,019,182,618 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 98.00% of the issued share capital was held by Oceanwide Group Co., Ltd., which was wholly-owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.
- The 1,020,538,470 H shares (Long position) comprised 8,237,520 H shares directly held by China Oceanwide International Investment Company Limited, 604,300,950 H shares directly held by Oceanwide International Equity Investment Limited and 408,000,000 H shares directly held by Long Prosper Capital Company Limited, while the 604,300,950 H shares (Short position) were directly held by Oceanwide International Equity Investment Limited. Long Prosper Capital Company Limited was a wholly-owned subsidiary of Oceanwide International Equity Investment Limited. 89.22% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd., while all of the issued share capital of China Oceanwide International Investment Company Limited and 65.09% of the issued share capital of Oceanwide Holdings Co., Ltd. were held by China Oceanwide Holdings Group Co., Ltd. (see note 4 above).
- The 1,379,679,587 A shares were held by Shanghai Giant Lifetech Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu.

CORPORATE GOVERNANCE

7. The 713,501,653 H shares (Long position) were held by Alpha Frontier Limited. 42.04% of the issued share capital of Alpha Frontier Limited was held by Chongqing Cibi Business Information Consulting Co., Ltd. (重慶賜比商務信息諮詢有限公司), which was wholly-owned by Giant Investment Co., Ltd. (see note 6 above).
2. As at 30 June 2021, the following Director of the Company had the following interests in Pengzhou Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Contribution to the registered capital	Note	Percentage of the total registered capital (%)
Liu Yonghao	Non-Executive Director	Long position	Interest held by his controlled corporation(s)	RMB2,000,000	1	3.64

Note: New Hope Group Co., Ltd. is interested in RMB2,000,000 of the registered capital of Pengzhou Minsheng Rural Bank Co., Ltd. As Mr. Liu Yonghao held 90.59% of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the equity interest held by New Hope Group Co., Ltd. in Pengzhou Minsheng Rural Bank Co., Ltd. according to the SFO.

3. As at 30 June 2021, the following Director of the Company had the following interests in Shanghai Songjiang Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Contribution to the registered capital	Note	Percentage of the total registered capital (%)
Shi Yuzhu	Non-Executive Director	Long position	Interest held by his controlled corporation(s)	RMB24,000,000	1	10

Note: Shanghai Giant Lifetech Co., Ltd. is interested in RMB24,000,000 of the registered capital of Shanghai Songjiang Minsheng Rural Bank Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Shanghai Songjiang Minsheng Rural Bank Co., Ltd. according to the SFO.

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4. As at 30 June 2021, the following Directors of the Company had the following interests in Tibet Linzhi Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Contribution to the registered capital	Note	Percentage of the total registered capital (%)
Shi Yuzhu	Non-Executive Director	Long position	Interest held by his controlled corporation(s)	RMB2,500,000	1	10
Liu Yonghao	Non-Executive Director	Long position	Interest held by his controlled corporation(s)	RMB1,500,000	2	6

Notes:

- Shanghai Giant Lifetech Co., Ltd. is interested in RMB2,500,000 of the registered capital of Tibet Linzhi Minsheng Rural Bank Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Tibet Linzhi Minsheng Rural Bank Co., Ltd. according to the SFO.
- South Hope Industrial Co., Ltd. is interested in RMB1,500,000 of the registered capital of Tibet Linzhi Minsheng Rural Bank Co., Ltd. 51% of the issued share capital of South Hope Industrial Co., Ltd. was held by New Hope Group Co., Ltd., while Mr. Liu Yonghao held 90.59% of the issued share capital of New Hope Group Co., Ltd. Mr. Liu Yonghao was deemed to be interested in the equity interest held by South Hope Industrial Co., Ltd. in Tibet Linzhi Minsheng Rural Bank Co., Ltd. according to the SFO.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors or chief executives held or was deemed to hold any interests and/or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted such rights.

(V) Securities transactions by Directors, Supervisors and relevant employees

The Company has adopted its own code of conduct of the Directors and the Supervisors regarding transactions in securities, on terms no less exacting than the Model Code. The Company has made specific enquiries to all Directors and Supervisors who have confirmed that they have complied with the Model Code during the Reporting Period. The Company also formulated the guidelines for dealings in securities of the Company by employees, which are no more lenient than the Model Code. The Company is not aware of any non-compliance with these guidelines by the relevant employees.

(VI) Administrative penalties imposed on the Company and its Directors, Supervisors, Senior Management and controlling shareholders

During the Reporting Period, the Company was not aware of the Company or any of its incumbent Directors, Supervisors or Senior Management being subject to any investigation by the competent authorities or mandatory measures imposed by the judicial authorities or commission for discipline inspection, or handled over to judicial authorities for criminal liabilities, nor any of them being a subject to examination or administrative penalty by the CSRC, or prohibited from the securities market or deemed as ineligible persons, or subject to any material administrative penalty imposed by the environmental protection, safety, taxation and other administrative authorities or publicly censured by any stock exchanges.

CORPORATE GOVERNANCE

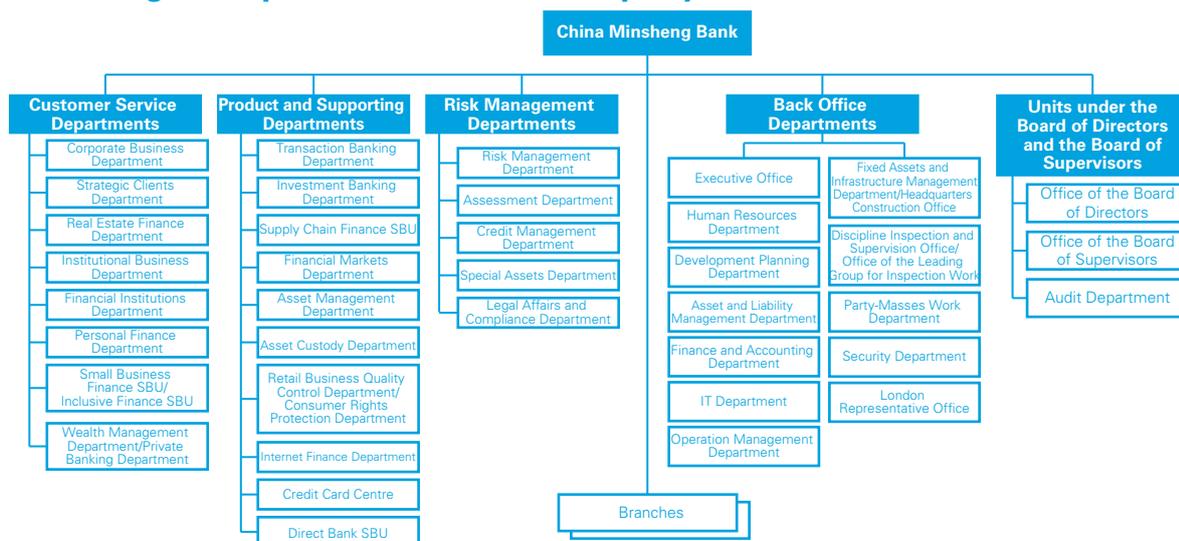
VII. Employees

As at the end of the Reporting Period, the Group had 57,090 employees, of which 54,481 were employees of the Company and 2,609 were employees of the subsidiaries of the Company. Divided by work nature, 6,864 employees were categorised as the management team, 41,255 employees as the professional team, and 6,362 employees as the operational team. The Company had 54,004 employees with tertiary qualification or above, accounting for 99.1% of the total number of employees. 634 employees of the Company have retired. (Note: The professional team represents personnel engaging in product research and development, risk management, information technology and operation support, etc.)

Up to date, the Company had no equity incentive scheme, employee shareholding scheme or other employee incentives.

In 2021, the training work fully implemented the new ideas, new reforms and new requirements of the CPC China Minsheng Bank Committee and the Board, with focus on strategic priorities, serving central work and improving the organisational efficiency. During the Reporting Period, the Company organised 311 training programmes, such as Training Camp for the Improvement of the Ability of Senior Management Reserve Talents, with 57 thousand attendance and 2,170 online learning courses with 2,440 thousand attendance, with a total of 897 thousand learning hours and a total of 1.84 million credits. The whole bank conducted 161 live broadcasts. 32 thousand viewers were awarded credits, with a total of 91 thousand credits. The Company also organised 2 qualification examinations with 40 thousand attendance. 29 thousand certificates were issued, which effectively promoted business development.

XIII. Setting of Departments of the Company



CORPORATE GOVERNANCE

IX. Business Network

As at the end of the Reporting Period, the Company had 42 tier-one branches in 41 cities across China (including Hong Kong Branch).

During the Reporting Period, the Company did not have newly opened tier-one or tier-two branches.

Major entities of the Company as at the end of the Reporting Period are shown as follows:

Name of entity	Number of outlets	Headcount	Total assets (in RMB million) (excluding deferred income tax assets)	Address
Head Office	1	11,898	4,332,351	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Beijing Branch	167	3,812	875,115	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Shanghai Branch	89	2,566	501,783	No. 100 Pudong Nan Road, Pudong New Area, Shanghai
Guangzhou Branch	82	2,341	250,420	Minsheng Tower, No. 68 Liede Avenue, Zhujiang New Town, Tianhe District, Guangzhou
Shenzhen Branch	75	2,145	251,985	Minsheng Finance Tower, Haitian Road, Futian District, Shenzhen
Wuhan Branch	92	1,504	89,411	China Minsheng Bank Tower, No. 396 Xinhua Road, Jianghan District, Wuhan
Taiyuan Branch	108	1,384	94,682	3-5/F, 9-21/F, Block 3, Tower B, Shanxi International Finance Centre, No. 426 Nanzhonghuan Street, Xiaodian District, Taiyuan
Shijiazhuang Branch	137	1,939	96,599	Minsheng Bank Tower, No. 197 Yu Hua Dong Road, Chang'an District, Shijiazhuang
Dalian Branch	47	847	89,989	Minsheng International Finance Centre, No. 52 Renmin Dong Road, Zhongshan District, Dalian
Nanjing Branch	194	3,188	358,204	No. 20 Hongwu Bei Road, Nanjing
Hangzhou Branch	87	1,829	200,182	Block Jinzun, Zunbao Mansion, No. 98 Shimin Street, Qianjiang New Town, Jianggan District, Hangzhou
Chongqing Branch	105	1,061	106,501	Tongjuyuanjing Building, No. 9 Jianxin Bei Road, Jiangbei District, Chongqing
Xi'an Branch	93	1,186	91,719	China Minsheng Bank Tower, No. 78 Erhuan Nan Road Xiduan, Xi'an
Fuzhou Branch	42	953	48,014	No. 282 Hudong Road, Fuzhou
Jinan Branch	131	1,884	135,121	No. 229 Luoyuan Street, Jinan
Ningbo Branch	43	725	49,763	No. 815 Ju Xian Road, Gaoxin District, Ningbo

CORPORATE GOVERNANCE

Name of entity	Number of outlets	Headcount	Total assets (in RMB million) (excluding deferred income tax assets)	Address
Chengdu Branch	113	1,454	134,762	Block 6, No. 966 Tianfu Avenue Beiduan, Gaoxin District, Chengdu
Tianjin Branch	54	965	98,174	China Minsheng Bank Tower, No. 43 Jianshe Road, Heping District, Tianjin
Kunming Branch	85	820	70,087	No. 11800 Caiyun Bei Road, Kunming
Quanzhou Branch	43	553	26,193	No. 689 Citong Road, Fengze District, Quanzhou
Suzhou Branch	36	1,106	89,383	Minsheng Finance Tower, Block 23, Times Square, Suzhou Industrial Park, Suzhou
Qingdao Branch	45	926	69,674	No. 190, Hai'er Road, Laoshan District, Qingdao
Wenzhou Branch	23	540	59,592	Minsheng Bank, Finance Tower, No. 1 Huaijiang Road, Lucheng District, Wenzhou
Xiamen Branch	25	528	42,454	Xiamen Minsheng Bank Mansion, No. 50 Hubin Nan Road, Xiamen
Zhengzhou Branch	105	1,508	98,412	Minsheng Bank Tower, No. 1 CBD Shangwu Waihuan Road, Zhengdong New District, Zhengzhou
Changsha Branch	45	946	78,411	Minsheng Tower, No. 189 Binjiang Road, Yuelu District, Changsha
Changchun Branch	22	521	22,806	Minsheng Tower, No. 500 Changchun Street, Nanguan District, Changchun
Hefei Branch	63	779	73,476	Yinbao Building, Intersection of Wuhu Xi Road and Jinzhai Road, Shushan District, Hefei
Nanchang Branch	39	604	71,098	No. 545, Huizhan Road, Honggutan New District, Nanchang
Shantou Branch	26	441	24,558	1-3/F, Huajing Plaza, No. 17 Hanjiang Road, Longhu District, Shantou
Nanning Branch	35	566	93,751	1-3/F, 3M/F, 30-31/F and 36/F, Block C, China Resources Building, No. 136-5 Minzu Avenue, Nanning
Hohhot Branch	20	385	23,934	China Minsheng Bank Tower, Block C, Oriental Junzuo, No. 20 Chilechuan Avenue, Saihan District, Hohhot, Inner Mongolia
Shenyang Branch	47	465	27,645	No. 65 Nanjing Bei Street, Heping District, Shenyang
Hong Kong Branch	1	240	162,809	3701-02, 3712-16, 37/F and 40/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

CORPORATE GOVERNANCE

Name of entity	Number of outlets	Headcount	Total assets (in RMB million) (excluding deferred income tax assets)	Address
Guiyang Branch	39	504	53,391	Block 8, Tianyi International Plaza, No. 33 Changling Nan Road, Gaoxin District, Guiyang
Haikou Branch	16	185	8,733	Zhonghuan International Plaza, No. 77 Binhai Avenue, Longhua District, Haikou
Lhasa Branch	4	160	5,700	Global Plaza, No. 8 Beijing Xi Road, Lhasa
Shanghai Pilot Free Trade Zone Branch	1	109	69,009	40/F, No. 100 Pudong Nan Road, Pudong New District, Shanghai
Harbin Branch	12	237	22,799	1-6/F, Zone One, Olympic Centre, No. 11 Aijian Road, Daoli District, Harbin
Lanzhou Branch	11	251	16,379	1-4/F, Gansu Daily Press Plaza, No. 123 Baiyin Road, Chengguan District, Lanzhou
Urumqi Branch	7	185	17,499	No. 314, Yangzijiang Road, Saybagh District, Urumqi
Xining Branch	2	130	8,602	1-4/F, Annex Building of Telecom Industrial Tower, No. 102 Kunlun Zhong Road, Chengzhong District, Xining
Yinchuan Branch	3	111	6,581	1-5/F, Block 19, Jinhaimingyue, No. 106 Shanghai Xi Road, Jinfeng District, Yinchuan
Inter-Region adjustment	-	-	-2,230,907	
Total	2,415	54,481	6,816,844	

Notes:

1. The number of institutions takes into account all types of banking outlets, including the Head Office, tier-one branches and business departments, business departments of tier-two branches, remote sub-branches, county-level sub-branches, intra-city sub-branches, community sub-branches, small business special sub-branches and small business sub-branches.
2. Headcount of the Head Office includes the total number of employees in the departments of the Head Office, Credit Card Centre and centralised operation, exclusive of employees of branches. Of which, the headcount of the Credit Card Centre was 7,395.
3. Inter-region adjustment arises from the reconciliation and elimination of inter-region balances.

X. Compliance with the Corporate Governance Code Set Out in Appendix 14 to the Hong Kong Listing Rules

During the Reporting Period, the Company has fully complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and has complied with most of the recommended best practices contained therein.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

I. Environmental Protection

The Company and its subsidiaries were not included in the list of key pollutant-discharging units published by the environmental protection authority. The Company strictly complied with the laws and regulations in respect of environmental protection, such as the Law on Environmental Protection of the PRC 《中華人民共和國環境保護法》, the Law on Energy Conservation of the PRC 《中華人民共和國節約能源法》, the Law on Water Pollution Prevention and Control of the PRC 《中華人民共和國水污染防治法》, the Law on Atmospheric Pollution Prevention and Control of the PRC 《中華人民共和國大氣污染防治法》, and the Law on Prevention and Control of Environmental Pollution by Solid Wastes of the PRC 《中華人民共和國固體廢物污染防治法》. During the Reporting Period, the Company was not subject to any administrative penalties for environmental problems.

The Company has in place adequate and sound contingency plans for environmental emergencies, with a total of 17 types of plans for pandemic outbreaks, power system failures and water supply system failures and others. Since 2018, the Company has entered into an energy management cooperation contract with Zhongneng Xingke (Beijing) Energy Saving Technology Co., Ltd. (中能興科(北京)節能科技股份有限公司) for a term of 10 years, which helped the Company in its electricity saving and emission reduction, and cut electricity consumption by 5% and reduced carbon emissions. In 2019, the Company also retrofitted the air conditioning system and ventilation system with frequency inverters.

II. Financial Services for Rural Revitalisation

The Company thoroughly implements decisions and deployments of the CPC Central Committee and the State Council on rural revitalisation as well as the requirements of the regulatory authorities, and determinedly integrates into the national strategy by exploring financial service models for rural revitalisation that highlights its own characteristics, aiming to create a “Minsheng Model”.

The Company actively fulfills its social responsibilities by vigorously supporting the rural revitalisation strategy with its financial services and serving “rural areas, agriculture and farmers”. During the Reporting Period, the Company established a leading group for rural revitalisation, and an implementation team of financial services for rural revitalisation under it, which held a number of meetings to study and implement the detailed work related to consolidating and expanding the achievements of poverty alleviation to effectively connect with rural revitalisation during the 14th Five-Year Plan period, and visited the two paired assistance counties, namely Hua County and Fengqiu County in Henan Province, to carry out on-site investigation and research on models of paired assistance such as promotion of consumption and “Party Building + Finance”. The Company improved its performance assessment system and refined the assessment contents for each operating unit in strict accordance with the assessment methods issued by the PBOC and the CBIRC, and closely linked the key performance indicators of rural revitalisation with their performance. The Company has been actively implementing the regulatory requirements and reaching for the task goals, continuously improving the top-level design, formulating work plans and guiding opinions for

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

financial services for rural revitalisation, and constantly advancing product innovation and model exploration with focus on the three major areas, i.e. agriculture, rural areas and farmers while accelerating technology empowerment, development of digital finance, construction of an innovative service system for agriculture, rural areas and farmers, aiming to create a sustainable business model and build a distinctive brand of Minsheng Bank for rural revitalisation. According to the actual needs of Hua County and Fengqiu County in Henan Province, the Company has formulated and issued a number of documents such as the Work Plan of the Bank for Consolidating and Expanding Poverty Alleviation Achievements to Effectively Connect with Rural Revitalisation in the Two Counties in Henan Province 《關於我行鞏固拓展河南兩縣脫貧成果同鄉村振興有效銜接的工作方案》, the Work Plan for Paired Assistance in 2021 《2021年定點幫扶工作計劃》, and the Guiding Opinions on Consolidating and Expanding Poverty Alleviation Achievements to Effectively Connect with Rural Revitalisation in Hua County and Fengqiu County in Henan Province 《關於鞏固拓展河南滑縣、封丘縣脫貧成果同鄉村振興有效銜接的指導意見》, specifying the goals and tasks, working ideas and key points, implementation paths and responsible departments for rural revitalisation.

During the five-year transitional period, the Company will carry out its rural revitalisation works in accordance with the principle of “Two Focuses, Three No-Reductions and Five Increases”. “Two Focuses” means that the Company will focus on promoting the typical business model of rural revitalisation in the two above-mentioned counties and establishing typical demonstration sites of rural revitalisation there. “Three No-Reductions” means that the Company will not reduce the strengths of leadership, favourable policies and talents support for paired assistance. “Five Increases” means that the Company will increase the amount of supporting funds, the amount of consumption, loan supply, the number of Party building pairings, and charity support. At the same time, the Company formulated and issued the Guiding Opinions on Financial Services for Rural Revitalisation to enhance the capability of financial services for rural revitalisation nationwide and to build a distinctive financial service system for rural revitalisation.

During the Reporting Period, the Company promoted the rotation of posted cadres and dispatched selected talents to promote the revitalisation of primary-level organisations. The Company continued to deepen its cooperation with professional institutions to help improve the quality and economic returns of the agricultural products in the two counties, and to expand the sales channels of the agricultural products of the areas that were lifted out of poverty. The Company has trained 603 primary-level teachers of rural areas and arranged for 60 outstanding teachers to attend training in Beijing. The Company joined hands with the China Foundation for Poverty Alleviation in promoting the construction of rural revitalisation demonstration sites and in organising research visits of charity organisations to the implemented projects in the two counties, in an aim to guide social forces to participate in the revitalisation of rural areas.

Next, the Company will give a better play to the distinctive advantages of the financial industry in helping the paired assistance counties to consolidate their advantageous industries and promote their characteristic industries, while exploring the historical and cultural resources and cultivating new economic growth drivers, so as to contribute the power of Minsheng to the realisation of strong agriculture, beautiful countryside and well-off farmers.

MAJOR EVENTS

I. Material Litigation and Arbitration

During the Reporting Period, the Company had no litigation or arbitration proceeding that had significant impact on its operations. As at the end of the Reporting Period, there were 3,123 pending litigations with disputed amounts of over RMB1 million involving the Company as plaintiff for approximately RMB23,407.36 million and a total of 173 pending litigations involving the Company as defendant for approximately RMB1,745.87 million.

II. Purchase and Disposal of Assets and Mergers and Acquisitions

The Company has strictly complied with the Articles of Association, the Basic Accounting Rules 《基本財務規則》 and the Administrative Measures on Fixed Assets 《固定資產管理辦法》 of the Company. The Company has made arrangements for writing off residual value and account treatment of fixed assets that satisfied the conditions for disposal. The shareholders' interest has not been prejudiced and the Company has not experienced any loss of assets.

III. Material Contracts and Their Performances

The Company participated in and won the bid for the land use right of Plot Z4 at Core Area of Beijing CBD in East Third Ring Road, Chaoyang District, Beijing. The integrated construction of soil protection and foundation engineering on the sixth construction site where the project is located has commenced.

The Company participated in and won the bid for the land use right of Plot 2010P26 at the intersection of Douzaiwei Road and Hubin Nan Road in Xiamen. Construction of the project has been completed and has passed completion inspection. In November 2017, the Xiamen Branch of the Company was relocated and commenced operation. The settlement and auditing for the project have been completed, and the project has been closed.

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot 2012-8 on the north of Headquarters Economic Zone in Donghai Sub-District, Quanzhou. The construction commenced in May 2016. The construction of major structure and roof were completed. The construction of facade, the installation of mechanical and electrical equipments, fire engineering, elevator engineering and renovation of public facilities are in progress.

The Company participated in and won the bid for the land use right of Plot G at the Strait Financial Business District on the south of Aofeng Road and the east of Aofeng Side Road in Taijiang District, Fuzhou. The land handover was completed with Fuzhou Land Development Centre in August 2018. The project was approved by the Board on 23 September 2020, and the approval procedures of pile foundation construction permit were completed on 25 September 2020. The Company signed the contract with entrusted construction firms in May 2021, and the construction management work is being carried out pursuant to the entrusted construction management model.

MAJOR EVENTS

The Phase I of Shunyi Headquarters in Beijing has been accepted for completion and put into operation. The settlement and auditing of the construction have been completed and the transfer of entitlement is in progress. As at the end of the Reporting Period, the determination of land premium had been completed. The Phase II of Shunyi Headquarters in Beijing was granted the Project Filing Certificate of Beijing Non-Governmental Investment in Industrial and IT Fixed Assets (Shun Jing Xin Bei [2019] No. 0008) on 14 May 2019, the Letter of Preliminary Review Opinions on “Plan Integration” Synergetic Platform of Shunyi Phase II Cloud Computing Centre of Minsheng Bank (Jing Gui Zi (Shun) Chu Shen [2019] No. 0002) on 11 June 2019, and the Review Opinions on Energy Conservation of Shunyi Headquarters Phase II Cloud Computing Centre of China Minsheng Bank of the Development and Reform Commission of Beijing Municipality (Jing Fa Gai Neng Ping [2020] No. 8) on 17 March 2020. The preliminary design was completed in April 2020. The project was granted the Letter of Consolidated Consulting Opinions on “Plan Integration” Synergetic Platform of Headquarters Phase II Cloud Computing Centre on 15 May 2020 and the Planning Permit on Construction Project (2020 Gui Zi Shun Jian Zi No. 0032) on 17 July 2020. The general investment estimation and the construction plan of the project were approved by the Board on 30 December 2020. Currently, the bidding for and engagement of constructors and inspection engineers are in progress.

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2013) No. 4 on the south of Baifo Road and the east of Xuzhuang Street in Zhengdong New District, Zhengzhou, and has completed the earthwork excavation and pile foundation construction. The construction is currently suspended.

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2014) No. 1 on the west of East Fourth Ring Road and the south of Lianhu Road in Zhengdong New District, Zhengzhou. Currently, the project has not commenced construction.

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2014) No. 3 on the south of Shangding Road and the west of Mingli Road in Zhengdong New District, Zhengzhou. Currently, the project has not commenced construction.

IV. Major Guarantees

During the Reporting Period, no major guarantees of the Group were required to be disclosed except for the financial guarantees provided within the business scope approved by the PBOC.

MAJOR EVENTS

V. Commitments by the Company and Its Relevant Entities

According to the relevant rules of the CSRC, the Company considered and approved the Proposal on Impacts on Dilution of Current Returns of the Non-Public Issuance of Preference Shares and the Relevant Remedial Measures of China Minsheng Banking Corp., Ltd. at the first extraordinary meeting for 2016 on 1 February 2016 and the Proposal on Impacts on Dilution of Current Returns of the Public Issuance of A Shares Convertible Corporate Bonds and the Relevant Remedial Measures of China Minsheng Banking Corp., Ltd. at the annual general meeting for 2016 on 16 June 2017, in which remedial measures on the dilution of current returns that might arise from the non-public issuance of preference shares and the public issuance of A Share convertible corporate bonds by the Company were formulated, respectively. These measures included strengthening capital management, optimising resources allocation, promoting the transformation of business model and management mechanism, enhancing comprehensive management and refined management, improving overall risk management, and further increasing corporate value. At the same time, the Directors and the Senior Management of the Company also made commitments to effectively execute the remedial measures on current returns. During the Reporting Period, the Company and the Directors and the Senior Management of the Company did not violate any of the aforesaid commitments.

VI. Appointment of Accounting Firms

The 2020 annual general meeting of the Company determined to engage PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the external auditors of the Company, being the auditing firms responsible for domestic and international auditing of the Company for 2021, respectively.

According to the terms of contracts, the total remuneration agreed between the Company and the above auditors in respect of their audit services for the year, including 2021 annual auditing, 2021 interim review, agreed procedures of 2021 quarterly financial statements and auditing of the effectiveness of internal control for 2021, was RMB9 million, including a service fee of RMB1 million for the audit of the effectiveness of internal control.

As at the end of the Reporting Period, PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers had been providing audit services to the Company for the third year. Yan Lin and Zhang Honglei, the signing accountants, had been providing services for the Company for the third year.

VII. Major Related Party Transactions

The Company does not have any controlling shareholders.

For details of the related party transactions subject to relevant accounting standards as at the end of the Reporting Period, please refer to note 10 Related Parties to the consolidated financial statements.

