招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

H Share Stock Code : 03968
Offshore Preference Share Stock Code : 04614

2021 Interim Report

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Contents

Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Company confirm that the contents in this report are true, accurate, and complete and have no false representations, misleading statements or material omissions, and they will severally and jointly accept legal responsibility for such contents.

2. The 29th meeting of the Eleventh Session of the Board of Directors of the Company was held by way of remote video conference on 13 August 2021. The meeting was presided by Miao Jianmin, Chairman of the Board of Directors. 16 Directors were entitled to attend the meeting and 15 Directors were present at the meeting. Due to business engagement, Leung Kam Chung, Antony, an Independent Non-Executive Director, was absent from the meeting and appointed Wong See Hong , an Independent Non-Executive Director, to attend the meeting on his behalf. 8 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law of the People's Republic of China and the Articles of Association of China Merchants Bank Co., Ltd..

3. The Company will not implement the profit appropriation nor will it transfer any capital reserve into share capital for the first half of 2021.

4. The financial report in this report is unaudited.

5. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.

6. Miao Jianmin, Chairman of the Company, Tian Huiyu, President and Chief Executive Officer, Wang Liang, Executive Vice President and Chief Financial Officer, and Li Li, the person in charge of the Finance and Accounting Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this report.

7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to indicate forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will turn into reality or prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performances of the Group, and are subject to a number of uncertainties which may cause substantial differences from those in the actual results.

Definitions

The Company, the Bank, CMB or China Merchants Bank:

China Merchants Bank Co., Ltd.

The Group:

China Merchants Bank and its subsidiaries

CBIRC:

China Banking and Insurance Regulatory Commission

CSRC:

China Securities Regulatory Commission

Hong Kong Stock Exchange or SEHK:

The Stock Exchange of Hong Kong Limited

Hong Kong Listing Rules:

The Rules Governing the Listing of Securities on the SEHK

CMB Wing Lung Bank:

CMB Wing Lung Bank Limited

CMB Wing Lung Group:

CMB Wing Lung Bank and its subsidiaries

CMB Financial Leasing or CMBFL:

CMB Financial Leasing Co., Ltd.

CMB International Capital or CMBIC:

CMB International Capital Holdings Corporation Limited

CMB Wealth Management:

CMB Wealth Management Company Limited

China Merchants Fund or CMFM:

China Merchants Fund Management Co., Ltd.

CIGNA & CMAM:

CIGNA & CMB Asset Management Company Limited

CMB Europe S.A.:

China Merchants Bank (Europe) Co., Ltd. (招商銀行（歐洲）有限公司)

CIGNA & CMB Life Insurance:

CIGNA & CMB Life Insurance Co., Ltd.

MUCFC:

Merchants Union Consumer Finance Company Limited

China Merchants T-Bank:

China Merchants T-Bank Co., Ltd.

CMB YunChuang:

CMB YunChuang Information Technology Co., Ltd. with 100% equity interest held by the Company indirectly

CMB Network Technology:

China Merchants Bank Network Technology (Shenzhen) Co., Ltd. with 100% equity interest held by the Company indirectly

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 of Hong Kong Stock Exchange

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures. Please refer to Chapter III for the details in relation to risk management.

Company Information

1.1 Company Profile

1.1.1 **Registered Company Name in Chinese:** 招商銀行股份有限公司(Abbreviated Name in Chinese: 招商銀行)
Registered Company Name in English: China Merchants Bank Co., Ltd.

1.1.2 **Legal Representative:** Miao Jianmin
Authorised Representatives: Tian Huiyu, Wang Liang
Secretary of the Board of Directors: Wang Liang (acting on behalf of the Secretary of the Board of Directors)
Joint Company Secretaries: Wang Liang, Ho Wing Tsz Wendy
Securities Representative: Huo Jianjun

1.1.3 **Registered and Office Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

1.1.4 **Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: +86 755 8319 8888
Fax: +86 755 8319 5109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer complaint hotline: 95555-7
Credit card complaint hotline: 400 820 5555-7
Hotline for consumer rights protection: +86 755 8307 7333

1.1.5 **Principal Place of Business in Hong Kong:**
31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong

1.1.6 **Share Listing:**
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK
Stock Code: 03968
Domestic Preference Shares: Shanghai Stock Exchange
Abbreviated Name of Shares: Zhao Yin You 1 (招銀優1)
Stock Code: 360028
Offshore Preference Shares: SEHK
Abbreviated Name of Shares: CMB 17USDPREF
Stock Code: 04614

1.1.7 **Domestic Auditor:** Deloitte Touche Tohmatsu Certified Public Accountants LLP
Office Address: 30th Floor, Bund Center, 222 Yan'an Road East, Shanghai, China
International Auditor: Deloitte Touche Tohmatsu
Office Address: 35th Floor, One Pacific Place, 88 Queensway, Hong Kong

1.1.8 **Legal Advisor as to PRC Law:** Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 **Registrar for A Shares:** China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Share Register and Transfer Office as to H Shares: Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Center,
183 Queen's Road East, Wanchai, Hong Kong

Registrar for Domestic Preference Shares: China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Registrar and Transfer Agent for Offshore Preference Shares: The Bank of New York Mellon SA/NV,
Luxembourg Branch

1.1.10 **Newspapers and Websites Designated for Information Disclosure:**
Mainland China: "China Securities Journal" (www.cs.com.cn), "Securities Times" (www.stcn.com),
"Shanghai Securities News" (www.cnstock.com)
website of Shanghai Stock Exchange (www.sse.com.cn)
website of the Company (www.cmbchina.com)
Hong Kong: website of SEHK (www.hkex.com.hk)
website of the Company (www.cmbchina.com)
Place for maintenance of periodic reports: Office of the Board of Directors of the Company

1.2 Corporate Business Overview

Founded in 1987 with its Head Office in Shenzhen, China, the Company is a national commercial bank with distinctive features and market influence in China. The Company mainly focuses on the market in China. The Company's distribution network primarily covers major cities in mainland China, as well as international financial centers such as Hong Kong, New York, London, Singapore, Luxembourg and Sydney. The Company was listed on Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, credit cards, the "Sunflower Wealth Management" services and private banking services, CMB APP and CMB Life APP, asset management, asset custody, investment banking, and global cash management, supply chain financing, cross-border financing services and other services, have been widely recognised by consumers in China. The Company continues to penetrate into the living and business circles of customers, and is committed to providing customers with customised, intelligent and comprehensive solutions.

With the constant and in-depth development of financial disintermediation, interest rate marketisation and technological changes, the Chinese banking industry bid farewell to the 1.0 stage and 2.0 stage that leveraging on scale as well as on structure and quality, respectively, and entered the 3.0 era with business model as the most crucial factor contributing to success. The market and regulatory environment as a whole is increasingly favourable to banks which boast their leading development strategies, outstanding digital capabilities, stable operating style, and excellent organisational culture. The differentiation in industry is becoming increasingly significant. The Company continued to deepen the strategic transformation spurred by "Light-model Bank" and "One Body with Two Wings", and actively explored the 3.0 business model in the digital era. During the "14th Five-Year Plan" period, with the completion of the building of a well-off society, the constant increase in the percentage of financial assets in ordinary households, accelerated pace of industrial restructuring, the Company keeps up with the trend by striving to build the cyclic extensive wealth management value chain, linking the assets and funds of the entire society, serving as a connector that links the transformation and upgrade of the national economy with the better life of the people, and setting up a 3.0 business model with "extensive wealth management business model + digital operation model + open and integrated organisational model" as the core, so as to occupy the dominant position for the competition in the future.

In 2021, the Company continued to enhance its brand reputation. On the List of "Top 1,000 World Banks 2021" released by The Banker (UK), the Company ranked 14th, up by 3 places from 2020, and ranked in the Top 20 for four consecutive years. The Company ranked 162nd, up by 27 places from 2020, on the list of "2021 World's Top 500 Enterprises" released by The Fortune. The Company received the award of the "Best Bank in China" by Euromoney once again, which marked the first "3 Consecutive Championships" in its awarding history; the Company won the "Best National Joint-Stock Bank" at the ceremony for the "2021 Private Bank of China Awards" held by Asiamoney, the "2021 Best Transaction Bank" award at the ceremony for the "2021 China Bank of Excellent Transaction" held by Asiamoney, the "Best Wealth Management Bank in China" award in a row at the ceremony for the "2021 International Excellence in Retail Financial Services Awards Program" organised by Asian Banker, and the "Best Mobile Banking Service" award for CMB APP for the third time.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

(in millions of RMB, unless otherwise specified)	January to June 2021	January to June 2020	Changes +/-%
Operating Results			
Net operating income[1]	168,830	148,163	13.95
Profit before tax	76,323	62,838	21.46
Net profit attributable to shareholders of the Bank	61,150	49,788	22.82
Per Share (RMB)			
Basic earnings attributable to ordinary shareholders of the Bank[2]	2.35	1.97	19.29
Diluted earnings attributable to ordinary shareholders of the Bank	2.35	1.97	19.29

(in millions of RMB, unless otherwise specified)	30 June 2021	31 December 2020	Changes +/-%
Volume Indicators			
Total assets	8,885,886	8,361,448	6.27
of which: total loans and advances to customers[3]	5,382,998	5,029,128	7.04
Total liabilities	8,124,318	7,631,094	6.46
of which: total deposits from customers[3]	5,980,165	5,628,336	6.25
Total equity attributable to shareholders of the Bank	754,875	723,750	4.30
Net assets per share attributable to ordinary shareholders of the Bank (RMB)[2]	26.60	25.36	4.89

Notes:

(1) Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of joint ventures and associates.

(2) The Company issued non-cumulative preference shares in 2017, and issued perpetual bonds in July 2020, all of which were classified as other equity instruments. When calculating the indicators such as basic earnings attributable to ordinary shareholders, return on average equity and net assets per share, dividends on the preference shares and interests on perpetual bonds paid or accrued in current period shall be deducted from "net profit attributable to shareholders of the Bank", while the balance of the preference shares and perpetual bonds shall be deducted from both the "average equity" and the "net assets". The Company accrued interests on perpetual bonds of RMB1.975 billion payable in current period, and did not pay or accrue any dividends on the preference shares.

(3) In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (《關於修訂印發2018年度金融企業財務報表格式的通知》) issued by the Ministry of Finance, the interest on financial instruments accrued based on the effective interest rate method shall be included in the balance of the relevant financial instruments, and shall be reflected in the relevant items of the financial reports, and the "interest receivable" or "interest payable" item shall no longer be listed separately. The balance of "interest receivable" or "interest payable" listed in the "other assets" or "other liabilities" item is only the interest receivable or payable where the relevant financial instruments have expired but the interest has not yet been received or paid at the balance sheet date. Since the 2018 annual report, the Group has adjusted the financial statements and its accompanying notes in accordance with the above requirements. Unless otherwise stated, the balances of the relevant items herein and set out below do not include the above interest on financial instruments accrued based on the effective interest method.

2.2 Financial Ratios

(%)	January to June 2021	January to June 2020	Changes
Profitability indicators (annualised)			
Return on average assets attributable to shareholders of the Bank	1.42	1.29	Increased by 0.13 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	18.06	16.94	Increased by 1.12 percentage points
Net interest spread[(1)]	2.41	2.42	Decreased by 0.01 percentage point
Net interest margin[(2)]	2.49	2.50	Decreased by 0.01 percentage point
As percentage of net operating income			
– Net interest income	58.84	61.33	Decreased by 2.49 percentage points
– Net non-interest income	41.16	38.67	Increased by 2.49 percentage points
Cost-to-income ratio[(3)]	27.94	28.25	Decreased by 0.31 percentage point

(%)	30 June 2021	31 December 2020	Changes over 2020 year-end
Capital adequacy indicators under the Advanced Measurement Approach[(4)]			
Core Tier 1 capital adequacy ratio	11.89	12.29	Decreased by 0.40 percentage point
Tier 1 capital adequacy ratio	13.47	13.98	Decreased by 0.51 percentage point
Capital adequacy ratio	16.01	16.54	Decreased by 0.53 percentage point
Equity to total assets	8.57	8.73	Decreased by 0.16 percentage point
Asset quality indicators			
Non-performing loan ratio	1.01	1.07	Decreased by 0.06 percentage point
Allowance coverage ratio[(5)]	439.46	437.68	Increased by 1.78 percentage points
Allowance ratio of loans[(6)]	4.45	4.67	Decreased by 0.22 percentage point

	January to June 2021	January to June 2020	Changes
Credit cost ratio (annualised)[(7)]	0.56	1.55	Decreased by 0.99 percentage point

Notes:

(1) Net interest spread = average yield of the total interest-earning assets – average cost ratio of total interest-bearing liabilities.

(2) Net interest margin = net interest income/average balance of total interest-earning assets.

(3) Cost-to-income ratio = operating expenses/net operating income. The numerator does not include taxes and surcharges, provisions for insurance claims and the depreciation charges on fixed assets under operating lease and investment properties and others.

(4) As at the end of the reporting period, the Group's Core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio under the Weighted Approach were 10.46%, 11.84% and 13.38% respectively.

(5) Allowance coverage ratio = allowances for impairment losses/balance of non-performing loans.

(6) Allowance ratio of loans = allowances for impairment losses/total loans and advances to customers.

(7) Credit cost ratio = expected credit losses of loans and advances to customers/the average of total loans and advances to customers × 100%, the average of total loans and advances to customers = (total loans and advances to customers at the beginning of the period + total loans and advances to customers at the end of the period)/2. The significant decrease as compared with the corresponding period of the previous year was mainly due to the Group reduced the allowances for loans and advances to customers during the reporting period. For further details, please refer to the section headed 3.2.8 "Expected credit losses" in Chapter III.

Report of the Board of Directors

3.1 Analysis of Overall Operation

In the first half of 2021, the Group adhered to the concept of dynamic and balanced development of "Quality, Efficiency and Scale", and continued to implement its strategic direction of "Light-model Bank" and the strategic positioning of "One Body with Two Wings" by carrying out various businesses in a sound manner. The net operating income increased steadily, profit achieved relatively rapid growth, scale of assets and liabilities grew in a sound manner, and asset quality was generally stable.

During the reporting period, the Group realised the net operating income of RMB168.830 billion, representing a year-on-year increase of 13.95%; realised a net profit attributable to shareholders of the Bank of RMB61.150 billion, representing a year-on-year increase of 22.82%; realised the net interest income of RMB99.341 billion, representing a year-on-year increase of 9.32%; and realised the net non-interest income of RMB69.489 billion, representing a year-on-year increase of 21.29%. The return on average asset (ROAA) attributable to shareholders of the Bank and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.42% and 18.06%, up by 0.13 percentage point and 1.12 percentage points year-on-year, respectively.

As at the end of the reporting period, the Group's total assets amounted to RMB8,885.886 billion, representing an increase of 6.27% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB5,382.998 billion, representing an increase of 7.04% as compared with the end of the previous year. Total liabilities amounted to RMB8,124.318 billion, representing an increase of 6.46% as compared with the end of the previous year. Total deposits from customers amounted to RMB5,980.165 billion, representing an increase of 6.25% as compared with the end of the previous year.

As at the end of the reporting period, the Group had balance of non-performing loans of RMB54.542 billion, representing an increase of RMB927 million as compared with the end of the previous year. The non-performing loan ratio was 1.01%, down by 0.06 percentage point as compared with the end of the previous year. The allowance coverage ratio was 439.46%, representing an increase of 1.78 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.45%, representing a decrease of 0.22 percentage point as compared with the end of the previous year.

3.2 Analysis of Statement of Profit or Loss

3.2.1 Financial highlights

During the reporting period, the Group realised a profit before tax of RMB76.323 billion, representing a year-on-year increase of 21.46%. The effective income tax rate was 19.23%, representing a year-on-year decrease of 1.08 percentage points. The following table sets out the changes in major items of Statement of Profit or Loss of the Group during the reporting period.

(in millions of RMB)	January to June 2021	January to June 2020	Changes
Net interest income	**99,341**	90,873	8,468
Net fee and commission income	**52,254**	42,269	9,985
Other net income	**15,050**	13,839	1,211
Operating expenses	**(50,612)**	(44,882)	(5,730)
Expected credit losses	**(41,895)**	(40,443)	(1,452)
Share of profits of joint ventures and associates	**2,185**	1,182	1,003
Profit before tax	**76,323**	62,838	13,485
Income tax	**(14,675)**	(12,760)	(1,915)
Net profit	**61,648**	50,078	11,570
Net profit attributable to shareholders of the Bank	**61,150**	49,788	11,362

3.2.2 Net operating income

During the reporting period, the Group realised the net operating income of RMB168.830 billion, representing a year-on-year increase of 13.95%. The net interest income accounted for 58.84% of the net operating income, and the net non-interest income accounted for 41.16% of the net operating income, representing a year-on-year increase of 2.49 percentage points.

3.2.3 Interest income

During the reporting period, the Group recorded an interest income of RMB159.243 billion, representing a year-on-year increase of 3.62%, mainly due to the increase in interest-earning assets. Interest income from loans and advances to customers continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances to customers

During the reporting period, the interest income from loans and advances to customers of the Group was RMB122.537 billion, representing a year-on-year increase of 3.52%.

The following table sets forth the average balance (daily average balance, same as below), interest income and average yield of each component of loans and advances to customers of the Group for the periods indicated.

	January to June 2021			2020			January to June 2020		
(in millions of RMB, except for percentages)	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualised average yield (%)
Corporate loans	2,106,133	39,925	3.82	2,024,891	80,575	3.98	2,023,642	41,687	4.14
Retail loans	2,792,903	77,542	5.60	2,506,828	147,704	5.89	2,399,571	72,824	6.10
Discounted bills	352,747	5,070	2.90	291,660	7,825	2.68	288,670	3,865	2.69
Loans and advances to customers	5,251,783	122,537	4.71	4,823,379	236,104	4.89	4,711,883	118,376	5.05

In the first half of 2021, from the perspective of the maturity structure of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,884.504 billion with the interest income amounting to RMB49.154 billion, and the annualised average yield reached 5.26%; the average balance of medium-to-long term loans was RMB3,040.454 billion with the interest income amounting to RMB67.777 billion, and the annualised average yield reached 4.50%. The average yield of short-term loans was higher than that of medium-to-long term loans, which was mainly attributable to the higher yield of credit card loans and micro-finance loans in short-term loans.

Interest income from investments

During the reporting period, the interest income from investments of the Group was RMB26.800 billion, representing a year-on-year increase of 7.17%. The annualised average yield of investments was 3.37%, representing a year-on-year decrease of 15 basis points, which was mainly attributable to the impact of the falling market interest rates.

Interest income from balances and placements with banks and other financial institutions

During the reporting period, the interest income of the Group from balances and placements with banks and other financial institutions was RMB6.012 billion, representing a year-on-year decrease of 8.31%, and the annualised average yield of balances and placements with banks and other financial institutions was 1.83%, representing a year-on-year decrease of 14 basis points, which was primarily attributable to the falling market interest rates.

3.2.4 Interest expense

During the reporting period, the interest expense of the Group was RMB59.902 billion, representing a year-on-year decrease of 4.63%, which was primarily attributable to the decreases in the cost ratio of deposits from customers and daily average scale of debt securities issued.

Interest expense on deposits from customers

During the reporting period, the Group's interest expense on deposits from customers was RMB40.383 billion, representing a year-on-year decrease of 3.66%. Under the circumstance where the deposits from customers grew steadily, the Group continued to optimise its structure of deposits and imposed effective control on pricing, which contributed to a substantial decrease in the cost ratio of deposit.

The following table sets forth the average balances, interest expenses and average cost ratios of the deposits from corporate and retail customers of the Group for the periods indicated.

	January to June 2021			2020			January to June 2020		
(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
Deposits from corporate customers									
Demand	2,360,015	10,587	0.90	1,964,687	17,052	0.87	1,834,517	7,931	0.87
Time	1,448,335	18,982	2.64	1,496,594	42,746	2.86	1,530,528	21,555	2.83
Subtotal	3,808,350	29,569	1.57	3,461,281	59,798	1.73	3,365,045	29,486	1.76
Deposits from retail customers									
Demand	1,438,987	2,477	0.35	1,261,244	4,377	0.35	1,201,383	2,091	0.35
Time	620,847	8,337	2.71	654,057	19,077	2.92	679,709	10,339	3.06
Subtotal	2,059,834	10,814	1.06	1,915,301	23,454	1.22	1,881,092	12,430	1.33
Total	5,868,184	40,383	1.39	5,376,582	83,252	1.55	5,246,137	41,916	1.61

Interest expense on deposits and placements from banks and other financial institutions

During the reporting period, the interest expense on deposits and placements from banks and other financial institutions of the Group amounted to RMB8.994 billion, representing a year-on-year increase of 21.07%, which was primarily due to the rapid increase in the size of deposits under custody from banks and other financial institutions.

Interest expense on debt securities issued

During the reporting period, the interest expense on debt securities issued of the Group amounted to RMB6.047 billion, representing a year-on-year decrease of 29.44%, which was mainly due to, firstly, the impact of the falling market interest rate; and secondly, the decrease in the daily average scale of debt securities issued attributable to the Group's continuous optimisation on the structure of liabilities.

3.2.5 Net interest income

During the reporting period, the Group's net interest income amounted to RMB99.341 billion, representing a year-on-year increase of 9.32%.

The following table sets out the average balances, interest income, interest expense and average yield and cost ratio of assets and liabilities of the Group for the periods indicated.

(in millions of RMB, except for percentages)	January to June 2021			2020			January to June 2020		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets									
Loans and advances to customers	5,251,783	122,537	4.71	4,823,379	236,104	4.89	4,711,883	118,376	5.05
Investments	1,603,733	26,800	3.37	1,513,824	51,843	3.42	1,427,366	25,008	3.52
Balances with the central bank	535,456	3,894	1.47	490,092	7,475	1.53	488,521	3,744	1.54
Balances and placements with banks and other financial institutions	663,011	6,012	1.83	615,316	12,003	1.95	670,526	6,557	1.97
Total	8,053,983	159,243	3.99	7,442,611	307,425	4.13	7,298,296	153,685	4.23

(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
Interest-bearing liabilities									
Deposits from customers	5,868,184	40,383	1.39	5,376,582	83,252	1.55	5,246,137	41,916	1.61
Deposits and placements from banks and other financial institutions	1,080,418	8,994	1.68	941,182	15,481	1.64	889,274	7,429	1.68
Debt securities issued	389,049	6,047	3.13	453,885	14,652	3.23	525,046	8,570	3.28
Borrowings from the central bank	304,029	4,187	2.78	282,976	8,413	2.97	302,886	4,583	3.04
Lease liabilities	14,370	291	4.08	14,582	596	4.09	15,528	314	4.07
Total	7,656,050	59,902	1.58	7,069,207	122,394	1.73	6,978,871	62,812	1.81
Net interest income	/	99,341	/	/	185,031	/	/	90,873	/
Net interest spread	/	/	2.41	/	/	2.40	/	/	2.42
Net interest margin	/	/	2.49	/	/	2.49	/	/	2.50

During the reporting period, the annualised average yield of our interest-earning assets of the Group was 3.99%, representing a year-on-year decrease of 24 basis points; the annualised average cost ratio of our interest-bearing liabilities was 1.58%, representing a year-on-year decrease of 23 basis points; the net interest spread and the net interest margin were 2.41% and 2.49%, respectively, both representing a year-on-year decrease of 1 basis point.

The following table sets forth the breakdown of changes in interest income and interest expenses due to changes in volumes and interest rates of the Group for the periods indicated. Changes in volume were measured by changes in average balances, while changes in interest rate were measured by changes in the average interest rates; the changes in interest income and interest expenses due to changes in both volume and interest rates have been included in the amount of changes in interest income and interest expenses due to changes in volume.

	January to June 2021 compared to January to June 2020		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rate	(decrease)
Interest-earning assets			
Loans and advances to customers	12,269	(8,108)	4,161
Investments	2,878	(1,086)	1,792
Balances with the central bank	331	(181)	150
Balances and placements with banks and other financial institutions	(86)	(459)	(545)
Changes in interest income	**15,392**	**(9,834)**	**5,558**
Interest-bearing liabilities			
Deposits from customers	4,165	(5,698)	(1,533)
Deposits and placements from banks and other financial institutions	1,571	(6)	1,565
Debt securities issued	(2,138)	(385)	(2,523)
Borrowings from the central bank	3	(399)	(396)
Lease liabilities	(24)	1	(23)
Changes in interest expense	**3,577**	**(6,487)**	**(2,910)**
Changes in net interest income	**11,815**	**(3,347)**	**8,468**

The following table sets out the average balances, interest income, interest expenses and annualised average yields and cost ratios of assets and liabilities of the Group for the periods indicated.

(in millions of RMB, except for percentages)	January to March 2021			April to June 2021		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances to customers	5,213,564	60,863	4.73	5,289,582	61,674	4.68
Investments	1,592,140	13,299	3.39	1,615,199	13,501	3.35
Balances with the central bank	537,166	1,942	1.47	533,765	1,952	1.47
Balances and placements with banks and other financial institutions	637,653	2,883	1.83	688,090	3,129	1.82
Total	**7,980,523**	**78,987**	**4.01**	**8,126,636**	**80,256**	**3.96**

(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	5,861,988	20,075	1.39	5,874,312	20,308	1.39
Deposits and placements from banks and other financial institutions	1,071,427	4,433	1.68	1,089,310	4,561	1.68
Debt securities issued	346,065	2,692	3.15	431,561	3,355	3.12
Borrowings from the central bank	308,182	2,117	2.79	299,922	2,070	2.77
Lease liabilities	14,978	146	3.95	13,769	145	4.22
Total	**7,602,640**	**29,463**	**1.57**	**7,708,874**	**30,439**	**1.58**
Net interest income	/	**49,524**	/	/	**49,817**	/
Net interest spread	/	/	**2.44**	/	/	**2.38**
Net interest margin	/	/	**2.52**	/	/	**2.46**

In the second quarter of 2021, the net interest margin of the Group was 2.46%, and its net interest spread was 2.38%, both down by 6 basis points as compared with the first quarter of 2021, which was mainly due to the decrease in the yield of the interest-earning assets as compared with the first quarter of 2021.

3.2.6 Net non-interest income

During the reporting period, the Group recorded a net non-interest income of RMB69.489 billion, representing a year-on-year increase of 21.29%. The components are as follows:

Net fee and commission income amounted to RMB52.254 billion, representing a year-on-year increase of 23.62%. Among the fee and commission income, commissions from trust and other fiduciary activities amounted to RMB15.882 billion, representing a year-on-year increase of 17.14%, which was mainly due to the increase in the income from custodian fee and the income from management service fee of China Merchants Fund. Income from agency services fees amounted to RMB15.173 billion, representing a year-on-year increase of 40.36%, which was primarily attributable to the increase in the income from agency distribution of funds and the income from agency distribution of insurance policies by optimising customer asset allocation, grasping the equity fund market and promoting the growth of guaranteed insurance. Income from bank card fees amounted to RMB9.396 billion, representing a year-on-year decrease of 0.23%, which was mainly due to the decrease in the income from overseas transaction fee of international cards as impacted by the pandemic. Income from settlement and clearing fees amounted to RMB7.277 billion, representing a year-on-year increase of 14.38%, which was primarily attributable to the increase in the income of e-payment. The commissions from credit commitment and loan business amounted to RMB3.852 billion, representing a year-on-year increase of 5.42%, which was primarily attributable to the increase in the income from trade financing related fee.

Other net non-interest income amounted to RMB17.235 billion, representing a year-on-year increase of 14.74%, of which, net investment income amounted to RMB8.922 billion, representing a year-on-year decrease of 13.78%, mainly due to the decrease in dividend of investments in non-monetary funds and spread income from bills and bonds. Other income amounted to RMB3.507 billion, representing a year-on-year increase of 22.20%, mainly attributable to the increase in the income from operating leases of CMB Financial Leasing. Net profit from fair value change amounted to RMB696 million, representing a year-on-year increase of RMB1.864 billion, which was mainly due to the increase in profit of fair value change of investments in non-monetary funds.

In terms of business segments, the net non-interest income from retail finance amounted to RMB33.008 billion, representing a year-on-year increase of 25.81% and accounting for 47.50% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB26.945 billion, representing a year-on-year increase of 13.10% and accounting for 38.78% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB9.536 billion, representing a year-on-year increase of 31.89% and accounting for 13.72% of the Group's net non-interest income.

(in millions of RMB)	January to June 2021	January to June 2020	Changes +/-%
Fee and commission income	**56,005**	45,611	22.79
Bank card fees	**9,396**	9,418	-0.23
Settlement and clearing fees	**7,277**	6,362	14.38
Agency service fees	**15,173**	10,810	40.36
Commissions from credit commitment and loan business	**3,852**	3,654	5.42
Commissions on trust and fiduciary activities	**15,882**	13,558	17.14
Others	**4,425**	1,809	144.61
Fee and commission expense	**(3,751)**	(3,342)	12.24
Net fee and commission income	**52,254**	42,269	23.62
Other net non-interest income	**17,235**	15,021	14.74
Other net income	**15,050**	13,839	8.75
Net profit/(loss)from fair value change	**696**	(1,168)	N/A
Net investment income	**8,922**	10,348	-13.78
Net exchange gain	**1,925**	1,789	7.60
Other income	**3,507**	2,870	22.20
Share of profits of joint ventures and associates	**2,185**	1,182	84.86
Total net non-interest income	**69,489**	57,290	21.29

3.2.7 Operating expenses

During the reporting period, the Group's operating expenses amounted to RMB50.612 billion, representing a year-on-year increase of 12.77%, among which staff costs increased by 13.57% and other general and administrative expenses increased by 14.85% as compared with the corresponding period of the previous year. The Group's cost-to-income ratio was 27.94%, representing a decrease of 0.31 percentage point as compared with the corresponding period of the previous year. In order to accelerate the transformation to a "Digital Bank", the Group continuously increased its expenses in Fintech, reinforced its technology-based capability, and further improved its ability to acquire customers by digital means and carry out digital operations. At the same time, the Group focused on refined cost management, continuously improved the efficiency of resource allocation, persisted in researching and promoting the replacement of traditional costs with technological innovation, and actively optimised traditional expenses, thereby gradually improving cost efficiency. During the reporting period, the Company's cost-to-income ratio was 28.24%, down by 0.45 percentage point as compared with the corresponding period of the previous year.

The following table sets forth, for the periods indicated, the principal components of the operating expenses of the Group.

(in millions of RMB)	January to June 2021	January to June 2020
Staff costs	31,327	27,583
Depreciation, amortisation and rental expenses	7,151	6,663
Other general and administrative expenses	10,554	9,189
Allowances for insurance claims	154	143
Taxes and surcharges	1,426	1,304
Total operating expenses	50,612	44,882

3.2.8 Expected credit losses

During the reporting period, the expected credit losses of the Group were RMB41.895 billion, representing a year-on-year increase of 3.59%.

The following table sets forth, for the periods indicated, the principal components of expected credit losses of the Group.

(in millions of RMB)	January to June 2021	January to June 2020
Loans and advances to customers	14,457	36,211
Financial investments	9,092	1,178
Amounts due from banks and other financial institutions	4,419	672
Expected credit losses relating to financial guarantees and loan commitments	13,662	1,923
Other assets	265	459
Total expected credit losses	41,895	40,443

Expected credit losses of loans and advances to customers were the largest component of expected credit losses. For details of the allowances for impairment losses on loans, please refer to the section headed "Analysis of Loan Quality" in this chapter. During the reporting period, the Group's expected credit losses of loans and advances to customers amounted to RMB14.457 billion with a decrease as compared with the corresponding period of the previous year, mainly due to the increased allowances for loans during the pandemic period of last year. With the gradual easing of the pandemic situation domestically, the quality of loan assets tended to stabilise, and the allowances recognised in the reporting period decreased accordingly. The expected credit losses of other assets amounted to RMB27.438 billion with a significant increase as compared with the corresponding period of the previous year, mainly due to that the global pandemic continues to evolve and external environment is becoming increasingly complicated and rigorous, the domestic economy is still recovering, and there are many uncertain and unstable factors. Based on the overall risk judgment, the Group makes loss allowances for off-balance sheet corporate assets, inter-bank assets and financial investment assets in a prudent manner, so as to improve the risk offset and loss absorption capacity.

3.3 Analysis of Statement of Financial Position

3.3.1 Assets

As at the end of the reporting period, the total assets of the Group amounted to RMB8,885.886 billion, up by 6.27% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers and inter-bank transactions of the Group.

To maintain the figures comparable, the financial instruments in section "3.3.1 Assets" were still analysed on the statistical calibre excluding interest receivable, except for the table "components of the total assets of the Group", in which interest receivable calculated using the effective interest method was included as required by the Ministry of Finance.

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

(in millions of RMB, except for percentages)	30 June 2021 Amount	30 June 2021 Percentage of the total (%)	31 December 2020 Amount	31 December 2020 Percentage of the total (%)
Total loans and advances to customers	5,393,079	60.69	5,038,883	60.26
Allowances for impairment losses on loans (1)	(239,049)	(2.69)	(234,522)	(2.80)
Net loans and advances to customers	5,154,030	58.00	4,804,361	57.46
Investment securities and other financial assets	2,185,272	24.59	2,130,889	25.48
Cash, precious metals and balances with the central bank	573,887	6.46	546,416	6.53
Inter-bank transactions (2)	710,732	8.00	616,516	7.37
Goodwill	9,954	0.11	9,954	0.12
Other assets (3)	252,011	2.84	253,312	3.04
Total assets	8,885,886	100.00	8,361,448	100.00

Notes:

(1) The "allowances for impairment losses on loans" as at the end of the reporting period include the allowances for impairment losses of the principal and interest of the loans and advances to customers measured at amortised cost. The allowances for impairment losses of RMB1.110 billion were not deducted from the carrying values of the loans and advances to customers measured at fair value through other comprehensive income. For details, please refer to Note 16(a) to the financial statements.

(2) Including balances and placements with banks and other financial institutions and amounts held under resale agreements.

(3) Including fixed assets, right-of-use assets, intangible assets, investment properties, deferred tax assets and other assets.

3.3.1.1 Loans and advances to customers

As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB5,382.998 billion, representing an increase of 7.04% as compared with the end of the previous year; total loans and advances to customers accounted for 60.58% of the total assets, representing an increase of 0.43 percentage point as compared with the end of the previous year. For details of the loans and advances to customers of the Group, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3.1.2 Investment securities and other financial assets

The Group's investment securities and other financial assets consist of listed and unlisted financial instruments denominated in RMB and foreign currencies.

The following table sets forth, as at the dates indicated, the components of investment securities and other financial assets of the Group by line items.

(in millions of RMB, except for percentages)	30 June 2021 Amount	30 June 2021 Percentage of the total (%)	31 December 2020 Amount	31 December 2020 Percentage of the total (%)
Derivative financial assets	31,690	1.46	47,272	2.24
Investments at fair value through profit or loss	474,776	21.94	495,723	23.50
– Bond investments	176,182	8.14	177,760	8.43
– Non-standardised credit asset investments	134,506	6.22	175,303	8.31
– Others (note)	164,088	7.58	142,660	6.76
Debt investments at amortised cost	1,069,978	49.45	1,034,269	49.02
– Bond investments	962,064	44.46	911,409	43.20
– Non-standardised credit asset investments	139,172	6.43	148,386	7.03
– Others	606	0.03	592	0.03
– Less: allowances for impairment losses	(31,864)	(1.47)	(26,118)	(1.24)
Debt investments at fair value through other comprehensive income	558,550	25.81	510,307	24.19
Equity investments designated at fair value through other comprehensive income	7,031	0.33	7,139	0.34
Investments in joint ventures and associates	21,896	1.01	14,922	0.71
Total investment securities and other financial assets	2,163,921	100.00	2,109,632	100.00

Note: Including equity investments, investments in funds, wealth management products, long position in precious metal contracts and others.

Derivative financial instruments

As at the end of the reporting period, the major categories and amount of derivative financial instruments held by the Group are indicated in the following table. For details, please refer to Note 41(f) to the financial statements.

	30 June 2021			31 December 2020		
	Notional	Fair value		Notional	Fair value	
(in millions of RMB)	amount	Assets	Liabilities	amount	Assets	Liabilities
Interest rate derivatives	2,985,950	9,402	(9,194)	3,303,805	12,568	(12,389)
Currency derivatives	1,384,539	19,033	(25,510)	1,266,675	33,166	(36,221)
Other derivatives	179,679	3,255	(2,611)	145,190	1,538	(1,451)
Total	4,550,168	31,690	(37,315)	4,715,670	47,272	(50,061)

The above table shows the nominal value and fair value of the Group's derivatives by their remaining maturity on each balance sheet date. The nominal value refers only to the volume of the transactions that have not yet been due or completed on the balance sheet date, and does not represent the value at risk.

During the reporting period, the interest-rate derivatives market as a whole showed characteristics of fluctuations within a range. RMB exchange rate experienced bilateral fluctuations with a slight appreciation against US Dollar. The Group was committed to improve the pricing level of foreign exchange derivative transactions, provided relevant liquidity to the market as a general market maker in the foreign exchange market, and obtained hedging income in the bilateral exchange rate fluctuations. At the same time, leveraging on its expertise in derivative transactions in the financial market, the Group strengthened its promotion to institutional customers on the concepts and methods of neutral management of exchange rate risk and helped customers use derivative instruments to manage various market risks, as a result of which the Group achieved continuous growth in the number of customers served and the volume of transactions.

Investments at fair value through profit or loss

As at the end of the reporting period, the balance of the investments at fair value through profit or loss of the Group amounted to RMB474.776 billion, with bond, fund and non-standardised bills asset investments etc. being the major categories. This category of investment is mainly based on the Group's consideration of factors including macroeconomic, monetary and fiscal policies, industrial policies, and market supply and demand conditions, in the purpose of obtaining investment income by seizing market transaction opportunities. During the reporting period, the funds remained stable and the yield of the bond market fluctuated within a range. The Group proactively increased its positions in high-coupon rate short-term treasury bonds and local bonds at the beginning of the year and achieved satisfactory returns. For details, please refer to Note 17(a) to the financial statements.

Debt investments measured at amortised cost

As at the end of the reporting period, the balance of the debt investments measured at amortised cost of the Group amounted to RMB1,069.978 billion. Among them, the bond investments were made mainly in the bonds issued by the PRC government and policy banks. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the returns and risks. For details, please refer to Note 17(b) to the financial statements.

Debt investments at fair value through other comprehensive income

As at the end of the reporting period, the balance of debt investments at fair value through other comprehensive income of the Group amounted to RMB558.550 billion, with interest rate bonds such as government bonds of the PRC, local government bonds, and policy bank bonds and medium-to-high rating quality credit bonds being the major categories. This category of investments was made by the Group through an analysis of the bond market, so as to obtain investment income by capturing investment and allocation opportunities in the market. For details, please refer to Note 17(c) to the financial statements.

Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the balance of equity investments designated at fair value through other comprehensive income of the Group amounted to RMB7.031 billion. Such investments were mainly non-trading equity investments held by the Group in the investees over whom the Group had no control, joint control or significant influence. For details, please refer to Note 17(d) to the financial statements.