MAJOR EVENTS

VIII. Profit and Dividend Distribution

(I) Annual Profit Distribution for 2020

The Company distributed dividends to all shareholders according to the Profit Distribution Plan for 2020, which was considered and approved at the 7th meeting of the eighth session of the Board and the 2020 annual general meeting. Based on the total share capital of the Company as at the record dates, the Company distributed a cash dividend for 2020 of RMB0.213 (tax inclusive) per share to all shareholders whose names appeared on the registers as at the record dates. The total cash dividend amounted to RMB9,326 million. The cash dividend was denominated and declared in RMB, and was paid in RMB to holders of A shares and in Hong Kong dollar to holders of H shares.

The Company has distributed the cash dividend to holders of A shares in June 2021 in accordance with relevant provisions, and investors of Northbound Trading, holders of H shares and investors of Southbound Trading in July 2021 in accordance with relevant rules. The implementation of the profit distribution plan was thus completed. For details, please refer to the announcement of the Company dated 11 June 2021 published on the HKEXnews website of the SEHK and the announcements dated 12 June and 18 June 2021 on the website of the SSE, respectively.

(II) Profit Distribution Plan for the first half of 2021

No profit will be distributed and no capital reserve will be capitalised for the first half of 2021.

IX. Audit Committee

As at the end of the Reporting Period, the members of the Audit Committee of the Company included Liu Ningyu (chairman), Song Chunfeng, Weng Zhenjie, Peng Xuefeng and Qu Xinjiu.

The main responsibilities of the Audit Committee include reviewing and supervising the financial reporting procedures and internal monitoring system of the Company and providing advice to the Board. The Audit Committee of the Company has reviewed and confirmed the 2021 Interim Report and the 2021 Interim Results Announcement as at 30 June 2021.

X. Non-Operating Fund Occupation by Controlling Shareholders and Other Related Parties during the Reporting Period

The Company does not have any controlling shareholder and does not have any non-operating fund occupation by other related parties during the Reporting Period.

XI. Illegal Guarantees

During the Reporting Period, the Company did not enter into any guarantee contracts in violation of the guarantee procedures prescribed by laws, administrative regulations and the CSRC.

MAJOR EVENTS

XII. Pre-Emptive Rights

According to the Articles of Association, the Company may increase its capital by public offering of ordinary shares, allocation of ordinary shares to its existing shareholders, distribution of ordinary shares to its existing shareholders, private placement of ordinary shares, conversion of preference shares to ordinary shares, and other methods permitted by the applicable laws and administrative regulations. There is no compulsory rule for the pre-emptive rights of shareholders in the Articles of Association.

XIII. Performance of Consumer Rights Protection

With great attention from the Board and the Senior Management, during the Reporting Period, the Bank persisted on its “customer-centric” business philosophy, and continuously enhanced the overall quality and efficiency of consumer rights protection by adopting management measures such as improving systems and mechanisms, strengthening complaint handling and continuing internal training and external publicity. In respect of the construction of systems and mechanisms, the Bank further improved the coordinated joint management of consumer rights protection, facilitated the departments in charge of products and customer groups to integrate consumer rights protection management into their work flow reformation and system optimisation process. In respect of complaint handling, by strengthening data monitoring and information sharing, the Bank optimised the handling process and enhanced the handling efficiency to effectively protect consumer rights. In respect of financial knowledge promotion and education, the Bank organised three bank-wide campaigns, such as “15 March” Promotion Week, “Protect Your Wealth (守住“錢袋子”)” and “Financial Knowledge Promotion Tour (金融知識萬里行)”, forming an “online + offline” and “centralised + targeted” financial publicity network. In respect of internal education and training, the Bank carried out segmented and classified training for front-line personnel, new staffs, lobby directors, senior and middle-level management and others, which linked training on consumer rights protection with business training, integrating consumer rights protection concept into daily management.

XIV. Other Major Events

During the Reporting Period, the Company had no other major events.

FINANCIAL REPORTS

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To the Board of Directors of China Minsheng Banking Corp., Ltd.

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

Introduction

We have reviewed the interim financial information set out on pages 138 to 281, which comprises the condensed consolidated interim statement of financial position of China Minsheng Banking Corp., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2021 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2021, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). 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". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion 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.

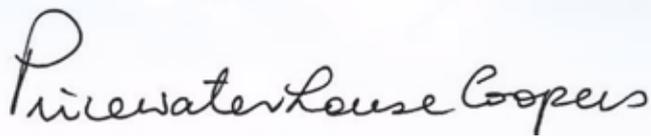
Scope of Review

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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2021

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note 6	Six months ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Interest income		140,736	147,538
Interest expense		(74,983)	(78,518)
Net interest income	1	65,753	69,020
Fee and commission income		15,359	16,798
Fee and commission expense		(2,675)	(2,236)
Net fee and commission income	2	12,684	14,562
Net trading gain	3	1,072	3,337
Net gain from investment securities	4	5,740	9,085
Including: disposals of financial assets measured at amortised cost		601	193
Other operating income		1,101	755
Operating expenses	5	(20,366)	(20,659)
Credit impairment losses	6	(36,543)	(43,014)
Other impairment losses		(501)	(3)
Profit before income tax		28,940	33,083
Income tax expense	7	(2,203)	(4,303)
Net profit		26,737	28,780
Net profit attributable to:			
Equity holders of the Bank		26,556	28,453
Non-controlling interests		181	327
Earnings per share (expressed in RMB Yuan)			
Basic and diluted earnings per share	8	0.56	0.61

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Net profit	26,737	28,780
Other comprehensive income of the period, net of tax	659	(1,769)
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of equity instruments designated as measured at fair value through other comprehensive income	4	(37)
Items that may be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income		
Changes in fair value	(154)	(2,123)
Allowance for impairment losses	785	328
Effective hedging portion of gains or losses arising from cash flow hedging instruments	17	(1)
Exchange difference on translating foreign operations	7	64
Total comprehensive income of the period	27,396	27,011
Total comprehensive income attributable to:		
Equity holders of the Bank	27,189	26,702
Non-controlling interests	207	309

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note 6	30 June 2021 (unaudited)	31 December 2020 (audited)
ASSETS			
Cash and balances with central bank	9	415,363	401,525
Balances with banks and other financial institutions	10	85,679	52,084
Precious metals		8,356	6,782
Placements with banks and other financial institutions	11	235,054	221,908
Derivative financial assets	12	32,223	42,285
Financial assets held under resale agreements	13	9,090	21,464
Loans and advances to customers	14	3,956,091	3,782,297
Financial investments:	15		
– Financial assets at fair value through profit or loss		347,032	322,480
– Financial assets at fair value through other comprehensive income		431,902	470,122
– Financial assets measured at amortised cost		1,250,532	1,328,048
Long-term receivables	16	131,987	127,853
Property and equipment	17	52,961	51,129
Right-of-use assets	18(1)	13,718	14,331
Deferred income tax assets	19	50,502	50,033
Investments in associates	20(3)	2	2
Other assets	21	49,216	57,890
Total assets		7,069,708	6,950,233

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note 6	30 June 2021 (unaudited)	31 December 2020 (audited)
LIABILITIES			
Borrowings from central bank		303,688	292,352
Deposits and placements from banks and other financial institutions	23	1,304,923	1,069,721
Financial liabilities at fair value through profit or loss		4,059	3,293
Borrowings from banks and other financial institutions	24	132,921	131,018
Derivative financial liabilities	12	32,320	42,675
Financial assets sold under repurchase agreements	25	32,251	65,318
Deposits from customers	26	3,892,249	3,768,151
Lease liabilities	18(2)	9,882	10,267
Provisions	27	2,120	2,021
Debt securities issued	28	701,144	957,880
Current income tax liabilities		9,239	18,589
Deferred income tax liabilities	19	243	117
Other liabilities	29	57,374	47,583
Total liabilities		6,482,413	6,408,985

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note 6	30 June 2021 (unaudited)	31 December 2020 (audited)
EQUITY			
Share capital	30	43,782	43,782
Other equity instrument		99,856	69,860
Including: Preference shares	31	29,867	29,867
Perpetual bonds	32	69,989	39,993
Reserves			
Capital reserve	30	57,419	57,419
Surplus reserve	34	48,479	48,479
General reserve	34	86,717	86,599
Other reserves		(1,219)	(1,849)
Retained earnings	34	240,402	225,247
<hr/>			
Total equity attributable to equity holders of the Bank		575,436	529,537
Non-controlling interests		11,859	11,711
<hr/>			
Total equity		587,295	541,248
<hr/>			
Total liabilities and equity		7,069,708	6,950,233

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

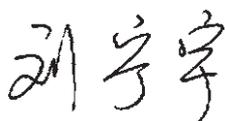
Approved and authorised for issue by the Board of Directors on 27 August 2021.



Gao Yingxin
Chairman



Zheng Wanchun
Vice Chairman and President



Liu Ningyu
Director



(Company Seal)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank											
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Reserves			Cash flow hedging reserve	Retained earnings	Non-controlling interests	Total equity
						Investment revaluation reserve	Exchange reserve	Total				
Note 6	30	31&32	30	34	34	37		37	34	35		
At 31 December 2020	43,782	69,860	57,419	48,479	86,599	(1,740)	(85)	(24)	225,247	529,537	11,711	541,248
(I) Net profit	-	-	-	-	-	-	-	-	26,556	26,556	181	26,737
(II) Other comprehensive income, net of tax	-	-	-	-	-	584	29	17	3	633	26	659
Total comprehensive income	-	-	-	-	-	584	29	17	26,559	27,189	207	27,396
(III) Capital injection by equity holders												
1. Capital injection by other equity instrument holder	-	29,996	-	-	-	-	-	-	-	29,996	-	29,996
(IV) Profit distribution												
1. Appropriation to general reserve	-	-	-	-	118	-	-	-	(118)	-	-	-
2. Cash dividends	-	-	-	-	-	-	-	-	(9,326)	(9,326)	(47)	(9,373)
3. Perpetual bond interest	-	-	-	-	-	-	-	-	(1,940)	(1,940)	-	(1,940)
(V) Others												
1. Subsidiaries shares repurchased	-	-	-	-	-	-	-	-	(20)	(20)	(12)	(32)
At 30 June 2021	43,782	99,856	57,419	48,479	86,717	(1,156)	(56)	(7)	240,402	575,436	11,859	587,295

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank												
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Reserves			Cash flow Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
						Investment revaluation reserve	Exchange reserve						
Note 6	30	31&32	30	34	34	37		37	34		35		
At 31 December 2019	43,782	69,860	57,411	45,162	81,657	1,822	408	(3)	218,746	518,845	11,984	530,829	
(I) Net profit	-	-	-	-	-	-	-	-	28,453	28,453	327	28,780	
(II) Other comprehensive income, net of tax	-	-	-	-	-	(1,805)	44	(1)	11	(1,751)	(18)	(1,769)	
Total comprehensive income	-	-	-	-	-	(1,805)	44	(1)	28,464	26,702	309	27,011	
(III) Profit distribution													
1. Appropriation to general reserve	-	-	-	-	35	-	-	-	(35)	-	-	-	
2. Cash dividends	-	-	-	-	-	-	-	-	(16,199)	(16,199)	(53)	(16,252)	
3. Perpetual bond interest	-	-	-	-	-	-	-	-	(1,940)	(1,940)	-	(1,940)	
(IV) Others													
1. Purchase non-controlling interests	-	-	72	-	62	(8)	20	-	(97)	49	(751)	(702)	
2. Subsidiaries shares repurchased	-	-	-	-	-	-	-	-	(40)	(40)	(29)	(69)	
At 30 June 2020	43,782	69,860	57,483	45,162	81,754	9	472	(4)	228,899	527,417	11,460	538,877	

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

Audited	Attributable to equity shareholders of the Bank												
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Reserves			Cash flow hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
						Investment revaluation reserve	Exchange reserve						
Note 6	30	31&32	30	34	34	37		37	34		35		
At 31 December 2019	43,782	69,860	57,411	45,162	81,657	1,822	408	(3)	218,746	518,845	11,984	530,829	
(I) Net profit	-	-	-	-	-	-	-	-	34,309	34,309	793	35,102	
(II) Other comprehensive income, net of tax	-	-	-	-	-	(3,554)	(513)	(21)	13	(4,075)	(209)	(4,284)	
Total comprehensive income	-	-	-	-	-	(3,554)	(513)	(21)	34,322	30,234	584	30,818	
(III) Profit Distribution													
1. Appropriation to surplus reserve	-	-	-	3,317	-	-	-	-	(3,317)	-	-	-	
2. Appropriation to general reserve	-	-	-	-	4,878	-	-	-	(4,878)	-	-	-	
3. Cash dividends	-	-	-	-	-	-	-	-	(17,596)	(17,596)	(76)	(17,672)	
4. Interest on the perpetual bond	-	-	-	-	-	-	-	-	(1,940)	(1,940)	-	(1,940)	
(IV) Others													
1. Purchase non-controlling interests	-	-	72	-	62	(8)	20	-	(97)	49	(751)	(702)	
2. Capital injection to subsidiaries	-	-	(64)	-	2	-	-	-	49	(13)	13	-	
3. Subsidiaries shares repurchased	-	-	-	-	-	-	-	-	(42)	(42)	(43)	(85)	
At 31 December 2020	43,782	69,860	57,419	48,479	86,599	(1,740)	(85)	(24)	225,247	529,537	11,711	541,248	

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Cash flows generated from operating activities:		
Profit before income tax	28,940	33,083
Adjustments for:		
– Credit impairment losses	36,543	43,014
– Other impairment losses	501	3
– Depreciation and amortisation	3,597	3,655
– (Gains)/Losses on disposal of property and equipment and other long-term assets	(198)	7
– (Gains)/Losses from changes in fair value	(2,141)	1,671
– Net gains on disposal of investment securities	(4,170)	(8,802)
– Interest expense on debt securities issued	13,025	12,047
– Interest expense on lease liabilities	207	220
– Interest income from investment securities	(30,019)	(32,143)
Subtotal	46,285	52,755
Changes in operating assets:		
Net increase in balances with central bank, banks and other financial institutions	(7,883)	(16,006)
Net decrease/(increase) in placements with banks and other financial institutions	81,720	(34,269)
Net decrease in financial assets held under resale agreements	12,355	47,040
Net increase in loans and advances to customers	(199,090)	(334,067)
Net decrease/(increase) in financial assets held for trading purposes	21,838	(85,956)
Net decrease in other operating assets	1,395	10,116
Subtotal	(89,665)	(413,142)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Cash flows generated from operating activities (continued):		
Changes in operating liabilities:		
Net increase in borrowings from central bank	9,423	54,077
Net increase in deposits from customers	124,166	298,714
Net increase in deposits and placements from banks and other financial institutions	232,233	121,930
Net (decrease)/increase in financial assets sold under repurchase agreements	(32,779)	5,719
Income tax paid	(12,296)	(11,664)
Net increase in other operating liabilities	10,623	5,603
Subtotal	331,370	474,379
Net cash generated from operating activities	287,990	113,992

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note 6	Six months ended 30 June	
		2021 (unaudited)	2020 (unaudited)
Cash flows from investing activities:			
Proceeds from sale and redemption of investments		652,574	720,542
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		2,249	372
Cash payment for investments		(551,834)	(759,394)
Cash payment for purchase of property and equipment, intangible assets and other long-term assets		(3,547)	(4,987)
Net cash generated from/(used in) investing activities		99,442	(43,467)
Cash flows from financing activities:			
Capital injection by holders of other equity instruments		29,996	–
Proceeds from issue of debt securities		306,378	539,850
Repayment of debt securities issued		(570,993)	(591,680)
Interest paid on debt securities and perpetual bonds issued		(7,500)	(7,131)
Dividends paid		(7,581)	–
Cash payment in other financing activities		(1,815)	(1,614)
Net cash used in financing activities		(251,515)	(60,575)
Net increase in cash and cash equivalents		135,917	9,950
Cash and cash equivalents at 1 January		157,919	144,650
Effect of exchange rate changes on cash and cash equivalents		(982)	962
Cash and cash equivalents at 30 June	38	292,854	155,562

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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1 General information

China Minsheng Banking Corp., Ltd. (the “Bank”) is a national joint-stock commercial bank established in the People’s Republic of China (“PRC”) on 7 February 1996 with the approval of the State Council of the PRC and the People’s Bank of China (“PBOC”).

The Bank obtained the financial service certificate No. B0009H111000001 as approved by the China Banking and Insurance Regulatory Commission (the former “China Banking Regulatory Commission” and “China Insurance Regulatory Commission”, the “CBIRC”), and the business licence as approved by the Beijing Administration for Industry and Commerce, the unified social credit code is No. 91110000100018988F.

The Bank’s A Shares and H Shares are listed in the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited, the stock codes are 600016 and 01988, respectively.

In these condensed consolidated interim financial statements for the six months ended 30 June 2021, Chinese mainland refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to Hong Kong, Macau, Taiwan and other countries and regions.

The Bank and its subsidiaries (collectively the “Group”) mainly provide corporate and personal banking, treasury business, financial leasing, fund and asset management, investment banking and other financial services in the PRC.

As at 30 June 2021, the Bank had 42 tier-one branches and 32 subsidiaries.

2 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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3 Significant accounting policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies and critical accounting estimates and judgements used in preparing the unaudited condensed consolidated interim financial statements are the same as those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2020.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020, which have been audited.

3.1 Standards and amendments effective in 2021 relevant to and adopted by the Group

In current interim period, the Group has adopted the following amendments of International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), that are mandatorily effective for the current interim period.

Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, (1) Interest rate benchmark (IBOR) reform
IFRS 4 and IFRS 16

(1) Descriptions of this amendment was disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2020. The adoption of this amendment does not have a significant impact on the Group's consolidated financial statements.

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3 Significant accounting policies (*continued*)

3.2 Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group

In the current interim period, the Group has not adopted the following new or amended standards issued by the IASB and the IFRS Interpretations Committee ("IFRIC"), that have been issued but are not yet effective.

Standards/Amendments			Effective date
Amendments to IAS 1	(1)	Presentation of Financial Statements on Classification of Liabilities	1 January 2022
Amendments to IFRS 3	(1)	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	(1)	Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 16	(1)	Proceeds before Intended Use	1 January 2022
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	(1)	IASB Annual Improvements 2018 – 2020 cycle	1 January 2022
Amendments to IFRS 10 and IAS 28	(1)	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.
Amendments to IAS 1 and IFRS Practice Statement 2	(2)	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	(3)	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	(4)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

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3.2 Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group (continued)

(1) Descriptions of these amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2020. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(3) Amendments to IAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

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4 Financial risk management

4.1 Financial risk management overview

In accordance with the Comprehensive Risk Management Framework of COSO and the Comprehensive Risk Management Guidelines of CBIRC, risk management includes identification, measurement, assessment, monitoring, reporting, control and mitigation of risks. The core characteristic of the financial business is taking risks; risks are inevitable in business. The Group's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects from risks borne by the Group on its financial performance.

The Group provides commercial banking, leasing, fund raising and sales and other financial services through the Bank and its subsidiaries, Minsheng Financial Leasing Co., Ltd. ("Minsheng Financial Leasing"), Minsheng Royal Fund Management Co., Ltd. ("Minsheng Royal Fund"), CMBC International Holding Ltd. ("CMBC International") and 29 Rural banks. These subsidiaries are responsible for financial risk management in their respective businesses as separate entities. The financial risk arising from commercial banking was the most significant risk for the Group's operations. The Group formulated the "Administrative Measures of Subsidiaries of China Minsheng Banking Corporation Limited on Comprehensive Risk Management" to further enhance the risk management of these subsidiaries.

Based on regulatory requirements and market changes, the Group formulated risk preferences and risk policies based on actual conditions, to clarify objectives of portfolio quota management, to improve risk quantification tools and information systems, to establish control mechanisms and to improve risk management covering the entire process. Meanwhile, to re-examine and optimise the preference transmission mechanism, risk policy, portfolio management, systems and tools based on execution to ensure preferences and policies have been implemented to strengthen the support of risk management for strategic decision-making.

The Bank has a Risk Management Committee under the Board of Directors, and the committee is responsible for setting up the Bank's overall risk management strategies, monitoring the Bank's risk management policies and their implementation, and assessing its effectiveness. In accordance with the risk management strategy, the Bank's senior management formulates and promotes the corresponding risk management policies.

The Development and Planning Department under the Bank's senior management is responsible for the routine management of subsidiaries, to establish and optimise the risk management framework at Group level gradually.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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4 Financial risk management (*continued*)

4.2 Credit risk

The Group is exposed to credit risk, which is the risk that a borrower or counterparty defaults as it fails to fully repay debts in a timely manner due to various reasons. Credit risk is the most important risk for the Group's operating activities; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from lending, trade finance, credit debt securities and leasing activities. There is also credit risk in off-balance sheet financial instruments, such as credit commitments and derivatives.

The Risk Management Committee is responsible for decision-making and overall coordination of credit risk prevention. The Bank adopts professional credit evaluation, full-process quality monitoring, faulty asset professional management and collecting and other major methods for credit risk management.

After exhausting all necessary measures and implementing necessary procedures, the Group writes off the bad debts as determined in accordance with the criteria set out in the Group's write-off policy. For bad debts that have been written off, the Bank continues to make its best effort to recover them.

(1) Credit risk measurement

(a) Loans and credit commitments

The Group measures and manages the quality of its credit assets in accordance with the CBIRC Guidelines for Risk Classification of Loans (the "Guidelines"). The Guidelines require financial institutions to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss, of which the last three categories are non-performing loans. At the same time, the Group includes its off-balance sheet credit commitments as part of its overall credit extension, applies credit limit management, and classifies key on-balance sheet and off-balance sheet items in accordance with the Guidelines. The Bank has also developed the Administrative Measures for Risk Classification of Credit Assets of China Minsheng Banking Corporation Limited to guide its daily risk management of credit assets, following classification principles fully consistent with the Guidelines.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(1) Credit risk measurement (*continued*)

(a) Loans and credit commitments (*continued*)

The core definitions of credit asset classifications in the Guidelines are as follows:

Pass:	The borrower can fulfil contracts, and there is no sufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.
Special-mention:	The borrower can make current payments, but there may be some potential issues that could adversely impact future payments.
Sub-standard:	The borrower's repayment ability has been impaired and its normal income is insufficient to repay the loan principal and interest in full. Even with the enforcement of the related guarantee (if any), there may be a certain level of loss.
Doubtful:	The borrower cannot repay the principal plus the interest in full. Even with the enforcement of guarantee (if any), there will be a significant loss.
Loss:	After taking all possible actions or resorting to all necessary legal proceedings, the loan principal and interest cannot be recovered or only a small portion of them can be recovered.

(b) Debt securities and other bills

The Group manages its credit risk exposure of debt securities and other bills by including issuers' credit exposures into the unified credit-grant management and control processes. The Group continues to optimise its exposure structure by requiring a minimum external rating of the debt securities of investment access management and by setting investment structure concentration requirements of portfolio management. In addition, the risk control staff will regularly analyse the credit profile of issuers of debt securities, and the operational staff will continue to optimise and adjust the investment portfolio based on the risk-mitigation recommendations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(2) Risk limit control and mitigation policies

The Group exercises risk concentration management and controls over its counterparties, whether individuals or groups, and industries and geographical regions.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different individual or group counterparties, different industries and geographical regions. The Bank monitors the risk status regularly and reviews their risk positions at least once a year.

Risk exposures to borrowers, including banks, are further classified into on – and off-balance sheet risk exposures, and controls have been applied to daily risk limits of each trading account. The Bank also monitors actual risk exposures on a daily basis in relation to corresponding risk limits.

The Group controls its credit risks through, among other necessary measures, regular analyses of a customer's ability to repay interest and principal, and making appropriate adjustments to credit lines.

Other specific control and mitigation measures include: measuring, evaluating, early warning, mitigating and controlling of large amount exposures of single and group customers in accordance with regulatory requirements, and prevent and control customer concentration risks.

(a) Collateral

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(2) Risk limit control and mitigation policies (*continued*)

(a) Collateral (*continued*)

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit line.

Collateral held as security for financial assets other than loans and accounts receivable is determined by the instruments' nature. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Derivative instruments

The Bank maintains strict net exposure limits in its financial derivative transactions with counterparties and monitors the activities through daily summary reports on the use of exposure limits. The Bank's exposure to credit risk of derivative instruments is limited to derivative instruments with positive fair value. The Bank sets credit limits for counterparties in its management system to monitor the credit position of derivative transactions and mitigates credit risk associated with derivative instruments by requiring margin deposits from counterparties.

(c) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, guarantee deposits are received by the Group to lessen the credit risks related to such commitments. The Group's potential amount of credit risk exposure is equivalent to the total amount of credit commitments.

Loan commitments and financial leasing commitments represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(3) Expected Credit Loss (“ECL”) measurement

According to the new standard, the Group classifies the financial instruments that require ECL provision recognition into three stages and applies the ECL model to calculate loss allowances for its debt financial instruments measured at amortised cost or at fair value through other comprehensive income, as well as its loan commitments and financial guarantee contracts.

The Group adopts the parameters-based approach and the discounted cash flow (“DCF”) method to assess the expected credit losses of its financial assets. The parameters-based approach is applied to retail assets and Stage I and Stage II non-retail assets, while the DCF method is applied to Stage III non-retail assets.

(a) Financial instrument risk stages

The Group applies a ‘three-stage model’ for measuring expected credit loss for financial instruments based on changes in credit quality since initial recognition. The three stages are defined as follows:

- | | |
|----------|---|
| Stage 1: | Financial instruments without significant increase in credit risk since initial recognition. For these assets, expected credit losses are recognised for the following 12 months. |
| Stage 2: | For financial instruments with significant increase in credit risk since initial recognition, expected credit losses are recognised for the remaining lifetime if there is no objective evidence of impairment. |
| Stage 3: | For financial assets with objective evidence of impairment as at the balance sheet date, expected credit losses are recognised for the remaining lifetime. |

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For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(3) Expected Credit Loss ("ECL") measurement (*continued*)

(b) Criteria for significant increases in credit risk ("SICR")

Criteria for SICR include but are not limited to:

- The principal or interest is overdue for more than 30 days;
- Significant change in credit rating. Internal rating results of the Group will be adopted as the result of credit rating;
- The debtor experiences serious production or operation problems, the overall profitability decreased significantly, and the financial position is poor;
- Changes or events with a significant negative impact on the solvency of the debtor;
- Other objective evidence of a significant increase in credit risk of financial asset.

(c) Definition of credit-impaired financial asset

In order to evaluate whether a financial asset is impaired, the Group considers the following criteria:

- The principal or interest of a financial asset is overdue for more than 90 days;
- Significant financial difficulty of the issuer or obligor;
- A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- The creditor, for economic or contractual reasons relating to the debtor's financial difficulty, grants the debtor a concession that the Group would not otherwise consider;
- The debtor will probably enter bankruptcy or another financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties faced by the issuer or debtor;
- The purchase or origination of a financial asset at a significant discount that reflects the fact of credit losses;
- Other objective evidence of financial asset impairment.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single event.

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(3) Expected Credit Loss ("ECL") measurement (*continued*)

(d) Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. Non-retail assets of the Group are mainly grouped according to types of borrower and industry, while retail assets are mainly grouped based on product types.

(e) Parameters for ECL measurement

Except for credit-impaired financial assets, according to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group recognised 12-month or lifetime ECL allowance by financial instrument. Expected credit losses are the weighted average of the product of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are defined as follows:

- PD represents the likelihood of a borrower to default on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The PD is determined based on the adjusted results of the internal rating-based model, with forward-looking information incorporated, to reflect the borrower's point-in-time probability of default under the current macroeconomic environment;
- LGD is expressed as a percentage loss per unit of EAD. LGD varies by types of product and availability of collateral etc.;
- EAD refers to the total amount of on – and off-balance sheet exposures in the event of default and is determined based on principal, interest, off-balance sheet risk conversion factor etc., and may vary by product types.