The composition of the Group's total bond investments classified by the issuing entities

(in millions of RMB)	30 June 2021	31 December 2020
Official authorities (note)	1,057,733	943,029
Policy banks	383,116	347,814
Commercial banks and other financial institutions	148,574	167,553
Others (note)	107,373	141,080
Total bond investments	1,696,796	1,599,476

Note: "Official authorities" include the Ministry of Finance of the PRC, local governments and the Central Bank, etc.; "Others" mainly refer to enterprises.

Investments in joint ventures and associates

As at the end of the reporting period, the Group's investments in joint ventures and associates amounted to RMB21.896 billion, up by 46.74% from the end of the previous year, which was mainly attributable to the increase in the investment of Taizhou Bank Co., Ltd. in this period and it was converted to be accounted as investments in associates, and the increase in profits from joint ventures MUCFC and CIGNA & CMB Life Insurance. As at the end of the reporting period, the balance of allowances for impairment loss of the Group's investments in joint ventures and associates was zero. For details, please refer to Notes 18 and 19 to the financial statements.

3.3.1.3 Goodwill

As at the end of the reporting period, the Group had a balance of allowances for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

3.3.2 Liabilities

As at the end of the reporting period, the total liabilities of the Group amounted to RMB8,124.318 billion, representing an increase of 6.46% as compared with the end of the previous year, which was primarily attributable to the stable growth in deposits from customers.

To maintain the figures comparable, the financial instruments in section "3.3.2 Liabilities" were still analysed on the statistical calibre excluding interest payable, except for the table "components of the total liabilities of the Group" in which interest payable calculated using the effective interest method was included as required by the Ministry of Finance.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

	30 June 2021		31 December 2020	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	6,018,945	74.09	5,664,135	74.22
Inter-bank transactions (1)	1,058,259	13.03	1,009,846	13.23
Borrowings from the central bank	304,116	3.74	331,622	4.35
Financial liabilities at fair value through profit or loss and derivative financial liabilities	109,988	1.35	110,412	1.45
Debt securities issued	428,718	5.28	346,141	4.54
Others (2)	204,292	2.51	168,938	2.21
Total liabilities	8,124,318	100.00	7,631,094	100.00

Notes:

(1) Including deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements.

(2) Including salaries and welfare payable, taxes payable, contract liabilities, lease liabilities, expected liabilities, deferred income tax liabilities and other liabilities.

Deposits from customers

As at the end of the reporting period, total deposits from customers of the Group amounted to RMB5,980.165 billion, representing an increase of 6.25% as compared with the end of the previous year. Deposits from customers, accounting for 73.61% of the total liabilities of the Group, were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	30 June 2021		31 December 2020	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	2,453,136	41.02	2,306,134	40.98
Time	1,382,437	23.12	1,289,556	22.91
Subtotal	3,835,573	64.14	3,595,690	63.89
Deposits from retail customers				
Demand	1,517,728	25.38	1,400,520	24.88
Time	626,864	10.48	632,126	11.23
Subtotal	2,144,592	35.86	2,032,646	36.11
Total deposits from customers	5,980,165	100.00	5,628,336	100.00

During the reporting period, the percentage of daily average balance of the demand deposits to that of the total deposits from customers of the Group was 64.74%, representing an increase of 4.74 percentage points as compared with the previous year. Among which, the daily average balance of corporate demand deposits accounted for 61.97% of that of the corporate deposits, representing an increase of 5.21 percentage points as compared with the previous year; and the daily average balance of retail demand deposits accounted for 69.86% of that of the retail deposits, representing an increase of 4.01 percentage points as compared with the previous year.

3.3.3 Shareholders' equity

As at the end of the reporting period, the equity attributable to shareholders of the Bank of the Group was RMB754.875 billion, representing an increase of 4.30% as compared with the end of the previous year, among which retained profits amounted to RMB398.825 billion, representing an increase of 7.71% as compared with the end of the previous year; foreign currency translation differences amounted to RMB-1.385 billion, representing a decrease of RMB692 million as compared with the end of the previous year, mainly due to the fluctuations in RMB exchange rate; investment revaluation reserve amounted to RMB11.047 billion, representing an increase of 34.60% as compared with the end of the previous year, mainly due to the increase in the allowances for expected credit losses of financial assets measured at fair value through other comprehensive income as compared to the end of the previous year.

3.4 Analysis of Loan Quality

3.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

	30 June 2021		31 December 2020	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	5,290,801	98.29	4,934,797	98.12
Special mention	37,655	0.70	40,716	0.81
Substandard	16,443	0.31	14,760	0.29
Doubtful	22,840	0.42	22,000	0.44
Loss	15,259	0.28	16,855	0.34
Total loans and advances to customers	5,382,998	100.00	5,029,128	100.00
Non-performing loans	54,542	1.01	53,615	1.07

Note: Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans.

During the reporting period, the Group insisted on cautious judgement, strict asset classification and proactive disposal of non-performing loans, through which the quality of assets maintained stable. As at the end of the reporting period, the Group's balance of non-performing loans increased, the non-performing loan ratio decreased, and both the balance and percentage of special-mention loans recorded a decrease. Specifically, the balance of our non-performing loans amounted to RMB54.542 billion, representing an increase of RMB927 million as compared with the end of the previous year, with a non-performing loan ratio of 1.01%, a decrease of 0.06 percentage point as compared with the end of the previous year. The balance of the special-mention loans amounted to RMB37.655 billion, representing a decrease of RMB3.061 billion as compared with the end of the previous year; the percentage of special-mention loans was 0.70%, representing a decrease of 0.11 percentage point as compared with the end of the previous year.

3.4.2 Distribution of loans and non-performing loans by product type

(in millions of RMB, except for percentages)	30 June 2021 Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) (1)	31 December 2020 Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) (1)
Corporate loans	2,091,932	38.86	32,910	1.57	2,017,232	40.11	31,858	1.58
Working capital loans	750,545	13.94	20,352	2.71	744,220	14.80	22,333	3.00
Fixed asset loans	787,803	14.64	8,511	1.08	702,892	13.98	5,412	0.77
Trade finance	214,799	3.99	731	0.34	212,786	4.23	1,010	0.47
Others (2)	338,785	6.29	3,316	0.98	357,334	7.10	3,103	0.87
Discounted bills (3)	426,076	7.92	–	–	330,736	6.58	–	–
Retail loans	2,864,990	53.22	21,632	0.76	2,681,160	53.31	21,757	0.81
Micro-finance loans	541,023	10.05	2,788	0.52	475,728	9.46	3,026	0.64
Residential mortgage loans	1,330,036	24.71	3,323	0.25	1,274,815	25.35	3,759	0.29
Credit card loans	796,985	14.81	12,586	1.58	746,687	14.85	12,424	1.66
Others (4)	196,946	3.65	2,935	1.49	183,930	3.65	2,548	1.39
Total loans and advances to customers	5,382,998	100.00	54,542	1.01	5,029,128	100.00	53,615	1.07

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of other corporate loans such as financial leasing, M&A loans and corporate mortgage loans.

(3) The Company will transfer discounted bills to corporate loans for accounting purposes once overdue.

(4) Consists of general consumer loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

With regard to retail loans, during the reporting period, the Group continued to give priority to supporting micro-finance loans, actively promoted the recovery and growth of credit card loans and arranged the size and pace of residential mortgage loans on a reasonable basis. Benefited from the Group's continuing optimisation of the customer base structure and dynamic adjustments to the risk management strategy of retail businesses, the asset quality of credit cards, micro-finance and residential mortgage loans showed a stable and favorable trend. As at the end of the reporting period, the balance of retail loans amounted to RMB2,864.990 billion, representing an increase of 6.86% as compared to the end of the previous year; the balance of non-performing loans amounted to RMB21.632 billion, representing a decrease of RMB125 million as compared to the end of the previous year; and the non-performing loan ratio was 0.76%, down by 0.05 percentage point as compared with the end of the previous year. Among which, the non-performing credit card loans amounted to RMB12.586 billion, increased by RMB162 million as compared with the end of the previous year; and the non-performing ratio of credit card loans was 1.58%, down by 0.08 percentage point as compared with the end of the previous year.

With regard to corporate loans, during the reporting period, the Group continued to promote adjustments to the structure of customers and assets, through which the quality of corporate loan assets maintained relatively stable. As at the end of the reporting period, the balance of corporate loans amounted to RMB2,091.932 billion, representing an increase of 3.70% as compared to the end of the previous year. Among which, the percentage of fixed asset loans in total loans and advances to customers was 14.64%, up by 0.66 percentage point as compared to the end of the previous year; the non-performing corporate loans amounted to RMB32.910 billion, increased by RMB1.052 billion as compared with the end of the previous year; and the non-performing ratio of corporate loans was 1.57%, down by 0.01 percentage point as compared with the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

(in millions of RMB, except for percentages)	30 June 2021 Loan and advance balance	30 June 2021 Percentage of the total (%)	30 June 2021 Non performing loan	30 June 2021 Non performing loan ratio (%) (1)	31 December 2020 Loan and advance balance	31 December 2020 Percentage of the total (%)	31 December 2020 Non performing loan	31 December 2020 Non performing loan ratio (%) (1)
Corporate loans	2,091,932	38.86	32,910	1.57	2,017,232	40.11	31,858	1.58
Transportation, storage and postal services	427,559	7.94	3,269	0.76	412,424	8.20	3,489	0.85
Property development	404,464	7.51	4,328	1.07	390,792	7.77	1,190	0.30
Manufacturing	294,454	5.47	9,079	3.08	283,135	5.63	10,057	3.55
Production and supply of electric power, heat, gas and water	177,969	3.31	879	0.49	170,413	3.39	842	0.49
Leasing and commercial services	169,062	3.14	6,027	3.56	155,028	3.08	6,227	4.02
Wholesale and retail	144,966	2.69	5,735	3.96	149,775	2.98	6,361	4.25
Finance	108,653	2.02	90	0.08	114,294	2.27	239	0.21
Construction	117,435	2.18	681	0.58	103,619	2.06	890	0.86
Information transmission, software and IT service	71,988	1.34	715	0.99	64,135	1.28	824	1.28
Water conservancy, environment and public utilities	67,228	1.25	242	0.36	55,294	1.10	145	0.26
Mining	35,305	0.66	1,050	2.97	40,676	0.81	783	1.92
Others (2)	72,849	1.35	815	1.12	77,647	1.54	811	1.04
Discounted bills	426,076	7.92	–	–	330,736	6.58	–	–
Retail loans	2,864,990	53.22	21,632	0.76	2,681,160	53.31	21,757	0.81
Total loans and advances to customers	5,382,998	100.00	54,542	1.01	5,029,128	100.00	53,615	1.07

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health and social work, etc.

The Group closely followed the national major strategic planning, paid close attention to the popular industries and sectors in the market, made reasonable allocation of its credit resources, and prioritised credit resource allocation to strategic emerging industries, advanced manufacturing and its mature ancillary industry chain and supply chain. At the same time, the Group actively supported new economic forms which are represented by, among others, consumption upgrade, green and environmental protection, and modern service industry as well as major construction projects that make up for the shortcomings of existing infrastructures. The Group also implemented the requirements in relation to the concentration of loans in the real estate industry, dynamically adjusted its credit strategies for local government financing platforms and industries under close surveillance, and strengthened the risk management of key industries and sectors. During the reporting period, the recovery of operation in some industries was still not solid, and the risk of certain large-sized corporate customers had been exposed. As at the end of the reporting period, the non-performing loan ratio of industries such as mining, property development, water conservancy, environment and public utilities management increased.

3.4.4 Distribution of loans and non-performing loans by region

(in millions of RMB, except for percentages)	30 June 2021				31 December 2020			
	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) [1]	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) [1]
Head Office [2]	894,583	16.62	17,735	1.98	858,197	17.06	17,325	2.02
Yangtze River Delta	1,146,547	21.30	6,689	0.58	1,037,683	20.63	7,634	0.74
Bohai Rim	686,663	12.76	7,836	1.14	633,008	12.59	6,942	1.10
Pearl River Delta and West Side of Taiwan Strait	937,629	17.41	6,529	0.70	882,726	17.56	6,555	0.74
North-eastern China	180,975	3.36	3,562	1.97	166,632	3.31	3,772	2.26
Central China	542,009	10.07	5,843	1.08	510,537	10.15	4,247	0.83
Western China	561,839	10.44	3,935	0.70	512,103	10.18	4,640	0.91
Overseas	107,223	1.99	390	0.36	129,020	2.57	342	0.27
Subsidiaries	325,530	6.05	2,023	0.62	299,222	5.95	2,158	0.72
Total loans and advances to customers	5,382,998	100.00	54,542	1.01	5,029,128	100.00	53,615	1.07

Notes:

(1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) The Head Office includes Credit Card Center.

The Group centered around "14th Five-Year Plan" and other national major strategies including the coordinated development of Beijing, Tianjin and Hebei, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and the integrated development of Yangtze River Delta, closely followed the key direction of regional planning memorandum and deepened its research on regional advantageous industries and sectors to fully identify high-quality customers in regional economy. Meanwhile, the Group enhanced the differentiated risk classification, supervision and management for its branches at various regions, dynamically adjusted business authorisation and closely prevented regional systematical risks. As at the end of the reporting period, the percentage of the balance of the Group's loans extended to regions such as Yangtze River Delta, Bohai Rim and Western China increased. Impacted by the rise of risks in a few regions and areas, the non-performing loan ratio of Central China increased by 0.25 percentage point as compared to the end of the previous year. The non-performing loan ratio of Overseas and Bohai Rim also increased slightly, however, the non-performing loan ratio of other regions all decreased as compared with the end of the previous year.

3.4.5 Distribution of loans and non-performing loans by type of guarantees

(in millions of RMB, except for percentages)	30 June 2021				31 December 2020			
	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) (note)	Loan and advance balance	Percentage of the total (%)	Non performing loan	Non performing loan ratio (%) (note)
Credit loans	1,864,395	34.62	18,945	1.02	1,758,502	34.97	18,725	1.06
Guaranteed loans	738,330	13.72	17,835	2.42	696,634	13.85	16,201	2.33
Collateralised loans	2,026,608	37.65	12,921	0.64	1,914,658	38.07	13,544	0.71
Pledged loans	327,589	6.09	4,841	1.48	328,598	6.53	5,145	1.57
Discounted bills	426,076	7.92	–	–	330,736	6.58	–	–
Total loans and advances to customers	5,382,998	100.00	54,542	1.01	5,029,128	100.00	53,615	1.07

Note: Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

As at the end of the reporting period, the Group's collateralised and pledged loans increased by 4.95% as compared with the end of the previous year; guaranteed loans increased by 5.99% as compared with the end of the previous year, and the credit loans increased by 6.02% as compared with the end of the previous year. The non-performing guaranteed loan ratio increased by 0.09 percentage point as compared with the end of the previous year due to the formation of non-performing loans in certain large-sized corporate customers; while the non-performing ratio of loans with other types of guarantee all decreased.

3.4.6 Loans to the top ten single borrowers

(in millions of RMB, except for percentages)

Top ten borrowers	Industry	Loan and advance balance as at 30 June 2021	Percentage of net capital (under the Advanced Measurement Approach) (%)	Percentage of total loans and advances (%)
A	Transportation, storage and postal services	19,959	2.33	0.37
B	Leasing and commercial services	18,118	2.11	0.34
C	Property development	14,150	1.65	0.26
D	Transportation, storage and postal services	12,000	1.40	0.22
E	Property development	10,305	1.20	0.19
F	Production and supply of electric power, heating power, gas and water	10,000	1.17	0.19
G	Finance	9,136	1.07	0.17
H	Transportation, storage and postal services	8,925	1.04	0.17
I	Transportation, storage and postal services	8,752	1.02	0.16
J	Manufacturing industry	8,418	0.99	0.15
Total		**119,763**	**13.98**	**2.22**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB19.959 billion, representing 2.33% of the Group's net capital under the Advanced Measurement Approach. The loan balance of the top ten single borrowers totalled RMB119.763 billion, representing 13.98% of the Group's net capital under the Advanced Measurement Approach, 14.71% of the Group's net capital under the Weighted Approach, and 2.22% of the Group's total loan and advance, respectively.

3.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	30 June 2021		31 December 2020	
	Loan and advance balance	Percentage of total loans (%)	Loan and advance balance	Percentage of total loans (%)
Overdue within 3 months	13,409	0.25	15,584	0.31
Overdue from 3 months up to 1 year	19,547	0.36	20,112	0.40
Overdue from 1 year up to 3 years	16,747	0.31	15,473	0.31
Overdue more than 3 years	5,139	0.10	5,399	0.10
Total overdue loans	54,842	1.02	56,568	1.12
Total loans and advances to customers	5,382,998	100.00	5,029,128	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB54.842 billion, down by RMB1.726 billion from the end of the previous year and accounting for 1.02% of its total loans, representing a decrease of 0.10 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 30.45%; guaranteed loans accounted for 26.66%; credit loans accounted for 42.89% (the majority of which were overdue loans of credit cards). The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to the loans overdue for more than 90 days was 1.32.

3.4.8 Restructured loans

(in millions of RMB, except for percentages)	30 June 2021		31 December 2020	
	Loan and advance balance	Percentage of the total (%)	Loan and advance balance	Percentage of the total (%)
Restructured loans (note)	20,797	0.39	24,878	0.49
Of which: restructured loans overdue more than 90 days	13,858	0.26	15,169	0.30

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over loan restructuring. As at the end of the reporting period, the percentage of the Group's restructured loans to total loans was 0.39%, down by 0.10 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and impairment allowances

As at the end of the reporting period, the balance of repossessed assets (other than financial instruments) of the Group amounted to RMB667 million. After deducting the impairment allowances of RMB87 million, the net carrying value amounted to RMB580 million. The balance of repossessed financial instruments amounted to RMB1.952 billion.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted the new financial instrument standard to make adequate allowances for credit risk losses by using the expected credit loss model and the risk quantification parameters such as the probability of customer defaults and the loss ratio of defaults, after taking into consideration the adjustments in macro perspectiveness.

The following table sets forth the changes in the allowances for impairment losses on loans and advances of the Group.

(in millions of RMB)	January to June 2021	2020
Balance as at the end of the previous year	234,664	223,097
Charge/release for the period	14,457	46,882
Unwinding of discount on impaired loans and advances (note)	(141)	(186)
Recovery of loans and advances previously written off	5,485	8,781
Write-offs/disposal for the period	(14,789)	(43,734)
Foreign exchange rate movements	16	(176)
Balance at the end of the period	239,692	234,664

Note: Represents the amortised cost on impaired loans increased as a result of the increase in their present value due to the passage of time.

The Group continued to adopt a stable and prudent policy in respect of making allowances. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Group amounted to RMB239.692 billion, representing an increase of RMB5.028 billion as compared with the end of the previous year. The allowance coverage ratio was 439.46%, representing an increase of 1.78 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.45%, representing a decrease of 0.22 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

3.5.1 Capital regulatory requirements

The Group continued to optimise its business structure and enhance capital management. During the reporting period, the Group satisfied various capital requirements of the CBIRC. During the reporting period, the capital requirement provided by the CBIRC to the Group and the Company was that: the minimum requirement for each of capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio was 8%, 6% and 5% respectively. The Group further made provision for the reserve capital, the counter-cyclical capital and supplementary capital based on the above mentioned minimum capital requirements. Among them, the requirements for reserve capital, counter-cyclical capital and supplementary capital were 2.5%, 0% and 0% respectively, which represented that the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group and the Company during the reporting period should not be lower than 10.5%, 8.5% and 7.5% respectively.

3.5.2 Scope for calculating capital adequacy ratio

The scope for calculating the Group's capital adequacy ratio includes China Merchants Bank and the financial institutions in which the Company has direct or indirect investments in compliance with the requirements of the "Capital Rules for Commercial Banks (Provisional)". The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at the end of the reporting period, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing, CMB Wealth Management, China Merchants Fund, CIGNA & CMAM and CMB Europe S. A..

According to the regulatory requirements, the Group includes neither the industrial and commercial enterprises, nor the companies of the insurance type to the consolidated calculation scope of the capital adequacy ratios. Different types of investees are given different treatments while calculating the consolidated capital adequacy ratios.

No.	Type of investee	Treatment
1	Financial institutions with majority voting rights or controlling interest (excluding insurance companies)	Included in the calculation of consolidated capital adequacy ratio.
2	Insurance companies with majority voting rights or controlling interest	Excluded from the calculation of consolidated capital adequacy ratio, deducted corresponding capital investment from capital at all tiers; deducted the corresponding capital shortfall, if any.
3	Significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of consolidated capital adequacy ratio, deducted the part of core Tier 1 capital investments exceeding 10% of the Company's net core Tier 1 capital and deducted all of additional Tier 1 and Tier 2 capital investments from corresponding tiers of capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets.
4	Non-significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of consolidated capital adequacy ratio and correspondingly deducted the part of total investments exceeding 10% of the Company's net core Tier 1 capital from regulatory capital at all tiers. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets.
5	Investments in the equity of industrial and commercial enterprises	Excluded from the calculation of consolidated capital adequacy ratio and calculated as risk-weighted assets.

As at the end of the reporting period, there was no regulatory capital deficiency in the financial institutions in which the majority or controlling interests are held by the Company as measured in accordance with local regulatory requirements. During the reporting period, there was no material restriction on the capital transfer within the Group.

3.5.3 Information on capital adequacy ratio

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Group under the Advanced Measurement Approach was 11.89%, 13.47% and 16.01% respectively, representing a decrease of 0.40, 0.51 and 0.53 percentage point respectively, as compared with the end of the previous year. For details of the reasons for the decreases, please refer to section 3.9 headed "Capital management".

The Group

(in millions of RMB, except for percentages)	**30 June 2021**	31 December 2020	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach [(1)]			
Net core Tier 1 capital	**636,399**	610,092	4.31
Net Tier 1 capital	**720,453**	694,184	3.78
Net capital	**856,780**	821,290	4.32
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**4,588,660**	4,298,888	6.74
Of which: Credit risk weighted assets	**4,024,988**	3,731,603	7.86
Market risk weighted assets	**71,982**	75,595	-4.78
Operational risk weighted assets	**491,690**	491,690	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**5,350,441**	4,964,542	7.77
Core Tier 1 capital adequacy ratio	**11.89%**	12.29%	Decreased by 0.40 percentage point
Tier 1 capital adequacy ratio	**13.47%**	13.98%	Decreased by 0.51 percentage point
Capital adequacy ratio	**16.01%**	16.54%	Decreased by 0.53 percentage point
Information on leverage ratio [(2)]			
Adjusted balance of on- and off-balance sheet assets	**10,076,553**	9,395,026	7.25
Leverage ratio	**7.15%**	7.39%	Decreased by 0.24 percentage point

Notes:

(1) The "Advanced Measurement Approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below). During the parallel run period when the Advanced Measurement Approach for capital measurement is implemented, a commercial bank shall use the capital floor adjustment coefficients to adjust the amount of its risk-weighted assets multiplying the sum of its minimum capital required and reserve capital required, total amount of capital deductions and the allowances for excessive loan loss which can be included into capital. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the parallel run period. 2021 is the seventh year since the implementation of the parallel run period.

(2) The leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by the former CBRC on 12 February 2015. The leverage ratio of the Group was 7.40%, 7.39% and 7.26% respectively as at the end of the first quarter of 2021, the end of 2020 and the end of the third quarter of 2020.

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Company under the Advanced Measurement Approach was 11.40%, 13.07% and 15.73% respectively, representing a decrease of 0.41, 0.55 and 0.56 percentage point respectively, as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	30 June 2021	31 December 2020	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach			
Net core Tier 1 capital	**555,611**	532,209	4.40
Net Tier 1 capital	**636,846**	613,444	3.81
Net capital	**766,194**	734,022	4.38
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**4,102,294**	3,848,927	6.58
Of which: Credit risk weighted assets	**3,592,783**	3,336,234	7.69
Market risk weighted assets	**59,353**	62,535	-5.09
Operational risk weighted assets	**450,158**	450,158	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**4,872,328**	4,505,299	8.15
Core Tier 1 capital adequacy ratio	**11.40%**	11.81%	Decreased by 0.41 percentage point
Tier 1 capital adequacy ratio	**13.07%**	13.62%	Decreased by 0.55 percentage point
Capital adequacy ratio	**15.73%**	16.29%	Decreased by 0.56 percentage point

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Group under the Weighted Approach was 10.46%, 11.84% and 13.38% respectively, representing a decrease of 0.22, 0.32 and 0.41 percentage point respectively as compared with the end of the previous year.

The Group

(in millions of RMB, except for percentages)	30 June 2021	31 December 2020	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach (note)			
Net core Tier 1 capital	**636,399**	610,092	4.31
Net Tier 1 capital	**720,453**	694,184	3.78
Net capital	**814,179**	787,438	3.40
Risk-weighted assets	**6,086,169**	5,710,544	6.58
Core Tier 1 capital adequacy ratio	**10.46%**	10.68%	Decreased by 0.22 percentage point
Tier 1 capital adequacy ratio	**11.84%**	12.16%	Decreased by 0.32 percentage point
Capital adequacy ratio	**13.38%**	13.79%	Decreased by 0.41 percentage point

Note: The "Weighted Approach" refers to the Weighted Approach for credit risk, the Standardised Measurement Approach for market risk and the Basic Indicator Approach for operational risk in accordance with the relevant provisions of the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012. Same as below.

As at the end of the reporting period, the core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio of the Company under the Weighted Approach was 9.91%, 11.35% and 12.90% respectively, representing a decrease of 0.21, 0.32 and 0.41 percentage point respectively as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	30 June 2021	31 December 2020	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach			
Net core Tier 1 capital	**555,611**	532,209	4.40
Net Tier 1 capital	**636,846**	613,444	3.81
Net capital	**723,592**	700,171	3.35
Risk-weighted assets	**5,609,011**	5,258,694	6.66
Core Tier 1 capital adequacy ratio	**9.91%**	10.12%	Decreased by 0.21 percentage point
Tier 1 capital adequacy ratio	**11.35%**	11.67%	Decreased by 0.32 percentage point
Capital adequacy ratio	**12.90%**	13.31%	Decreased by 0.41 percentage point

3.5.4 Measurement of credit risk capital

Balance of credit risk exposures

During the reporting period, the credit risk of the Company under the internal ratings-based approach (IRB approach) was classified into six types of risk exposures: sovereign, financial institution, corporate, retail, shareholding and others. As at the end of the reporting period, the balances of various risk exposures are as follows.

(in millions of RMB)	Type of risk exposure	30 June 2021 Legal person	30 June 2021 Group
Portion covered by the IRB approach	Financial institution	1,555,616	1,555,616
	Corporate	2,046,104	2,046,104
	Retail	3,652,684	3,652,684
	Of which: Residential mortgage exposures	1,323,013	1,323,013
	Qualified revolving retail	1,747,609	1,747,609
	Other retail	582,062	582,062
Portion not covered by the IRB approach	On-balance sheet	2,998,284	3,438,889
	Off-balance sheet	144,012	148,724
	Counterparty	12,337	13,974

Balance of asset securitisation risk exposures

The Group uses the Standardised Measurement Approach to calculate its capital requirements of asset securitisation risk exposures. Risk weight is determined according to the credit ratings of eligible external rating institutions and the type of asset securitisation. As at the end of the reporting period, the capital requirement of asset securitisation risk exposure of the Group was RMB2.795 billion and the risk-weighted assets were RMB34.940 billion. As at the end of the reporting period, the balance of the asset securitisation risk exposures of the Group was as follows.

Item (in millions of RMB)	30 June 2021 Traditional	30 June 2021 Synthetic
Balance of on-balance sheet asset securitisation risk exposures	15,179	–
Balance of off-balance sheet asset securitisation risk exposures	167	–

Information on credit risk mitigation

The Group generally transfers or lowers credit risk through collaterals and guarantees. As at the end of the reporting period, the risk exposures covered by eligible risk mitigation instruments are as follows.

Type of risk exposure	30 June 2021			
(in millions of RMB)	Eligible financial collaterals	Other eligible collaterals	Eligible guarantees and credit derivative instruments	Others
On-balance sheet credit risk	137,648	115,826	675,017	–
Off-balance sheet credit risk	55,833	8,958	96,914	–
Counterparty credit risk	2,081	–	–	–

3.5.5 Measurement of market risk capital

The Group uses mixed approaches to calculate its market risk capital. Specifically, it uses the Internal Model-based Approach to calculate the general market risk capital of the Company (excluding overseas branches), and uses the Standardised Measurement Approach to calculate the general market risk capital of overseas branches and affiliated companies of the Company as well as the specific market risk capital of the Company and its affiliated companies. As at the end of the reporting period, the market risk-weighted assets of the Group were RMB71.982 billion, and market risk capital requirement was RMB5.759 billion, of which the general market risk capital requirement calculated under the Internal Model-based Approach was RMB3.793 billion, and the market risk capital requirement calculated under the Standardised Measurement Approach was RMB1.966 billion.

The Group's market risk capital under the Internal Model-based Approach was calculated using the market risk value based on 250 days of historical market data, a confidence coefficient of 99% and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of the reporting period.

No. (in millions of RMB)	Item	30 June 2021 Distressed market risk value during the reporting period	30 June 2021 General market risk value during the reporting period
1	Average value	594	537
2	Maximum value	823	677
3	Minimum value	370	361
4	Value at the end of the period	521	493

3.5.6 Measurement of operational risk capital

The Group uses the Standardised Measurement Approach to calculate its operational risk capital requirements. By implementing the Standardised Measurement Approach, the Group preliminarily established a complete operational risk management framework, which enabled us to identify, evaluate, monitor, measure, control and mitigate all kinds of operational risks in a regular and systematic manner, and helped the Group to dynamically control the overall circumstance and the development of operational risks of the Group. Furthermore, the Group enhanced its risk resisting capabilities through adopting control measures and making provision for economic capital. As at the end of the reporting period, the operational risk capital requirement of the Group was RMB39.335 billion and the operational risk weighted assets were RMB491.690 billion.

3.6 Results of Operating Segments

The principal business segments of the Group include retail finance and wholesale finance. The following table summarises the operating results of each business segment of the Group for the periods indicated.

Items	January to June 2021		January to June 2020	
(in millions of RMB)	Profit before tax by business segments	Net operating income	Profit before tax by business segments	Net operating income
Retail finance	40,580	90,215	33,878	78,765
Wholesale finance	31,979	69,907	26,268	62,709
Other businesses	3,764	8,708	2,692	6,689
Total	76,323	168,830	62,838	148,163

During the reporting period, profit before tax of retail finance business of the Group amounted to RMB40.580 billion, up by 19.78% year-on-year, accounting for 53.17% of the profit before tax of the Group; net operating income amounted to RMB90.215 billion, up by 14.54% year-on-year, accounting for 53.44% of the net operating income of the Group. At the same time, during the reporting period, the cost-to-income ratio of retail finance business of the Group was 28.77%, representing a year-on-year decrease of 0.49 percentage point.

For details of the Group's business and geographical segments, please refer to Note 38 to the financial statements.

3.7 Other Financial Disclosures under the Regulatory Requirements

3.7.1 Balance of off-balance sheet items that may have a material effect on the financial position and operating results and the related information

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. Among which, the credit commitment is the primary component. As at the end of the reporting period, the balance of credit commitments of the Group was RMB2,137.209 billion. For details of the contingent liabilities and commitments, please refer to Note 39 to the financial statements.

3.7.2 Outstanding overdue debts

As at the end of the reporting period, the Group did not have any outstanding overdue debts.

3.8 Implementation of Business Development Strategies

Since 2018, the Company has fully entered into the second half of the transformation into "Light-model Bank", actively explored the 3.0 model of the digital era, continued to make innovations in business, technology and culture, and created a business model of extensive wealth management, a digital operation model and an organisational model of openness and integration. During the reporting period, the Company continued to polish the 3.0 model, and strived to be well-prepared and achieve a good start during the "14th Five-Year Plan" period.

1. Outline the shape of extensive wealth management business model

Firstly, the Company expanded the "vast clientele", and further consolidated the foundation of extensive wealth management. During the reporting period, the Company further focused on high-quality key customer groups to strengthen customer acquisition, and through deepening the integration of wholesale and retail finance businesses, enhancing the expansion of high-quality payroll service, and exploring ways to build an amphibious team to provide private banking clients and the companies behind them with integrated services, the Company continuously expanded the source of high-quality customers and achieved high-quality growth of retail customers. As at the end of the reporting period, the Company had 165 million retail customers (including debit and credit card customers), the balance of total assets under management (AUM) from our retail customers at a point of time exceeded RMB10 trillion, and the assets of Sunflower-level and above customers maintained rapid growth. Customer management has expanded from single-asset hierarchy to customer group classification, and the Company explored the establishment of exclusive service solutions in segmented customer groups such as elderly customer groups and parent-child customer groups. The operation model has been upgraded from mainly focusing on account management by the account managers to the dual model of "account management + traffic". At the same time, the Company continued to forge its online operating capabilities. As at the end of the reporting period, the aggregate number of CMB APP users was 158 million, and the aggregate number of CMB Life APP users was 117 million. With the assistance of online light-model channels such as APPs and network operation service centers, and by comprehensively utilising intelligent and intensive operation methods, the Company expanded the scope of wealth management services to hundred millions of long-tail customers, and enabled ordinary households to enjoy wealth management services. The wholesale businesses focused on acquisition channels of high-quality customers and improved the whole-process management from customer acquisition to operation. At the end of the reporting period, the number of corporate customers with a daily average deposit of more than RMB500,000 reached 217,700, representing an increase of 18,300 or 9.18% as compared with the end of the previous year. Supply chain finance has extended from pure financing services to a comprehensive financial ecosystem, the number of core customers along with their upstream and downstream supply chain customers increased by 98.22% and 150.36% year-on-year, respectively. As at the end of the reporting period, the percentage of all domestic listed companies opening accounts with the Company reached 81.05%, representing an increase of 3.01 percentage points as compared with the end of the previous year, among them, the percentage of IPO companies opening special fund-raising accounts with the Company during the reporting period accounted for 54.77%, still ranking first in the industry. With the solid support of customer base, the average daily scale of corporate core deposits was RMB3,271.315 billion, representing an increase of 17.80% as compared with the previous year.

Secondly, the Company built the "comprehensive platform" and worked together with partners to create and manage a business circle of friends. By connecting the multilateral players in the market, the Company exerted the network effect of "broader customers, more products and better services". The Company also built an open product platform and operation platform. The Company initiated the "Zhaoyang Plan (招陽計劃)", built a growth platform for potential fund managers, incubated and targeted at excellent fund managers. 55 partners settled on the "Zhaocaihao (招財號)" open platform to start the exploration of directly serving customers. The organic integration of monthly active users (MAU) and AUM was boosted, and more customers could enjoy wealth management services on the platforms of China Merchants Bank. During the reporting period, the number of wealth management customers using CMB APP[1] reached 15,639,200, up by 29.17% year-on-year, and accounted for 97.62% of the Bank's total number of wealth management customers. The wealth management transactions via CMB APP amounted to RMB6.12 trillion, up by 26.85% year-on-year, and accounted for 84.19% of the Bank's wealth management transactions. The Company lowered the threshold of customer perception, tackled the problem for online allocation of complex products, achieved remarkable results in online operations, further improved the purchasing experience, and significantly increased the sales of complex products.

1 In the first half of 2021, the Company adjusted the statistical calibre for calculating the number of wealth management customers and the sales amount, to include the number of customers who only purchased "Zhao Zhao Ying (朝朝盈)" product and the corresponding sales amount, and the comparative data for the corresponding period were adjusted accordingly.

Thirdly, the Company built the "diverse ecology" and formed a business flywheel effect. Focusing on the cyclic extensive wealth management value chain, each unit gradually found the positioning of its own value. The transformation of wholesale and retail customers became more tacit, and the two major business lines had closer cooperation in the expansion of payroll service and private banking customer groups. The issuance of private banking cards for key corporate executives had increased rapidly, and the attraction to valid corporate accounts by private banking had also increased significantly. High-quality asset organisation provided support in terms of products for extensive wealth management, and the service model integrating investment banking and commercial banking extended the width and breadth of asset organisation. The custody business gave full play to its ecological value on the value chain of "wealth management-asset management-investment banking", and has achieved significant growth in the scale of custody and income from custody business. Scenario construction and customer operation complemented each other. The travel service scenario achieved full coverage of subway and bus routes in 44 branches, with 241 new public service scenarios included. Combining their differentiated advantages, each subsidiary proactively integrated into the extensive wealth management system, reflecting the advantages of multi-license services. The product scale of CMB Wealth Management ranked first in the market, playing a cornerstone role in the growth of retail AUM. In the process of developing REITs business, CMB gave full play to the Group's comprehensive advantages to provide a full chain of services including underlying asset project financing, fund raising and product custody. CMB Wealth Management realised the performance of full coverage of investment in the first batch of 9 projects issued in the market, with 7 in custody, 7 in agency sales, and 2 in M&A loans for underlying projects.

2. Begin to demonstrate the benefit from digital operation model

Firstly, the Company upgraded its digital services. The retail financial business connected different customer groups, products, and businesses through the M+ membership system, and realised the integration of business scenarios and sharing of resources for online customer operation. During the reporting period, CMB APP and CMB Life APP had an aggregate MAU of 105 million. In 19 scenarios, the MAU exceeds 10 million. During the reporting period, there were 3,075 live broadcasts in the two major APPs, serving more than 18 million customers. As at the end of the reporting period, 66 branches (including 44 tier-1 branches and 22 tier-2 branches) launched the City Zones (城市專區). 1,734 outlets launched online stores. The corporate finance business comprehensively launched an online service system, covering customer accounts, settlement, cash management, financing, foreign exchange and other recurring business needs. The coverage ratio of the Cross-bank Solution for Corporate Treasury Management (CBS) reached 57.73% and 25.93% for strategic customers at the Head Office and branches, respectively, up by 2.92 and 1.47 percentage points, respectively, as compared with the end of the previous year; the invoice cloud (發票雲) achieved full coverage of branches, and the number of contracted customers was 31,932, representing an increase of 183.64% as compared with the end of the previous year. Secondly, the Company deepened digital risk control, and launched a Bank-wide unified risk signal management platform, Feng Lei Platform (風雷平台) to strengthen the collection, integration and application of risk signals; digital risk control continued to access new business scenarios and the Company improved the differentiated underlying risk control model, expanded the sources of risk control data and facilitated the online granting of corporate loans. As at the end of the reporting period, a total of RMB34.296 billion of corporate loans had been granted online. Thirdly, the Company accelerated the construction of digital middle-office and future-oriented technological infrastructure, and continued to promote host cloud and application cloud.

3. Further advance the organisational model of openness and integration

Firstly, the Company created an organisation with openness and integration. The agile and autonomous integrated team mechanism realised efficient operation, becoming a wide choice for each organisation to carry out complicated tasks, and playing an increasingly important role in solving the pain points of customers. More than 500 employees across the front-, middle- and back-offices, and across the Head Office and branches formed 47 self-organised industry research organisations, which played important roles in enhancing industry awareness. The Company also explored the system for wide job duties and team integration, and broke through the authority barriers of various business lines, so that grassroots account managers could provide customers with full range of services, reduce service breakpoints and improve customer experience. Secondly, the Company built a light-model culture of "openness, integration, equality and inclusiveness". The OKR work method (i.e. objectives and key results method), an innovative management tool, effectively stimulated employees' self-driven impetus and promoted employees to do the right things. The Company carried out "Simple Work Inspection (清風問診)" action to help organisations in self-inspection and self-correction, strived to cultivate the soil suitable for the development of light-model culture, and carried out "Simple Work 100 (清風100)" activity to set an example of grassroot management for all employees.