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(3) Expected Credit Loss ("ECL") measurement (*continued*)

(f) *Forward-looking information incorporated in the ECL*

The ECL calculation involves forward-looking information. Based on analysis of its historical data, the Group has identified key economic indicators relevant to expected credit losses, including the year-on-year growth rates of Gross Domestic Product (GDP), Consumer Price Index (CPI) and Broad Money Supply (M2). The Group regularly evaluates the various indicators in the pool of macroeconomic indicators and selects the most relevant indicators for ECL calculation.

The Group determines the relationship between these economic variables and PD and LGD by building econometric model, so as to ascertain the impacts of historical changes in these variables on PD and LGD.

As at 30 June 2021, the forecast values for key economic indicators used by the Group are consistent with that at 31 December 2020.

The Group combines macroeconomic data analysis and expert judgments to develop the positive, neutral and negative scenarios and determine their weightings, and estimates the expected credit losses in different scenarios to calculate the allowances for the weighted average ECLs. As at 30 June 2021 and 31 December 2020, the positive, neutral and negative scenarios had similar weightings.

(g) *Cash flow forecasts for Stage III non-retail assets*

The Group uses the DCF method to measure the expected credit losses of Stage III non-retail assets. The DCF method calculates the impairment allowances based on regular forecasts of future cash flows. At each measurement date, the Group estimates the future cash inflows of an asset for different future periods, and applies appropriate discount rates to the future cash flows to obtain their present value.

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4 Financial risk management (continued)

4.2 Credit risk (continued)

(4) Maximum credit risk exposure

The following table presents the Group's maximum exposure to credit risk as at the end of the reporting period without considering any collateral held or other credit enhancements, which is represented by the carrying amount of each type of financial assets after deducting any impairment allowance.

	30 June 2021	31 December 2020
Balances with central bank	410,152	396,165
Balances with banks and other financial institutions	85,679	52,084
Derivative financial assets	32,223	42,285
Placements with banks and other financial institutions	235,054	221,908
Financial assets held under resale agreements	9,090	21,464
Loans and advances to customers	3,956,091	3,782,297
Financial investments		
– Financial assets at fair value through profit or loss	72,645	92,548
– Financial assets at fair value through other comprehensive income	425,962	466,092
– Financial assets measured at amortised cost	1,250,532	1,328,048
Long-term receivables	131,987	127,853
Other financial assets	32,071	39,791
Total	6,641,486	6,570,535
Off-balance sheet credit commitments	1,143,406	1,170,750
Maximum credit risk exposure	7,784,892	7,741,285

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(5) Analysis on the credit quality of financial instruments

(a) As at 30 June 2021, the credit risk stages of financial instruments at fair value through other comprehensive income and financial instruments at amortised cost are as following:

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances with central bank	410,152	-	-	410,152	-	-	-	-
Balances with banks and other financial institutions	85,687	-	658	86,345	(8)	-	(658)	(666)
Placements with banks and other financial institutions	234,481	-	1,962	236,443	(212)	-	(1,177)	(1,389)
Financial assets held under resale agreements	9,128	-	-	9,128	(38)	-	-	(38)
Loans and advances to customers								
– Corporate loans and advances	2,184,902	126,719	50,196	2,361,817	(13,098)	(20,249)	(31,083)	(64,430)
– Personal loans and advances	1,615,320	53,256	27,523	1,696,099	(7,841)	(12,530)	(18,625)	(38,996)
Financial investments	1,647,316	4,677	39,168	1,691,161	(3,137)	(167)	(14,032)	(17,336)
Long-term receivables	123,100	11,396	2,064	136,560	(2,054)	(1,866)	(653)	(4,573)
Off-balance sheet credit commitments	1,140,062	2,180	1,164	1,143,406	(1,460)	(305)	(45)	(1,810)

(b) As at 31 December 2020, the credit risk stages of financial instruments at fair value through other comprehensive income and financial instruments at amortised cost are as following:

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances with central bank	396,165	-	-	396,165	-	-	-	-
Balances with banks and other financial institutions	52,088	-	658	52,746	(4)	-	(658)	(662)
Placements with banks and other financial institutions	221,669	-	1,211	222,880	(233)	-	(739)	(972)
Financial assets held under resale agreements	21,468	-	-	21,468	(4)	-	-	(4)
Loans and advances to customers								
– Corporate loans and advances	2,113,087	110,946	42,161	2,266,194	(15,456)	(18,219)	(21,830)	(55,505)
– Personal loans and advances	1,531,049	50,092	31,504	1,612,645	(8,088)	(11,506)	(22,538)	(42,132)
Financial investments	1,775,621	1,973	26,621	1,804,215	(3,910)	(48)	(8,246)	(12,204)
Long-term receivables	123,257	6,242	2,623	132,122	(1,177)	(1,826)	(1,266)	(4,269)
Off-balance sheet credit commitments	1,162,113	5,737	2,900	1,170,750	(1,619)	(221)	(45)	(1,885)

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(6) Loans and advances to customers

(a) The credit risk stages of loans and advances to customers (excluding interest accrued) are as following:

	30 June 2021	31 December 2020
Stage 1		
Unsecured loans	945,295	897,497
Guaranteed loans	635,083	593,863
Loans secured by		
Tangible assets other than monetary assets	1,637,998	1,595,387
Monetary assets	555,830	532,481
Subtotal	3,774,206	3,619,228
Stage 2		
Unsecured loans	29,623	29,840
Guaranteed loans	48,805	48,864
Loans secured by		
Tangible assets other than monetary assets	74,599	65,108
Monetary assets	26,948	17,226
Subtotal	179,975	161,038
Stage 3		
Unsecured loans	17,366	20,131
Guaranteed loans	21,612	19,000
Loans secured by		
Tangible assets other than monetary assets	29,275	25,812
Monetary assets	9,466	8,722
Subtotal	77,719	73,665
Total	4,031,900	3,853,931
Credit-impaired loans secured by collateral	16,331	16,986

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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

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

(b) Loans and advances to customers (excluding interest accrued) analysed by industries are as following:

	30 June 2021		31 December 2020	
	Amount	(%)	Amount	(%)
Corporate loans and advances				
Leasing and commercial services	523,403	12.98	485,982	12.61
Real estate	416,943	10.34	439,032	11.39
Manufacturing	319,567	7.92	300,323	7.79
Wholesale and retail	226,108	5.61	170,477	4.42
Water, environment and public utilities management	168,341	4.17	149,509	3.88
Transportation, storage and postal service	133,673	3.32	107,441	2.79
Financial services	133,035	3.31	204,644	5.31
Construction	123,196	3.05	108,440	2.81
Mining	99,030	2.46	104,329	2.71
Production and supply of electric power, heat, gas and water	79,986	1.98	69,354	1.80
Accommodation and catering	15,577	0.39	15,863	0.41
Agriculture, forestry, animal husbandry and fishery	15,430	0.38	12,769	0.33
Public administration, social security and social organisations	6,324	0.16	6,840	0.18
Others	78,540	1.95	69,853	1.82
Subtotal	2,339,153	58.02	2,244,856	58.25
Personal loans and advances	1,692,747	41.98	1,609,075	41.75
Total	4,031,900	100.00	3,853,931	100.00

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

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

(c) Loans and advances to customers (excluding interest accrued) by geographical area are as following:

	30 June 2021		31 December 2020	
	Amount	(%)	Amount	(%)
Head Office	511,523	12.69	548,060	14.22
Yangtze River Delta	1,000,787	24.82	928,337	24.09
Pearl River Delta	556,692	13.81	523,433	13.58
Bohai Rim	637,434	15.81	618,101	16.04
Northeastern Region	93,102	2.31	90,034	2.34
Central Region	505,219	12.53	481,042	12.48
Western Region	629,973	15.62	570,998	14.81
Overseas and subsidiaries	97,170	2.41	93,926	2.44
Total	4,031,900	100.00	3,853,931	100.00

(7) Loans and advances restructured

Restructured loans and advances to customers are those loans and advances to customers for which the Group has modified the contract terms as a result of the deterioration in the borrower's financial position or of the borrower's inability to make payments when due. As at 30 June 2021, the amount of the Group's impaired restructured loans and advances to customers with modified contract terms, is RMB 20,951 million (31 December 2020: RMB 18,729 million).

Impaired restructured loans and advances which were not past due or past due for no more than 90 days are as follows:

	30 June 2021	31 December 2020
Impaired restructured loans and advances to customers	9,655	9,251
% of total loans and advances to customers	0.24	0.24

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For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(8) Distribution of debt instruments analysed by issuers and rating

The ratings are obtained from Standard & Poor's ratings, or major rating agencies where the issuers of the debt securities are located.

	30 June 2021					Total
	Unrated(a)	AAA	AA	A	Lower than A	
Credit impaired						
– Banks and non-bank financial institutions(b)	36,637	–	–	–	–	36,637
– Corporates	298	–	114	–	445	857
Gross balance	36,935	–	114	–	445	37,494
Interest accrued						1,673
Less: Allowance for impairment losses of financial assets measured at amortised cost						(12,017)
Subtotal						27,150
Not impaired						
– Government	672,876	294,574	–	–	–	967,450
– Policy banks	100,444	–	–	967	–	101,411
– Banks and non-bank financial institutions	101,462	107,487	16,793	21,202	17,400	264,344
– Corporates	110,375	204,825	31,311	4,767	22,029	373,307
Gross balance	985,157	606,886	48,104	26,936	39,429	1,706,512
Interest accrued						18,127
Less: Allowance for impairment losses of financial assets measured at amortised cost						(2,650)
Subtotal						1,721,989
Total						1,749,139

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4 Financial risk management (*continued*)4.2 Credit risk (*continued*)(8) Distribution of debt instruments analysed by issuers and rating (*continued*)

	31 December 2020					Total
	Unrated(a)	AAA	AA	A	Lower than A	
Credit impaired						
– Banks and non-bank financial institutions(b)	23,639	–	–	–	–	23,639
– Corporates	588	131	–	–	630	1,349
Total	24,227	131	–	–	630	24,988
Interest accrued						1,633
Less: Allowance for impairment losses of financial assets measured at amortised cost						(7,420)
Subtotal						19,201
Not impaired						
– Government	649,700	314,329	–	18	–	964,047
– Policy banks	89,000	–	–	1,682	–	90,682
– Banks and non-bank financial institutions	205,394	116,608	14,882	21,935	16,996	375,815
– Corporates	136,046	211,714	27,857	11,451	31,997	419,065
Total	1,080,140	642,651	42,739	35,086	48,993	1,849,609
Interest accrued						20,533
Less: Allowance for impairment losses of financial assets measured at amortised cost						(2,655)
Subtotal						1,867,487
Total						1,886,688

(a) Unrated debt investments held by the Group mainly include bonds issued by the PRC government, trust and asset management plans, bonds issued by corporates, bonds issued by policy banks, etc.

(b) Credit-impaired debt instruments of banks and non-bank financial institutions mainly include trust and asset management plans, of which the underlying debtors are corporates.

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For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.2 Credit risk (*continued*)

(9) Investments classified as trust and asset management plans analysed by type of underlying assets

	30 June 2021	31 December 2020
Trust and asset management plans		
Credit assets	91,589	133,800
Bonds and others	9,375	10,168
Total	100,964	143,968

The Group includes trust and asset management plans into comprehensive credit management system and manages its credit risk exposure in a holistic manner. The different methods to mitigate credit risk exposures in trust and assets management plan include guarantees, collaterals and pledges.

4.3 Market risk

The Group is exposed to market risk, which is the risk of loss to its on – and off-balance sheet businesses caused by unfavourable changes in market prices (interest rates, exchange rates, and stock and commodity prices). Market risk includes interest rate risk, exchange rate (including gold bullion) risk, equity price risk and commodity price risk, arising from adverse movements in interest rates, exchange rates, stock prices and commodity price, respectively.

The market risk faced by the Group mainly arises from the Bank's business activities. The Bank's subsidiaries are exposed to an insignificant level of market risk. The Bank and its subsidiaries independently manage their own market risk.

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4 Financial risk management (*continued*)

4.3 Market risk (*continued*)

The Bank distinguishes between banking books and trading books in accordance with requirements of regulatory authorities and the general practices of the banking industry, and adopts different methods to identify, measure, monitor and control their respective market risks based on the nature and characteristics of banking and trading books.

Trading books refer to the financial instruments and commodities positions which could be traded freely. They are held by the Bank for trading or hedging against other risks in the trading book. Positions in the trading book must not be subject to any trading restrictions, or be able to fully hedge against the risks. These positions must also be valued accurately and managed proactively as well. In contrast, the Bank's other businesses are included in the banking books.

(1) Market risk measurement techniques

The Bank selects appropriate and generally accepted measurement methods for the different types of market risks in its banking books and trading books based on actual needs of the business.

In accordance with regulatory requirements and in response to interest rate risk of the banking books, the Bank develops measurement methods that are appropriate for the size and structure of its assets and liabilities, and performs quantitative assessment of the impact of interest rate changes on the Bank's banking book net interest income and economic value by adopting methods such as gap analysis, net interest income simulation analysis, and economic value simulation analysis.

Interest rate risk of the trading books are measured by using methods such as duration analysis, scenario analysis, sensitivity analysis and value at risk (VaR).

Exchange rate risks of the banking books include exposure in foreign exchange settlement and sales, foreign currency capital funds, loss in foreign currency profits due to settlement of foreign exchange, and shrinking of foreign currency assets compared to the local currency. The Bank assesses the impact of future currency risks based on the exchange rate tendency and the future changes in the Bank's asset and liability portfolios.

Measurement of the exchange rate risks of the trading books includes monitoring of foreign exchange exposure, and use of methods including sensitivity analysis, scenario analysis and value at risk (VaR) to measure the potential impact of exchange rate fluctuations on the trading profits.

The Bank is fully aware of the pros and cons of different methods for measurement of market risks, and therefore adopts other methods, such as stress tests, for complementation. Stress scenarios applied to market risk stress testing include expert scenarios, historical scenarios, and hybrid scenarios.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.3 Market risk (*continued*)

(2) Currency risk

Currency risk refers to the foreign exchange and foreign exchange derivatives positions, the risk of losses of banks arise from adverse changes of exchange rate. The Group uses RMB as its bookkeeping currency, and the Group's assets and liabilities are denominated in RMB, and the rest mainly US dollars and Hong Kong dollars.

The Group manages the Currency risk by controlling each currency exposure limits and total exposure.

The primary techniques applied by the Group in analysing currency risk are mainly foreign exchange exposure analyses, scenario analyses, stress testing and value at risk (VaR) method. The Group manages the currency risk in the frame of the exposure limit by daily monitoring, reporting and analysing.

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4 Financial risk management (continued)

4.3 Market risk (continued)

(2) Currency risk (continued)

The following tables present the Group's foreign exchange risk exposures as at the end of the reporting period. The carrying values of assets and liabilities denominated in foreign currencies have been converted into RMB.

	30 June 2021				
	RMB	USD	HKD	Others	Total
Assets:					
Cash and balances with central bank	367,392	47,010	770	191	415,363
Balances with banks and other financial institutions	30,664	50,625	2,515	1,875	85,679
Placements with banks and other financial institutions	173,987	60,662	405	–	235,054
Financial assets held under resale agreements	7,534	1,556	–	–	9,090
Loans and advances to customers	3,774,478	123,372	28,118	30,123	3,956,091
Financial investments	1,897,675	114,861	4,216	12,714	2,029,466
Long-term receivables	107,967	24,020	–	–	131,987
Other assets	154,075	36,260	7,350	9,293	206,978
Total assets	6,513,772	458,366	43,374	54,196	7,069,708
Liabilities:					
Borrowings from central bank	303,688	–	–	–	303,688
Deposits and placements from banks and other financial institutions	1,232,773	57,466	13,796	888	1,304,923
Borrowings from banks and other financial institutions	76,073	53,375	3,473	–	132,921
Financial assets sold under repurchase agreements	23,070	7,675	–	1,506	32,251
Deposits from customers	3,581,501	275,927	20,914	13,907	3,892,249
Debt securities issued	689,966	11,178	–	–	701,144
Lease liabilities	9,606	32	244	–	9,882
Other liabilities	87,412	11,351	2,381	4,211	105,355
Total liabilities	6,004,089	417,004	40,808	20,512	6,482,413
Net position	509,683	41,362	2,566	33,684	587,295
Foreign currency derivatives	39,830	(23,848)	2,629	(16,252)	2,359
Off-balance sheet credit commitments	1,107,953	27,621	3,081	4,751	1,143,406

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For the six months ended 30 June 2021
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4 Financial risk management (*continued*)4.3 Market risk (*continued*)(2) Currency risk (*continued*)

	31 December 2020				
	RMB	USD	HKD	Others	Total
Assets:					
Cash and balances with central bank	360,632	40,082	615	196	401,525
Balances with banks and other financial institutions	19,497	25,664	5,206	1,717	52,084
Placements with banks and other financial institutions	193,109	27,800	999	–	221,908
Financial assets held under resale agreements	20,709	755	–	–	21,464
Loans and advances to customers	3,584,228	140,396	24,880	32,793	3,782,297
Financial investments	1,981,764	121,676	3,540	13,670	2,120,650
Long-term receivables	103,200	24,653	–	–	127,853
Other assets	170,146	37,455	8,232	6,619	222,452
Total assets	6,433,285	418,481	43,472	54,995	6,950,233
Liabilities:					
Borrowings from central bank	292,352	–	–	–	292,352
Deposits and placements from banks and other financial institutions	974,551	78,250	16,440	480	1,069,721
Borrowings from banks and other financial institutions	83,324	44,972	2,722	–	131,018
Financial assets sold under repurchase agreements	49,958	13,374	–	1,986	65,318
Deposits from customers	3,521,632	218,644	20,794	7,081	3,768,151
Debt securities issued	945,784	12,096	–	–	957,880
Lease liabilities	10,001	111	155	–	10,267
Other liabilities	102,616	9,798	1,653	211	114,278
Total liabilities	5,980,218	377,245	41,764	9,758	6,408,985
Net position	453,067	41,236	1,708	45,237	541,248
Foreign currency derivatives	13,104	12,173	5,267	(26,546)	3,998
Off-balance sheet credit commitments	1,135,637	26,337	3,358	5,418	1,170,750

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4 Financial risk management (*continued*)

4.3 Market risk (*continued*)

(2) Currency risk (*continued*)

The Group conducts sensitivity analysis on the net foreign currency position to identify the impact on the income statement of potential movements in foreign currency exchange rates against the RMB. As at 30 June 2021, assuming other variables remain unchanged, an appreciation of one hundred basis points of the US dollar against the RMB would increase both the Group's net profit and equity by RMB 582 million (31 December 2020: increase by RMB 661 million); a depreciation of one hundred basis points of the US dollar against the RMB would decrease both the Group's net profit and equity by RMB 582 million (31 December 2020: decrease by RMB 661 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities that contains the following assumptions:

- a. The sensitivity of each type of exchange rate refers to the exchange gain or loss caused by a fluctuation in the absolute value of closing foreign currency rate by one hundred basis points against the RMB's average rate on the reporting date;
- b. The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement from the current reporting date to the next reporting date;
- c. The fluctuation of exchange rates for all foreign currencies represents the fluctuation of exchange rates in US dollars and other foreign currencies against RMB in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars, other foreign currencies are converted into US dollars through sensitivity analysis;
- d. The foreign exchange exposures calculated includes spot and forward foreign exchange exposures and swaps;
- e. Other variables (including interest rates) remained unchanged; and
- f. The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by the increase or decrease in exchange rates might vary from the estimated results of this sensitivity analysis.

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4 Financial risk management (*continued*)

4.3 Market risk (*continued*)

(3) Interest rate risk

Interest rate risk refers to the adverse changes of the level of interest rate, term structure and other factors, which lead to loss on the economic value and bank revenue. Interest rate risk include gap risk, basis risk and option risk, and the gap risk and basis risk are the main sources of risk for the Group.

(a) The trading books

The adverse changes due to the interest rate risk of the trading books related to the financial instruments and commodity positions will cause loss for trading books. The scope of managing interest rate risk of the trading books covers all products and businesses that are sensitive to changes in interest rates, including domestic and foreign currency bond investments, money market transactions, interest rate derivatives, foreign exchange derivatives, precious metal derivatives, and complex derivatives, etc.

The Group mainly uses indicators for scale size, profit and loss indicators, valuation, sensitivity analysis, VaR analysis, duration analysis, stress testing and other methods to quantitatively analyze interest rate risk, and incorporates market risk measurement models into daily risk management.

The Group sets risk limits such as interest rate sensitivity, duration, exposure, and loss limits to effectively control the interest rate risk of the trading books, and manages the interest rate risk within exposure limit through daily monitoring.

(b) The banking books

The primary techniques applied by the Group in measuring and analysing interest rate risk are mainly scenario analyses, re pricing gap analyses, duration analyses and stress testing. The Group manages the interest rate risk using the framework of exposure limit by periodically monitoring and reporting.

The Group closely monitors trends of interest rate changes for both RMB and foreign currencies, follows market interest rate changes, performs proper scenario analyses, and adjusts interest rates of deposits and loans in both RMB and foreign currencies to manage interest rate risk.

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4 Financial risk management (*continued*)4.3 Market risk (*continued*)(3) Interest rate risk (*continued*)

The following tables present the Group's exposure to interest rate risk, indicating net carrying amounts of assets and liabilities based on their contractual repricing dates (or maturity dates whichever are earlier).

	30 June 2021					Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	
Assets:						
Cash and balances with central bank	410,017	-	-	-	5,346	415,363
Balances with banks and other financial institutions	83,355	2,275	-	-	49	85,679
Placements with banks and other financial institutions	134,170	94,689	5,948	-	247	235,054
Financial assets held under resale agreements	8,537	552	-	-	1	9,090
Loans and advances to customers	979,626	1,837,062	623,179	490,208	26,016	3,956,091
Financial investment	131,882	187,787	1,013,356	386,642	309,799	2,029,466
Long-term receivables	38,084	58,806	28,091	6,892	114	131,987
Other assets	-	-	-	-	206,978	206,978
Total assets	1,785,671	2,181,171	1,670,574	883,742	548,550	7,069,708
Liabilities:						
Borrowings from central bank	100,001	198,442	-	-	5,245	303,688
Deposits and placements from banks and other financial institutions	880,550	417,088	-	-	7,285	1,304,923
Borrowings from banks and other financial institutions	60,490	62,310	9,391	107	623	132,921
Financial assets sold under repurchase agreements	15,973	16,154	-	-	124	32,251
Deposits from customers	2,304,657	806,447	741,236	-	39,909	3,892,249
Debt securities issued	190,197	337,953	29,354	139,950	3,690	701,144
Lease liabilities	731	2,080	5,882	1,189	-	9,882
Other liabilities	6,594	-	-	-	98,761	105,355
Total liabilities	3,559,193	1,840,474	785,863	141,246	155,637	6,482,413
Interest rate gap	(1,773,522)	340,697	884,711	742,496	392,913	587,295

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4 Financial risk management (*continued*)4.3 Market risk (*continued*)(3) Interest rate risk (*continued*)

	31 December 2020					Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	
Assets:						
Cash and balances with central bank	396,016	–	–	–	5,509	401,525
Balances with banks and other financial institutions	49,488	2,539	–	–	57	52,084
Placements with banks and other financial institutions	91,601	122,681	6,848	–	778	221,908
Financial assets held under resale agreements	21,021	422	–	–	21	21,464
Loans and advances to customers	1,226,155	1,660,519	636,145	234,570	24,908	3,782,297
Financial investment	135,367	311,520	1,002,528	409,286	261,949	2,120,650
Long-term receivables	37,991	53,482	28,711	7,534	135	127,853
Other assets	–	–	–	–	222,452	222,452
Total assets	1,957,639	2,151,163	1,674,232	651,390	515,809	6,950,233
Liabilities:						
Borrowings from central bank	50,306	238,714	–	–	3,332	292,352
Deposits and placements from banks and other financial institutions	709,821	355,584	–	–	4,316	1,069,721
Borrowings from banks and other financial institutions	55,632	64,664	8,087	1,796	839	131,018
Financial assets sold under repurchase agreements	25,433	39,109	364	–	412	65,318
Deposits from customers	2,367,781	581,552	778,841	–	39,977	3,768,151
Debt securities issued	289,251	491,300	29,450	143,947	3,932	957,880
Lease liabilities	760	1,983	6,156	1,368	–	10,267
Other liabilities	4,088	–	–	–	110,190	114,278
Total liabilities	3,503,072	1,772,906	822,898	147,111	162,998	6,408,985
Interest rate gap	(1,545,433)	378,257	851,334	504,279	352,811	541,248

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4 Financial risk management (*continued*)

4.3 Market risk (*continued*)

(3) Interest rate risk (*continued*)

If yield curves for respective currencies move in parallel for 100 basis points on 1 January, their potential impact on the Group's net interest income and shareholders' equity for the following year is as follows:

	30 June 2021 (Loss)/Gain	31 December 2020 (Loss)/Gain
Up 100 bps parallel shift in yield curves	(10,681)	(7,406)
Down 100 bps parallel shift in yield curves	10,681	7,406

In performing the interest rate sensitivity analysis, the Group and the Bank have made general assumptions in defining business terms and financial parameters, but have not considered the following:

- a. business changes after the end of the reporting period, as the analysis is performed based on the static gap at the end of the reporting period;
- b. the impact of interest rate fluctuations on customers' behaviour;
- c. the complicated relationship between complex structured products (e.g. embedded call options and other derivative financial instruments) and interest rate fluctuations;
- d. the impact of interest rate fluctuations on market prices;
- e. the impact of interest rate fluctuations on off-balance sheet products;
- f. the impact of interest rate fluctuations on fair value of financial instruments;
- g. other variables (including foreign exchange rate); and
- h. other risk management measures in the Group.

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4 Financial risk management (*continued*)

4.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to promptly obtain funds at reasonable cost to repay maturing liabilities, discharge other payment obligations and meet other funding needs in the course of normal operations.

During the reporting period, the Bank's subsidiaries manage their respective liquidity risks according to the Group's liquidity risk management framework, and the Bank manages the liquidity risk of all its branches and business lines.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, demand deposits, maturing time deposits, loan drawdowns, guarantees and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

During the reporting period, the Bank was required to maintain 9% of the total RMB denominated deposits and 7% of the total foreign currency denominated balances as statutory reserves with the PBOC.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the full amounts under commitments, because the Bank does not generally expect the third party to fully draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(1) Liquidity risk management policy

The Bank and its subsidiaries separately and independently develop their liquidity risk management policies.

The Board of Directors is ultimately responsible for liquidity risk management including reviewing and approving liquidity risk appetite, liquidity risk management strategy, major policies and procedures. The Bank's senior management is responsible for formulating liquidity risk management policies according to the development strategy of the Bank. The Assets and Liabilities Management Department is responsible for the daily liquidity risk management through the following procedures:

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4 Financial risk management (*continued*)

4.4 Liquidity risk (*continued*)

(1) Liquidity risk management policy (*continued*)

To manage the day-to-day position through monitoring the future cash flow to ensure it meets the required fund position, including matured deposits and replenishment of funds for loan demand. The Bank actively participates in global money market transactions to ensure that the Bank's funding requirements are satisfied;

To set ratio requirements and transactions limits to help monitor and manage liquidity risks. The ratios include but are not limited to liquidity coverage ratios, liquidity ratios, net stable funding ratios and liquidity matching rate;

To measure and monitor cash flows through the Bank's asset and liabilities management system, and perform liquidity scenario analyses and stress testing on overall assets and liabilities to satisfy internal and external requirements. Various techniques are used to estimate the Bank's liquidity requirements, and liquidity risk management decisions are made based on the estimated liquidity requirements and within respective terms of reference. A periodical reporting system is established to promptly update senior management on latest liquidity risk information;

To monitor the maturity concentration risk of financial assets and hold an appropriate quantity of high-liquidity and high-market-value assets to ensure the Bank is well positioned to fund its repayment obligations and business growth in the event of an interruption of cash flows due to whatever causes.