3.9 Business Focal Points in Operation

1. Net interest margin

In the first half of 2021, the net interest margin of the Group was 2.49%, representing a decrease of 1 basis point year-on-year, which was flat as compared with the previous year; and the net interest margin of the Company was 2.54%, representing a decrease of 3 basis points year-on-year and 2 basis points as compared with the previous year, respectively. Such decrease was mainly due to a decline in loan yields resulted from the cumulative impact of multiple cuts in the Loan Prime Rate (LPR) in the previous year. On the one hand, the Group insisted on strict control of the cost of liabilities, including the year-on-year decrease in cost ratio of customer deposits, financial institution demand deposits and active liabilities for treasurers; on the other hand, the Group continued to optimise the structure of both assets and liabilities and improve the efficiency of capital use on the asset side, resulting in steady increase in the proportion of high-yield assets such as loans, while the low-cost deposits from customers on the debt side maintained a good growth momentum, and its proportion to interest-bearing liabilities increased further. The decline in the cost of liabilities, as well as the continued optimisation of the structure of both assets and liabilities, to a certain extent, had made up for the impact of the decline in loan yields.

Looking forward to the second half of the year, the Group anticipates both opportunities and challenges in terms of net interest margin. As for opportunities, the decline in self-regulated upper limits for medium and long-term deposit interest rates will help to regulate market competition, and will enable the Group to take full advantage of its comprehensive customer operation and services to strengthen deposit expansion. In addition, the central bank has lowered the deposit reserve ratios across the board, which will further optimise the Group's asset and liability structure. With regards to challenges, corporate profitability will face a more severe situation in which global pandemic remains complicated and volatile and economic recovery lacks sound foundation. Meanwhile, the market interest rates will stay at a low level, and thus posing a downward traction on loan interest rates. As a result, the return on assets will be put under pressure.

In view of the above, the Group will adopt the following measures to maintain a relatively good level of net interest yield in the industry. As for liabilities, on the one hand, the Group will continue to promote high-quality growth of deposits, prioritise the growth of low-cost core deposits, grasp the opportunity of adjustment in the self-regulated upper limits for deposit interest rates, and consolidate the advantage of deposit costs; on the other hand, the Group will flexibly arrange marketised funding sources, promote the steady growth in stable low-cost financial institution demand deposits, and reasonably arrange active liabilities for treasuries. As for assets, on the one hand, the Group will continue to optimise the credit asset structure, strengthen loan pricing management, and further improve the risk pricing level; on the other hand, the Group will strengthen forward-looking judgments on market interest rates, improve the efficiency of capital use, and appropriately increase the allocation of bonds and high-yield financial institution assets.

2. Net non-interest income

During the reporting period, driven by the cyclic value chain of extensive wealth management, the total customer assets under management by the Group maintained a rapid growth, which had propelled the simultaneous operation of investment management, asset custody, investment banking and other businesses. As a result, the Group realised the generation of income from multiple sources such as wealth management income, asset management income and custodian fee income, demonstrating the coordinated development of various services. In addition, the deepening of customer operation and the enhanced synergy of extensive wealth management had also brought new growth opportunities for trade finance, international businesses and supply chain finance. During the reporting period, the Group achieved net non-interest income of RMB69.489 billion, representing a year-on-year increase of 21.29%, accounting for 41.16% of net operating income, up by 2.49 percentage points year-on-year. Among the Group's net non-interest income, net fee and commission income was RMB52.254 billion, representing a year-on-year increase of 23.62%, and accounting for 75.20% of net non-interest income, up by 1.42 percentage points year-on-year; other net non-interest income amounted to RMB17.235 billion, representing a year-on-year increase of 14.74%.

Among the Group's net fee and commission income during the reporting period, from the perspective of major items: **fee and commission income from wealth management** amounted to RMB20.612 billion, representing a year-on-year increase of 33.60%, of which income from agency distribution of funds amounted to RMB6.719 billion, representing a year-on-year increase of 39.75%, which was mainly attributable to the admirable growth in the fund issuance market, leading to the sustained improvement in the performance of equity funds and the expanded advantage of the agency distribution of equity funds; income from agency distribution of insurance amounted to RMB5.559 billion, representing a year-on-year increase of 32.51%, which was mainly attributable to the fact that the Company proactively responded to regulatory calls, promoted the return of agency distribution of insurance to the protection origin, and focused on the development of protection insurance business; income from agency distribution of trust schemes amounted to RMB4.528 billion, representing a year-on-year increase of 23.85%, which was mainly attributable to the further deepening of the high-net-worth customer base operation, as well as the rapid improvement in the performance of floating-income products driven by better market conditions; income from agency sales of wealth management products[2] amounted to RMB2.874 billion, representing a year-on-year increase of 32.56%, which was mainly attributable to the construction of an open platform and the offering of marketable products, as well as the admirable expansion in the sales scale of retail wealth management products; income from securities brokerage amounted to RMB757 million, representing a year-on-year increase of 66.39%, which was mainly attributable to the increase in securities brokerage income of CMB International Capital and CMB Wing Lung Bank along with the rising trading volume in the robust Hong Kong capital market; income from agency distribution of precious metals amounted to RMB175 million, representing a year-on-year increase of 19.86%, which was mainly attributable to the increase in gold trading activity. **Fee and commission income from asset management**[3] amounted to RMB4.860 billion, representing a year-on-year increase of 37.60%, which was mainly attributable to the growth in the income from fund management fees of China Merchants Fund and CMB International Capital and the fee income from wealth management products of CMB Wealth Management, all being subsidiaries of the Group; **custodian fee income** amounted to RMB2.857 billion, representing a year-on-year increase of 29.80%, which was mainly attributable to the scale expansion and structural optimisation of custody businesses; **income from bank card fees** amounted to RMB9.396 billion, representing a year-on-year decrease of 0.23%; **income from settlement and clearing fees** amounted to RMB7.277 billion, representing a year-on-year increase of 14.38%.

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2 Income from agency sales of wealth management products refers to the income related to sales services provided for wealth management products of banks by the Group.

3 Fee and commission income from asset management mainly includes the income from the issuance and management of various asset management products such as funds, wealth management and asset management plans of China Merchants Fund, CMB International Capital, CMB Wealth Management and CIGNA & CMAM.

Looking forward to the second half of the year, the Group expects that its net non-interest income will maintain rapid growth by taking the following measures. The first is to focus on the overall planning of building the cyclic extensive wealth management value chain to further promote digital transformation, platform transformation and ecological transformation, continuously expand customer scale and total customer assets under management, strengthen investment management capability, custody platform value and asset operation capability, and jointly promote the high-quality growth in the income from extensive wealth management services including wealth management, asset management, asset custody and investment banking, thus increasing its contribution to the Group's income; the second is to increase the efforts in customer expansion and promotion, and keep abreast of the consumption recovery trend to promote the increase, stabilisation and rebounding of credit card income and debit card settlement income; the third is to coordinate extensive wealth management services, deepen wholesale customer operation, enhance customer stickiness, and promote the recovery growth of supply chain finance, international businesses and trade financing; the fourth is to strengthen market research and judgment, improve trading capability, and achieve a relatively stable and healthy growth in the income from financial market business and bill business during the volatile economic and policy cycles.

3. Deposits from customers

As at the end of the reporting period, the balance of the Company's deposits from customers amounted to RMB5,741.748 billion, representing an increase of RMB333.821 billion or 6.17% as compared with the end of the previous year. The M2 growth rate declined, corporate funds were insufficiently activated, and the room for deposit growth was limited in the first half of this year. Amid this unfavorable backdrop, the Company adopted various measures such as the management, assessment and guidance of deposit classification and the improvement of fund precipitation through integrated operation, achieving continued optimisation of the deposit structure. The core deposits grew faster than the deposits from customers, and the proportion of demand deposits increased further. As at the end of the reporting period, the balance of the Company's core deposits[4] amounted to RMB5,035.263 billion, representing an increase of RMB324.744 billion as compared with the end of the previous year, up by 6.89%; the balance of demand deposits amounted to RMB3,833.824 billion, representing an increase of RMB233.172 billion or 6.48% as compared with the end of the previous year; the average daily balance of demand deposits during the reporting period accounted for 65.45%, representing an increase of 4.59 percentage points as compared with the previous year. As at the end of the reporting period, the balance of the Company's structured deposits amounted to RMB262.640 billion, representing a decrease of RMB4.385 billion as compared with the end of the previous year, and accounting for 4.57% of total deposits from customers, down by 0.37 percentage point as compared with the end of the previous year.

Looking forward to the second half of the year, commercial banks will continue to bear pressure on deposit growth as competition for deposits becomes increasingly fierce. The Company will continue to face challenges in terms of scale growth and cost control. In order to maintain the high-quality growth of deposits, firstly, the Company will continue to strengthen internal management measures, place the growth of core deposits at the dominant position, and promote further optimisation of the deposit structure; secondly, the Company will constantly expand the size of its customer base while enhancing the operation of existing customer base and broadening the sources of deposits; thirdly, the Company will increase the share of settlement-based deposits and consolidate the advantage in the proportion of demand deposits; fourthly, the Company will continue to strengthen the volume and price control of high-cost deposits and medium- and long-term time deposits to cope with the rigid rising pressure of deposit costs.

4 The core deposits represent the internal management indicator for the Company's deposits, excluding large-denomination certificates of deposit, structured deposits and other high-cost deposits.

4. Loans and Advances to Customers

In the first half of 2021, the Company adopted a dynamic and flexible credit management strategy to support the granting of various loans. As at the end of the reporting period, the Company's total loans and advances to customers amounted to RMB5,058.433 billion, representing an increase of 6.93% as compared with the end of the previous year, among which, retail loans amounted to RMB2,822.525 billion, representing an increase of RMB178.572 billion or 6.75% as compared with the end of the previous year. The increase in the year-on-year growth rate was mainly attributable to the growth of credit card loans driven by consumption recovery and the increase in the granting of the Company's micro-finance loans; corporate loans amounted to RMB1,816.111 billion, representing an increase of RMB57.160 billion or 3.25% as compared with the end of the previous year. The slowdown in the year-on-year growth rate was mainly due to the decline in the effective credit demand from corporate customers.

In terms of real estate loans, the Company will continue to strengthen real estate loan concentration management, promote a steady decline in the proportion of real estate loans, constantly optimise the credit asset structure, and actively support high-quality manufacturing industries, green credit and other industries. It is expected that the overall impact of the real estate loan concentration management policy on the Company is controllable.

In terms of inclusive finance, as at the end of the reporting period, the number of inclusive small- and micro-sized enterprise customers of the Company was 620,200, representing an increase of 32.09% as compared with the beginning of the year; and the balance of inclusive small- and micro-enterprise loans[5] amounted to RMB575.183 billion, representing an increase of RMB66.722 billion or 13.12% as compared with the beginning of the year, which was 6.19 percentage points higher than the growth rate of overall loans of the Company. During the reporting period, the Company newly granted inclusive small- and micro-enterprise loans of RMB234.372 billion. The newly granted inclusive small- and micro-enterprise loans had an average interest rate of 4.79%, representing a decrease of 21 basis points as compared with the previous year on the same calibre, which had strongly supported the development of real economy.

The Company continued to implement the policy for temporary deferment of repayment of the principal and interest to help small- and micro-sized enterprises tide over the difficulties. In the whole year of 2020 and the first half of 2021, the Company handled a cumulative amount of RMB179.588 billion in the loans granted to the customers who applied for deferment of repayment of the principal and interest, of which RMB27.016 billion took place in the loans granted to the customers who applied for deferment of repayment of the principal and interest in the first half of 2021. As at the end of the reporting period, the balance of the loans granted to the customers who applied for deferment of repayment of the principal and interest amounted to RMB15.406 billion. The Company will effectively prevent ethics risk and credit risk in policy implementation, strengthen the monitoring of the use of loans, ensure the authenticity and compliance of capital granting, continue to track, monitor, analyse and judge the quality of the loans granted to the customers who applied for deferment of repayment of the principal and interest, and proactively make countermeasures for the exit of the policy, striving to maintain the stability of asset quality.

In the second half of the year, the Company will continuously pay attention to changes in internal and external operating environment, flexibly adjust asset allocation, and ensure the generally smooth operation of loans. In terms of retail loans, under the premise of putting risks under control, the Company will promote the steady growth of micro-finance loans, consumer loans and credit-card loans. In terms of corporate loans, it is expected that effective credit demand may further decline as corporate customers' willingness to seek direct financing increase due to lower market interest rates. The Company will enhance the operation of corporate credit assets, actively support new growth engines, high-quality manufacturing industries, green credit and other financing needs, and continuously optimise the structure of corporate credit assets.

5 Refers to the small- and micro-sized enterprise loans + private industrial and commercial business operating loans + small- and micro-sized enterprise operating loans with a single account credit limit of RMB10 million, according to the appraisal calibre of "increase in both total loans and number of loan customers, and control of both loan quality and overall costs" of the CBIRC, which is the full-scale RMB domestic calibre, excluding bill financing for the current period as compared with the calibre of the previous periods, with corresponding adjustments made to the comparable figures at the beginning of the period.

5. The formation and disposal of non-performing assets

During the reporting period, the Company recorded new formed non-performing loans of RMB23.242 billion, representing a year-on-year decrease of RMB4.690 billion, with a formation ratio (annualised) of non-performing loans of 0.95%, down by 0.34 percentage point year-on-year. In terms of business category, the formation amount of non-performing corporate loans was RMB6.561 billion, representing a decrease of RMB1.388 billion year-on-year; the formation amount of non-performing retail loans (excluding credit cards) was RMB2.531 billion, representing a decrease of RMB1.554 billion year-on-year; the formation amount of new non-performing loans of credit cards was RMB14.150 billion, representing a decrease of RMB1.748 billion year-on-year. From the regional perspective, the formation amount of non-performing loans in Central China increased year-on-year, but the formation ratio of non-performing loans decreased year-on-year, while those in other regions fell. From the industrial perspective, the formation amounts and formation ratios of non-performing loans to the industries such as real estate and mining increased year-on-year. From the perspective of customer base, the formation amounts and formation ratios of non-performing loans to the large-, medium- and small-sized enterprises decreased year-on-year.

The Company has always adhered to prudent and stable customer selection and asset allocation strategy, spurred by its sufficient risk compensation and strong capabilities of guarding against risks. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Company amounted to RMB233.244 billion, representing an increase of RMB5.028 billion as compared with the end of the previous year. The allowance coverage ratio was 444.11%, representing an increase of 0.60 percentage point as compared with the end of the previous year; the loan allowance ratio was 4.61%, representing a decrease of 0.21 percentage point as compared with the end of the previous year; the credit cost ratio (annualised) was 0.59%, representing a year-on-year decrease of 1.07 percentage points, which was mainly due to a decrease of allowance for loans and advances to customers by the Company. For details, please refer to the section headed 3.2.8 "Expected credit losses" in this chapter.

During the reporting period, the Company continued to play an active role in the disposal of non-performing loans, taking various approaches to reduce and dispose of risk assets. During the reporting period, the Company disposed of non-performing loans amounting to RMB22.175 billion, of which RMB10.057 billion was written off; RMB6.584 billion was recovered by collection and RMB4.857 billion was securitised; and RMB677 million was disposed of by repossession, transfer, restructuring, upward migration, remission and other means.

With respect to the risk assets associated with its wealth management business, the Company will continue to promote and dispose of relevant assets during the year in a proper and steady manner based on their formation and rectification progress, under the principle of compliance with regulatory policies and promotion of the rectification of existing wealth management business and risks mitigating. For the wealth management assets that have been restated in the balance sheet, the Company will, on the one hand, make adequate provision for asset loss based on the expected credit loss model. On the other hand, the Company will continue to strengthen the risk management following the restatement in the balance sheet, so as to promote the orderly commencement of the recovery and disposal.

Since this year, the domestic economy has showed an overall trend of a steady recovery, while the engine of economic development has been further boosted. However, under the background of the global pandemic prevention and control, and complex and volatile international economic and trade relations, the domestic economy still faces uneven recovery and uncertainties, resulting in some sectors, and small-, medium- and micro-sized enterprises still confronting with various degree of difficulties. Given that the risk exposure tends to lag behind, the potential risks will exist for a period of time in the future, and the Company will continue to face certain challenges in its asset quality management and control. The Company will dynamically assess the risk situation, continue to adjust the customer structure and business structure, reinforce risk screening in key areas, consolidate the basis for risk management, adhere to strict asset classification to fully expose risks, make full provision, and keep up the efforts of disposal of non-performing assets with effective application of various methods such as recovery by collection, write-off and transfer, so as to strive to maintain overall stability of asset quality.

6. Asset quality in key areas

The following table sets out the asset quality of the Company's loans and advances by product type as of the date indicated.

	30 June 2021						
(in millions of RMB, except for percentages)	Balance of Loans and advances	Balance of non-performing loans	Non-performing loans ratio (%)	Balance of special mention loans	Percentage of special mention loans (%)	Balance of overdue loans	Percentage of overdue loans (%)
Corporate loans	1,816,111	30,948	1.70	8,861	0.49	25,485	1.40
Discounted bills	419,797	–	–	10	–	–	–
Retail loans	2,822,525	21,571	0.76	25,998	0.92	27,670	0.98
Micro-finance loans	539,420	2,776	0.51	890	0.16	2,769	0.51
Residential mortgage loans	1,319,570	3,288	0.25	1,469	0.11	3,395	0.26
Credit card loans	796,870	12,584	1.58	23,162	2.91	18,347	2.30
Consumer loans(1)	139,169	1,615	1.16	321	0.23	1,816	1.30
Others(2)	27,496	1,308	4.76	156	0.57	1,343	4.88
Total loans and advances to customers	5,058,433	52,519	1.04	34,869	0.69	53,155	1.05

	31 December 2020						
(in millions of RMB, except for percentages)	Balance of Loans and advances	Balance of non-performing loans	Non-performing loans ratio (%)	Balance of special mention loans	Percentage of special mention loans (%)	Balance of overdue loans	Percentage of overdue loans (%)
Corporate loans	1,758,951	29,767	1.69	11,389	0.65	25,096	1.43
Discounted bills	327,479	–	–	459	0.14	–	–
Retail loans	2,643,953	21,690	0.82	25,710	0.97	29,562	1.12
Micro-finance loans	474,528	3,013	0.63	1,014	0.21	2,836	0.60
Residential mortgage loans	1,264,388	3,736	0.30	1,516	0.12	3,833	0.30
Credit card loans	746,559	12,421	1.66	22,554	3.02	20,059	2.69
Consumer loans(1)	118,945	1,458	1.23	385	0.32	1,702	1.43
Others(2)	39,533	1,062	2.69	241	0.61	1,132	2.86
Total loans and advances to customers	4,730,383	51,457	1.09	37,558	0.79	54,658	1.16

Notes:

(1) Following the further specification on the requirements of regulatory authorities for internet joint consumer loans and changes in the external environment, the Company took the initiative to make structural optimisation of consumer loans, actively adjusted the pilot internet joint consumer loan business on a small scale at the early stage, focused on high-quality consumer group with higher comprehensive contributions and superior asset quality performance, and vigorously developed proprietary consumer loans. During the reporting period, the Company included internet joint consumer loans under the statistical calibre of other retail loan, and the data at the beginning of the year were adjusted in accordance with the same statistical calibre.

(2) Consists primarily of commercial housing loans, automobile loans, house decoration loans, education loans, internet joint consumer loans and other personal loans secured by monetary assets, and the data at the beginning of the year were adjusted in accordance with the same statistical calibre. The increase in the non-performing ratio of other retail loans from the beginning of the year was mainly due to the suppressing in the scale of internet joint consumer loans. At the same time, the Company strictly identified the classification standards for this type of loan to strengthen credit risk management.

During the reporting period, in response to changes in external macro-economic situation, the Company proactively enhanced the risk management and control in key areas such as consumer credit business, real estate industry, local government financing platforms, and industries under close surveillance.

Risk management and control for consumer credit business

Since the beginning of this year, the Company's leading indicators of consumer credit business have gradually fallen, the scale and proportion of the Company's consumer credit business under collection procedure have recovered to the level prior to the pandemic and the general recovery rate was obviously improved as compared with that at the height of the pandemic, which have benefited from, on the one hand, the stronger development of the domestic economy and steady recovery of the production and people's livelihood; on the other hand, the Company's adherence to value-based customer operations, prudent promotion of the development of consumer credit business, continuous adjustment to the customer base and asset structure, optimisation of the risk model of joint debts, and constant improvement of the ability to identify and prevent joint debts. As of the end of the reporting period, the non-performing loan ratio of the Company's consumer credit business (including credit cards) was 1.52%, down by 0.08 percentage point as compared with the beginning of the year; the percentage of special-mention loans was 2.51%, down by 0.14 percentage point as compared with the beginning of the year; the percentage of overdue loans was 2.15%, down by 0.36 percentage point as compared with the beginning of the year. In the second half of the year, as there are uncertainties over the path of global and domestic economic recovery amid the pandemic, employment and income growth will still be under pressure, and the impact on consumer credit businesses will remain. The Company will continue to enrich the dimensions of customer risk identification, iteratively optimise approval strategies, closely monitor the risks of existing loans, while accelerating the construction of post-loan one-stop digital platform and the improvement of capability of post-loan management team, expand disposal channels for non-performing asset, continue to strengthen risk management and control capability, and strive to maintain the relative stability of the asset quality of consumer credit business.

Risk management and control for real estate credit business

The Company attached great importance to the risk prevention in the real estate sector. The Company optimised its internal credit policy in a dynamic manner according to the policies on adjustments to the real estate industry, regulatory requirements and industrial developments in active response to the guidance of national policy in accordance with the overall strategy of "total volume control, prudent access, focus on regions, adjustment of structure, and strict management". As at the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre) amounted to RMB643.768 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standardised assets), representing an increase of RMB46.358 billion as compared with the end of the previous year. Included therein was the balance of loans to domestic enterprises which amounted to RMB332.329 billion, representing an increase of RMB20.899 billion as compared with the end of the previous year, accounting for 6.57% of the total loans and advances granted by the Company, down by 0.01 percentage point as compared with the end of the previous year and were mainly granted to the quality strategic customers while putting a strict curb on the grant of any incremental loans to those customers not in the strategic customer list. Affected by policy control and credit risk exposure of some real estate companies, the non-performing loans ratio of domestic real estate companies was 1.15%, up by 0.93 percentage point as compared with the end of the previous year. In the second half of 2021, the Company will continue to adjust the structure of real estate customers and regional assets, focus on central cities and strategic customers, strengthen business risk monitoring and process management, steadily promote industry credit limit and customer credit limit management, and promote gradual improvement and satisfaction of "the two concentration risk" control indicator. It is expected that asset quality in the real estate sector will remain relatively stable under the condition that there are no major changes in the macro environment and industrial policies.

Risk management and control for local government financing platform business

The Company resolutely implemented the State's requirements to continue strengthening local governments' debts management, while preventing and defusing the risks on local governments' implicit liabilities and further regulating the financing platforms as well as the investments and financing activities conducted by local state-owned enterprises. The Company strictly performed legal procedures, and was committed to operating in compliance. As at the end of the reporting period, the balance of risk exposure of our businesses with local government financing platforms of the Company (calculated on the broad statistical calibre) amounted to RMB269.090 billion (including businesses such as actual and contingent credit, bond investments, proprietary investments and fund investments of wealth management products), representing an increase of RMB20.793 billion as compared with the end of the previous year. Among which, the balance of loans to domestic companies amounted to RMB119.524 billion, representing an increase of RMB4.622 billion as compared with the end of the previous year, and accounted for 2.36% of the total loans and advances granted by the Company, down by 0.07 percentage point as compared with the end of the previous year. As at the end of the reporting period, the non-performing loan ratio of the local government financing platform business was 0.53%, down by 0.02 percentage point as compared with the end of the previous year. In the second half of the year, the Company will continue to adhere to commercial principles, resolutely get rid of the mindset that the government will guarantee the fallback, correctly understand the government's role and responsibilities to enterprises and projects, strictly implement various regulatory policies, carefully select its business based on the degree of the coverage of its debts by the operating cash flow of projects and customers in accordance with the overall principle of "supporting preferential clients in selective areas in compliance with regulatory requirements and through credit limit management, emphasising self-compensation and through city-specific policies". Besides, for the general bond financing of local government, the Company will select the regional issuers with more developed economy and stronger debt bearing capacity; for the special bonds of local government, the Company will choose the projects listed in the national key planning and construction to carry out the bond investment business on the premise of full risk assessment. Against the backdrop that the national fiscal and financial policies remain stable, it is expected that the quality of the Company's assets granted to local government financing platforms will remain stable.

Risk management and control for industries under close surveillance

During the reporting period, for the 15 industries[6] under close surveillance conducted by the Company, the Company continued to implement the strategy of customer classification management, raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised loans satisfying green credit financing needs related to energy conservation and environmental protection and technological upgrading, strengthened its efforts to give credit policy support to sectors in compliance with development requirements of "carbon emission peak" and "carbon neutrality" such as photovoltaic manufacturing; devoted efforts to reduce and withdraw from customers associated with significant risks, low-end customers with overcapacity, enterprises with high leverage and "zombie enterprise". As at the end of the reporting period, the business financing exposure to the industries under close surveillance conducted by the Company (calculated on the full statistical calibre) amounted to RMB131.710 billion, representing an increase of RMB9.088 billion[7] as compared with the beginning of the year, among which the credit business exposure to the domestic companies amounted to RMB80.992 billion, representing an increase of RMB402 million as compared with the beginning of the year. The credit facility was mainly granted to the quality strategic customers and customers on the whitelist at Head Office and branches. The non-performing loan ratio of industries under close surveillance was 6.48%, up by 0.30 percentage point as compared with the beginning of the year. Affected by the risk exposure and constant shrinking business scale of individual existing customers, the non-performing loan ratios of five industries including fertiliser manufacturing, ocean freight, basic chemicals, coal, and coal trade increased as compared with the beginning of the year, while the non-performing loan ratios of other ten industries decreased as compared with the beginning of the year. Currently, the basic customer groups falling into the industries under close surveillance conducted by the Company are mainly strategic customers and customers on the whitelist at Head Office and branches, and their proportion is steadily increasing. At the same time, with the further boosting prosperity of the abovementioned industries, it is expected that the risks associated with the industries will be generally controllable in the second half of 2021.

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6 The 15 industries refer to coal, coal chemical, coal trade, iron and steel, steel trade, basic chemical, commonly used metal ore mining, nonferrous metal smelting and calendaring, shipbuilding, glass, water transport, textile and chemical fiber, fertiliser manufacturing, machine tool and synthetic material manufacturing.

7 The statistical calibre of the industries under close surveillance has been changed, and the figures at the beginning of the year have been adjusted with the same calibre.

7. Capital management

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied all requirements imposed by the CBIRC, with relatively adequate capital buffer.

As at the end of the reporting period, the ratio of the Company's risk-weighted assets (taking into consideration the floor requirements during the parallel run period) under the Advanced Measurement Approach to total assets was 58.43%, lowered by 8.84 percentage points as compared to that under the Weighted Approach of 67.27%, indicating an effective saving in capital. During the reporting period, the risk-adjusted return on capital (RAROC, before tax) under the Advanced Measurement Approach was 27.66%, significantly higher than the cost of capital.

The Company adhered to the principle of prudence and stability, and maintained steady growth of risk-weighted assets subject to maintaining the risks under control. At the same time, to ensure reasonable investment return to shareholders, the Company insisted on the continuity and stability of the dividend distribution policy. Affected by the cash dividend of RMB31.6 billion distributed in the first half of the year, the Company recorded the growth rate of net capital at all tiers lower than the growth rate of risk-weighted assets, resulting in a decrease in the Company's capital adequacy ratios at all tiers as compared with the end of the previous year.

In order to ensure the sustainable and healthy development of the Company's business and protect the long-term interests of shareholders, based on the definite financing need, reasonable arrangements for capital supplement and enhanced ability to withstand risks, with the relevant proposals passed at the board meeting and the general meeting, the Company was authorised to issue capital bonds of no more than RMB150 billion at appropriate times by the end of 2023, of which bonds with value of RMB70 billion will be used to meet the subsequent issuance requirements due to redemption of existing capital instruments. For details, please refer to the circular of the 2020 Annual General Meeting published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

The Company adhered to the development strategies of marketisation, branding and internationalisation, and constantly promoted the innovation and development of assets securitisation business to provide room for capital saving. During the reporting period, the Company issued a total of 4 asset securitisation projects through the inter-bank market with a total issue size of RMB14.012 billion. The underlying assets included personal housing mortgage loans and credit card non-performing loans.

In recent years, the regulatory documents in specific areas such as the "Assessment Methods for Systemically Important Banks (《系統重要性銀行評估辦法》)" and "Notice on the Establishment of Counter-cyclical Capital Buffer Mechanism (《關於建立逆周期資本緩衝機制的通知》)" have been issued in succession. The international regulatory reform has continued to advance, and the final reform plan of Basel III will be fully implemented in the next few years. Against such backdrop, the Company will continue to uphold the strategic direction of Light-model Bank, while enhancing the philosophy of refined capital management, constantly promoting the application of the risk-adjusted return on capital (RAROC), the economic value added (EVA) and other valuation indicators, tracing the progress of international capital regulatory reform, continuing to implement the internal capital adequacy assessment procedures (ICAAP), keeping a dynamic balance of supply and demand of capital, sticking to the principles in capital supplement that fund generation and accumulation shall be mainly from internal resources, with capital replenishment through external resources as additional assistance, comprehensively planning the use of various capital instruments and achieving fund-raising through various channels and ways.

8. Transformation of corporate customer services

With adherence to focusing on customer needs, centering on the direct and indirect financing markets, starting from multiple dimensions such as direct investment in equity interest, wealth management funds, proprietary investment, bill financing, bond underwriting and others, based on the changes in market conditions and distinguishing features of various financing channels, the Company provided corporate customers with a three-dimensional, comprehensive and multi-level financing support, facilitated the development of the real economy with the service concept of integrating investment banking and commercial banking, accelerated the transformation of services for corporate customers, and made a number of achievements.

As at the end of the reporting period, the Company's balance of aggregate financing products to customers (FPA) was RMB4,600.582 billion[8], representing an increase of RMB393.462 billion over the beginning of the year, among which, the balance of traditional financing[9] was RMB2,430.304 billion, representing an increase of RMB184.537 billion over the beginning of the year; the balance of non-traditional financing[10] was RMB2,170.278 billion, representing an increase of RMB208.925 billion over the beginning of the year. The balance of non-traditional financing accounted for 47.17% of the balance of FPA.

During the reporting period, the Company upgraded its supply chain business model featuring "provision of services by all branches in a collaborative manner to one enterprise and its industrial chain (全國做一家)", to an innovative model featuring "provision of services to one enterprise and its industrial chain through national layout (全國服務一家)", focusing on the upstream and downstream financing needs of core enterprises, and providing diversified supply chain financing services covering factoring, letters of credit, bills and others, so as to address the difficulty of financing and high financing cost for small and medium-sized enterprises along the industry chain, while penetrating various industries, and developing new digital products such as "Zhang Quan Chi (賬權池)", "Yi Bao Dai (醫保貸)", and "Shang Chao Dai (商超貸)" for sectors such as automobiles, medical care, new retail and others, which in turn comprehensively improved its capabilities for provision of services to customers up and down the supply chain. Aiming at growth-driving engine customers under Qian Ying Zhan Yi (千鷹展翼) Plan, the Company, through deepened channel cooperation, collaborated the capital market to facilitate roadshows and set up a "people + capital" product service system. During the reporting period, the number of IPO companies opening fund-raising accounts with the Company was 132 with a coverage ratio of special fund-raising account market amounting to 54.77%, representing an increase of 11.84 percentage points as compared with the previous year. The Company continued to take advantage of the integrated management of bill business, served more than 100,000 customers of bill business, and provided convenient and efficient one-stop services around the full life cycle needs of various enterprises, ranking first in terms of commercial bill business volume among banks and financial institutions in the first half of the year. Focusing on corporate direct financing, the Company actively promoted bond underwriting. The bonds with the Company as the lead underwriter amounted to RMB350.243 billion during the reporting period. Centering around the capital market, the Company effected a number of major mergers and acquisitions with high market awareness to support the development of the real economy. In light of the increasing demand for global operation by quality domestic enterprises, focusing on scenarios such as "cross-border mergers and acquisitions", integrating and leveraging the differentiated service advantages of overseas branches, overseas subsidiaries and non-resident account systems, the Company offered convenient, efficient and localised cross-border financing solutions to Chinese companies "going global".

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8 Some financing wealth management businesses were eliminated during the period because they ceased to meet the scope of FPA, resulting in the same-calibre adjustment to the data at the beginning of the period with the balance of the adjusted FPA at the beginning of the period of RMB4,207.120 billion, of which amount of traditional financing amounted to RMB2,245.767 billion and amount of non-traditional financing amounted to RMB1,961.353 billion.

9 Traditional financing comprises of general corporate loans and commercial bills discounting (including transfer-out of outstanding bills), acceptance, letters of credit, financial guarantees and non-financial guarantees.

10 The eight compositions of non-traditional financing include: asset operation, proprietary non-standardised corporate investments, financing wealth management, debt financing instruments with the Company as the lead underwriter, matching transactions, financial leasing, cross-border coordination financing and leading syndicated loans.

9. Fintech

Focusing on the mainstay of building the cyclic extensive wealth management value chain, the Company deeply promoted the digital transformation and development of the Bank and the upgrade of the 3.0 business model. During the reporting period, the information technology expenses amounted to RMB5.055 billion, up by 28.89% year-on-year, and the ratio of the information technology expenses to the Company's net operating income was 3.26%, up by 0.39 percentage point year-on-year.

Continuous increasing input of Fintech resources and comprehensive promotion of the digital transformation and development. The Fintech Innovation Project Fund focused on the six major directions of C side ecological construction, B side ecological construction, digital operation, digital management, technological infrastructure, and innovation and incubation. It continued to support the acquisition of new capabilities and exploration of new models, and actively created an innovation atmosphere of openness and integration. During the reporting period, 192 new Fintech innovation projects were approved, and 350 new online projects were launched, leading to the number of Bank's Fintech innovation projects approved and online projects launched reaching an aggregate of 2,298 and 1,724, respectively. The Fintech Innovation Project Fund has become an incubator and propeller for the new models of the Bank.

Expedite transformation of the personnel structure and establishment of a talent structure adapting to Digital Bank. The Company continued to increase efforts to introduce Fintech talents, and prioritise the introduction of top, scarce, or cross-sectoral talents who are unavailable through internal training and short-term cultivation by the Bank. At the same time, the Company established an internal training and cultivation system for Fintech talents, and built a talent structure with smooth collaboration and reasonable echelon, which enabled its business personnel to be equipped with digital thinking and to achieve product innovation and operation driven by data, and empowered technical personnel to give their initiative into full play and understand our business, and continuously improved the capabilities of digital insight and operational responsiveness. The Company continued to improve the Fintech awareness of all employees so that they can deepen their understanding on digital operation. As at the end of the reporting period, although the total number of employees of the Group decreased, the number of R&D personnel increased by 4.47% as compared with the end of the previous year to 9,279.

Continuous promotion of service upgrade with "people + digitalisation" to further improve customer experience. The Company continued to consolidate online and offline integration, break through the boundary between online and offline operation. In terms of online operation, the Company gave priority to the online services such as Robo Advisor (智能投顧) and Advisor Xiao Zhao (小招顧問) to meet the needs of users for convenience and customisation. In terms of offline operation, the Company provided trustworthy and warm-hearted services through relationship managers to meet the complex and customised financial needs of customers and offered an immersive service experience that integrated talent and digitalisation from the perspective of customers. The Company continued to strengthen the wealth management intelligent consulting service capabilities and improved "Advisor Xiao Zhao (小招顧問)". Leveraging on AI Brain and massive data, the Company carried out recommended model scenario-based training to constantly improve the ability of bolstering the provision of personalised services. During the reporting period, the Company provided 7,454,200 times of services to customers through "Advisor Xiao Zhao (小招顧問)", representing a year-on-year increase of 104.99%, and the number of transactions amounted to 358,100, representing a year-on-year increase of 248.57%.

With the preliminary establishment of digital infrastructure, the Company promoted business agility based on technological agility. On one hand, the establishment of digital infrastructure targeting agility and efficiency achieved further progress. Firstly, the Company continuously built the leading "CMB Cloud (招行雲)", constructed a large-scale, flexible, agile, safe and reliable cloud infrastructure to ensure the stability and reliability of the core system, so as to support the expansion of core business. The Company comprehensively promoted the cloud application and offered reliable, agile, and efficient support and guarantee for rapid business innovation and demand delivery, while realising intensive management of resources, propelling the integration of scientific and technological capabilities at group-level, and improving the efficiency of scientific and technological application within the Group. Secondly, the Company continuously augmented enterprise-level capabilities through technology middle-office and maximise data value through data middle-office. The technology middle-office shared business and technical capabilities through API, accelerated the iterative update of products of the Bank, while lowering the access threshold for partners outside the Bank, and empowering partners to serve their customers. Data middle-office focused on the construction of high-quality and efficient data assets across the Bank, promoted the "accessibility and availability (好找敢用)" of data, empowered business personnel to conduct data analysis and product iteration. **On the other hand, the Company established a value-driven lean management system to continuously improve R&D efficiency.** The Company promoted the distinguished functions, openness, integration and efficient collaboration between business and IT operation, so as to constantly improve delivery speed. The Company carried out training camps for digital product management, cultivated value-driven and result-oriented product mindset, guided IT resources towards high-value needs, and advanced value creation.

3.10 Business Operation

3.10.1 Retail finance business

Business overview

During the reporting period, the profit before tax from the retail finance business of the Company amounted to RMB40.050 billion, representing an increase of 20.57% as compared with the corresponding period of the previous year. Net operating income from the retail finance business amounted to RMB89.248 billion, representing an increase of 15.03% as compared with the corresponding period of the previous year and accounting for 57.47% of the net operating income of the Company. Among the income from retail finance, the net interest income amounted to RMB56.774 billion, representing an increase of 9.64% as compared with the corresponding period of the previous year and accounting for 63.61% of the net operating income from retail finance; the net non-interest income amounted to RMB32.474 billion, representing an increase of 25.85% as compared with the corresponding period of the previous year while accounting for 36.39% of the net operating income from retail finance and 55.17% of the net non-interest income of the Company. During the reporting period, the fee and commission income from retail wealth management of the Company was RMB18.893 billion, representing an increase of 32.60% as compared with the corresponding period of the previous year and accounting for 60.01% of the net fee and commission income from retail finance; the Company recorded a fee income of RMB9.321 billion from retail bank cards, representing a decrease of 0.24% as compared with the corresponding period of the previous year.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 165 million retail customers (including debit and credit card customers), representing an increase of 4.43% as compared with the end of the previous year, among which the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 3,436,600, representing an increase of 10.79% as compared with the end of the previous year. The balance of total assets under management from our retail customers amounted to RMB9,985.038 billion (daily average calibre by month, with a scale of RMB10 trillion at the end of the reporting period), representing an increase of 11.67% as compared with the end of the previous year. Among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB8,220.664 billion, representing an increase of 11.91% as compared with the end of the previous year, and accounting for 82.33% of the balance of total assets under management from retail customers of the Bank. As at the end of the reporting period, the balance of deposits from retail customers of the Company amounted to RMB2,022.232 billion, representing an increase of 6.47% as compared with the end of the previous year and ranking first among national small- and medium-sized banks according to data released by the PBOC. During the reporting period, the demand deposits accounted for 70.74% of the daily average balance of deposits from retail customers of the Company. As at the end of the reporting period, a total of 167,000,000 All-in-one Cards have been issued by the Company for retail customers, up by 5.70% as compared with the end of the previous year.