(2) Maturity analysis

The following tables present the maturity analysis of assets and liabilities of the Group as at the end of the reporting period. The Group manages its liquidity risk based on its estimation of expected future cash flows. An indefinite term in the case of cash and deposits with the Central Bank refers to statutory reserves and fiscal deposits placed with the Central Bank; an indefinite term in terms of financial investments, loans and advances, long-term receivables and placements with banks and other financial institutions refers to amounts of such assets that have become impaired or overdue for more than one month, and also equity investments and fund investments; and repayable on demand with respect to financial investments, loans and advances and long-term receivables refers to the unimpaired amounts of such assets that have been overdue for less than one month.

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4 Financial risk management (*continued*)4.4 Liquidity risk (*continued*)(2) Maturity analysis (*continued*)

	30 June 2021							Total
	Indefinite	Repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Assets:								
Cash and balances with central bank	339,812	75,551	-	-	-	-	-	415,363
Balances with banks and other financial institutions	-	79,759	2,351	1,276	2,293	-	-	85,679
Placements with banks and other financial institutions	785	-	73,607	59,914	94,796	5,952	-	235,054
Financial assets held under resale agreements	-	-	7,884	654	552	-	-	9,090
Loans and advances to customers	41,202	10,212	367,431	245,384	1,212,938	1,101,830	977,094	3,956,091
Financial investments	318,198	-	39,001	43,100	183,260	1,052,829	393,078	2,029,466
Long-term receivables	5,658	1,771	5,716	8,061	40,067	62,695	8,019	131,987
Other assets	139,520	9,508	13,829	14,430	18,516	9,252	1,923	206,978
Total assets	845,175	176,801	509,819	372,819	1,552,422	2,232,558	1,380,114	7,069,708
Liabilities:								
Borrowings from central bank	-	-	22,840	79,748	201,100	-	-	303,688
Deposits and placements from banks and other financial institutions	-	311,104	204,086	369,893	419,840	-	-	1,304,923
Borrowings from banks and other financial institutions	-	-	28,807	26,905	57,955	12,127	7,127	132,921
Financial assets sold under repurchase agreements	-	-	7,199	8,869	16,183	-	-	32,251
Deposits from customers	-	2,067,018	98,681	163,139	814,653	748,758	-	3,892,249
Debt securities issued	-	-	79,169	111,028	339,299	29,518	142,130	701,144
Lease liabilities	-	-	262	469	2,080	5,882	1,189	9,882
Other liabilities	2,790	1,922	21,190	29,086	34,977	13,038	2,352	105,355
Total liabilities	2,790	2,380,044	462,234	789,137	1,886,087	809,323	152,798	6,482,413
Net position	842,385	(2,203,243)	47,585	(416,318)	(333,665)	1,423,235	1,227,316	587,295
Notional amount of derivatives	-	-	611,182	614,238	1,589,242	757,117	6,025	3,577,804

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For the six months ended 30 June 2021
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4 Financial risk management (continued)

4.4 Liquidity risk (continued)

(2) Maturity analysis (continued)

	31 December 2020							Total
	Indefinite	Repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Assets:								
Cash and balances with central bank	332,366	69,159	-	-	-	-	-	401,525
Balances with banks and other financial institutions	-	46,352	1,780	1,398	2,554	-	-	52,084
Placements with banks and other financial institutions	472	-	40,804	51,022	122,756	6,854	-	221,908
Financial assets held under resale agreements	281	-	19,351	1,406	426	-	-	21,464
Loans and advances to customers	37,951	8,352	360,771	239,276	1,137,821	1,097,376	900,750	3,782,297
Financial investments	259,898	505	46,403	51,900	318,823	1,027,706	415,415	2,120,650
Long-term receivables	3,836	915	4,746	8,823	36,903	63,378	9,252	127,853
Other assets	134,542	20,003	12,973	11,852	29,847	10,614	2,621	222,452
Total assets	769,346	145,286	486,828	365,677	1,649,130	2,205,928	1,328,038	6,950,233
Liabilities:								
Borrowings from central bank	-	-	17,258	34,464	240,630	-	-	292,352
Deposits and placements from banks and other financial institutions	-	297,037	216,417	199,962	356,305	-	-	1,069,721
Borrowings from banks and other financial institutions	-	-	20,473	19,986	71,462	10,598	8,499	131,018
Financial assets sold under repurchase agreements	-	-	6,012	18,248	40,693	365	-	65,318
Deposits from customers	-	2,010,626	120,312	262,479	587,777	786,957	-	3,768,151
Debt securities issued	-	-	37,455	253,917	493,111	29,450	143,947	957,880
Lease liabilities	-	-	277	483	1,983	6,156	1,368	10,267
Other liabilities	2,507	2,430	13,711	23,141	54,973	14,773	2,743	114,278
Total liabilities	2,507	2,310,093	431,915	812,680	1,846,934	848,299	156,557	6,408,985
Net position	766,839	(2,164,807)	54,913	(447,003)	(197,804)	1,357,629	1,171,481	541,248
Notional amount of derivatives	-	-	450,839	673,327	1,526,115	732,592	7,191	3,390,064

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For the six months ended 30 June 2021
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4 Financial risk management (*continued*)

4.4 Liquidity risk (*continued*)

(3) Analysis on contractual undiscounted cash flows of non-derivative assets and liabilities

The following tables present the analysis of the undiscounted contractual cash flows of the Group's non-derivative assets and liabilities as at the end of the reporting period. The Group manages its liquidity risk based on its estimation of expected future cash flows. An indefinite term in the case of cash and deposits with the Central Bank refers to statutory reserves and fiscal deposits placed with the Central Bank; an indefinite term in terms of financial investments, loans and advances, long-term receivables and placements with banks and other financial institutions refers to amounts of such assets that have become impaired or overdue for more than one month, and also equity investments and fund investments; and repayable on demand with respect to financial investments, loans and advances and long-term receivables refers to the unimpaired amounts of such assets that have been overdue for less than one month.

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For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

4 Financial risk management (*continued*)4.4 Liquidity risk (*continued*)(3) Analysis on contractual undiscounted cash flows of non-derivative assets and liabilities (*continued*)

	30 June 2021							Total
	Indefinite	Repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Assets:								
Cash and balances with central bank	339,812	75,551	-	-	-	-	-	415,363
Balances with banks and other financial institutions	658	79,759	2,354	1,281	2,332	-	-	86,384
Placements with banks and other financial institutions	1,962	-	73,825	60,781	95,024	6,012	-	237,604
Financial assets held under resale agreements	-	-	7,887	654	588	-	-	9,129
Loans and advances to customers	90,259	12,499	379,757	270,121	1,322,082	1,267,640	1,341,881	4,684,239
Financial investments	326,813	-	49,352	50,616	223,788	1,234,164	454,677	2,339,410
Long-term receivables	6,913	1,965	6,221	8,706	44,045	74,188	11,493	153,531
Other assets	140,739	9,508	8,223	3,603	7,031	7,115	1,815	178,034
Total assets (expected maturity date)	907,156	179,282	527,619	395,762	1,694,890	2,589,119	1,809,866	8,103,694
Liabilities:								
Borrowings from central bank	-	-	22,854	80,078	204,270	-	-	307,202
Deposits and placements from banks and other financial institutions	-	311,104	204,374	371,505	425,857	-	-	1,312,840
Borrowings from banks and other financial institutions	-	-	29,451	27,479	59,295	13,279	7,335	136,839
Financial assets sold under repurchase agreements	-	-	7,203	8,900	16,286	-	-	32,389
Deposits from customers	-	2,067,018	99,222	164,330	842,898	847,429	-	4,020,897
Debt securities issued	-	-	79,321	112,964	350,055	46,768	162,173	751,281
Lease liabilities	-	-	288	517	2,290	6,476	1,309	10,880
Other liabilities	2,790	1,922	13,174	19,527	21,661	11,950	2,011	73,035
Total liabilities (contractual maturity date)	2,790	2,380,044	455,887	785,300	1,922,612	925,902	172,828	6,645,363

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4 Financial risk management (*continued*)4.4 Liquidity risk (*continued*)(3) Analysis on contractual undiscounted cash flows of non-derivative assets and liabilities (*continued*)

	31 December 2020							Total
	Indefinite	Repayable on demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Assets:								
Cash and balances with central bank	332,366	69,159	-	-	-	-	-	401,525
Balances with banks and other financial institutions	658	46,352	1,783	1,405	2,580	-	-	52,778
Placements with banks and other financial institutions	1,212	-	41,043	52,067	122,978	7,181	-	224,481
Financial assets held under resale agreements	281	-	19,361	1,413	427	-	-	21,482
Loans and advances to customers	87,039	10,391	379,318	270,246	1,260,443	1,453,294	1,488,001	4,948,732
Financial investments	267,877	521	54,326	58,492	365,220	1,213,833	480,100	2,440,369
Long-term receivables	5,295	986	5,158	9,655	40,437	74,939	13,584	150,054
Other assets	135,898	20,003	8,871	4,161	4,348	8,392	2,006	183,679
Total assets (expected maturity date)	830,626	147,412	509,860	397,439	1,796,433	2,757,639	1,983,691	8,423,100
Liabilities:								
Borrowings from central bank	-	-	17,270	34,633	245,667	-	-	297,570
Deposits and placements from banks and other financial institutions	-	297,037	217,527	201,917	361,905	-	-	1,078,386
Borrowings from banks and other financial institutions	-	-	20,491	20,332	73,204	11,911	8,880	134,818
Financial assets sold under repurchase agreements	-	-	8,028	30,450	100,967	1,413	-	140,858
Deposits from customers	-	2,010,626	121,218	265,742	597,633	853,119	-	3,848,338
Debt securities issued	-	-	37,519	255,715	504,265	54,738	164,291	1,016,528
Lease liabilities	-	-	307	535	2,200	6,829	1,517	11,388
Other liabilities	2,507	2,430	7,829	14,840	29,093	12,990	1,914	71,603
Total liabilities (contractual maturity date)	2,507	2,310,093	430,189	824,164	1,914,934	941,000	176,602	6,599,489

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4 Financial risk management (*continued*)

4.4 Liquidity risk (*continued*)

(4) Analysis on contractual undiscounted cash flows of derivatives

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

Interest rate derivatives	Interest rate swaps
Credit derivatives	Credit default swaps

The following tables analyse the Group's contractual undiscounted cash flows of derivatives to be settled on a net basis as at the end of the reporting period.

	30 June 2021					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest rate derivatives	(5)	(47)	(116)	(284)	(24)	(476)
Credit derivatives	(3)	-	(11)	(39)	-	(53)
Total	(8)	(47)	(127)	(323)	(24)	(529)

	31 December 2020					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest rate derivatives	(34)	(29)	(159)	(381)	(20)	(623)
Credit derivatives	-	-	-	1	-	1
Total	(34)	(29)	(159)	(380)	(20)	(622)

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

Foreign exchange derivatives	Foreign exchange forwards, swaps and options
Precious metal derivatives	Precious metal forwards, swaps and options
Other derivatives	Futures, equity derivatives, etc.

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4 Financial risk management (*continued*)

4.4 Liquidity risk (*continued*)

(4) Analysis on contractual undiscounted cash flows of derivatives (*continued*)

(b) Derivatives settled on a gross basis (*continued*)

The following tables analyse the Group's contractual undiscounted cash flows of derivatives to be settled on a gross basis as at the end of the reporting period.

	30 June 2021					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Foreign exchange derivatives						
– Cash outflow	(464,466)	(478,405)	(1,105,902)	(36,726)	–	(2,085,499)
– Cash inflow	463,628	479,217	1,106,887	38,126	–	2,087,858
Precious metal derivatives						
– Cash outflow	(6,124)	(4,544)	(35,068)	–	–	(45,736)
– Cash inflow	6,178	4,540	33,216	–	–	43,934
Total cash outflow	(470,590)	(482,949)	(1,140,970)	(36,726)	–	(2,131,235)
Total cash inflow	469,806	483,757	1,140,103	38,126	–	2,131,792

	31 December 2020					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Foreign exchange derivatives						
– Cash outflow	(358,138)	(420,284)	(1,151,806)	(50,531)	–	(1,980,759)
– Cash inflow	358,579	419,627	1,154,877	51,674	–	1,984,757
Precious metal derivatives						
– Cash outflow	(5,557)	(5,917)	(37,761)	–	–	(49,235)
– Cash inflow	6,060	6,231	35,196	–	–	47,487
Total cash outflow	(363,695)	(426,201)	(1,189,567)	(50,531)	–	(2,029,994)
Total cash inflow	364,639	425,858	1,190,073	51,674	–	2,032,244

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4 Financial risk management (*continued*)

4.4 Liquidity risk (*continued*)

(5) Analysis on contractual undiscounted cash flows of commitments

Management treats contractual maturity as the best estimate for analysing liquidity risk of off-balance sheet items, unless an objective evidence of default is identified.

	30 June 2021			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	360,975	–	–	360,975
Letters of credit	85,964	245	–	86,209
Guarantees	98,848	62,056	3,176	164,080
Unused credit card commitments	522,275	–	–	522,275
Irrevocable credit commitments	5,824	3,896	147	9,867
Total	1,073,886	66,197	3,323	1,143,406

	31 December 2020			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	403,532	–	–	403,532
Letters of credit	115,960	373	–	116,333
Guarantees	99,081	58,450	1,358	158,889
Unused credit card commitments	478,980	–	–	478,980
Irrevocable credit commitments	10,203	2,813	–	13,016
Total	1,107,756	61,636	1,358	1,170,750

4.5 Operational risk

Operational risk refers to the risk of loss due to deficient and flawed internal procedures, personnel and information technology (IT) system, or external events. The operational risk of the Group mainly comprises internal and external fraud, employment system, and safety of working places, events related to customers, products and operation, damages of tangible assets, interruption of business, failure of IT system, implementation, delivery and process management.

The Bank devoted to promoting the implementation of the three major operational risk management tools in the Bank and the establishment of operational risk management information system, according to the regulatory requirements of operational risk. The Bank has carried out Risk Control Self Assessment (RCSA), established key risk indicator monitoring system and internal loss issue management system regarding operational risk. Besides, the Bank conducted operational risk cost measurement and enhanced the outsourcing risk management, and promoted the establishment of business continuity management. Furthermore, the Bank focused on investigation of the risk on business field systematically.

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4 Financial risk management (*continued*)

4.6 Country risk

The Group is exposed to country risk, which represents the risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Group or otherwise leads to business losses or other losses to the Group in that country or region. The country risk results from the economic deterioration of a specific country or region, the political and social turmoil, the nationalisation or expropriation of assets, the Government's refusal of debt redemption, the restriction of foreign currency, the currency depreciation, and so on.

The country risk faced by the Group mainly arises from overseas credit business, bond investment, bill business, interbank financing, financial derivative trading, offshore leasing business, investment banking business, securities investment and establishment of overseas institutions.

Country risk management is included in the comprehensive risk management system of the Group and serves the objective of business strategy of the Bank. The Group manages and controls country risk through a number of tools including risk assessment and rating, limit setting, monitoring, improvement to review procedures, and formulation of policies to accrue country risk reserve.

4.7 Capital management

In managing capital, the Group enhances capital budget, capital configuration and evaluation management, optimize business structure, promote capital utilization efficiency and create value, based on meeting regulatory requirements and raising risk resistance ability.

Starting from 1 January 2013, the Group computes the capital adequacy ratios in accordance with *The Capital Rules for Commercial Banks (Provisional)* and other relevant regulations issued by the CBIRC. The on-balance sheet risk-weighted assets are measured by using different risk weights, which are determined in accordance with Appendix 2 of *The Capital Rules for Commercial Banks (Provisional)*, and taking into account the risk mitigation effect provided by the qualified pledges or qualified guarantee entities. The off-balance sheet risk-weighted assets are measured by multiplying the nominal amounts with the credit conversion factors to come out the on-balance sheet assets equivalents, then applied same approach used for on-balance sheet assets for risk-weighted assets computation. Market risk-weighted assets are calculated by using the standardised approach. Operational risk-weighted assets are calculated by using basic indicator approach.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios in accordance with *The Capital Rules for Commercial Banks (Provisional)*. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

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4 Financial risk management (continued)

4.7 Capital management (continued)

The Group calculates the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with *The Capital Rules for Commercial Banks (Provisional)* and relevant requirements promulgated by the CBIRC as below:

	30 June 2021	31 December 2020
Core tier-one capital adequacy ratio	8.52%	8.51%
Tier-one capital adequacy ratio	10.31%	9.81%
Capital adequacy ratio	13.43%	13.04%
Components of capital base		
Core tier-one capital:		
Share capital	43,782	43,782
Valid portion of capital reserve	57,419	57,419
Surplus reserve	48,479	48,479
General reserve	86,717	86,599
Retained earnings	240,402	225,247
Valid portion of non-controlling interests	7,496	7,283
Others	(1,219)	(1,849)
Core tier-one capital	483,076	466,960
Core tier-one capital deductions	(3,838)	(5,039)
Net core tier-one capital	479,238	461,921
Net other tier-one capital	100,293	70,427
Net tier-one capital	579,531	532,348
Tier-two capital:		
Valid portion of tier-two capital instruments issued and share premium	139,950	143,947
Surplus provision for loan impairment	33,544	29,234
Valid portion of non-controlling interests	1,999	1,943
Net tier-two capital	175,493	175,124
Net capital base	755,024	707,472
Credit risk-weighted assets	5,215,548	5,019,411
Market risk-weighted assets	94,760	93,101
Operational risk-weighted assets	313,344	313,344
Total risk-weighted assets	5,623,652	5,425,856

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5 Segment information

The Group conducts business activities in key business lines and geographical regions.

Segment assets, liabilities, revenues, and expenditures are measured following the Group's accounting policies and internal management rules. The items of each segment include those which can be directly attributable to the segment or can be assigned to the segment based on reasonable criteria.

As a part of the management of assets and liabilities, the Group's capital resources are allocated to various business segments through the Treasury Department of the Head Office. The Group's internal transfer pricing mechanism uses market interest rates as the benchmark and determines transfer prices concerning the internal capital pool. The impact of internal trading has been offset when preparing the consolidated statements.

Capital expenditures of each segment refer to spending relating to purchasing fixed assets, intangible assets, and other long-term assets during the reporting period.

5.1 Business segments

- | | | |
|-----|-------------------|--|
| (a) | Corporate banking | Providing banking products and services for corporate customers, government agencies and financial institutions. These products and services include corporate deposits, corporate loans, investment business, interbank business, financial markets business and various corporate intermediary business. |
| (b) | Retail banking | Providing banking products and services for individual clients and small and micro-enterprises. These products and services include loans, credit and debit cards services, wealth management, private banking and various retail intermediary businesses. |
| (c) | Others | Group's bond investments and money markets transactions which conducted on-demand for liquidity management, and those other businesses which cannot form a single reportable segment and businesses of subsidiaries. |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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5 Segment information (continued)

5.1 Business segments (continued)

	Six months ended 30 June 2021			
	Corporate banking	Retail banking	Others	Total
Operating income	44,036	34,611	7,703	86,350
Net interest income	35,908	26,954	2,891	65,753
Include: inter-segment net interest income/(expense)	8,912	(11,049)	2,137	–
Net fee and commission income	4,771	7,659	254	12,684
Net other income	3,357	(2)	4,558	7,913
Operating expenses	(6,821)	(9,085)	(4,460)	(20,366)
Credit impairment losses	(26,355)	(10,709)	521	(36,543)
Other impairment losses	(501)	–	–	(501)
Profit before income tax	10,359	14,817	3,764	28,940
Depreciation and amortisation	1,812	1,419	366	3,597
Capital expenditure	1,119	876	6,669	8,664
	As at 30 June 2021			
	Corporate banking	Retail banking	Others	Total
Segment assets	4,591,253	1,685,022	742,931	7,019,206
Include: Investments in associates				2
Deferred income tax assets				50,502
Total assets				7,069,708
Segment liabilities	(4,717,045)	(945,935)	(819,190)	(6,482,170)
Deferred income tax liabilities				(243)
Total liabilities				(6,482,413)
Credit commitments	612,262	531,144	–	1,143,406

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5 Segment information (continued)

5.1 Business segments (continued)

	Six months ended 30 June 2020			
	Corporate banking	Retail banking	Others	Total
Operating income	54,318	36,697	5,744	96,759
Net interest income	36,364	27,840	4,816	69,020
Include: inter-segment net interest income/(expense)	2,210	(8,702)	6,492	–
Net fee and commission income	5,424	8,445	693	14,562
Net other income	12,530	412	235	13,177
Operating expenses	(7,749)	(9,271)	(3,639)	(20,659)
Credit impairment losses	(25,940)	(16,160)	(914)	(43,014)
Other impairment losses	(3)	–	–	(3)
Profit before income tax	20,626	11,266	1,191	33,083
Depreciation and amortisation	2,023	1,368	264	3,655
Capital expenditure	1,129	763	6,628	8,520
	As at 31 December 2020			
	Corporate banking	Retail banking	Others	Total
Segment assets	4,724,060	1,596,277	579,863	6,900,200
Include: Investments in associates				2
Deferred income tax assets				50,033
Total assets				6,950,233
Segment liabilities	(4,656,226)	(885,522)	(867,120)	(6,408,868)
Deferred income tax liabilities				(117)
Total liabilities				(6,408,985)
Credit commitments	648,256	522,494	–	1,170,750

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5 Segment information *(continued)*

5.2 Geographical segments

The Group mainly operates in Chinese mainland, with branches distributing across different provinces, autonomous regions and municipalities directly under the Central Government of the country. The Group also has a number of subsidiaries in Chinese mainland and has one branch and subsidiaries in Hong Kong.

Head Office	Including head office, credit card centre and institutions directly under the head office
Yangtze River Delta	Including branches in Shanghai, Zhejiang Province and Jiangsu Province
Pearl River Delta	Including branches in Guangdong Province and Fujian Province
Bohai Rim	Including branches in Beijing, Tianjin, Shandong Province and Hebei Province
Northeastern Region	Including branches in Liaoning Province, Jilin Province and Heilongjiang Province
Central Region	Including branches in Shanxi Province, Henan Province, Hunan Province, Hubei Province, Anhui Province, Jiangxi Province and Hainan Province
Western Region	Including branches in Chongqing, Sichuan Province, Yunnan Province, Shaanxi Province, Gansu Province, Guizhou Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region, Guangxi Zhuang Autonomous Region, Inner Mongolia Autonomous Region and Tibet Autonomous Region
Overseas and Subsidiaries	Including Hong Kong Branch and subsidiaries

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5 Segment information (continued)

5.2 Geographical segments (continued)

	Six months ended 30 June 2021		As at 30 June 2021
	Operating income	Profit before income tax	Segment assets (1)
Head Office	28,405	5,046	3,200,942
Yangtze River Delta	14,145	9,590	1,280,804
Pearl River Delta	9,099	4,787	617,276
Bohai Rim	10,692	2,753	1,217,762
Northeastern Region	1,576	165	154,129
Central Region	7,955	1,582	501,384
Western Region	9,128	3,338	628,901
Overseas and subsidiaries	5,350	1,679	365,171
Inter-segment elimination	–	–	(947,163)
Total	86,350	28,940	7,019,206

	Six months ended 30 June 2020		As at 31 December 2020
	Operating income	Profit before income tax	Segment assets (1)
Head Office	36,536	11,714	3,268,512
Yangtze River Delta	14,266	7,850	1,231,814
Pearl River Delta	9,788	6,008	623,945
Bohai Rim	12,013	2,825	1,172,780
Northeastern Region	1,344	118	141,960
Central Region	8,716	742	478,232
Western Region	9,523	1,646	570,617
Overseas and subsidiaries	4,573	2,180	377,884
Inter-segment elimination	–	–	(965,544)
Total	96,759	33,083	6,900,200

(1) Segment assets do not include deferred tax assets.

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements

6.1 Net interest income

	Six months ended 30 June	
	2021	2020
Interest income arising from:		
Loans and advances to customers	100,219	103,863
Including: Corporate loans and advances	48,987	53,412
Personal loans and advances	47,503	46,363
Discounted bills	3,729	4,088
Financial investments	30,019	32,143
Including: Financial assets measured at amortised cost	22,818	22,980
Financial assets at fair value through other comprehensive income	7,201	9,163
Placements with banks and other financial institutions	3,379	4,779
Long-term receivables	3,911	3,362
Balances with central bank	2,574	2,599
Financial assets held under resale agreements	475	540
Balances with banks and other financial institutions	159	252
Subtotal	140,736	147,538
Interest expense arising from:		
Deposits from customers	(40,043)	(43,292)
Deposits and placements from banks and other financial institutions	(14,635)	(15,717)
Debt securities issued	(13,025)	(12,047)
Borrowings from central bank	(4,369)	(3,843)
Borrowings from banks and other financial institutions and others	(2,005)	(2,096)
Financial assets sold under repurchase agreements	(699)	(1,303)
Lease liabilities	(207)	(220)
Subtotal	(74,983)	(78,518)
Net interest income	65,753	69,020
Of which:		
Interest income from impaired loans and advances to customers	535	553

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)

6.2 Net fee and commission income

	Six months ended 30 June	
	2021	2020
Fee and commission income		
Bank card services	5,711	5,614
Agency services	3,862	3,451
Custodian and other fiduciary services	3,048	3,534
Settlement services	1,086	1,721
Credit commitments	1,083	1,320
Others	569	1,158
Subtotal	15,359	16,798
Fee and commission expense	(2,675)	(2,236)
Net fee and commission income	12,684	14,562

6.3 Net trading gain

	Six months ended 30 June	
	2021	2020
Net gain on interest rate products	809	2,062
Net gain on precious metals and other products	374	800
Net (loss)/gain on exchange rate products	(111)	475
Total	1,072	3,337

6.4 Net gain from investment securities

	Six months ended 30 June	
	2021	2020
Financial assets at fair value through profit or loss	4,659	5,922
Financial assets at fair value through other comprehensive income	480	2,970
Financial assets measured at amortised cost	601	193
Total	5,740	9,085

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)**6.5 Operating expenses**

	Six months ended 30 June	
	2021	2020
Staff costs, including directors' emoluments		
– Salaries, bonuses, allowances and subsidies payables	11,609	10,627
– Post-employment benefits-defined contribution plans	1,307	937
Depreciation and amortisation	2,754	2,809
Short-term lease expenses, low-value lease expenses and property management expenses	389	383
Tax and surcharges	945	1,005
Business expenses and others	3,362	4,898
Total	20,366	20,659

6.6 Credit impairment losses

	Six months ended 30 June	
	2021	2020
Loans and advances to customers	26,691	36,989
Financial assets measured at amortised cost	6,932	3,144
Financial assets at fair value through other comprehensive income	575	797
Long-term receivables	1,735	315
Other receivables	236	1,184
Others	374	585
Total	36,543	43,014

6.7 Income tax expense

	Six months ended 30 June	
	2021	2020
Current tax for the period	2,725	9,064
Deferred tax (Note 6.19)	(522)	(4,761)
Total	2,203	4,303

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements *(continued)*

6.7 Income tax expense *(continued)*

Reconciliation between income tax expense and accounting profit of the Group is listed as follows:

	Note	Six months ended 30 June	
		2021	2020
Profit before income tax		28,940	33,083
Income tax at the tax rate of 25%		7,235	8,271
Effect of non-taxable income	(1)	(4,620)	(3,612)
Effect of non-deductible expenses		171	88
Effect of tax adjustment for prior periods		4	72
Others		(587)	(516)
Income tax expense		2,203	4,303

(1) The non-taxable income mainly represents interest income arising from PRC government bonds and municipal bonds, which are exempted from income tax.

6.8 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity shareholders of the Bank by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by dividing the adjusted profit attributable to ordinary equity shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue.

The Bank issued non-cumulative preference shares in 2016. The Bank issued non-cumulative preference shares and perpetual bonds in 2019 and 2021 respectively under the terms and conditions as detailed in Note 6.31 Preference Shares and Note 6.32 Perpetual Bonds.

The conversion feature of the preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur as at 30 June 2021 and 31 December 2020, therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)**6.8 Earnings per share (continued)**

	Six months ended 30 June	
	2021	2020
Profit for the year attributable to equity holders of the Bank	26,556	28,453
Less: profit for the year attributable to other equity instrument holders of the Bank	(1,940)	(1,940)
Net profit attributable to ordinary equity holders of the Bank	24,616	26,513
Weighted average number of ordinary shares in issue (in millions)	43,782	43,782
Basic/Diluted earnings per share (in RMB)	0.56	0.61

6.9 Cash and balances with central bank

	30 June 2021	31 December 2020
Cash	5,211	5,360
Balances with central bank		
Mandatory reserve deposits	336,859	330,874
Surplus reserve deposits	70,340	63,799
Fiscal deposits and others	2,818	1,343
Subtotal	410,017	396,016
Interest accrued	135	149
Total	415,363	401,525

The Group places mandatory reserve deposits with the PBOC or local regulator. The mandatory reserve deposits are not available for use in the Group's daily business.

As at 30 June 2021 the mandatory reserve deposits rate applicable to domestic branches of the Bank for RMB deposits is 9.0% (31 December 2020: 9.0%) and the reserve rate for foreign currency deposits is 7.0% (31 December 2020: 5.0%). The amount of mandatory reserve deposits of the subsidiaries and overseas branches of the Group are determined by local jurisdiction.

Surplus reserve deposits maintained with the PBOC is for the purposes of clearing interbank transactions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements *(continued)*

6.10 Balances with banks and other financial institutions

	30 June 2021	31 December 2020
Chinese mainland		
– Banks	46,300	24,049
– Other financial institutions	5,715	4,861
Subtotal	52,015	28,910
Overseas		
– Banks	33,912	23,583
– Other financial institutions	369	196
Subtotal	34,281	23,779
Interest accrued	49	57
Less: allowance for impairment losses	(666)	(662)
Total	85,679	52,084

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the movements in carrying amount of book value and the impairment loss allowances of balances with banks and other financial institutions between stages were insignificant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)

6.11 Placements with banks and other financial institutions

	30 June 2021	31 December 2020
Chinese mainland		
– Banks	5,078	9,911
– Other financial institutions	172,148	191,696
Subtotal	177,226	201,607
Overseas		
– Banks	55,984	18,309
– Other financial institutions	2,986	2,641
Subtotal	58,970	20,950
Interest accrued	247	323
Less: allowance for impairment losses	(1,389)	(972)
Total	235,054	221,908

(1) Movements in allowance for impairment losses of placements with banks and other financial institutions

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(233)	–	(739)	(972)
Transfer:				
to stage 3	5	–	(5)	–
Net reversal/(charge)	16	–	(433)	(417)
Balance as at 30 June 2021	(212)	–	(1,177)	(1,389)

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(178)	(325)	–	(503)
Transfer:				
to stage 3	–	325	(325)	–
Net charge	(55)	–	(414)	(469)
Balance as at 31 December 2020	(233)	–	(739)	(972)

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6 Notes to the consolidated financial statements *(continued)*

6.12 Derivatives

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

(1) The notional amount and fair value of unexpired derivative financial instruments held by the Group are set out in the following tables:

	30 June 2021		
	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives	2,413,311	29,670	(27,249)
Interest rate derivatives	1,116,597	977	(1,268)
Precious metal derivatives	46,472	1,377	(3,633)
Others	1,424	199	(170)
Total		32,223	(32,320)

	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
Foreign exchange derivatives	1,940,939	39,988	(37,279)
Interest rate derivatives	1,399,900	1,193	(1,497)
Precious metal derivatives	47,559	869	(3,673)
Others	1,666	235	(226)
Total		42,285	(42,675)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements (*continued*)6.12 Derivatives (*continued*)

(2) Hedges

	Note	30 June 2021		
		Notional amount	Fair value	
			Assets	Liabilities
Cash flow hedges				
– Currency swap contracts	(a)	808	61	–
Fair value hedges				
– Interest Rate swap contracts	(b)	8,857	–	(29)
Total			61	(29)

	Note	31 December 2020		
		Notional amount	Fair value	
			Assets	Liabilities
Cash flow hedges				
– Currency swap contracts	(a)	5,827	504	–
Fair value hedges				
– Interest rate swap contracts	(b)	6,087	–	(103)
Total			504	(103)

- (a) The Group uses foreign exchange swaps to hedge against exposures to cash flow variability primarily from foreign exchange risks of foreign bonds and foreign currency lending to banks and non-bank financial institutions. For the six months ended 30 June 2021 and for the six months ended 30 June 2020, the accumulative profit or loss from fair value changes of cash flow hedging recognised in other comprehensive income were not significant.
- (b) The Group uses interest rate swaps to hedge against changes in fair value of fixed rate bonds. For the six months ended 30 June 2021 and for the six months ended 30 June 2020, the fair value changes of hedging instruments, the net gain or loss of hedged items and ineffective part of fair value hedging recognised in fair value changes were not significant.

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6 Notes to the consolidated financial statements *(continued)*

6.12 Derivatives *(continued)*

(3) Credit risk weighted amount

	30 June 2021	31 December 2020
Credit risk weighted amount for counterparty	19,075	14,945

The credit risk weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the CBIRC. The amount calculated is dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics of each type of contract. The credit risk weighted amounts stated above have taken the effects of netting arrangements into account.

6.13 Financial assets held under resale agreements

Financial assets held under resale agreements are listed as follows according to collateral:

	30 June 2021	31 December 2020
Bonds	8,540	17,025
Discounted bills	–	3,821
Others	587	601
Subtotal	9,127	21,447
Interest accrued	1	21
Less: allowance for impairment losses	(38)	(4)
Total	9,090	21,464

For the six months ended 30 June 2021 and for the year ended 31 December 2020, the transfer of book value and the allowance for impairment losses of financial assets held under resale agreements between stages were insignificant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.14 Loans and advances to customers

	Note	30 June 2021	31 December 2020
Measured at amortised cost:			
Corporate loans and advances			
– Corporate loans		2,100,246	2,011,389
Personal loans and advances			
– Micro lending	(1)	573,163	523,799
– Residential mortgage		554,366	515,296
– Credit cards		457,252	462,309
– Others		107,966	107,671
Gross Balance		1,692,747	1,609,075
Less: allowance for impairment losses		(101,825)	(96,542)
Subtotal		3,691,168	3,523,922
Measured at fair value through other comprehensive income:			
Corporate loans and advances			
– Corporate loans		8,009	5,608
– Discounted bills		230,898	227,859
Subtotal		238,907	233,467
Interest accrued		26,016	24,908
Total		3,956,091	3,782,297

(1) Micro lending is a loan product offered to the small micro enterprise owners and proprietors.

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6 Notes to the consolidated financial statements (*continued*)

6.14 Loans and advances to customers (*continued*)

(1) Loans and advances to customers (excluding interest accrued) analysed by types of collateral

	30 June 2021		31 December 2020	
	Amount	(%)	Amount	(%)
Unsecured loans	992,284	24.61	947,468	24.58
Guaranteed loans	705,500	17.50	661,727	17.17
Loans secured by				
– Tangible assets other than monetary assets	1,741,872	43.20	1,686,307	43.76
– Monetary assets	592,244	14.69	558,429	14.49
Total	4,031,900	100.00	3,853,931	100.00

(2) Overdue loans (excluding interest accrued) analysed by overdue period

	30 June 2021				
	Less than 3 months	3 months to 1 year	1 to 3 years	More than 3 years	Total
Unsecured loans	12,348	10,548	5,414	1,073	29,383
Guaranteed loans	4,692	6,914	3,590	1,085	16,281
Loans secured by					
– Tangible assets other than monetary assets	5,582	13,275	6,203	2,518	27,578
– Monetary assets	2,244	4,734	2,234	234	9,446
Total	24,866	35,471	17,441	4,910	82,688
% of total loans and advances to customers	0.62	0.88	0.43	0.12	2.05

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6 Notes to the consolidated financial statements (continued)**6.14 Loans and advances to customers (continued)****(2) Overdue loans (excluding interest accrued) analysed by overdue period (continued)**

	31 December 2020				Total
	Less than 3 months	3 months to 1 year	1 to 3 years	More than 3 years	
Unsecured loans	14,521	10,665	7,880	1,028	34,094
Guaranteed loans	3,639	5,183	2,842	1,153	12,817
Loans secured by					
– Tangible assets other than monetary assets	6,587	8,851	6,197	2,281	23,916
– Monetary assets	1,591	3,844	1,288	538	7,261
Total	26,338	28,543	18,207	5,000	78,088
% of total loans and advances to customers	0.68	0.75	0.47	0.13	2.03

Overdue loans represent loans of which the principal or interest are overdue for 1 day or more.

(3) Movements in allowance for impairment losses**(a) Movements in allowance for impairment losses of loans and advances to customers measured at amortised cost are as follows:**

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(23,048)	(29,725)	(43,769)	(96,542)
Transfer:				
to stage 1	(1,489)	1,446	43	–
to stage 2	1,771	(3,696)	1,925	–
to stage 3	320	3,514	(3,834)	–
Net reversal/(charge)	1,988	(4,317)	(23,619)	(25,948)
Write-offs and transfer out	–	–	22,371	22,371
Recoveries of amounts previously written off	–	–	(2,383)	(2,383)
Others	(1)	(1)	679	677
Balance as at 30 June 2021	(20,459)	(32,779)	(48,587)	(101,825)

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6 Notes to the consolidated financial statements *(continued)*

6.14 Loans and advances to customers *(continued)*

(3) Movements in allowance for impairment losses *(continued)*

(a) Movements in allowance for impairment losses of loans and advances to customers measured at amortised cost are as follows *(continued)*:

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(25,536)	(21,714)	(35,225)	(82,475)
Transfer:				
to stage 1	(786)	576	210	–
to stage 2	1,375	(2,796)	1,421	–
to stage 3	577	3,441	(4,018)	–
Net reversal/(charge)	1,267	(9,287)	(69,253)	(77,273)
Write-offs and transfer out	–	–	66,316	66,316
Recoveries of amounts previously written off	–	–	(4,388)	(4,388)
Others	55	55	1,168	1,278
Balance as at 31 December 2020	(23,048)	(29,725)	(43,769)	(96,542)

(b) Movements in allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(496)	–	(599)	(1,095)
Transfer:				
to stage 3	1	–	(1)	–
Net reversal/(charge)	15	–	(758)	(743)
Transfer out	–	–	237	237
Balance as at 30 June 2021	(480)	–	(1,121)	(1,601)

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6 Notes to the consolidated financial statements (continued)

6.14 Loans and advances to customers (continued)

(3) Movements in allowance for impairment losses (continued)

(b) Movements in allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income are as follows (continued):

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(989)	–	(1,183)	(2,172)
Transfer:				
to stage 3	5	–	(5)	–
Net reversal/(charge)	488	–	(205)	283
Write-offs	–	–	794	794
Balance as at 31 December 2020	(496)	–	(599)	(1,095)

6.15 Financial investments

	Note	30 June 2021	31 December 2020
Financial assets at fair value through profit or loss	(1)	347,032	322,480
Financial assets at fair value through other comprehensive income	(2)	431,902	470,122
Financial assets measured at amortised cost	(3)	1,250,532	1,328,048
Total		2,029,466	2,120,650

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6 Notes to the consolidated financial statements *(continued)*

6.15 Financial investments *(continued)*

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

	Note	30 June 2021	31 December 2020
Held for trading purpose			
Debt securities			
Government		1,481	1,960
Policy banks		13,139	9,149
Banks and non-bank financial institutions		16,907	21,734
Corporates		26,982	40,814
Subtotal		58,509	73,657
Equity investments		4,609	6,146
Investment funds	(a)	14,531	19,681
Subtotal		77,649	99,484
Other financial assets at fair value through profit or loss			
Debt securities			
Corporates		1,141	1,194
Equity investments		30,126	33,042
Investment funds	(a)	225,121	171,063
Asset management plans	(b)	9,375	10,168
Wealth management products		–	4,197
Others		3,620	3,332
Subtotal		269,383	222,996
Total		347,032	322,480
Listed		63,678	75,944
– Of which: listed in Hong Kong		8,979	22,395
Unlisted		283,354	246,536
Total		347,032	322,480

Debt securities traded on China Domestic Interbank Bond Market are classified as listed bonds.

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6 Notes to the consolidated financial statements (continued)

6.15 Financial investments (continued)

(1) Financial assets at fair value through profit or loss (continued)

- (a) As at 30 June 2021 and 31 December 2020, the investment funds include public bond funds and public money market funds.
- (b) As at 30 June 2021 and 31 December 2020, the underlying assets of asset management plans beneficial rights managed by securities companies primarily include bonds and others (Note 4.2 (9)).

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

	30 June 2021	31 December 2020
Debt securities		
Government	115,544	118,461
Policy banks	62,638	69,485
Banks and non-bank financial institutions	104,431	105,634
Corporates	138,453	166,546
Subtotal	421,066	460,126
Equity investments and others	5,940	4,030
Interest accrued	4,896	5,966
Total	431,902	470,122
Listed	391,393	442,267
– Of which: listed in Hong Kong	38,625	51,236
Unlisted	35,613	21,889
Interest accrued	4,896	5,966
Total	431,902	470,122

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6 Notes to the consolidated financial statements *(continued)*

6.15 Financial investments *(continued)*

(2) Financial assets at fair value through other comprehensive income *(continued)*

The Group designates certain non-trading equity investments as financial assets at fair value through other comprehensive income. For the six months ended 30 June 2021, dividend income of RMB 42 million yuan (for the six months ended 30 June 2020: Nil) recognised for such equity investments was included in the profit or loss. The impact of gain on disposal of other equity investments at fair value through other comprehensive income was not significant for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Insignificant)

Fair value

	30 June 2021	31 December 2020
Debt securities		
Cost	430,770	470,660
Cumulative amount of change in fair value that is accrued to other comprehensive income	(4,808)	(4,568)
Fair value	425,962	466,092
Equity investment and others		
Cost	5,900	3,991
Cumulative amount of change in fair value that is accrued to other comprehensive income	40	39
Fair value	5,940	4,030
Total	431,902	470,122

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (continued)

6.15 Financial investments (continued)

(2) Financial assets at fair value through other comprehensive income (continued)

Movements in allowance for impairment losses

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(1,292)	(11)	(826)	(2,129)
Transfer:				
to stage 2	1	(1)	–	–
to stage 3	1	–	(1)	–
Net reversal/(charge)	645	6	(1,226)	(575)
Write-offs and transfer out	–	–	38	38
Others	(3)	–	–	(3)
Balance as at 30 June 2021	(648)	(6)	(2,015)	(2,669)

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(996)	–	(66)	(1,062)
Transfer:				
to stage 2	2	(2)	–	–
to stage 3	10	1	(11)	–
Net charge	(319)	(10)	(871)	(1,200)
Write-offs and transfer out	–	–	130	130
Others	11	–	(8)	3
Balance as at 31 December 2020	(1,292)	(11)	(826)	(2,129)

As at 30 June 2021, the financial assets at fair value through other comprehensive income included credit-impaired financial assets of which carrying amount was RMB 722 million (31 December 2020: RMB 1,054 million), with allowance for impairment losses of RMB 2,015 million (31 December 2020: RMB 826 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (*continued*)6.15 Financial investments (*continued*)

(3) Financial assets measured at amortised cost

	Note	30 June 2021	31 December 2020
Debt securities			
Government		850,421	843,626
Policy banks		25,634	12,048
Banking and non-banking financial institutions		67,430	117,971
Corporates		201,517	205,922
Subtotal		1,145,002	1,179,567
Trust and asset management plans	(a)	102,840	139,747
Others		2,453	2,609
Interest accrued		14,904	16,200
Less: allowance for impairment losses		(14,667)	(10,075)
Total		1,250,532	1,328,048
Listed		1,135,860	1,115,917
– Of which: listed in Hong Kong		1,790	1,693
Unlisted		114,435	206,006
Interest accrued		14,904	16,200
Less: allowance for impairment losses		(14,667)	(10,075)
Total		1,250,532	1,328,048

(a) As at 30 June 2021 and 31 December 2020, the underlying assets of trust and asset management plans primarily are credit assets (Note 4.2 (9)).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (continued)

6.15 Financial investments (continued)

(3) Financial assets measured at amortised cost (continued)

Movements in allowance for impairment losses

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(2,618)	(37)	(7,420)	(10,075)
Transfer				
to stage 2	61	(61)	–	–
to stage 3	–	24	(24)	–
Net reversal/(charge)	72	(87)	(6,917)	(6,932)
Write-offs and transfer out	–	–	2,344	2,344
Others	(4)	–	–	(4)
Balance as at 30 June 2021	(2,489)	(161)	(12,017)	(14,667)

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(2,054)	(265)	(1,794)	(4,113)
Transfer:				
to stage 2	10	(10)	–	–
to stage 3	17	262	(279)	–
Net charge	(591)	(24)	(9,069)	(9,684)
Write-offs and transfer out	–	–	3,712	3,712
Others	–	–	10	10
Balance as at 31 December 2020	(2,618)	(37)	(7,420)	(10,075)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (*continued*)

6.16 Long-term receivables

	Note	30 June 2021	31 December 2020
Finance lease receivables	(1)	153,531	150,054
Less: unearned finance lease income		(16,971)	(17,932)
Present value of minimum finance lease receivables		136,560	132,122
Less: allowance for impairment losses	(2)	(4,573)	(4,269)
Total		131,987	127,853

(1) Finance lease receivables are analysed by the remaining terms as follows:

	Note	30 June 2021	31 December 2020
Indefinite	(a)	6,913	5,295
Less than 1 year		60,937	56,235
1 year to 2 years		41,368	38,957
2 years to 3 years		18,852	20,855
3 years to 5 years		13,968	15,128
More than 5 years		11,493	13,584
Total		153,531	150,054

(a) The amount represents the balances being impaired or overdue for more than one month.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (continued)

6.16 Long-term receivables (continued)

(2) Movements in allowance for impairment losses of long-term receivables:

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(1,177)	(1,826)	(1,266)	(4,269)
Transfer:				
to stage 1	(9)	8	1	–
to stage 2	52	(53)	1	–
to stage 3	2	210	(212)	–
Net charge	(927)	(209)	(599)	(1,735)
Write-offs and transfer out	–	–	1,420	1,420
Others	5	4	2	11
Balance as at 30 June 2021	(2,054)	(1,866)	(653)	(4,573)

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(1,051)	(1,739)	(1,153)	(3,943)
Transfer:				
to stage 1	(9)	9	–	–
to stage 2	5	(5)	–	–
to stage 3	7	166	(173)	–
Net charge	(129)	(350)	(604)	(1,083)
Write-offs and transfer out	–	93	664	757
Balance as at 31 December 2020	(1,177)	(1,826)	(1,266)	(4,269)

6.17 Property and equipment

	30 June 2021	31 December 2020
Property and equipment	52,959	51,123
Property and equipment to be disposed	2	6
Total	52,961	51,129

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements *(continued)*

6.17 Property and equipment *(continued)*

	Buildings	Leasehold improvement	Office equipment and others	Motor vehicles	Operating lease fixed assets	Construction in progress ("CIP")	Total
Original cost							
Balance as at 1 January 2021	21,114	4,285	8,634	491	36,175	2,946	73,645
Increase	-	136	177	12	2,880	1,163	4,368
CIP transfers	1	-	-	-	-	(1)	-
Decrease	(1)	(63)	(18)	(20)	(1,042)	-	(1,144)
Balance as at 30 June 2021	21,114	4,358	8,793	483	38,013	4,108	76,869
Accumulated depreciation							
Balance as at 1 January 2021	(5,059)	(2,913)	(6,917)	(408)	(6,955)	-	(22,252)
Increase	(340)	(270)	(248)	(12)	(843)	-	(1,713)
Decrease	1	60	15	19	230	-	325
Balance as at 30 June 2021	(5,398)	(3,123)	(7,150)	(401)	(7,568)	-	(23,640)
Impairment losses							
Balance as at 1 January 2021	-	-	-	-	(270)	-	(270)
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Balance as at 30 June 2021	-	-	-	-	(270)	-	(270)
Carrying amount							
Balance as at 1 January 2021	16,055	1,372	1,717	83	28,950	2,946	51,123
Balance as at 30 June 2021	15,716	1,235	1,643	82	30,175	4,108	52,959

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (*continued*)6.17 Property and equipment (*continued*)

	Buildings	Leasehold improvement	Office equipment and others	Motor vehicles	Operating lease fixed assets	Construction in progress ("CIP")	Total
Original cost							
Balance as at 1 January 2020	19,742	4,351	8,819	502	35,444	3,336	72,194
Increase	671	521	559	26	4,493	375	6,645
CIP transfers	724	-	-	-	-	(724)	-
Decrease	(23)	(587)	(744)	(37)	(3,762)	(41)	(5,194)
Balance as at 31 December 2020	21,114	4,285	8,634	491	36,175	2,946	73,645
Accumulated depreciation							
Balance as at 1 January 2020	(4,365)	(2,886)	(7,043)	(414)	(5,893)	-	(20,601)
Increase	(695)	(606)	(579)	(29)	(1,776)	-	(3,685)
Decrease	1	579	705	35	714	-	2,034
Balance as at 31 December 2020	(5,059)	(2,913)	(6,917)	(408)	(6,955)	-	(22,252)
Impairment losses							
Balance as at 1 January 2020	-	-	-	-	(236)	-	(236)
Increase	-	-	-	-	(127)	-	(127)
Decrease	-	-	-	-	93	-	93
Balance as at 31 December 2020	-	-	-	-	(270)	-	(270)
Carrying amount							
Balance as at 1 January 2020	15,377	1,465	1,776	88	29,315	3,336	51,357
Balance as at 31 December 2020	16,055	1,372	1,717	83	28,950	2,946	51,123

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements *(continued)*

6.17 Property and equipment *(continued)*

As at 30 June 2021 and 31 December 2020, the Group did not have any property and equipment which were acquired by means of finance lease or held for sale.

As at 30 June 2021, there were still certain properties and buildings, with a carrying value of RMB 852 million (31 December 2020: RMB 888 million), in the process of registration for certificates of ownership. The management believes such proceedings would not weaken the Group's rights to these assets nor have any significant impact on the Group's operations.

6.18 Lease contract

(1) Right-of-use assets

	Buildings	Motor vehicles	Office equipment	Land use rights	Others	Total
Original cost						
Balance as at 1 January 2021	15,984	359	2	4,643	62	21,050
Increase	1,239	-	-	-	4	1,243
Decrease	(993)	-	(1)	-	(25)	(1,019)
Balance as at 30 June 2021	16,230	359	1	4,643	41	21,274
Accumulated depreciation						
Balance as at 1 January 2021	(5,441)	(97)	(1)	(1,161)	(19)	(6,719)
Increase	(1,620)	(57)	-	(58)	(5)	(1,740)
Decrease	895	-	-	-	8	903
Balance as at 30 June 2021	(6,166)	(154)	(1)	(1,219)	(16)	(7,556)
Carrying amount						
Balance as at 1 January 2021	10,543	262	1	3,482	43	14,331
Balance as at 30 June 2021	10,064	205	-	3,424	25	13,718

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements (continued)

6.18 Lease contract (continued)

(1) Right-of-use assets (continued)

	Buildings	Motor vehicles	Office equipment	Land use rights	Others	Total
Original cost						
Balance as at 1 January 2020	13,578	355	1	4,484	24	18,442
Increase	3,571	6	3	159	41	3,780
Decrease	(1,165)	(2)	(2)	–	(3)	(1,172)
Balance as at 31 December 2020	15,984	359	2	4,643	62	21,050
Accumulated depreciation						
Balance as at 1 January 2020	(2,765)	(93)	(1)	(1,033)	(5)	(3,897)
Increase	(3,309)	(5)	(2)	(128)	(14)	(3,458)
Decrease	633	1	2	–	–	636
Balance as at 31 December 2020	(5,441)	(97)	(1)	(1,161)	(19)	(6,719)
Carrying amount						
Balance as at 1 January 2020	10,813	262	–	3,451	19	14,545
Balance as at 31 December 2020	10,543	262	1	3,482	43	14,331

(2) Lease liabilities

	30 June 2021	31 December 2020
Lease liabilities	9,882	10,267

As at 30 June 2021, the Group's lease payments relating to lease contracts signed but yet to be executed amounted to RMB 36 million (31 December 2020: RMB 82 million).