In the first half of 2021, the Company continued to strengthen its customer base expansion and operation, vigorously practiced the methodology of "openness and integration", strived to build an open platform, enhanced product organisation, and achieved an increase of RMB one trillion in retail customers' total assets, a record high over the same period and resulting in a rapid growth of assets from Sunflower-level and above customers. The Company has always adhered to its business philosophy of "We are here just for you" despite the challenges posed by intensified competition from peer companies in the same and other industries. By riding on the wave of the internet revolution, the Company has been equipping itself with Fintech tools, while combining its traditional strengths to continuously broaden its service boundaries and uplift its service capabilities for wealth management. Meanwhile, the Company will always take "Creating value for our customers" as its original aspiration, with MAU as its North Star Metric, to explore way out from MAU to AUM and further enhance its product innovation and refine management capabilities. Through online and offline synergies and a more open wealth product platform, the Company built up a more diversified and more active financial ecosystem to maintain the steady growth of the total scale of assets under management while realising interests of customers and Bank as a whole.

Wealth management

In the first half of 2021, against the backdrop of increased volatility in the equity market after the Chinese New Year, the Company focused on wealth management business while putting in more efforts on product supply. The Company recorded RMB2,585.382 billion in the balance of retail wealth management products as at the end of the reporting period, representing an increase of 16.61% as compared with the end of the previous year. By tapping into the opportunities and development pace of the capital market, the Company further focused on customer needs and achieved agency sales of non-monetary mutual funds of RMB341.323 billion, representing an increase of 32.96% as compared with the corresponding period of the previous year. The Company recorded RMB226.993 billion in agency distribution of trust schemes, representing an increase of 7.63% as compared with the corresponding period of the previous year; and RMB37.328 billion in premiums from agency distribution of insurance policies, representing a decrease of 14.67% as compared with the corresponding period of the previous year. The decrease was mainly due to the Company's active response to regulatory policies, market trends and customer demand, furthering transformation of regular premiums, optimising product structure and increasing the promotion of regular premiums business with high-valued contribution, which has led to a slow-down in the single premium business with higher contribution in total premium. During the reporting period, the Company recorded a fee and commission income from retail wealth management business of RMB18.893 billion, among which income from agency distribution of funds amounted to RMB6.687 billion, income from agency distribution of insurance policies amounted to RMB5.427 billion, income from agency distribution of trust schemes amounted to RMB4.006 billion, income from agency sales of wealth management services amounted to RMB2.598 billion and income from agency distribution of precious metals amounted to RMB175 million. For details of the reasons of changes in fee and commission income from wealth management, please refer to 3.9 "Net non-interest income" in this chapter.

During the reporting period, the Company relied on technology and data to continuously improve the customer service system while enhancing the compatibility of services and customer needs on an on-going basis, with a view to improving customer's experience in comprehensive service of investment portfolio. Firstly, the Company strengthened the data analysis and processing capabilities of customer behavior, gained insights into customers' in-depth needs, accelerated the planning of digital products and system construction, and proactively explored the application of robo-advisors and robo-investment research in terms of products. Secondly, the Company cleared access to online offering of complex portfolio mix to enhance customers' online wealth management experience. Strengthening the wealth management attributes of the CMB APP, the Company adopted online intelligent financial advisory services under the system of online-based customer growth journey to create a unified user-accompanied operating platform. Thirdly, the Company promoted online and offline integration, accurately identified customers' wealth management needs and risk appetite, and enhanced the effectiveness of traditional business models. At the same time, the Company gave full play to the advantages of professional wealth management services, built a complete marketing model system, assisted customers in maintaining and increasing the value of their assets in an effort to win the trust of customers so as to become the principal wealth management bank for customers.

During the reporting period, in the face of the external challenges posed by different industries, the Company created value for customers to the greatest extent by increasing openness and integration under the framework of the cyclic extensive wealth management value chain. Firstly, we actively introduced excellent partners, continued to expand the product portfolio, adapted to the differentiated needs of customers, and further enhanced the Company's market competitive advantage. Given the increasingly competitive wealth management market, the Company adopted strategic planning and joined forces with the first batch of 34 key mutual fund companies to release the "Zhaoyang Plan"(招陽計劃), which selected and targeted outstanding fund managers across the market, strengthened resource reserves, and built together a cooperative ecosystem. The Company actively introduced top-tiered wealth management subsidiaries, accelerated the innovation of wealth management products while deepening the comprehensive operation of insurance companies, facilitating the transformation of regular premiums products, and enriching the product mix to match customers' needs of diversified portfolio mix. Secondly, we proactively embraced changes in the market and industry, improved business agility, and provided customers with professional consulting and services. In view of greater downside risks due to increased equity market valuation, the Company leveraged on its wealth management expertise and experiences to put in place business strategies and product supply structure in advance, and proactively alerted the market downside risks to protect customers' asset allocation. Thirdly, the Company has been paying close attention to the policy development of "Cross-border Wealth Management Connect". Under the guidance of relevant financial management departments, the Company strove to create a "Cross-border Wealth Management Connect" service system and management mechanism with the uniqueness of CMB, so as to further broaden access to financial investments for customers. As at the end of the reporting period, all preparatory work has been progressing in an orderly manner.

Private banking

As at the end of the reporting period, the Company had 111,947 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 11.97% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB3,129.247 billion, representing an increase of 12.78% as compared with the end of the previous year; total assets per account amounted to RMB27.9529 million, representing an increase of RMB200,200 as compared with the end of the previous year. As at the end of the reporting period, the Company had 102 private banking centers and 64 wealth management centers in 81 domestic cities and 6 overseas cities, and has established a multi-dimensional service network for high-valued customers consisting of private banking centers, wealth management centers, "Special Section for Private Banking (私人銀行專區)" in CMB APP and the remote personal service team of the Network Operation Service Center.

Against the backdrop of building up the Company's cyclic extensive wealth management value chain, private banking, being the engine of the cyclic extensive wealth management value chain, has upgraded its strategic positioning, and shifted from a focus on "personal" services for high-net-worth clients to "personal + corporate" integrated services for private banking clients and the companies behind them. Leveraging on its own resources and strengths, the Company pooled the efforts across the Bank to reinforce the comprehensive operation and service offerings to customers so as to build new core competitiveness. During the reporting period, the Company adhered to the concept of "openness and integration", seized the ever-changing trend in customers' needs, and strengthened the integration between various departments within the Bank, as well as the integration with the Group's subsidiaries and market-wide partner institutions on the basis of chain-based customer acquisition. The building of an "amphibious" team to provide private banking clients and the companies behind them with integrated services and a more open product platform has further met the comprehensive financial needs of individual high-net-worth customers and the companies behind them. At the same time, the Company strengthened product lifecycle management, accelerated the construction of online and digital capability for private banking, and continuously improved business operation efficiency and customer service experience.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 101.8019 million active credit cards, representing an increase of 2.28% as compared with the end of the previous year, and there were 67.7152 million active credit card users, representing an increase of 1.51% as compared with the end of the previous year. The balance of credit card loans was RMB796.913 billion, representing an increase of 6.74% as compared with the end of the previous year. The percentage of revolving balances of credit cards was 20.73%. During the reporting period, the credit card transactions of the Company amounted to RMB2,276.816 billion, representing an increase of 11.85% as compared with the corresponding period of the previous year. Interest income from credit cards amounted to RMB28.425 billion, representing an increase of 0.17% as compared with the corresponding period of the previous year. Non-interest income from credit cards amounted to RMB13.237 billion, representing an increase of 5.09% as compared with the corresponding period of the previous year.

During the reporting period, the Company continued to optimise the new credit card account structure and asset portfolio, improve the ability to identify and prevent joint-debt risks, and promote the transformation of post-loan business to intelligent operation, as a result the quality of credit card assets had stabilised and improved. The proportion of the credit card loan under collection and recovery procedure have basically returned to the pre-pandemic level, with back-end collection capacity significantly improved. As at the end of the reporting period, the non-performing loan ratio of credit card loans was 1.58%, representing a decrease of 0.08 percentage point from the end of the previous year. During the reporting period, the Company's credit card business was transformed into a "stable and low-volatility" business model. By focusing on acquiring value customers, optimising the structure of the customer base while at the same time appropriately adjusting the interest rate level, the asset structure was further enhanced. During the reporting period, the increment in credit card loans was mainly concentrated in low- and medium-risk assets, forming a more reasonable portfolio structure with assets in the range of high, medium and low interest rates. In the second half of 2021, the Company will continue to make further transformation, establish a more resilient and risk-resistant business structure, to better withstand the impact of the risk cycle and achieve a dynamic and balanced development of "quality, efficiency and scale" in the credit card business.

During the reporting period, the Company continued to consolidate its business foundation, step up technological upgrading and product innovation to promote the rapid development of the credit card business. Specifically, the customer base structure was improved. The Company continued to improve the whole-process management of scenario-based customer acquisition, increase the efficiency of actual usage of our customer traffic, and at the same time gain insight into the needs of young customer base. The Company launched the "FIRST Graduate Credit Card" for college graduates to improve the product offering for the young customer group. The scale of transactions was enhanced and online transaction operation was intensified. Through activities such as "Cashback Rebate"(筆筆返現) and "Daily Koi"(天天錦鯉) lucky draw, the Company was able to mobilise a sizeable customer base in a continuous and efficient way. The Company continuously strengthened the expansion of scenario, upgraded the scenario construction of the "Meal Coupons" and "Movie Tickets", focused on "Dining Discount"(優惠的吃) and "Movie Discount"(優惠的看), and used convenience stores as a breakthrough to expand the "light-model retail" scenario. The assets structure was further optimised. The Company strengthened the asset management of low- and medium-risk customers, boosted the operation of automobile installment and special installment business, and introduced exclusive spending installment cards. The level of intelligent services was enhanced. A clear decentralisation strategy of service interaction was established by taking technology as the driving force, to precisely match customer needs, flexibly connect service channels, and comprehensively improve service interaction efficiency, experience as well as value. In addition, the Company further deepened the operation of the CMB Life APP. For details of the CMB Life APP, please refer to 3.10.3 "Distribution channels" in this chapter.

Retail loans

As at the end of the reporting period, the total retail loans of the Company amounted to RMB2,822.525 billion, representing an increase of 6.75% as compared with the end of the previous year and accounting for 55.80% of the Company's total loans and advances to customers, down by 0.09 percentage point as compared with the end of the previous year. In particular, total amount of the Company's retail loans (excluding credit card loans) reached RMB2,025.655 billion, representing an increase of 6.76% as compared with the end of the previous year, accounting for 40.05% of total loans and advances to customers of the Company and representing a decrease of 0.06 percentage point as compared with the end of the previous year.

As to business development, during the reporting period, the Company strictly implemented the requirements of the national real estate loan concentration management system and regional real estate control policies, supported the residents' reasonable needs for their own homes, so as to realise the sound development of mortgage loan business. At the same time, while adhering to the "One Body with Two Wings" strategic positioning and maintaining stable asset quality, the Company took the initiatives to adjust the business structure by appropriately increasing the loans to small- and micro-enterprises and consumer credit. With respect to the micro-finance loans business, the Company relied on Fintech to explore product and service innovation, continuously improved the level and efficiency of financial services for small- and micro-enterprises to alleviate their financing difficulties. As to consumer loan business, the Company strictly controlled the use of consumer loans, carefully identified quality customers and granted consumer loans in a discreet manner. As at the end of the reporting period, the Company recorded a balance of residential mortgage loans of RMB1,319.570 billion, representing an increase of 4.36% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB539.420 billion, representing an increase of 13.68% as compared with the end of the previous year. The balance of consumer loans amounted to RMB139.169 billion, up by 17.00% as compared with the beginning of the year. As at the end of the reporting period, the Company had 8,992,000 retail loan (excluding credit card loans) customers, representing an increase of 11.30% as compared with the end of the previous year. The rapid expansion of customer base was mainly attributable to the light model of customer acquisition through online resources.

As to the quality of assets, the Company managed to maintain a stable asset quality for retail loans by constantly optimising its strategies for risk management. However, due to the impact of the possible reoccurrence of the pandemic, the Company still faces uncertainties in the future. As at the end of the reporting period, the balance of the special mention retail loans of the Company amounted to RMB25.998 billion, and its special-mention retail loan ratio was 0.92%, down by 0.05 percentage point as compared with the end of the previous year. The balance of non-performing retail loans amounted to RMB21.571 billion, and the non-performing loan ratio was 0.76%, down by 0.06 percentage point as compared with the end of the previous year. Among non-performing retail loan portfolio, the non-performing ratio of micro-finance loans was 0.51%, down by 0.12 percentage point as compared with the end of the previous year; the non-performing ratio of consumer loans was 1.16%, down by 0.07 percentage point as compared with the beginning of the year. Excluding credit cards, the mortgage and pledged loans accounted for 73.77% of the Company's new non-performing retail loans recognised during the reporting period, the mortgage and pledge rate of above mortgage and pledged loans as at the end of the reporting period was 35.04%. Given that the vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was relatively limited.

As to risk management, the Company continued to strengthen the construction of risk control system, taking into account of changes in the external economic situation and the differences in regions, so as to effectively improve risk management capability. Firstly, in terms of customer group selection, the Company insisted on selecting high-quality customer with a job and income in a stable industry as the major source of customer acquisition. Secondly, to build up a quantified risk control system, the Company integrated internal and external customer tags to facilitate risk identification, continuously improved the effect of quantitative models, while at the same time introducing machine learning and relationship map algorithms and models to promote the coverage of the risk models to all processes and all products. Thirdly, in terms of post-loan management capabilities, the Company fostered the digital innovation and transformation of risk management, implementing full-life cycle quantitative risk monitoring and classified management, so as to ensure stable asset quality.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB30.452 billion, representing an increase of 20.14% as compared with the corresponding period of the previous year. The net operating income from wholesale finance of the Company was RMB68.314 billion, representing an increase of 11.01% as compared with the corresponding period of the previous year, and accounting for 43.99% of the net operating income of the Company. Among them, net interest income of wholesale finance business amounted to RMB42.514 billion, accounting for 62.23% of the net operating income of wholesale finance. The net non-interest income of wholesale finance amounted to RMB25.800 billion, representing an increase of 10.67% as compared with the corresponding period of the previous year, and accounting for 37.77% of the net operating income of wholesale finance business, and 43.83% of the net non-interest income of the Company.

Wholesale customers

As at the end of the reporting period, the total number of corporate customers of the Company was 2,276,800, representing an increase of 1.95% as compared with the end of the previous year. The number of newly acquired corporate depositors during the reporting period was 180,300, contributing daily average deposits of RMB83.860 billion, among which, 9,803 newly acquired corporate depositors contributed daily average deposit of more than RMB500,000. The Company has established the corporate customer service system featuring segmentation and classification-based management, as well as professional and dedicated management in respect of strategic customers, institutional customers, small-sized enterprise customers, financial institution customers and cross-border customers.

With regards to its strategic customers, the Company took advantage of the Digital Bank and embedded the relevant services in the capital chain, industrial chain and ecological chain of the enterprises to realise industry-based professional operation and integrated customer service. As at the end of the reporting period, the number of the strategic customers under the Head Office of the Company was 326[11], representing an increase of 38 as compared with the end of the previous year; the balance of daily average proprietary deposits amounted to RMB977.626 billion, representing an increase of 19.65% as compared with the beginning of the year; the balance of general loans amounted to RMB758.008 billion, representing an increase of 5.77% as compared with the beginning of the year. The Company had 6,785[12] branch-level strategic customers. The daily average balance of the proprietary deposits amounted to RMB596.002 billion. The balance of general loans amounted to RMB278.396 billion.

With regards to its institutional customers, the Company further refined the "Head Office-to-Head Office" cooperation with national ministries and commissions, and explored opportunities for business cooperation on fiscal, housing construction, human resources, social security, medical insurance, customs and cultural tourism through "Head Office-to-Head Office "operations. By using the full-process service and full-cycle system of local governments' special debt as an entry point, the Company expanded the service boundary to research and consulting services, and opened a new model of bank-government cooperation. The Company grasped the actual needs of government departments such as "Internet + Fund Supervision" and scenario construction, to expand business cooperation in new areas, focusing on constructing high-quality scenarios and exporting Fintech capabilities. By taking the opportunity of China Merchants Group to build a "trillion-dollar pension platform", the Company opened up the "client-, asset-, and capital-side" of our pension business to expand customer services in multiple dimensions. Through quality assets' matchmaking as well as leveraging on our retail services, the Company has committed to empowering pension customers to maximise value. During the reporting period, the Company had 40,100 institutional customers, a year-on-year increase of 2.56%. The average daily deposit balance of institutional customers was RMB923.050 billion, a year-on-year increase of 5.40%. During the reporting period, the Company upgraded the full-process service of local government special debts and officially launched the full-cycle management system in "four provinces and three cities (四省三市)", further improving the coverage of the Company's service projects. Monthly active users of social security, medical insurance, and provident funds scenarios have reached a million, taking the lead in exploring occupational annuity scenarios and launching online in many provinces. 1,077 public service scenarios were connected, and API-based scenarios accounted for 47.80%. The quality of the scenarios has continued to improve, building a high-quality platform for retail high-quality customer acquisition. The Company secured the qualification for offering the occupational annuity services in the Tibet Autonomous Region, adding up to a total of 32 occupational annuity services with entrusted pension funds across China.

11 The number of strategic customers at the Head Office level is that of the group customers as the strategic customers at the Head Office level operated by the Company.

12 The number of strategic customers at the branch level is that of the corporate customers as the strategic customers at the branch level operated by the Company.

With regards to its small-sized enterprise customers, as of the end of the reporting period, the number of small-sized enterprise customers of the Company reached 2,165,500 (calculated on the Bank's calibre), representing an increase of 44,800 from the beginning of the year. During the reporting period, the average daily balance of RMB deposits from small-sized enterprise customers was RMB685.734 billion, representing an increase of RMB201.494 billion from the beginning of the year. The increase accounted for 60.45% of the increase in average daily balance of corporate customer deposits, of which demand deposits accounted for 85.55%, representing a year-on-year increase of 3.81 percentage points. During the reporting period, the average cost rate of deposits for small-sized enterprise customers was 0.85%, a year-on-year decrease of 4 basis points. During the reporting period, the Company focused on the three major customer groups of "supply chain, new growth engine of Qian Ying Zhan Yi (千鷹展翼) and basic customer group", and continued to build the new business model of "acquisition of customers in batches, centralised operation, online and offline integration" for small-sized enterprises by focusing on customer acquisition and operation. Catering to the supply chain customer base, the Company upgraded its service to a "provision of services to one enterprise and its industrial chain through national layout (全國服務一家)" model, further exploring the industry so as to create a vertical supply chain model. Aiming at the customers of the new growth engine "Qian Ying Zhan Yi (千鷹展翼)", the Company built a "people + capital" product service system and strengthened list-based operations. As of the end of the reporting period, 132 companies in IPO processes had opened dedicated accounts with the Company for fund raising purpose, with an aggregate balance of RMB38.846 billion remained in those accounts as at the end of the reporting period. The Company established a standardised service system for basic customers and further carried out the online centralised operation of corporate customers. As at the end of the reporting period, the average daily deposits of corporate customers under centralised operations increased by RMB23.895 billion from the previous year, and high value accounts increased by 6,840. In advancing the exploration of withholding and payment scenarios, the Company provided various withholding and payment services for enterprises, serving 865,700 corporate accounts during the period with a total transaction amount of RMB778.624 billion, representing an increase of 163,800 and RMB268.755 billion respectively year-on-year. The Company also rolled out better and newer version of Xinfutong products and promoted their usage by providing enterprises with one-stop digital services such as payroll service, personnel services, financial services and office collaboration. As of the end of the reporting period, 150,800 registered and certified enterprises were newly added in the year.