6.19 Deferred income tax assets and liabilities

(1) Deferred income tax items

	30 June 2021	31 December 2020
Deferred income tax assets	50,502	50,033
Deferred income tax liabilities	(243)	(117)
Total	50,259	49,916

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)

6.19 Deferred income tax assets and liabilities (*continued*)

(2) Deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	30 June 2021		31 December 2020	
	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences
Deferred income tax assets				
Asset impairment allowance	49,111	196,444	47,682	190,728
Employee benefits payable	2,300	9,200	2,639	10,556
Fair value losses of derivatives	8,011	32,044	10,586	42,344
Fair value losses of financial assets at fair value through other comprehensive income	638	2,552	676	2,704
Financial assets at fair value through profit or loss	35	140	205	820
Others	319	1,276	328	1,312
Subtotal	60,414	241,656	62,116	248,464
Deferred income tax liabilities				
Fair value gains of derivatives	(8,040)	(32,160)	(10,445)	(41,780)
Fair value gain of financial assets at fair value through other comprehensive income	(288)	(1,152)	(184)	(736)
Financial assets at fair value through profit or loss	(1,734)	(6,936)	(1,432)	(5,728)
Others	(93)	(372)	(139)	(556)
Subtotal	(10,155)	(40,620)	(12,200)	(48,800)
Deferred income tax assets, net	50,259	201,036	49,916	199,664

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.19 Deferred income tax assets and liabilities *(continued)*

(3) Movements in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Asset impairment allowance	Fair value losses	Others	Gross deferred income tax assets	Gross deferred income tax liabilities
Balance as at 1 January 2021	47,682	11,467	2,967	62,116	(12,200)
Recognised in profit or loss	1,429	(2,740)	(348)	(1,659)	2,181
Recognised in other comprehensive income	–	(43)	–	(43)	(136)
Balance as at 30 June 2021	49,111	8,684	2,619	60,414	(10,155)
Balance as at 1 January 2020	38,462	5,036	2,851	46,349	(10,424)
Recognised in profit or loss	9,220	5,743	116	15,079	(2,350)
Recognised in other comprehensive income	–	688	–	688	574
Balance as at 31 December 2020	47,682	11,467	2,967	62,116	(12,200)

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.20 Investment in subsidiaries

(1) Directly held subsidiaries

	30 June 2021	31 December 2020
Minsheng Financial Leasing Co., Ltd. ("Minsheng Financial Leasing")	3,302	3,302
CMBC International Holdings Limited ("CMBC International")	2,494	2,494
Minsheng Royal Fund Limited ("Minsheng Royal Fund")	190	190
Pengzhou Rural Bank Limited Liability Company ("Pengzhou Rural Bank")	20	20
Cixi Rural Bank Co., Ltd. ("Cixi Rural Bank")	107	107
Songjiang Rural Bank Co., Ltd. ("Songjiang Rural Bank")	70	70
Qijiang Rural Bank Co., Ltd. ("Qijiang Rural Bank")	30	30
Tongnan Rural Bank Co., Ltd. ("Tongnan Rural Bank")	25	25
Meihekou Rural Bank Co., Ltd. ("Meihekou Rural Bank")	169	169
Ziyang Rural Bank Co., Ltd. ("Ziyang Rural Bank")	172	172
Jiangxia Rural Bank Co., Ltd. ("Jiangxia Rural Bank")	41	41
Changyuan Rural Bank Co., Ltd. ("Changyuan Rural Bank")	26	26
Yidu Rural Bank Co., Ltd. ("Yidu Rural Bank")	26	26
Jiading Rural Bank Co., Ltd. ("Jiading Rural Bank")	102	102
Zhongxiang Rural Bank Co., Ltd. ("Zhongxiang Rural Bank")	36	36
Penglai Rural Bank Co., Ltd. ("Penglai Rural Bank")	51	51
Anxi Rural Bank Co., Ltd. ("Anxi Rural Bank")	74	74
Funing Rural Bank Co., Ltd. ("Funing Rural Bank")	52	52
Taicang Rural Bank Co., Ltd. ("Taicang Rural Bank")	76	76
Ningjin Rural Bank Co., Ltd. ("Ningjin Rural Bank")	20	20
Zhangpu Rural Bank Co., Ltd. ("Zhangpu Rural Bank")	25	25
Puer Rural Bank Co., Ltd. ("Puer Rural Bank")	15	15
Jinghong Rural Bank Co., Ltd. ("Jinghong Rural Bank")	60	60
Zhidan Rural Bank Co., Ltd. ("Zhidan Rural Bank")	7	7
Ningguo Rural Bank Co., Ltd. ("Ningguo Rural Bank")	20	20
Yuyang Rural Bank Co., Ltd. ("Yuyang Rural Bank")	25	25
Guichi Rural Bank Co., Ltd. ("Guichi Rural Bank")	26	26
Tiantai Rural Bank Co., Ltd. ("Tiantai Rural Bank")	31	31
Tianchang Rural Bank Co., Ltd. ("Tianchang Rural Bank")	20	20
Tengchong Rural Bank Co., Ltd. ("Tengchong Rural Bank")	20	20
Xiang'an Rural Bank Co., Ltd. ("Xiang'an Rural Bank")	36	36
Linzi Rural Bank Co., Ltd. ("Linzi Rural Bank")	13	13
Total	7,381	7,381

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6 Notes to the consolidated financial statements (continued)

6.20 Investment in subsidiaries (continued)

(2) Basic information of directly held subsidiaries

Name	Place of incorporation and operation	Principal activities	Registered capital	Nature of legal entity	% of ownership held by the Bank	% of voting rights held by the Bank
Minsheng Financial Leasing	Tianjin China	Leasing	RMB 5,095 million	Limited company	54.96	54.96
CMBC International	Hong Kong China	Investment banking	HKD 3,000 million	Limited company	100.00	100.00
Minsheng Royal Fund	Guangdong China	Fund management	RMB 300 million	Limited company	63.33	63.33
Pengzhou Rural Bank (a)	Sichuan China	Commercial bank	RMB 55 million	Limited company	36.36	36.36
Cixi Rural Bank	Zhejiang China	Commercial bank	RMB 189 million	Limited company	64.68	64.68
Songjiang Rural Bank (a)	Shanghai China	Commercial bank	RMB 150 million	Limited company	35.00	35.00
Qijiang Rural Bank (b)	Chongqing China	Commercial bank	RMB 61.57 million	Limited company	48.73	51.27
Tongnan Rural Bank (a)	Chongqing China	Commercial bank	RMB 50 million	Limited company	50.00	50.00
Meihekou Rural Bank	Jilin China	Commercial bank	RMB 193 million	Limited company	95.36	95.36
Ziyang Rural Bank	Sichuan China	Commercial bank	RMB 211 million	Limited company	81.41	81.41
Jiangxia Rural Bank	Hubei China	Commercial bank	RMB 86 million	Limited company	51.00	51.00
Changyuan Rural Bank	Henan China	Commercial bank	RMB 50 million	Limited company	51.00	51.00
Yidu Rural Bank	Hubei China	Commercial bank	RMB 52.4 million	Limited company	51.00	51.00
Jiading Rural Bank	Shanghai China	Commercial bank	RMB 200 million	Limited company	51.00	51.00
Zhongxiang Rural Bank	Hubei China	Commercial bank	RMB 70 million	Limited company	51.00	51.00
Penglai Rural Bank	Shandong China	Commercial bank	RMB 100 million	Limited company	51.00	51.00
Anxi Rural Bank	Fujian China	Commercial bank	RMB 128 million	Limited company	57.99	57.99
Funing Rural Bank	Jiangsu China	Commercial bank	RMB 85 million	Limited company	51.00	51.00

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements *(continued)*

6.20 Investment in subsidiaries *(continued)*

(2) Basic information of directly held subsidiaries *(continued)*

Name	Place of incorporation and operation	Principal activities	Registered capital	Nature of legal entity	% of ownership held by the Bank	% of voting rights held by the Bank
Taicang Rural Bank	Jiangsu China	Commercial bank	RMB 135 million	Limited company	51.00	51.00
Ningjin Rural Bank	Hebei China	Commercial bank	RMB 40 million	Limited company	51.00	51.00
Zhangpu Rural Bank	Fujian China	Commercial bank	RMB 50 million	Limited company	51.00	51.00
Puer Rural Bank	Yunnan China	Commercial bank	RMB 30 million	Limited company	51.00	51.00
Jinghong Rural Bank	Yunnan China	Commercial bank	RMB 75 million	Limited company	80.40	80.40
Zhidan Rural Bank	Shaanxi China	Commercial bank	RMB 15 million	Limited company	51.00	51.00
Ningguo Rural Bank	Anhui China	Commercial bank	RMB 40 million	Limited company	51.00	51.00
Yuyang Rural Bank (c)	Shaanxi China	Commercial bank	RMB 50 million	Limited company	51.00	51.00
Guichi Rural Bank	Anhui China	Commercial bank	RMB 50 million	Limited company	51.00	51.00
Tiantai Rural Bank	Zhejiang China	Commercial bank	RMB 60 million	Limited company	51.00	51.00
Tianchang Rural Bank	Anhui China	Commercial bank	RMB 40 million	Limited company	51.00	51.00
Tengchong Rural Bank	Yunnan China	Commercial bank	RMB 48 million	Limited company	51.00	51.00
Xiang'an Rural Bank	Fujian China	Commercial bank	RMB 70 million	Limited company	51.00	51.00
Linshi Rural Bank	Tibet China	Commercial bank	RMB 25 million	Limited company	51.00	51.00

(a) Although the Bank holds half or less than half of the voting rights in these rural banks, it has the majority of the seats in their boards of directors, which enables it to govern their operating policies. These companies are treated as the Bank's subsidiaries and have been consolidated in these financial statements.

(b) Some natural person shareholders and the Bank signed a concerted action agreement, stipulating that the two parties should take "concerted action" in the general meeting of shareholders. Therefore, the Bank acquires control over Qijiang Rural Bank and classifies the investment in Qijiang Rural Bank as investment in a subsidiary.

(c) In 2020, Yuyang Rural Bank converted RMB 4 million retained earnings to paid-up capital through an issue of new shares, and increased its paid-up capital from RMB 50 million to RMB 54 million. After the increase of capital, the Bank's ownership of equity shares and voting rights in this subsidiary remains at 51%. As at 30 June 2021, the registered capital of Yuyang Rural Bank was still RMB 50 million as it had not completed the registration of changes with industry and commerce authorities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements (continued)

6.20 Investment in subsidiaries (continued)

(3) Investment in associates

	30 June 2021	31 December 2020
Investment in associates	2	2

6.21 Other assets

	Note	30 June 2021	31 December 2020
Interest receivable	(1)	8,862	8,240
Prepayments for leased assets	(2)	6,880	8,280
Investment properties		6,864	6,429
Other debt receivables and advances		5,623	5,423
Repossessed assets	(3)	5,293	6,180
Commission fee receivable		3,420	3,685
Items in the process of clearance and settlement		2,797	12,728
Operating lease receivable		2,226	2,007
Intangible assets	(4)	1,519	1,456
Margin financing		1,092	–
Continuously involved assets		1,038	1,038
Prepayment		847	718
Long-term deferred expenses		307	146
Goodwill	(5)	191	193
others		6,248	5,414
Subtotal		53,207	61,937
Less: allowance for impairment losses			
– Repossessed assets		(157)	(131)
– Others		(3,834)	(3,916)
Total		49,216	57,890

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.21 Other assets *(continued)*

(1) Interest receivable

	30 June 2021	31 December 2020
Debt and other securities	2,841	2,569
Loans and advances to customers	6,021	5,671
Total	8,862	8,240

(2) Prepayments for leased assets are the prepayments made by the Group for acquiring leased assets under finance leases and operating leases.

(3) Repossessed assets include buildings, land use rights and machineries and equipment. The Group disposed repossessed assets of RMB 1,046 million during the six months ended 30 June 2021 (Six months ended 30 June 2020: RMB 653 million).

(4) Intangible assets

	Six months ended 30 June 2021	Year ended 31 December 2020
Cost		
Balance as at 1 January	5,576	4,837
Increase	346	739
Balance as at 30 June/31 December	5,922	5,576
Accumulated amortization		
Balance as at 1 January	(4,120)	(3,581)
Increase	(283)	(539)
Balance as at 30 June/31 December	(4,403)	(4,120)
Carrying amount		
Balance as at 1 January	1,456	1,256
Balance as at 30 June/31 December	1,519	1,456

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.21 Other assets (continued)

(5) Goodwill arising from CMBC Financial holdings

	Six months ended 30 June 2021	Year ended 31 December 2020
Balance as at 1 January	193	206
Exchange difference	(2)	(13)
Balance as at 30 June/31 December	191	193

As at 30 June 2021 and 31 December 2020, the Group was not aware of any indicators for the possibility of goodwill impairment, hence no impairment loss was recognised.

6.22 Allowances for impairment losses

	Note 6	Six months ended 30 June 2021				Balances as at 30 June 2021
		Balances as at 1 January 2021	Net charge for the period	Write-offs and transfer out	Other	
Balances with banks and other financial institutions	10	662	4	-	-	666
Placements with banks and other financial institutions	11	972	417	-	-	1,389
Financial assets held under resale agreements	13	4	34	-	-	38
Loans and advances to customers	14	97,637	26,691	(22,608)	1,706	103,426
Financial investments	15	12,204	7,507	(2,382)	7	17,336
Long-term receivables	16	4,269	1,735	(1,420)	(11)	4,573
Property and equipment	17	270	-	-	-	270
Other assets	21	4,047	737	(795)	2	3,991
Total		120,065	37,125	(27,205)	1,704	131,689

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)6.22 Allowances for impairment losses (*continued*)

	Note 6	Year ended 31 December 2020				Balances as at 31 December 2020
		Balances as at 1 January 2020	Net charge for the year/ (Reversal)	Write-offs and transfer out	Other	
Balances with banks and other financial institutions	10	346	316	–	–	662
Placements with banks and other financial institutions	11	503	469	–	–	972
Financial assets held under resale agreements	13	9	(5)	–	–	4
Loans and advances to customers	14	84,647	76,990	(67,110)	3,110	97,637
Financial investments	15	5,175	10,884	(3,842)	(13)	12,204
Long-term receivables	16	3,943	1,083	(757)	–	4,269
Property and equipment	17	236	127	(93)	–	270
Other assets	21	1,879	5,126	(2,953)	(5)	4,047
Total		96,738	94,990	(74,755)	3,092	120,065

6.23 Deposits and placements from banks and other financial institutions

	30 June 2021	31 December 2020
Chinese mainland		
Banks	385,376	315,476
Other financial institutions	844,594	665,224
Overseas		
Banks	31,055	51,308
Other financial institutions	36,613	33,397
Subtotal	1,297,638	1,065,405
Interest accrued	7,285	4,316
Total	1,304,923	1,069,721

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6 Notes to the consolidated financial statements (continued)

6.24 Borrowings from banks and other financial institutions

	30 June 2021	31 December 2020
Unsecured borrowings	113,298	108,917
Borrowings secured by – Tangible assets and monetary assets	19,000	21,262
Subtotal	132,298	130,179
Interest accrued	623	839
Total	132,921	131,018

As at 30 June 2021 and 31 December 2020, the secured borrowings were secured by property and equipment and finance lease receivables as collateral; the above collateral has been included in the disclosure of Assets pledged (Note 7.3(1)).

6.25 Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	30 June 2021	31 December 2020
Bonds	10,712	43,714
Discounted bills	21,415	21,192
Including: bills rediscounted	21,415	18,403
Subtotal	32,127	64,906
Interest accrued	124	412
Total	32,251	65,318

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)

6.26 Deposits from customers

	30 June 2021	31 December 2020
Demand deposits		
– Corporate customers	1,269,761	1,287,743
– Personal customers	265,630	243,780
Time deposits (including call and notice deposits)		
– Corporate customers	1,749,978	1,673,874
– Personal customers	561,675	514,932
Certificates of deposit	1,936	2,929
Outward remittance and remittance payables	3,360	4,916
Subtotal	3,852,340	3,728,174
Interest accrued	39,909	39,977
Total	3,892,249	3,768,151

The pledged deposits included in deposits from customers are analysed as follows:

	30 June 2021	31 December 2020
Pledged deposits for bank acceptances	114,073	96,282
Pledged deposits for letters of credit and guarantees	19,716	16,742
Other pledged deposits	53,806	52,269
Total	187,595	165,293

6.27 Provisions

	30 June 2021	31 December 2020
Credit loss of off-balance sheet credit commitments	1,810	1,885
Litigation provision	310	136
Total	2,120	2,021

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

6 Notes to the consolidated financial statements *(continued)*

6.27 Provisions *(continued)*

The movements of credit loss of off-balance sheet assets are as follows:

	Six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	(1,619)	(221)	(45)	(1,885)
Transfer:				
to stage 1	(43)	41	2	–
to stage 2	54	(125)	71	–
to stage 3	12	4	(16)	–
Net reversal/(charge)	142	(4)	(57)	81
Other movements	(6)	–	–	(6)
Balance as at 30 June 2021	(1,460)	(305)	(45)	(1,810)

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	(1,407)	(22)	(24)	(1,453)
Transfer:				
to stage 1	(8)	5	3	–
to stage 2	9	(10)	1	–
to stage 3	4	6	(10)	–
Net charge	(179)	(200)	(15)	(394)
Others	(38)	–	–	(38)
Balance as at 31 December 2020	(1,619)	(221)	(45)	(1,885)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (*continued*)

6.28 Debt securities issued

	Note	30 June 2021	31 December 2020
Certificates of interbank deposit		466,989	713,953
Financial bonds	(1)	79,996	83,992
Tier-two capital bonds	(2)	139,950	139,951
Medium-term and short-term notes	(3)	10,519	12,056
Subordinated bonds	(4)	–	3,996
Subtotal		697,454	953,948
Interest accrued		3,690	3,932
Total		701,144	957,880

For the six months ended 30 June 2021 and for the year ended 31 December 2020, there were no overdue principal and interest or other defaults with respect to these bonds. None of these bonds are secured.

(1) Financial bonds

	Note	30 June 2021	31 December 2020
RMB 20 billion – 3-year fixed rate financial bonds 2020	(a)	19,998	19,998
RMB 20 billion – 3-year fixed rate financial bonds 2018	(b)	19,999	19,998
RMB 40 billion – 3-year fixed rate financial bonds 2018	(c)	39,999	39,997
RMB 4 billion – 3-year fixed rate financial bonds 2018	(d)	–	3,999
Total		79,996	83,992

- (a) RMB 20 billion worth of fixed-rate financial bonds were issued at 18 March 2020, with a term of three years, and a fixed coupon rate of 2.75% per annum.
- (b) RMB 20 billion worth of fixed-rate financial bonds were issued at 12 December 2018, with a term of three years, and a fixed coupon rate of 3.76% per annum.
- (c) RMB 40 billion worth of fixed-rate financial bonds were issued at 19 November 2018, with a term of three years, and a fixed coupon rate of 3.83% per annum.
- (d) RMB 4 billion worth of fixed-rate financial bonds were issued at 21 May 2018, with a term of three years, and a fixed coupon rate of 4.90% per annum. The Bank has repaid all of them on 23 May 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.28 Debt securities issued (continued)

(2) Tier-two capital bonds

	Note	30 June 2021	31 December 2020
RMB 50 billion – 10-year fixed rate tier-two capital bonds 2020	(a)	49,995	49,999
RMB 40 billion – 10-year fixed rate tier-two capital bonds 2019 1st tranche	(b)	39,994	39,993
RMB 15 billion – 10-year fixed rate tier-two capital bonds 2017 1st tranche	(c)	14,987	14,987
RMB 15 billion – 10-year fixed rate tier-two capital bonds 2017 2nd tranche	(d)	14,988	14,987
RMB 20 billion – 10-year fixed rate tier-two capital bonds 2016	(e)	19,986	19,985
Total		139,950	139,951

- (a) Tier-two capital bonds with a nominal value of RMB 50 billion, a term of 10 years, and a fixed coupon rate of 3.75% per annum, were issued at 24 June 2020. The Bank has an option to redeem all or part of the bonds at par value during the period from the last day of the fifth year to the maturity date.
- (b) Tier-two capital bonds with a nominal value of RMB 40 billion, a term of 10 years, and a fixed coupon rate of 4.48% per annum, were issued at 27 February 2019. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.
- (c) Tier-two capital bonds with a nominal value of RMB 15 billion, a term of 10 years, and a fixed coupon rate of 4.70% per annum, were issued at 12 September 2017 as the 1st tranche. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.
- (d) Tier-two capital bonds with a nominal value of RMB 15 billion, a term of 10 years, and a fixed coupon rate of 4.70% per annum, were issued at 27 November 2017 as the 2nd tranche. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.
- (e) Tier-two capital bonds with a nominal value of RMB 20 billion, a term of 10 years, and a fixed coupon rate of 3.50% per annum, were issued at 30 August 2016. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.28 Debt securities issued *(continued)*

(3) Medium-term and short-term notes

	Note	30 June 2021	31 December 2020
2020 – 3-year medium-term notes	(a)	3,228	3,262
2018 – 5-year medium-term notes	(b)	3,870	3,910
2017 – 5-year medium-term notes	(c)	2,258	2,280
2018 – 3-year medium-term notes	(d)	–	2,604
2021 short-term notes	(e)	1,163	–
Total		10,519	12,056

- (a) Medium-term notes with a nominal value of USD 0.5 billion of medium-term notes were issued on 22 October 2020, with a term of 3 years. The coupon rate is 1.08%.
- (b) Medium-term notes with a nominal value of USD 0.6 billion of medium-term notes were issued at 9 March 2018, with a term of 5 years. The coupon rate is 1.17%.
- (c) Medium-term notes with a nominal value of USD 0.35 billion of medium-term notes were issued at 11 September 2017, with a term of 5 years. The coupon rate is 1.12%.
- (d) Medium-term notes with a nominal value of USD 0.4 billion of medium-term notes were issued at 9 March 2018, with a term of 3 years. The coupon rate is 3.50%. The Bank repaid all of them on 9 March 2021.
- (e) Four short-term notes with total nominal value of USD 0.18 billion of short-term notes were issued in 2021. The original maturities of the notes vary from 3 months to 1 year, and the interest rate range is 1.00%-1.80%.

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.28 Debt securities issued (continued)

(4) Subordinated bonds

	Note	30 June 2021	31 December 2020
RMB 4 billion – 15-year subordinated fixed rate bonds 2011	(a)	–	3,996

- (a) Subordinated bonds with a nominal value of RMB 4 billion, a term of 15 years and a fixed coupon rate of 5.70% per annum, were issued at 18 March 2011. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the tenth year to the maturity date. The Bank repaid all of them on 18 March 2021.

According to the issuance terms, the claims of the holders of subordinated bonds will be subordinated to the claims of general creditors, but prioritized over other equity instrument holders.

6.29 Other liabilities

	Note	30 June 2021	31 December 2020
Items in the process of clearance and settlement		13,282	9,374
Employee benefits payable	(1)	9,533	10,877
Lease payments received in advance		9,463	9,642
Other tax payable	(2)	6,222	6,514
Notes payable		5,000	3,330
Payable for long-term assets		1,984	430
Dividend payable		1,795	3
Entrusted wealth management funds		1,402	–
Continuously involved liabilities		1,038	1,038
Deferred fee and commission income		829	790
Intermediate collection and payment		699	1,225
Accrued expenses		681	836
Others		5,446	3,524
Total		57,374	47,583

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6 Notes to the consolidated financial statements *(continued)*

6.29 Other liabilities *(continued)*

(1) Employee benefits payable

	1 January 2021	Increase	Decrease	30 June 2021
Short-term employee benefits				
– Salaries, bonuses and allowances	10,347	9,567	(11,080)	8,834
– Staff welfare fees	–	702	(702)	–
– Social insurance (a) and supplementary insurance	162	450	(435)	177
– Housing fund	127	663	(596)	194
– Labour union fee, staff and workers' education fee	34	227	(174)	87
Subtotal	10,670	11,609	(12,987)	9,292
Post-employment benefits -defined contribution plans				
– Basic pension insurance plans	136	763	(730)	169
– Unemployment insurance	21	29	(29)	21
– Annuity scheme (b)	50	515	(514)	51
Subtotal	207	1,307	(1,273)	241
Total	10,877	12,916	(14,260)	9,533

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements (continued)**6.29 Other liabilities (continued)****(1) Employee benefits payable (continued)**

	1 January 2020	Increase	Decrease	31 December 2020
Short-term employee benefits				
– Salaries, bonuses and allowances	10,154	21,264	(20,971)	10,347
– Staff welfare fees	–	2,184	(2,184)	–
– Social insurance (a) and supplementary insurance	126	1,058	(1,022)	162
– Housing fund	160	1,290	(1,323)	127
– Labour union fee, staff and workers’ education fee	28	568	(562)	34
Subtotal	10,468	26,264	(26,062)	10,670
Post-employment benefits -defined contribution plans				
– Basic pension insurance plans	118	943	(925)	136
– Unemployment insurance	20	40	(39)	21
– Annuity scheme (b)	57	995	(1,002)	50
Subtotal	195	1,978	(1,966)	207
Total	10,663	28,242	(28,028)	10,877

(a) Social insurance includes medical insurance, maternity insurance and employment injury insurance.

(b) For the six months ended 30 June 2021, the contributions to the annuity schemes of the Bank and those subsidiaries were calculated at rates from 0% to 8% of the employees’ total annual salary (2020: 0% to 8%).

The Group has set up a defined contribution plan for its Hong Kong employees in accordance with the contribution rates prescribed by local regulations.

(2) Other tax payable

	30 June 2021	31 December 2020
Value added tax	5,448	5,411
Others	774	1,103
Total	6,222	6,514

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6 Notes to the consolidated financial statements (*continued*)

6.30 Share capital and capital reserve

	30 June 2021	31 December 2020
Ordinary shares listed in Chinese mainland (A shares)	35,462	35,462
Ordinary shares listed in Hong Kong (H shares)	8,320	8,320
Total shares	43,782	43,782

All A shares and H shares are with no selling restrictions and rank pari passu with the same rights and benefits.

The Group's capital reserve of RMB 57,419 million as at 30 June 2021 (31 December 2020: RMB 57,419 million), mainly represents capital premium.

6.31 Preference Shares

(1) Outstanding Preference Shares at 30 June 2021

Financial Instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (million shares)	In original currency	In RMB	Maturity	Conversion condition	Conversion
Overseas Preference Shares	14/12/2016	Equity	4.95%	USD 20/Share	72	1,439	9,933	None	Mandatory	No
Total							9,933			
Less: Issue fees							(41)			
Book value							9,892			
Domestic Preference Shares	15/10/2019	Equity	4.38%	RMB 100/Share	200	20,000	20,000	None	Mandatory	No
Total							20,000			
Less: Issue fees							(25)			
Book value							19,975			
Total							29,867			

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6 Notes to the consolidated financial statements *(continued)*

6.31 Preference Shares *(continued)*

(2) Overseas Preference Shares Main Clauses

(a) Dividend

Fixed rate for a certain period after issuance. Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the Preference Shares. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference Shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full.

(d) Order of distribution and liquidation method

In current period, the USD Overseas Preference Shareholders are at the same order of compensation. The Preference Shareholders will be subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier 2 capital bonds, holders of Perpetual Bonds and holders of other Tier 2 capital instruments of the Bank, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the Preference Shares into H shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%. If Preference Shares were converted to ordinary H shares, it could not be converted to Preference Shares again.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBIRC has determined that the Bank would become nonviable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become nonviable), the Bank shall have the right to convert all Preference Shares into H shares without the consent of Preference Shareholders. If Preference Shares were converted to ordinary H shares, it could not be converted to Preference Shares again.

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.31 Preference Shares *(continued)*

(2) Overseas Preference Shares Main Clauses *(continued)*

(f) Redemption

Under the premise of obtaining the approval of the CBIRC and condition of redemption, the Bank has right to redeem all or some of overseas preference shares in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The First Redemption Date of USD Preference Shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares, which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

The Bank shall distribute dividends for the Preference Shares in cash, based on the total amount of the issued and outstanding Preference Shares on the corresponding times (i.e. the product of the issue price of preference shares and the number of the issued and outstanding preference shares).

(3) Domestic Preference Shares Main Clauses

(a) Dividend

The non-public offering of domestic preference shares (the "Domestic Preference Shares") adopts the dividend rate that can be adjusted in stages, with 5 years as a dividend rate adjustment period, and within a dividend rate adjustment period, dividends are paid at the same dividend rate as agreed. The dividend rate for the first dividend rate adjustment period will be determined by enquiry. The dividend rate of the Domestic Preference Shares issued this time shall not be higher than the annual weighted average return on net assets of the Bank in the last two fiscal years. The nominal dividend rate includes two parts: the benchmark interest rate and the fixed premium. The fixed premium is the dividend rate determined at the time of issuance minus the benchmark interest rate at the time of issuance. Dividends are paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed and investors shall be informed in time.

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6 Notes to the consolidated financial statements *(continued)*

6.31 Preference Shares *(continued)*

(3) Domestic Preference Shares Main Clauses *(continued)*

(c) Dividend stopper

The Bank will not pay dividends to the common shareholders unless the Bank resolves to pay a full dividend on the current preference shares.

(d) Order of distribution and liquidation method

The Domestic Preference Shareholders have priority over the ordinary shareholders in the distribution of the Bank's remaining property, but the order of repayment is ranked after the depositors, general creditors and subordinated debts (including but not limited to subordinated debts, mixed capital bonds and secondary capital instruments).

(e) Mandatory conversion trigger events

If the core tier one capital adequacy ratio of the Bank falls to 5.125% (or below), the Domestic Preference Shares issued this time will be converted into A-share common shares in full or in part, so as to restore the core tier one capital adequacy ratio to more than 5.125%. In the case of partial conversion, all the Domestic Preference Shares issued this time shall be converted to shares on the same conditions in proportion.

When the earlier of the following two situations occurs, the Domestic Preference Shares issued this time will be converted into A-share common shares in full: (1) CBIRC determines that the Bank will not survive without the conversion; (2) the relevant departments determine that the Bank will not survive without the public sector's capital injection or the support of the same effect.

(f) Redemption

With the prior approval of CBIRC, the Bank may exercise the right of redemption under the following circumstances: (1) use the same or higher quality capital instruments to replace the redeemed Domestic Preference Shares, and the Bank's income ability is sustainable; (2) or the capital level after the exercise of the right of redemption is still significantly higher than the regulatory capital requirements specified by the banking regulatory authority under the State Council. The redemption price is the sum of the nominal amount and the dividend that has been resolved to be paid but has not been paid in the current period.

The Bank has the right to redeem all or part of the Domestic Preference Shares issued this time from the later 5 years of the Issuance Date (i.e. 15 October 2019) to the date of full conversion or full redemption.

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6 Notes to the consolidated financial statements *(continued)*

6.31 Preference Shares *(continued)*

(3) Domestic Preference Shares Main Clauses *(continued)*

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares, which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders. The Domestic Preference Shares holders are prioritised on dividend distribution over common shareholders.

The dividend of the Domestic Preference Shares issued this time shall be paid in cash once a year. The interest starting date is the payment deadline of preference stock investors (18 October 2019). The dividend payment day shall be the day of every full year since the deadline for payment of preference stock investors. In case of any legal holiday or rest day in China, it shall be postponed to the next trading day, and the dividend payable during the extended period shall not be charged with additional interest.

6.32 Perpetual Bonds

(1) Outstanding Perpetual Bonds at 30 June 2021

Financial Instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount (million pieces)	In original currency	In RMB	Maturity	Conversion condition	Conversion
2019 Undated Tier 1 Capital Bonds	30/05/2019	Equity	4.85%	100 RMB/ Piece	400	40,000	40,000	None	No	No
Total							40,000			
Less: Issue fees							(7)			
Book value							39,993			
2021 Undated Tier 1 Capital Bonds – First Tranche	19/04/2021	Equity	4.30%	100 RMB/ Piece	300	30,000	30,000	None	No	No
Total							30,000			
Less: Issue fees							(4)			
Book value							29,996			
Total							69,989			

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.32 Perpetual Bonds *(continued)*

(2) Main Clauses

(a) *Principal Amount*

2019 Undated Tier 1 Capital Bonds RMB 40 billion.

2021 Undated Tier 1 Capital Bonds – First Tranche RMB 30 billion.

(b) *Maturity Date*

The Notes will continue to be outstanding so long as the Issuer's business continues to operate.

(c) *Distribution Rate*

The Distribution Rate of the Notes will be adjusted at defined intervals, with a Distribution Rate Adjustment Period every 5 years since the Payment Settlement Date. In any Distribution Rate Adjusted Period, the Distribution Payments on the Notes will be made at a prescribed fixed Distribution Rate. The Distribution Rate at the time of issuance will be determined by book running and centralized allocation.

The Distribution Rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of 5 trading days prior to the Announcement Date of the Subscription Agreement, as indicated by the yield to maturity curve of applicable 5-year China Treasury Notes (rounded up to 0.01%) published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the Distribution Rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

(d) *Conditional Redemption Rights of the Issuer*

The Note Issuance sets conditional Redemption Rights for the Issuer. From the fifth anniversary since the Issuance of the Notes, the Issuer may redeem the Notes in whole or in part on each Distribution Payment Date (including the fifth Distribution Payment Date since the Issuance). If, after the Issuance, the Notes no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Issuer may redeem all but not some only of the Notes.

(e) *Subordination*

The claims in respect of the Notes, in the event of a winding-up of the Issuer, will be subordinated to claims of depositors, general creditors, and subordinated indebtedness that ranks senior to the Notes; will rank in priority to all classes of shares held by the Issuer's shareholders and rank *pari passu* with the claims in respect of any other Additional Tier 1 Capital instruments of the Issuer that rank *pari passu* with the Notes. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

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For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.32 Perpetual Bonds *(continued)*

(2) Main Clauses *(continued)*

(f) Distribution Payment

The Issuer shall have the right to cancel, in whole or in part, distributions on the Notes and any such cancellation shall not constitute an event of default. When exercising such right, the Issuer will take into full consideration the interest of the Noteholders. The Issuer may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Notes, no matter in whole or in part, will not impose any other restriction on the Issuer, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the Notes, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Issuer shall give notice to the investors on such cancellation in a timely manner.

The Notes do not have any step-up mechanism or any other incentive to redeem.

(g) Put Option

Put Option is not applicable.

6.33 Related information attributable to the holders of equity instruments

Preference shares and perpetual bonds issued by the Bank are classified as equity instruments and are listed in the consolidated balance sheet under shareholders' equity. In accordance with the relevant regulations of the CBIRC, the preferred shares and perpetual bonds issued by the Bank has met the criteria for qualifying other Tier 1 capital instruments.

Interests attributable to the holders of equity instruments

	30 June 2021	31 December 2020
Total equity attributable to equity holders of the Bank	575,436	529,537
Equity attributable to ordinary equity holders of the Bank	475,580	459,677
Equity attributable to other equity holders of the Bank	99,856	69,860
Of which: Net profit	1,940	3,337
Interest paid/dividends distributed during the period	1,940	3,337
Total equity attributable to non-controlling interests	11,859	11,711
Equity attributable to non-controlling interests of ordinary shares	11,859	11,711

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.34 Surplus reserve, general reserve and retained earnings

(1) Surplus reserve

Under the PRC laws, Articles of the Bank and the resolution of the Board of Directors, the Bank is required to appropriate 10% of its net profit, when the statutory surplus reserve reaches 50% of its registered capital, the Bank is still required to appropriate 10% of its net profit. Subject to the approval of the equity 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.

The Group did not appropriate statutory surplus reserve for the six months ended 30 June 2021 (for the year ended 31 December 2020: RMB 3,317 million).

(2) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions of Financial Enterprises (Cai Jin [2012] No. 20) issued by the MOF, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and should not be less than 1.5% of the year-end balance of risk-bearing assets.

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

The Group appropriated RMB 118 million of profits to the general reserve for the six months ended 30 June 2021 (for the year ended 31 December 2020: RMB 4,878 million).

(3) Retained earnings

As at 30 June 2021, the retained earnings included the statutory surplus reserve of RMB 707 million contributed by the subsidiaries and attributable to the Bank (31 December 2020: RMB 661 million). The surplus reserve of the subsidiaries attributable to the Bank included in the retained earnings cannot be distributed.

6.35 Non-controlling interests

As at 30 June 2021, the non-controlling interests in the subsidiaries were RMB 11,859 million (31 December 2020: RMB 11,711 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.36 Dividends/Interests

(1) Dividends for Ordinary Shares

The shareholders approved the cash dividends distribution plan for 2020 at the Annual General Meeting on 11 June 2021. The cash dividends declared was RMB 2.13 (tax inclusive) for every 10 shares. A total dividend of RMB 9,326 million was based on total number of shares of 43,782 million as at 31 December 2020.

The shareholders approved the cash dividends distribution plan for 2019 at the Annual General Meeting on 29 June 2020. The cash dividends declared was RMB 3.70 (tax inclusive) for every 10 shares. A total dividend of RMB 16,199 million was based on total number of shares of 43,782 million as at 31 December 2019.

(2) Dividends for Preference Shares

According to the resolution on the distribution of dividends for overseas preference shares passed at the Board of Directors' meeting held on 30 November 2020, dividend to be distributed amounts to RMB 521 million (including tax), calculated at the initial annual dividend rate of 4.95% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date was 14 December 2020.

According to the resolution on the distribution of dividends for domestic preference shares passed at the Board of Directors' meeting held on 28 August 2020, dividend to be distributed amounted to RMB 876 million (including tax), calculated at the coupon rate of 4.38% (including tax). The dividend payment date was 19 October 2020.

(3) Interests for Perpetual Bonds

On 2 June 2021, the Bank declared interest of 2019 undated tier 1 capital bonds. Interest to be distributed amounts to RMB 1,940 million (tax inclusive), calculated at the initial annual pay-out ratio of 4.85% (tax inclusive) before the first reset date pursuant to the terms and conditions of perpetual bonds.

On 27 May 2020, the Bank declared interest of 2019 undated tier 1 capital bonds. Interest to be distributed amounts to RMB 1,940 million (tax inclusive), calculated at the initial annual pay-out ratio of 4.85% (tax inclusive) before the first reset date pursuant to the terms and conditions of perpetual bonds.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements (continued)

6.37 Investment revaluation reserve and cash flow hedging reserve

Investment revaluation reserve and cash flow hedging reserve attributable to equity holders of the Bank in the consolidated statement of financial position:

	Investment revaluation reserve	Cash flow hedging reserve	Total
As at 1 January 2021	(1,740)	(24)	(1,764)
Net changes in amount for the period	587	17	604
Retained earnings converted from investment revaluation reserve	(3)	–	(3)
As at 30 June 2021	(1,156)	(7)	(1,163)

	Investment revaluation reserve	Cash flow hedging reserve	Total
As at 1 January 2020	1,822	(3)	1,819
Net changes in amount for the period	(3,541)	(21)	(3,562)
Retained earnings convert from investment revaluation reserve	(21)	–	(21)
As at 31 December 2020	(1,740)	(24)	(1,764)

6.38 Notes to the consolidated cash flow statement

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of the following:

	30 June 2021	31 December 2020
Cash (Note 6.9)	5,211	5,360
Surplus deposit reserves with central bank (Note 6.9)	70,340	63,799
Original maturity within 3 months:		
– Balances with banks and other financial institutions	81,743	48,559
– Placements with banks and other financial institutions	135,560	40,201
Total	292,854	157,919

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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6 Notes to the consolidated financial statements *(continued)*

6.39 Transferred financial assets

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial de-recognition of the financial assets concerned. In other cases where the transferred assets do not qualify for de-recognition as the Group retains substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

(1) Securitization transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished control over these assets.

For the six months ended 30 June 2021, securitisation transactions of RMB 2,016 million were transferred by the Group (2020: RMB 2,023 million). These transactions were all qualified for full de-recognition concluded by the Group.

(2) Transfer of non-performing financial assets

For the six months ended 30 June 2021, the Group transferred non-performing financial assets through disposal to third parties, with gross balance of RMB 8,986 million (2020: RMB 43,993 million). The Group transferred substantially all the risks and rewards of these non-performing financial assets and therefore has derecognized them.

(3) Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or re-pledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 30 June 2021, the carrying amount of debt securities lent to counterparties was RMB 51 million (31 December 2020: RMB 100 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

7 Contingent liabilities and commitments

7.1 Credit commitments

Credit commitments take the form of approved loans with signed contracts, credit card limits, financial guarantees and letters of credit. The Group regularly assesses the contingent losses of its credit commitments and makes allowances where necessary.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties fail to fully perform as contracted. 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.

As the credit facilities may expire without being drawn upon, the contract amounts set out in the following table do not represent expected future cash outflows.

	30 June 2021	31 December 2020
Bank acceptances	360,975	403,532
Guarantees	164,080	158,889
Letters of credit	86,209	116,333
Unused credit card commitments	522,275	478,980
Irrevocable credit commitments		
– original maturity date within 1 year	5,520	9,862
– original maturity date over 1 year (inclusive)	4,347	3,154
Total	1,143,406	1,170,750
Credit risk weighted amounts of credit commitments	327,969	320,848

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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7 Contingent liabilities and commitments (*continued*)

7.2 Capital commitments

	30 June 2021	31 December 2020
Contracted but not paid for	19,664	15,775

7.3 Collateral

(1) Assets pledged

The book value of assets used as collateral for business such as borrowings from banks and other financial institutions, selling for repurchase, borrowings from central bank, derivative transactions and precious metal transactions are as follows:

	30 June 2021	31 December 2020
Balances with banks and other financial institutions	6,984	7,951
Loans and advances to customers	193,060	140,780
Discounted bills	21,415	21,192
Bonds	209,679	278,664
Long-term receivables	13,774	25,486
Property and equipment	9,754	10,681
Others	583	1,526
Total	455,249	486,280

(2) Collateral accepted

The Group received debt securities and bills as collateral in connection with the purchase of assets under resale agreements and securities lending transactions. As at 30 June 2021, the fair value of the collateral that the Group had sold, but was obligated to return, was RMB 1,594 million (31 December 2020: RMB 758 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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7 Contingent liabilities and commitments (*continued*)

7.4 Underwriting of securities

	30 June 2021	31 December 2020
Medium and short-term finance bills	318,401	260,500

7.5 Redemption commitments

As an underwriting agent of certificated PRC government bonds, the Bank has the obligation to buy back those bonds sold to it should the holders decide to redeem the bonds early. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. The amount of redemption obligation, which represents the nominal value of government bonds underwritten and sold by the Bank, but not yet matured as at 30 June 2021 was RMB 961 million (31 December 2020: RMB 829 million). The original maturities of the bonds vary from one to five years.

7.6 Outstanding litigation

A number of outstanding litigation matters against the Group had arisen in the normal course of its business as at 30 June 2021. With consideration of the professional advice, the Group's management believes that litigation matters will not have any material adverse effect on the Group financial position or operating results.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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8 Interests in structured entities

8.1 Consolidated structured entities

As at 30 June 2021 and 31 December 2020, the Group has no consolidated structured entities.

8.2 Unconsolidated structured entities

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

Unconsolidated structured entities sponsored by third party institutions include asset-backed securities, funds, trust and asset management plans and others. The Group holds interests in these structured entities and has no obligation or intention to provide financial support to these structured entities, and the Group records interest income, net trading gain and net gain from investment securities therefrom.

The following tables set out an analysis of the line items in the statement of financial position in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2021			Total
	Financial assets at fair value through profit and loss	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	
Asset-backed securities	1,354	220,292	58,541	280,187
Funds	239,652	–	–	239,652
Trust and asset management plans	9,375	91,589	–	100,964
Others	3,620	–	–	3,620
Total	254,001	311,881	58,541	624,423

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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8 Interests in structured entities (Continued)

8.2 Unconsolidated structured entities (continued)

(1) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

	31 December 2020			Total
	Financial assets at fair value through profit and loss	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	
Asset-backed securities	304	227,833	75,062	303,199
Funds	190,744	–	–	190,744
Trust and asset management plans	10,168	133,800	–	143,968
Wealth management products	4,197	–	–	4,197
Others	3,332	–	–	3,332
Total	208,745	361,633	75,062	645,440

The maximum exposures to loss in the above asset-backed securities, funds, trust and asset management plans and others are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

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8 Interests in structured entities *(Continued)*

8.2 Unconsolidated structured entities *(continued)*

(2) Interests held in structured entities sponsored and managed but not consolidated by the Group

Structured entities sponsored and managed but not consolidated by the Group primarily include non-principal-guaranteed wealth management products, funds and asset management plans. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. Interests held by the Group are mainly fees charged by providing management services. The Group has no obligation or intention to provide financial support to these structured entities.

In July 2020, the regulators announced the extension to the end of 2021 of the transition period set out in the *Guiding Opinions on Improving the Compliance of the Asset Management Operations of Financial Institutions*, encouraging financial institutions to adopt a combination of methods to dispose their existing portfolio, including assumption in the new products, market-oriented transfer, and/or recognition in the balance sheet. The Bank is moving steadily ahead with the relevant work to ensure the smooth transition and robust development of the asset and wealth management business. In 2021 and 2020, the Group undertook part of the wealth management investment assets from non-principal-guaranteed wealth management products issued in the Group's financial investments.

As at 30 June 2021, the balance of non-principal-guaranteed wealth management products sponsored and managed but not consolidated by the Group is RMB 852,721 million (31 December 2020: RMB 861,132 million), and the balance of funds and asset management plans sponsored and managed but not consolidated by the Group is RMB 220,922 million (31 December 2020: RMB 233,095 million).

For the six months ended 30 June 2021, the amount of fee and commission income received from the above mentioned structured entities by the Group is RMB 2,530 million (for the six months ended 30 June 2020: RMB 2,536 million). As at 30 June 2021 and 31 December 2020, the carrying amounts of commission receivable being recognised are not material in the statement of financial positions.

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9 Entrusted lending business

As at the end of the reporting period, the entrusted loans and entrusted funds were as follows:

	30 June 2021	31 December 2020
Entrusted loans	233,739	222,672
Entrusted funds	233,739	222,672

10 Related parties

10.1 Related parties

- (1) Related parties of the Group refer to entities controlled, or jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, joint control or significant influence of another party. Related parties can be individuals or enterprises.

Related parties that have significant influence on the Group include: members of the Board of Directors, the Board of Supervisors and senior management of head office and branches, people who have the power to decide or participate in the Bank's credit granting and asset transfer and close family members of such individuals; controlling natural person shareholders, members of the Board of Directors and key management personnel of the Bank's related legal persons or other organizations (excluding the legal persons or other organizations that are under direct, indirect or joint control of or under significant influence of the Bank's insiders, major natural person shareholder and close family members of such individuals); entities and their subsidiaries controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management of head office and branches, people who have the power to decide or participate in the Bank's credit granting and asset transfer and their close family members of such individuals; major shareholders with the power to influence the Bank's operating or financial policies, and entities controlled or jointly controlled by these major shareholders.

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10 Related parties (continued)

10.1 Related parties (continued)

(2) The Bank's major shareholders

Company name	Registered location	30 June 2021		31 December 2020		Business (a)	Legal form	Legal representative
		No. of Shares of the Bank held by the Company (share)	Proportion of shares of the Bank held by the Company (%)	No. of Shares of the Bank held by the Company (share)	Proportion of shares of the Bank held by the Company (%)			
Dajia Life Insurance Inc.	Beijing	7,810,214,889	17.84	7,810,214,889	17.84	Insurance business	Joint stock limited company	He Xiaofeng
Huaxia Life Insurance Co., Ltd. (c)	Tianjin	2,148,793,436	4.91	2,148,793,436	4.91	Insurance business	Joint stock limited company	Liu Hongjian
Orient Group Incorporation	Harbin	1,280,117,123	2.92	1,280,117,123	2.92	Wholesaling	Joint stock limited company	Sun Mingtao
Oriental Group Co., Ltd.	Beijing	35,000,000	0.08	35,000,000	0.08	Commercial service	Limited company	Zhang Xianfeng
China Oceanwide Holdings Group Co., Ltd.	Beijing	2,019,182,618	4.61	2,019,182,618	4.61	Commercial service	Limited company	Lu Zhiqiang
Oceanwide International Equity Investment Limited	British Virgin Islands	604,300,950	1.38	604,300,950	1.38	Investment holding	Limited company	(b)
China Oceanwide International Investment Company Limited	Hong Kong	8,237,520	0.02	8,237,520	0.02	Investment holding	Limited company	(b)
Long Prosper Capital Company Limited	British Virgin Islands	408,000,000	0.93	408,000,000	0.93	Investment holding	Limited company	(b)
New Hope Liuhe Investment Co., Ltd.	Lhasa	1,828,327,362	4.18	1,828,327,362	4.18	Commercial service	Limited company	Wang Pusong
South Hope Industrial Co., Ltd.	Lhasa	343,177,327	0.78	343,177,327	0.78	Retailing	Limited company	Li Jianxiong
Shanghai Giant Lifetech Co., Ltd.	Shanghai	1,379,679,587	3.15	1,379,679,587	3.15	Retailing	Limited company	Wei
China Shipowners Mutual Assurance Association	Beijing	1,324,284,453	3.02	1,324,284,453	3.02	Insurance business	National social group	Song Chunfeng
Tongfang Guoxin Investment Co., Ltd.	Chongqing	1,888,530,701	4.31	1,888,530,701	4.31	Capital market service	Limited company	Liu Qingjin

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10 Related parties (continued)

10.1 Related parties (continued)

(2) The Bank's major shareholders (continued)

Company name	Registered location	30 June 2021		31 December 2020		Business (a)	Legal form	Legal representative
		No. of Shares of the Bank held by the Company (share)	Proportion of shares of the Bank held by the Company (%)	No. of Shares of the Bank held by the Company (share)	Proportion of shares of the Bank held by the Company (%)			
Chongqing International Trust Co., Ltd.	Chongqing	113,091,421	0.26	113,091,421	0.26	Other financial industry	Joint stock limited company	Weng Zhenjie
Good First Group Co., Ltd.	Shanghai	206,340,026	0.47	206,340,026	0.47	Wholesaling	Limited company	Wu Di
Tibet Rong Jie Corporate Management Co., Ltd.	Lhasa	145,849,600	0.33	125,249,600	0.29	Commercial service	Limited company	Chen Zhenling
Tibet Heng Xun Corporate Management Co., Ltd.	Lhasa	105,844,780	0.24	105,844,780	0.24	Commercial service	Limited company	Hong Zhihua
Tibet Fu Ju Investment Co., Ltd.	Lhasa	340,922,400	0.78	340,922,400	0.78	Commercial service	Limited company	Wu Di

(a) Particulars of principal operations:

Dajia Life Insurance Inc.: life insurance, health insurance, accident insurance and other types of life insurance business; reinsurance for the aforementioned business operations; business operations involving the use of insurance funds as permitted by relevant laws and regulations of the state; other business activities as approved by the former China Insurance Regulatory Commission.

Huaxia Life Insurance Co., Ltd.: life insurance, health insurance, accident insurance and other types of life insurance business, reinsurance for the aforementioned business operations; business operations involving the use of insurance funds as permitted by relevant laws and regulations of the state; other business activities as approved by the former China Insurance Regulatory Commission.

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10 Related parties (*continued*)

10.1 Related parties (*continued*)

(2) The Bank's major shareholders (*continued*)

(a) Particulars of principal operations (*continued*):

Orient Group Incorporation: food procurement; import and export of goods (or technologies) (other than those prohibited by the state, and engagement in state-run trade or state-controlled projects permissible only after obtaining proper authorizations or licenses); foreign economic and technical cooperation; foreign project contracting; occupational intermediary; real estate property management; distribution of light construction materials, furniture, home decoration materials, construction machinery, hardware and electrical appliances, and sanitary wares; manufacturing and sales of electrical contact materials, development of silver-free contact related products; food sales, rice planting, high-quality seed cultivation, and related research and development.

Oriental Group Co., Ltd.: (Formerly Oriental Group Investment Holdings Co., Ltd.): project investment; investment management; real estate development; import and export agency; goods import and export; and economic and trade consulting, etc.

China Oceanwide Holdings Group Co., Ltd.: finance; real estate and investment management, etc.

Oceanwide International Equity Investment Limited: investment holdings, etc.

China Oceanwide International Investment Co, Ltd.: investment holdings, etc.

Long Prosper Capital Company Limited: investment holdings, etc.

New Hope Liuhe Investment Co., Ltd.: venture capital; investment management; financial advisory; wealth management consulting; corporate restructuring consulting; market survey; credit investigation; technology development and transfer; technical consulting services, etc.

South Hope Industrial Co., Ltd.: Feed research and development; wholesale and retail: electronic products, hardware fittings and parts and electrical wares and products, household commodities, knitwear and textiles, stationery and office supplies (excluding color photocopiers), building materials (excluding hazardous chemicals and wood), agricultural product, byproducts and distinctive local goods and produce (excluding those specified by the state), chemical products (excluding hazardous chemicals), and machinery and equipment; investment and consulting services (excluding intermediary services).

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10 Related parties (*continued*)

10.1 Related parties (*continued*)

(2) The Bank's major shareholders (*continued*)

(a) Particulars of principal operations (*continued*):

Shanghai Giant Lifetech Co., Ltd.: food production and sales (through branch networks); sales of cosmetics, cleaning supplies, health care equipment, kitchenware; R&D, technological consultation, technological services and technology transfer in relation to health care food; wholesale of pre-packaged food (excluding pre-cooked food and sauced food, frozen and refrigerated food); investment management; asset management; investment consulting; business information consulting; and business management consulting.

China Shipowners Mutual Assurance Association: marine mutual insurance; business training; maritime exchanges; international cooperation; and consulting services.

Tongfang Guoxin Investment Co., Ltd.: transportation facilities maintenance; engineering management services; standardized services; planning and design management; corporate headquarters management; business management; commercial complex management services; external contracting projects; real estate property management; proprietary investments (forbidden financial operations include: absorption of public deposits or disguised absorption of public deposits, loans and securities offering, and futures, etc.); investment-related advisory services in relation to market information and investment policies to its affiliates; corporate restructuring and M&A planning and advisory services (Where pre-approval is required, the company may engage in such business operations after obtaining the approval of competent authorities as per relevant laws and regulations).

Chongqing International Trust Co., Ltd.: fund trusts, movable property trusts, real estate trusts, securities trusts, other property or property rights trusts; investment fund business as the sponsor of investment funds or fund management companies; asset restructuring, mergers and acquisitions and project financing, corporate wealth management, financial consulting, etc.; entrusted securities underwriting as approved by relevant departments of the State Council; intermediary, consulting, credit investigation services; safekeeping and safe deposit box services; placement with banks and other financial institutions, lending to banks and other financial institutions, loans, leases and investments with proprietary assets; guarantees with proprietary assets; placement with and lending to banks and other financial institutions; other business operations permissible under relevant laws and regulations or as approved by the China Banking and Insurance Regulatory Commission (all above in both Renminbi and foreign currencies).

Good First Group Co., Ltd.: high-tech product R&D and sales, industrial investments; investments in education, agriculture, industry, entertainment and health care industry; sales of photography and new building materials; wholesale and retail: chemicals (excluding hazardous chemicals and restricted chemicals), knitwear and textiles, hardware fittings and parts and electric wares and products, household commodities, metal materials, construction materials, automobiles (excluding passenger cars) and parts, general machinery, electronic products and communications equipment, and mineral products as approved by the state.

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For the six months ended 30 June 2021
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10 Related parties (*continued*)

10.1 Related parties (*continued*)

(2) The Bank's major shareholders (*continued*)

(a) Particulars of principal operations (*continued*):

Tibet Rong Jie Corporate Management Co., Ltd.: business management services (excluding investment management and investment consulting); corporate image, promotion and branding services; exhibition and demonstration services; market survey (excluding those involving national secrets and personal privacy); retail of building and auxiliary materials and metal materials; sales of feed, fertilizer, rubber products, and raw chemical materials (excluding hazardous chemicals and chemicals that can be easily used to produce addictive drugs); investments in the medical industry (forbidden operations include: equity investments; fundraising through public offerings, absorption of public deposits, loans; public trading of securities investment products or financial derivative products; financial products, wealth management products and related derivative businesses). (Where pre-approval is required, the company may engage in such business operations after obtaining the approval of competent authorities as per relevant laws and regulations).

Tibet Heng Xun Corporate Management Co., Ltd.: corporate image, promoting and branding services; exhibition and demonstration services; market survey (excluding those involving national secrets and personal privacy); retail of building materials and auxiliary building materials; sales of feed and raw materials, fertilizers, rubber products, raw chemical materials (excluding hazardous chemicals and chemicals that can be easily used to produce addictive drugs), and metal materials (Where pre-approval is required, the company may engage in such business operations after obtaining the approval of competent authorities as per relevant laws and regulations).

Tibet Fu Ju Investment Co., Ltd.: investments in commercial, agricultural, medical, entertainment and education industries (forbidden operations include: trust, financial asset management, and securities asset management business; also excluded: securities, insurance, funds, financial business and their restricted activities) (Where pre-approval is required, the company may engage in such business operations after obtaining the approval of competent authorities as per relevant laws and regulations).

- (b) The Oceanwide International Equity Investment Limited, China Oceanwide International Investment Company Limited and Long Prosper Capital Company Limited are entities incorporated overseas, and are ultimately controlled by Mr. Lu Zhiqiang.

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10 Related parties (continued)

10.1 Related parties (continued)

(2) The Bank's major shareholders (continued)

(c) As at 30 June 2021, Huaxia Life Insurance Co., Ltd. was no longer a major shareholder of the Bank.

The information of registered capital of the related parties as at the end of the reporting period is as below:

Company name	30 June 2021	31 December 2020
Dajia Life Insurance Inc.	RMB 30,790 million	RMB 30,790 million
Huaxia Life Insurance Co., Ltd.	RMB 15,300 million	RMB 15,300 million
Orient Group Incorporation	RMB 3,715 million	RMB 3,715 million
Oriental Group Co., Ltd.	RMB 1,000 million	RMB 1,000 million
China Oceanwide Holdings Group Co., Ltd.	RMB 20,000 million	RMB 20,000 million
Oceanwide International Equity Investment Limited	USD 0.05 million	USD 0.05 million
China Oceanwide International Investment Co., Ltd.	HKD 1,548 million	HKD 1,548 million
Long Prosper Capital Company Limited	USD 0.05 million	USD 0.05 million
New Hope Liuhe Investment Co., Ltd.	RMB 577 million	RMB 577 million
South Hope Industrial Co., Ltd.	RMB 1,034 million	RMB 1,034 million
Shanghai Giant Lifetech Co., Ltd.	RMB 245 million	RMB 245 million
China Shipowners Mutual Assurance Association	RMB 0.10 million	RMB 0.10 million
Tongfang Guoxin Investment Co., Ltd.	RMB 2,574 million	RMB 2,574 million
Chongqing International Trust Co., Ltd.	RMB 15,000 million	RMB 15,000 million
Good First Group Co., Ltd.	RMB 133 million	RMB 133 million
Tibet Heng Xun Corporate Management Co., Ltd.	RMB 10 million	RMB 10 million
Tibet Rong Jie Corporate Management Co., Ltd.	RMB 10 million	RMB 10 million
Tibet Fu Ju Investment Co., Ltd.	RMB 300 million	RMB 300 million

(3) The detailed information of the Bank's subsidiaries is set out in Note 6.20.

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For the six months ended 30 June 2021
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10 Related parties (continued)

10.1 Related parties (continued)

(4) Relationship with related parties

Company name	Relationship with the Bank
SHR FSST, LLC	Related party of Dajia Life Insurance Inc.
Anbang Property & Casualty Insurance Co., Ltd. (a)	Related party of Dajia Life Insurance Inc.
UNITED ENERGY GROUP (HONG KONG) LIMITED	Related party of Orient Group Incorporation
Oriental Group Cereals, Oils and Foodstuffs Co., Ltd.	Related party of Orient Group Incorporation
Yumi Net Supply Chain (Dalian) Co., Ltd.	Related party of Orient Group Incorporation
CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED	Related party of China Oceanwide Holdings Group Co., Ltd.
Oceanwide Holding Co., Ltd.	Related party of China Oceanwide Holdings Group Co., Ltd.
Wuhan Centre Building Development Investment Co., Ltd.	Related party of China Oceanwide Holdings Group Co., Ltd.
Wuhan CBD Co., Ltd.	Related party of China Oceanwide Holdings Group Co., Ltd.
Grassroots Joint Venture Capital (Beijing) Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Chengdu Hengjilong Real Estate Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Chengdu New Hope Real Estate Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Sichuan Guida Industrial Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Sichuan Special Drive Education Management Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Sichuan Hope Education Industry Group Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Wenzhou Xinjintian Real Estate Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Chongqing Yujinyue Real Estate Development Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Grassroots Zhiben Group Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Jiang'an Dekang Feed Co., Ltd.	Related party of New Hope Liuhe Investment Co., Ltd.
Alxa Fengwei Photoelectronic Co., Ltd. (a)	Related party of Shanghai Giant Lifetech Co., Ltd.
Inner Mongolia Qinghua Group New Energy Photovoltaic Co., Ltd. (a)	Related party of Shanghai Giant Lifetech Co., Ltd.
Shanghai Gold Partner Biotechnology Co., Ltd.	Related party of Shanghai Giant Lifetech Co., Ltd.
Shanghai Jianjiu Biotechnology Co., Ltd.	Related party of Shanghai Giant Lifetech Co., Ltd.
Shanghai Zhunji Business Consulting Partnership (LP)	Related party of Shanghai Giant Lifetech Co., Ltd.
Chongqing Cibi Business Information Consulting Co., Ltd.	Related party of Shanghai Giant Lifetech Co., Ltd.
Chongqing Yufu Highway Co., Ltd.	Related party of Tongfang Guoxin Investment Co., Ltd.
Xiamen Jingding Sports Culture Development Co., Ltd.	Related party of Good First Group Co., Ltd.
Xiamen University Electronic Information Technology Co., Ltd.	Related party of Good First Group Co., Ltd.
Xiamen Dazu Real Estate Development Co., Ltd.	Related party of Good First Group Co., Ltd.
Xiamen Rongyin Co., Ltd.	Related party of Good First Group Co., Ltd.
Xiamen Tongxincheng Industry and Trade Co., Ltd.	Related party of Good First Group Co., Ltd.
Tianjin Haihui Real Estate Development Co., Ltd.	Related party of Good First Group Co., Ltd.
Zhangzhou Tangcheng Real Estate Co., Ltd.	Related party of Good First Group Co., Ltd.
Orient Hope Baotou Rare Earth Aluminium Co., Ltd.	Related party of Orient Hope Group Co., Ltd.

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For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

10 Related parties (continued)

10.1 Related parties (continued)

(4) Relationship with related parties (continued)

Company name	Relationship with the Bank
Guangzhou Hanguohengsheng Real Estate Development Co., Ltd.	Related party of management board of the Bank
Shanghai Songjiang Water Company	Shareholder of Subsidiary, Songjiang Rural Bank
Minsheng Real Estate Co., Ltd.	Companies funded by the Labour Union Committee of the Bank
Minsheng Pension Co., Ltd.	Companies funded by the Labour Union Committee of the Bank and other company
Minsheng Fintech Co., Ltd.	Related party of Minsheng Real Estate Co., Ltd.
Neural Management of Comprehensive Channels Co., Ltd.	Related party of Minsheng Real Estate Co., Ltd.
Beijing Changrong Heyin Investment Management Co., Ltd.	Related party of Minsheng Real Estate Co., Ltd.
Minsheng E-Commerce Holdings (Shenzhen) Co., Ltd.	Companies funded by major shareholders and subsidiaries of the Bank
Hongtai Keystone Asset Management Co., Ltd.	Companies funded by Labour Union Committee of credit card centre and related parties of the Bank
Minsheng Yingcai (Beijing) Management Consulting Co., Ltd.	Companies funded by the Labour Union Committee of Beijing branch of the Bank

(5) Related natural persons

Related natural persons of the Group include: members of the Board of Directors, the Board of Supervisors and senior management of head office and branches, people who have the power to decide or participate in the Bank's credit granting and asset transfer and close family members of such individuals; controlling natural person shareholders, members of the Board of Directors and key management personnel of the Bank's related legal persons or other organizations (excluding the legal persons or other organizations that are under direct, indirect or joint control of or under significant influence of the Bank's insiders, major natural person shareholders and close family members of such individuals). According to the criteria for identifying related natural persons stipulated by CBIRC in the Administrative Measures for the Management of Related Party Transactions between Commercial Banks and Their Staff Members and Shareholders, as at 30 June 2021, the Bank had a total of 8,215 related natural persons, where its directors and their close relatives totalled 207, supervisors and their close relatives totalled 138, senior executives at the head office and their close relatives totalled 150, and senior executives of the branches and those with decision-making authority over or with involvement in the Bank's credit line determination and asset transfers and their close relatives totalled 7,221. The controlling natural person shareholders, directors and key management personnel of the Bank's related legal entities or other organizations totalled 628.

Note: Among the Bank's directors and their close relatives, 33 persons are also senior executives at the head office and their close relatives, 54 persons are also the controlling natural person shareholders, directors and key management personnel of the Bank's related legal entities or other organizations; among the Bank's supervisors and their close relatives, 42 persons are also senior executives at the head office and their close relatives.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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10 Related parties (*continued*)

10.2 Related party transactions

(1) Material related party transactions

Material related party transactions refer to transactions in which the ratio of a single transaction amount to the bank's net capital is more than 1% of a single related party, or the cumulative transaction balance to the bank's net capital is more than 5%. During the six months ended 30 June 2021, the Group had no material related party transactions. In 2020, the Group granted a loan to Dajia Life Insurance Inc. under normal commercial terms, with the transaction amount of RMB 11.50 billion.

(2) Pricing policy

Transactions between the Group and related parties are mainly conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

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For the six months ended 30 June 2021
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10 Related parties (continued)**10.2 Related party transactions (continued)****(3) Loans to related parties**

Balances outstanding as at the end of the reporting period:

	Types of collateral	30 June 2021	31 December 2020
Dajia Life Insurance Inc.	Pledged	11,500	11,500
Oceanwide Holding Co., Ltd.	Pledged	5,100	5,100
	Guaranteed	4,100	4,100
Chongqing Cibi Business Information Consulting Co., Ltd.	Pledged & Guaranteed	6,616	6,617
China Oceanwide Holdings Group Co., Ltd.	Pledged	4,667	4,673
Shanghai Zhunji Business Consulting Partnership (LP)	Pledged & Guaranteed	4,384	7,514
Wuhan Centre Building Development Investment Co., Ltd.	Guaranteed	3,972	3,972
Orient Group Incorporation	Collateralised	2,131	2,131
	Guaranteed	523	524
	Pledged	454	455
Wuhan CBD Co., Ltd.	Guaranteed	3,046	3,056
UNITED ENERGY GROUP (HONG KONG) LIMITED	Pledged & Guaranteed	2,977	3,455
Beijing Changrong Heyin Investment Management Co., Ltd.	Pledged	2,400	3,000
Oriental Group Co., Ltd.	Pledged	1,593	1,597
	Guaranteed	775	498
Wenzhou Xinjintian Real Estate Co., Ltd.	Collateralised	1,290	1,538
Tianjin Haihui Real Estate Development Co., Ltd.	Collateralised	925	1,147
Xiamen Jingding Sports Culture Development Co., Ltd.	Collateralised	798	770
Tongfang Guoxin Investment Co., Ltd.	Pledged	250	250
	Collateralised	520	–

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For the six months ended 30 June 2021
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10 Related parties (*continued*)10.2 Related party transactions (*continued*)(3) Loans to related parties (*continued*)

Balances outstanding as at the end of the reporting period (*continued*):

	Types of collateral	30 June 2021	31 December 2020
Chengdu Hengjilong Real Estate Co., Ltd.	Collateralised	600	1,000
SHR FSST, LLC	Collateralised	576	582
Sichuan Hope Education Industry Group Co., Ltd.	Pledged	500	500
Guangzhou Hanguohengsheng Real Estate Development Co., Ltd.	Guaranteed	440	440
Xiamen Rongyin Co., Ltd.	Pledged	115	450
	Guaranteed	280	–
CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED	Guaranteed	358	505
Orient Hope Baotou Rare Earth Aluminium Co., Ltd.	Guaranteed	250	300
Chongqing Yujinyue Real Estate Development Co., Ltd.	Collateralised	230	300
Zhangzhou Tangcheng Real Estate Co., Ltd.	Collateralised	216	316
Grassroots Zhiben Group Co., Ltd.	Guaranteed	184	–
Shanghai Jianjiu Biotechnology Co., Ltd.	Guaranteed	150	350
Shanghai Gold Partner Biotechnology Co., Ltd.	Guaranteed	150	150
Sichuan Special Drive Education Management Co., Ltd.	Collateralised	150	–
Grassroots Joint Venture Capital (Beijing) Co., Ltd.	Pledged & Guaranteed	149	149
Chongqing Yufu Highway Co., Ltd.	Pledged	6	6
Xiamen Tongxincheng Industry and Trade Co., Ltd.	Guaranteed	–	350
	Pledged	–	22
Xiamen University Electronic Information Technology Co., Ltd.	Pledged	–	200
Xiamen Dazu Real Estate Development Co., Ltd.	Collateralised	–	200
Jiang'an Dekang Feed Co., Ltd. (a)	Guaranteed	N/A	50
Individuals	Collateralised	747	792
	Guaranteed	25	42
Total		63,147	68,601
Ratio to similar transactions (%)		1.60	1.81
Interest rate ranges		3.80%-8.95%	3.80%-8.95%

(a) As at 30 June 2021, the entity was no longer a related party of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

10 Related parties (continued)**10.2 Related party transactions (continued)****(3) Loans to related parties (continued)**

Amount of transactions for the reporting period:

	Six months ended 30 June	
	2021	2020
Interest income from loans	3,027	2,236
Ratio to similar transactions (%)	3.06	2.52

As at 30 June 2021, none of the above loans is impaired (31 December 2020: Nil).

(4) Other transactions with related parties

Balances as at the end of the reporting period:

	30 June 2021		31 December 2020	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Financial investments				
– Financial assets measured at amortised cost (a)	2,403	0.19	2,704	0.20
– Financial assets at fair value through other comprehensive income	28	0.01	1,633	0.35
Long-term receivables	438	0.33	527	0.41
Balances with banks and other financial institutions	72	0.09	87	0.17
Deposits and placements from banks and other financial institutions	7,411	0.57	5,617	0.53
Deposits from customers	25,718	0.66	40,143	1.07

(a) As at 30 June 2021 and 31 December 2020, the related party transaction of a financial asset measured at amortized cost between the Group and Minsheng Pension Co., Ltd. had an overdue amount of RMB 600 million. The Group had made an impairment allowance of RMB 110 million for these financial assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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10 Related parties (*continued*)

10.2 Related party transactions (*continued*)

(4) Other transactions with related parties (*continued*)

Amount of transactions for the reporting period:

	Six months ended 30 June			
	2021		2020	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Interest income	82	0.06	155	0.12
Interest expense	525	0.70	970	1.24
Fee and commission income (a)	115	0.75	216	1.29
Operating expenses (b)	995	5.12	1,007	5.12

- (a) It mainly represents the Group's income from agency sales of insurance products entered into between the Group and Dajia Life Insurance Inc. and Huaxia Life Insurance Co., Ltd., and the income from agency sales of trust products entered into between the Group and Chongqing International Trust Co., Ltd.
- (b) Operating expenses of the Group were mainly for financial business outsourcing service and procurement service provided by Minsheng E-Commerce Holdings (Shenzhen) Co., Ltd. and its related parties, property management service provided by Minsheng Real Estate Co., Ltd. and its related parties, technology development service provided by Minsheng Fintech Co., Ltd., assets recovery service provided by Hongtai Keystone Asset Management Co., Ltd., maintenance service of self-service cashier equipment provided by Neural Management of Comprehensive Channels Co., Ltd., and business process and personnel outsourcing service provided by Minsheng Yingcai (Beijing) Management Consulting Co., Ltd.

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For the six months ended 30 June 2021
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10 Related parties (continued)**10.2 Related party transactions (continued)****(4) Other transactions with related parties (continued)**

	30 June 2021	31 December 2020
Financial investments		
– Financial assets measured at amortised cost	4.10%-7.01%	4.10%-7.90%
– Financial assets at fair value through other comprehensive income	5.70%	5.60%-6.00%
Long-term receivables	3.69%-3.80%	3.80%-4.75%
Balances with banks and other financial institutions	3.25%-3.70%	3.25%-3.70%
Deposits and placements from banks and other financial institutions	0.00%-3.25%	0.00%-4.00%
Deposits from customers	0.00%-4.22%	0.00%-5.20%

Balance of off-balance sheet items:

	30 June 2021		31 December 2020	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Bank acceptances	2,251	0.59	2,115	0.49
Guarantees	2,117	1.29	2,117	1.33
Letters of credit	300	0.35	300	0.26
Unused credit card commitments	364	0.07	363	0.08

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
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10 Related parties (*continued*)

10.2 Related party transactions (*continued*)

(4) Other transactions with related parties (*continued*)

Balances of loans guaranteed by related parties:

	June 30 2021	31 December 2020
Loans guaranteed by related parties	30,319	37,120
Ratio to similar transactions (%)	0.77	0.98

For the six months ended 30 June 2021, the original value of loans transferred between Beijing Changrong Heyin Investment Management Co., Ltd. and the Bank was RMB 347 million (for the six months ended 30 June 2020: RMB 5.44 billion), with the consideration of RMB 344 million agreed upon by both parties (for the six months ended 30 June 2020: RMB 5.23 billion). The risks and rewards of these loans have been fully transferred.

(5) Transactions with the annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other significant transactions were conducted between the Group and the annuity scheme for the six months ended 30 June 2021 and for the six months ended 30 June 2020.

(6) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Bank's activities, directly or indirectly, including directors, supervisors and senior management.

The Bank enters into transactions with key management personnel under normal commercial terms. These include loans and deposits, which are carried out at rates similar to those offered to third parties. Outstanding loans to the key management personnel amounted to RMB 7.89 million as at 30 June 2021 (31 December 2020: RMB 9.25 million), which have been included in the above loans granted to related parties.

Accrued salaries and other short-term benefits for the key management personnel before tax amounted to RMB 34 million for the six months ended 30 June 2021 (for the six months ended 30 June 2020: RMB 31 million).

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For the six months ended 30 June 2021
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10 Related parties (*continued*)

10.2 Related party transactions (*continued*)

(7) Transactions between the Bank and its subsidiaries

Balances as at the end of the reporting period:

	30 June 2021	31 December 2020
Placements with banks and other financial institutions	33,409	25,485
Loans and advances to customers	1,297	1,838
Right-of-use assets	129	159
Other assets	471	329
Deposits and placements from banks and other financial institutions	14,195	9,461
Deposits from customers	7,797	270
Leasing liabilities	129	159
Other liabilities	1,158	1,158

Amount of transactions for the reporting period:

	Six months ended 30 June	
	2021	2020
Interest income	436	438
Interest expense	56	69
Fee and commission income	125	82
Operating expenses	32	63
Other operating income	2	6

For the six months ended 30 June 2021 and for the six months ended 30 June 2020, the transactions between the subsidiaries of the Group are mainly inter-bank deposits or lending. As at 30 June 2021, the balance of the above transactions was RMB 230 million (31 December 2020: RMB 391 million).

The balances and transaction amount with the subsidiaries and between the subsidiaries have been offset in these condensed consolidated interim financial statements.

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11 Fair value of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as Level 2 are RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on the valuation technique for which all significant inputs are observable market data. This level includes a majority of OTC derivative contracts, traded loans and issued structured debts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like China Bond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Wind, Bloomberg and Reuters.
- Level 3: Parameters for valuation of assets or liabilities are based on unobservable inputs. The Level 3 financial instruments include equity instruments and debt instruments whose valuation involves one or more than one significant unobservable inputs. The valuation models used include the discounted cash flow method and the market approach, etc. Unobservable inputs for valuation models include yield curve, discounts for lack of marketability (DLOM) and comparable company multiples, etc.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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11 Fair value of financial instruments *(continued)*

11.1 Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2021			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets which are measured at fair value on a recurring basis:				
Financial assets at fair value through profit or loss				
Debt securities	18,757	39,715	1,178	59,650
Equity investments	8,507	–	26,228	34,735
Investment funds	221,266	18,386	–	239,652
Asset management plans	–	–	9,375	9,375
Others	–	–	3,620	3,620
Financial assets at fair value through other comprehensive income				
Debt securities	31,681	392,948	1,333	425,962
Equity investments	–	3,815	2,125	5,940
Loans and advances to customers designated at fair value through other comprehensive income				
	–	238,907	–	238,907
Derivative financial assets				
Foreign exchange derivatives	–	29,670	–	29,670
Precious metal derivatives	–	1,377	–	1,377
Others	–	1,176	–	1,176
Total	280,211	725,994	43,859	1,050,064
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Foreign exchange derivatives	–	(27,249)	–	(27,249)
Precious metal derivatives	–	(3,633)	–	(3,633)
Others	–	(1,438)	–	(1,438)
Financial liabilities at fair value through profit or loss				
	–	(4,059)	–	(4,059)
Total	–	(36,379)	–	(36,379)

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11 Fair value of financial instruments (continued)

11.1 Financial instruments recorded at fair value (continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets which are measured at fair value on a recurring basis:				
Financial assets at fair value through profit or loss				
Debt securities	18,164	55,411	1,276	74,851
Equity investments	17,709	–	21,479	39,188
Investment funds	190,744	–	–	190,744
Asset management plans	–	–	10,168	10,168
Wealth management products	–	2,153	2,044	4,197
Others	–	–	3,332	3,332
Financial assets at fair value through other comprehensive income				
Debt securities	47,014	417,928	1,150	466,092
Equity investments	2,405	–	1,625	4,030
Loans and advances to customers designated at fair value through other comprehensive income				
	–	233,467	–	233,467
Derivative financial assets				
Foreign exchange derivatives	–	39,988	–	39,988
Precious metal derivatives	–	869	–	869
Others	–	1,428	–	1,428
Total	276,036	751,244	41,074	1,068,354
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Foreign exchange derivatives	–	(37,279)	–	(37,279)
Precious metal derivatives	–	(3,673)	–	(3,673)
Others	–	(1,723)	–	(1,723)
Financial liabilities at fair value through profit or loss				
	–	(3,293)	–	(3,293)
Total	–	(45,968)	–	(45,968)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

11 Fair value of financial instruments *(continued)*

11.2 Movement in level 3 financial instruments measured at fair value

The following table shows the movement of Level 3 financial instruments during the period:

	Six months ended 30 June 2021			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Total
		Debt securities	Equity securities	
As at 1 January 2021	38,299	1,150	1,625	41,074
Total gains/(losses)				
in profit or loss	839	77	–	916
in other comprehensive income	–	(303)	–	(303)
Purchase/transfer in	6,635	617	500	7,752
Settlement/transfer out	(5,372)	(208)	–	(5,580)
As at 30 June 2021	40,401	1,333	2,125	43,859
Total realised (losses)/gains included in the consolidated statement of profit or loss	(563)	77	–	(486)
Total unrealised gains included in the consolidated statement of profit or loss	1,402	–	–	1,402

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

11 Fair value of financial instruments (*continued*)

11.2 Movement in level 3 financial instruments measured at fair value (*continued*)

	Year ended 31 December 2020			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Total
		Debt securities	Equity securities	
As at 1 January 2020	50,582	1,828	1,125	53,535
Total gains/(losses)				
in profit or loss	1,946	–	–	1,946
in other comprehensive income	–	(75)	–	(75)
Purchase/transfer in	15,794	518	500	16,812
Settlement/transfer out	(30,023)	(1,121)	–	(31,144)
As at 31 December 2020	38,299	1,150	1,625	41,074
Total realised gains included in the consolidated statement of profit or loss	1,313	–	–	1,313
Total unrealised gains included in the consolidated statement of profit or loss	633	–	–	633

11.3 Transfers among levels

For the six months ended 30 June 2021 and for the year ended 31 December 2020, there were no material transfers among Level 1, Level 2 and Level 3 of the fair value hierarchy for financial assets and liabilities of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

11 Fair value of financial instruments *(continued)*

11.4 Fair value of financial assets and liabilities not carried at fair value

(1) Cash and balances with central bank, balances with banks and other financial institutions, placements with banks and other financial institutions, loans and advances to customers, long-term receivables, deposits and placements from banks and other financial institutions, borrowings from banks and other financial institutions, deposits from customers and financial assets held under resale agreements and sold under repurchase agreements

Given that these financial assets and financial liabilities mainly mature within a year or adopt floating interest rates, their book values approximate their fair values.

(2) Financial investments measured at amortised cost

The fair value for financial assets measured at amortised cost-bonds is usually measured based on "bid" market prices or brokers'/dealers' quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, materiality and yield.

(3) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

11 Fair value of financial instruments (*continued*)

11.4 Fair value of financial assets and liabilities not carried at fair value (*continued*)

(3) Debt securities issued (*continued*)

The following table summarises the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of financial assets measured at amortised and cost debt securities issued:

	30 June 2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	1,250,532	1,250,283	1,481	1,139,227	109,575
Financial liabilities					
Debt securities issued	701,144	701,360	9,353	690,844	1,163

	31 December 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	1,328,048	1,322,404	2,108	1,118,000	202,296
Financial liabilities					
Debt securities issued	957,880	958,040	12,065	945,975	–

12 Subsequent events

Up to the approval date of the condensed consolidated interim financial statements, the Group had no material subsequent events for disclosure.

13 Comparative figures

Certain comparative data has been restated to conform to the presentation and disclosure of the current period.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

1 Liquidity coverage ratio

	As at 30 June 2021	Average for the six months ended 30 June 2021	As at 31 December 2020	Average for the six months ended 30 June 2020
Liquidity coverage ratio (%) (RMB and foreign currency)	130.65%	125.05%	128.37%	126.44%

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

According to the Measures for the Management of Liquidity Risks of Commercial Banks, the liquidity coverage of commercial banks should reach 100% by the end of 2018.

2 Currency concentrations

	Note	30 June 2021			Total
		USD	HKD	Others	
Spot assets		418,187	56,384	38,268	512,839
Spot liabilities		(352,593)	(38,298)	(37,459)	(428,350)
Forward purchases		1,011,053	21,334	54,953	1,087,340
Forward sales		(1,036,847)	(18,705)	(79,874)	(1,135,426)
Net long/(short) position	(1)	39,800	20,715	(24,112)	36,403

	Note	31 December 2020			Total
		USD	HKD	Others	
Spot assets		394,487	56,406	33,228	484,121
Spot liabilities		(371,774)	(37,454)	(32,472)	(441,700)
Forward purchases		967,178	21,872	33,054	1,022,104
Forward sales		(942,102)	(16,216)	(69,706)	(1,028,024)
Net long/(short) position	(1)	47,789	24,608	(35,896)	36,501

(1) The net option position is calculated using the delta equivalent approach as required by the Hong Kong Monetary Authority.

The Group has no structural position in the reported periods.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

3 Loans and advances to customers

3.1 Impaired loans by geographical area

	30 June 2021		31 December 2020	
	Impaired loans	Allowance for impairment losses	Impaired loans	Allowance for impairment losses
Head Office	18,300	15,349	20,721	15,609
Yangtze River Delta	8,646	3,411	9,329	4,163
Pearl River Delta	6,836	3,646	6,295	2,591
Bohai Rim	15,613	9,326	12,595	6,697
North-eastern Region	2,935	1,493	2,829	1,419
Central Region	14,748	8,897	12,094	7,281
Western Region	9,939	7,149	9,047	6,194
Overseas and subsidiaries	702	437	755	414
Total	77,719	49,708	73,665	44,368

3.2 Loans overdue for more than 3 months by geographical area

	30 June 2021		31 December 2020	
	Overdue loans	Allowance for impairment losses	Overdue loans	Allowance for impairment losses
Head Office	17,421	14,843	20,506	15,382
Yangtze River Delta	7,472	2,774	5,603	2,643
Pearl River Delta	5,833	2,931	2,853	1,405
Bohai Rim	11,368	6,734	9,115	4,373
North-eastern Region	1,825	853	1,196	963
Central Region	7,494	4,685	7,647	4,962
Western Region	5,454	3,510	4,071	2,811
Overseas and subsidiaries	955	438	759	349
Total	57,822	36,768	51,750	32,888

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

4 International claims

	30 June 2021				
	Asia Pacific	North and South America	Europe	Other Locations	Total
Banks	75,585	55,787	24,357	5,484	161,213
Public sector	6,869	47,794	360	–	55,023
Non-bank private sector	93,166	140,374	26,737	15,779	276,056
Total	175,620	243,955	51,454	21,263	492,292

	31 December 2020				
	Asia Pacific	North and South America	Europe	Other Locations	Total
Banks	51,437	47,025	13,514	2,641	114,617
Public sector	1,545	40,768	375	–	42,688
Non-bank private sector	96,387	152,891	33,347	16,453	299,078
Total	149,369	240,684	47,236	19,094	456,383



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