With regards to its financial institution customers, the Company further intensified its efforts on inter-bank customer operations, optimising its positioning in the cyclic extensive wealth management value chain according to the industry feature and characteristics of banking, securities, insurance, trust, and mutual funds and upgrading its business model with a view to striving to improve institutional sales capabilities. Asset channeling and customer service capabilities of the inter-bank customer base has been strengthened as the Company increased the platform value of inter-bank customers, improved the construction of the wholesale wealth management platform, thereby supporting retail and corporate business development in a more effective manner.

With regards to cross-border customer base, the Company continued to optimise the cross-border customer service system, enhance the online level of international business, and create a convenient and efficient online banking platform for international business enterprises while at the same time giving full play to the unique advantages of offshore platforms, strengthening the coordinated operation of the accounts of three types of non-resident customers, creating an integrated business model for investment and commercial banks, and intensifying the comprehensive management of non-resident core customers such as strategic customers at the Head Office and branches, new growth engine, and listed companies.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,816.111 billion, representing an increase of 3.25% as compared with the end of the previous year and accounting for 35.90% of total loans and advances to customers of the Company, and representing a decrease of 1.28 percentage points as compared with the end of the previous year. Among them, the balance of the medium- and long-term loans to domestic enterprises amounted to RMB1,125.666 billion, representing an increase of 11.14% as compared with the end of the previous year and accounting for 65.84% of the total loans to domestic enterprises, and representing an increase of 3.75 percentage points as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 1.70%, representing an increase of 0.01 percentage point as compared with the end of the previous year; the weighted average default probability of the risk exposure of the domestic non-defaulting corporate customers was 0.79%, up by 0.05 percentage point as compared with the end of the previous year. The quality of corporate loan assets was relatively stable.

Since the underlying data is subject to adjustment or elimination as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our large-, medium- and small-sized enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB1,496.681 billion, representing an increase of 5.43% as compared with the beginning of the year, accounting for 87.54% of our total loans granted to domestic enterprises, up by 0.52 percentage point as compared with the beginning of the year; the non-performing loan ratio was 1.70%, up by 0.05 percentage point as compared with the beginning of the year. The balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB110.704 billion, representing a decrease of 16.86% as compared with the beginning of the year, and accounting for 6.47% of our total loans granted to domestic enterprises, down by 1.69 percentage points as compared with the beginning of the year; the non-performing loan ratio was 3.40%, down by 0.11 percentage point as compared with the beginning of the year. The balance of the loans granted to domestic small-sized enterprises amounted to RMB102.385 billion, representing an increase of 30.33% as compared with the beginning of the year, accounting for 5.99% of our total loans granted to domestic enterprises, up by 1.17 percentage points as compared with the beginning of the year; the non-performing loan ratio was 1.26%, down by 0.41 percentage point as compared with the beginning of the year.

During the reporting period, while steadily promoting the grant of corporate loans, the Company actively followed national policy guidance and continued to deepen loan organisations and customer services in areas such as green finance, high-quality manufacturing and agriculture-related fields, effectively optimising the corporate loan structure. By actively focusing on business opportunities such as state-owned enterprise mixed ownership reform, refinancing of listed companies and capital market privatisation, the Company strictly followed regulatory guidelines to manage and control loans in areas such as real estate industry and the local government financing platforms. As at the end of the reporting period, the balance of green loans[13] of the Company was RMB238.743 billion, representing an increase of RMB30.155 billion as compared with the beginning of the year, and accounting for 13.15% of the total corporate loans of the Company; the balance of loans to strategic emerging industries was RMB193.785 billion, representing an increase of RMB22.370 billion as compared with the end of the previous year and accounting for 10.67% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the nation, such as the real estate industry and the local government financing platforms, please refer to section 3.9.

During the reporting period, the Company continued to roll out newer and better Zhengcaidai (政採貸), Toubiaodai (投標貸), Tuishui Kuaidai (退稅快貸), Jiesuan Liuliang Dai (結算流量貸) and other online product systems, processes and product functions for institutional scenarios of small-sized enterprise customers by focusing on the ecosystem of government agencies such as finance, public resource trading centers, customs and taxation. At the same time, the Company continued to strengthen the optimisation of the whole lending process for small-sized enterprise customers, developed a mobile operation platform, reduced the manual entry of texts by account managers in the pre-loan stage; used identity authentication, face recognition, electronic signing and other Fintech technologies to develop "online credit authorisation and inquiry function", which shortened the time taken for the whole process from signing the authorisation letter to inquiry from two hours to as fast as only 8 minutes. At the post-loan stage, the management systems such as the risk signal indicator database for small-sized enterprise customers were continuously improved to effectively prevent risks while empowering the front-line team.

The main purpose of the Company's syndicated loan business is to enhance interbank cooperation and information sharing, and to spread the risks associated with large-amount loans. As at the end of the reporting period, the balance of syndicated loans amounted to RMB279.783 billion.

13 Calculated in accordance with the special statistical system of the PBOC for green loans, and the data at the beginning of the year was adjusted on the same statistical calibre.

Bill business

During the reporting period, the Company continued to consolidate the customer base of bill business, continuously optimised user experience, further strengthened the digital inclusive finance service capabilities, and further laid a solid foundation for the business development. The Company had 104,771 customers of bill business, representing a year-on-year increase of 29.74%, and its bills direct discounting business volume ranked second in the market in terms of business volume (data from China Banking Association), amounted to RMB701.569 billion, representing a year-on-year increase of 5.43%. Among them, the Company had 11,531 customers of bills online discounting business, representing a year-on-year increase of 20.49%, and medium-, small- and micro-sized enterprise customers accounted for 93%. The bills online discounting business volume amounted to RMB168.896 billion, representing a year-on-year increase of 7.50%. At the same time, the Company continued to strengthen its supply chain operations, and the commercial acceptance bill discounting business has showed a trend of good development. During the reporting period, the commercial acceptance bill discount business volume of the Company amounted to RMB92.258 billion, representing a year-on-year increase of 113.59%, with a market share of 13.79% (data from Shanghai Commercial Paper Exchange Corporation Ltd.), representing a year-on-year increase of 5.82 percentage points. As at the end of the reporting period, the bill discounting balance of the Company amounted to RMB419.797 billion, representing an increase of 28.19% from the end of the previous year.

The Company actively supported enterprises' financing through bill rediscounting of the PBOC. However, continuously affected by the policy that the proportion of bill rediscounting conducted by the PBOC for local legal person financial institutions shall not be less than 50%, as a national joint-stock bank, the Company faced restriction in the business volume of bill rediscounting in each region. During the reporting period, the business volume of bill rediscounting amounted to RMB94.259 billion, representing a year-on-year decrease of 3.16%. As at the end of the reporting period, the bill rediscounting balance of the Company amounted to RMB69.621 billion, the market share of the Company ranked first in the industry (data from China Banking Association).

During the reporting period, the Company further increased the transactions regarding discounted bills transferred to other financial institutions, the discounted bills transferred to other financial institutions ranked second in the market in terms of business volume (data from China Banking Association), amounted to RMB715.433 billion, representing a year-on-year growth of 20.81%.

Corporate customer deposits

During the reporting period, through strengthening the endogenous circulation of funds within the system and external expansion of incremental funds, the Company realised a stable growth in corporate deposits. As at the end of the reporting period, the balance of corporate customer deposits amounted to RMB3,719.516 billion, representing an increase of 6.01% as compared with the end of the previous year; the daily average balance amounted to RMB3,695.055 billion, representing an increase of 9.91% as compared with the previous year; the demand deposits accounted for 62.68% of the balance of the daily average deposits from our corporate customers, up by 5.28 percentage points as compared with the previous year. During the reporting period, the average cost ratio of deposits from corporate customers was 1.60%, down by 15 basis points as compared with the previous year.

Transaction banking business

During the reporting period, the Company launched "Five-in-one (五通)" comprehensive service plan focusing on the daily business scenarios of enterprises, and improved the capabilities to remove the pain points of corporate customers by integrating various products such as account management, payment and settlement, cash management, trade financing, cross-border finance and corporate services.

Focusing on the needs of corporate income and expenditure management and capital management, the Company improved the full-process service capabilities for corporate collection and assisted corporate customers to efficiently manage their capital. Firstly, the Company integrated sales management, collection management at B side and C side and capital management specifically for enterprises' three stages of pre-sales, sales and after-sales, so that companies can submit one document and sign one agreement to combine the usage of multiple financial services. Secondly, the Company continued to deepen the operation on corporate and retail linked scenarios of insurance, logistics, consumption and public institutions, and established a multi-branch coordinated and collaborative working mechanism for the nationwide collection projects for group-based management, franchise and platform enterprises, which further improved collection efficiency. During the reporting period, the transaction amount of corporate collection products was RMB895.567 billion, representing a year-on-year increase of 100.04%.

Jointly with CMB YunChuang, the Company further optimised the CBS+ treasury management open platform, and built enterprise service capabilities under the scenario of "integrating business and finance". Firstly, the Company upgraded and optimised bill business, investment and wealth management, budget management, financing management, international business, collection and reconciliation and other major functions on the CBS platform, and developed full-scenario CBS+ equity incentive management system focusing on serving the needs of listed companies, mixed ownership reform of state-owned enterprise customers and new growth engine customers. As at the end of the reporting period, the Company served 3,473 group customers. The number of companies under the treasury management reached 121,500, representing a year-on-year increase of 44.13%, and the number of transactions reached 17.4975 million during the reporting period, representing a year-on-year increase of 70.26%. Secondly, the Company leveraged on Fintech to empower business facilitation and established pan-financial linking capabilities. Focusing on the four major scenarios of "receipt-management-payment-use" of enterprise invoices, the Company covered services such as invoice collection and inspection, invoice management of input/output VAT, invoice payment, document and invoice coordination, and newly added financial electronic bill services. As of the end of the reporting period, the Invoice Cloud (發票雲) platform had signed up contracts with 31,932 customers, representing an increase of 183.64% as compared with the end of the previous year, and had managed 6,901,800 customer invoices, representing an increase of 77.08% as compared with the end of the previous year.

With respect to domestic trade financing, the Company accelerated the online migration of basic businesses and improve the service capabilities of "contactless financing". Firstly, the Company established a special zone for supply chain financial services on online corporate banking to continuously improve customer experience. During the reporting period, the business volume of supply chain financing was RMB292.830 billion, representing a year-on-year increase of 66.12%; the core corporate customers and upstream and downstream customers in the supply chain increased by 98.22% and 150.36%, respectively, as compared with the corresponding period of the previous year. Secondly, the Company fully improved the functions of electronic letter of guarantee, following the launch of the full-margin electronic guarantee, the "Instant Issuance of Letter of Guarantee (保函閃電開)" was upgraded to 2.0 version, realising the online issuance of bid guarantees under the credit granted by the Bank. During the reporting period, the business volume of domestic letter of guarantee amounted to RMB58.704 billion, representing a year-on-year increase of 44.03%. Thirdly, as one of the first batch of pilot banks to carry out the telegraphic certificate forfaiting business of the PBOC, the Company innovatively launched the domestic letter of credit "Instant Negotiation (閃電議付)" to realise online automatic negotiation financing, and the business processing time was shortened from 2 days to 15 minutes. During the reporting period, the business volume of the Company's domestic trade financing amounted to RMB359.829 billion, representing a year-on-year increase of 29.15%.

Cross-border finance business

During the reporting period, the Company centralised and integrated the management of cross-border finance businesses such as international business and offshore banking business, and strengthened openness and integration through resource pooling, which was conducive to providing wholesale customers with more competitive and differentiated cross-border finance service solutions, so as to improve the customer experience of cross-border finance.

Firstly, the Company took multiple measures to rapidly improve the customer service capabilities of international business. The Company continued to increase investment to promote the online migration of international business. During the reporting period, we completed the optimisation of 16 functions such as online outward remittance, upgraded the system to support full-scenario online certificate issuance for import, and quickly responded to the requirements under the facilitation of trade and investment policy of the State Administration of Foreign Exchange and PBOC, supported enterprises to submit business applications and background materials online, and save transaction costs for enterprises. At the same time, a special section of international business was established on corporate online banking to provide enterprises with a unified corporate online banking portal for international business, so as to continuously improve user experience. The Company upgraded the five major product systems of cross-border settlement, cross-border risk hedging, cross-border trade financing, cross-border investment and financing, and global capital management, so as to provide a full range of integrated cross-border finance services to the Chinese companies "going global" and the foreign companies "brought in". During the reporting period, the Company's onshore corporate international settlement amounted to USD175.580 billion, representing a year-on-year increase of 61.46%. The business volume of foreign exchange settlement and sales amounted to USD88.853 billion, representing a year-on-year increase of 39.43%.

Secondly, the Company gave full play to the characteristics of offshore business and provide services integrating offshore and onshore business and integrating investment banking and commercial banking. The Company also strengthened the segmentation and classified operation of non-resident customers, and made significant progress in cross-border IPOs, equity financing, overseas bond issuance, red-chip financing, cross-border M&A, privatisation, employee stock ownership and other services integrating investment banking and commercial banking. In response to the national free trade zone strategy to focus on cross-border capital services, the Company innovatively upgraded FT "full-featured" cross-border bilateral RMB fund pool service that supported cross-border transfer of funds, and assisted companies in issuing offshore RMB bonds in the Shanghai Free Trade Zone.

Thirdly, the Company laid a solid foundation for compliance operations and anti-money laundering management. The Company strengthened the monitoring of cross-border capital flows to ensure the compliance operation of foreign exchange facilitation business, optimised the anti-money laundering process, and promote the online, intensive, and paperless anti-money laundering process of international business. While effectively satisfying the business development needs of non-resident customers, the Company utilised technological means to improve the quality and effectiveness of anti-money laundering management.

Investment banking business

During the reporting period, the Company made every effort to construct an innovative service system integrating investment banking and commercial banking with focus on the cyclic extensive wealth management value chain, built an ecosystem of cooperative institutions for investment banking business, and coordinated the internal and external resources of the Bank with openness and integration, to further strengthen the comprehensive competitive advantage of customer service and drive the steady development of investment banking business.

With respect to its bonds underwriting business, the Company strived to build a full-service system for bond-issuing enterprises, and organised high-quality assets around the debt capital market. The bonds with the Company as the lead underwriter amounted to RMB350.243 billion during the reporting period. At the same time, the Company actively responded to the national energy conservation and emission reduction requirements and supported rural development and construction. During the reporting period, the Company led the underwriting of the first issuance of asset-backed notes (ABN) in respect of carbon neutrality, the first batch of high-growth bonds, the first issuance of rural revitalisation bonds and the first issuance of asset-backed commercial paper (ABCP) in respect of rural revitalisation in the market, thereby assisting 15 enterprises in issuing RMB22.615 billion of green bonds. Among them, the bonds with the Company as the lead underwriter amounted to RMB9.536 billion, which strongly supported the direct financing of environmental protection and low-carbon enterprises.

With respect to its M&A financing business, the Company strived to build a full-process service system for the reform of state-owned enterprises, a full-cycle capital operation service system for listed companies and an investment banking service system for new growth engine companies, and organised high-quality M&A assets focusing on high-quality listed companies and high-quality state-owned enterprises. During the reporting period, the overall size of the M&A market declined year-on-year. The Company's M&A business volume grew against the trend, and the distribution of syndicated loan achieved significant results. The Company achieved M&A financing of RMB100.996 billion, representing a year-on-year increase of 48.97%. A series of well-known M&A projects in the market were implemented, and the influence of the Company in the M&A market was enhanced.

With respect to its corporate wealth management business, the Company strived to build a "cash cow (現金牛)" comprehensive corporate service system and a corporate full-chain wealth management service system, and promoted the healthy and orderly business development through a series of measures such as segmented customer operation, enhanced business risk management, enriched product systems and optimised system processes. During the reporting period, the Company achieved sales of corporate wealth management products of RMB1,334.750 billion, representing a year-on-year increase of 2.73%.

With respect to its market transaction business, the Company strived to build friend circles of market transaction funders, continued to promote the update and iteration of the "Zhao Tou Xing (招投星)" system and the "Zhao Tou Xing (招投星)" WeChat applet, accelerated the construction of the market transaction and financial advisory system, and actively collaborated with various types of investment banking products, so as to organise high-quality assets and attract high-efficiency funds for the cyclic extensive wealth management value chain. During the reporting period, the Company realised a financing scale of market transactions (matching services) amounted to RMB167.138 billion, representing a year-on-year increase of 62.36%.

Financial institution business

With respect to its financial institutions asset and liability business, the Company further deepened the customer services for financial institutions, in consideration of the requirements of the Bank's liquidity management, expanded targeted high-quality financial institution clients. During the reporting period, the daily average balance of financial institution deposits of the Company amounted to RMB750.402 billion, representing a year-on-year increase of 24.73%. Among them, the daily average balance of financial institution demand deposits from fund clearing, settlement and depository service amounted to RMB616.922 billion, representing an increase of 23.32% as compared with the previous year.

With respect to its depository service, the Company's security and future margin depository service was in stable operation, with third-party depository services extending to 104 securities companies and 13,307,500 customers secured at the end of the reporting period. In addition, the Company entered into cooperation with 88 securities companies on margin trading and short selling business, securing 486,200 customers at the end of the reporting period. Also, the Company entered into cooperation with 58 securities companies on stock options business, securing 39,100 customers at the end of the reporting period, and entered into cooperation with 134 future companies on fund transfer, securing 265,000 customers at the end of the reporting period.

With respect to interbank clearing, as at the end of the reporting period, the number of the cross-border RMB accounts opened by banks and other financial institutions with the Company accumulated to 289, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 253 customers which participated indirectly through the Company in the RMB Cross-border Interbank Payment System (CIPS), ranking first among all small- and medium-sized banks in China and second in the industry (according to the data released by the CIPS).

With respect to the businesses on interbank online service platform, as at the end of the reporting period, the number of financial institutions registered on the "Zhao Ying Tong (招贏通)" platform of the Company reached 2,877, and during the reporting period, the online business volume amounted to RMB736.723 billion.

Asset management business

As at the end of the reporting period, the balance of wealth management products under management[14] by CMB Wealth Management, a wholly-owned subsidiary of the Company amounted to RMB2.64 trillion, representing an increase of 7.76% as compared with the end of the previous year.

During the reporting period, the Company made great efforts to support all the work of CMB Wealth Management Company Limited in business transformation, enriching product systems, improving risk management and strengthening the strategic cooperation with JPMorgan Asset Management (Asia Pacific) Limited.

Firstly, the Company continued to promote business transformation in a smooth and orderly manner. The Company complied with the regulatory requirements, focused on the optimised rectification plan, and also increased the supply of new products while upgrading, reducing and withdrawing old products. As at the end of the reporting period, the balance of new products[15] amounted to RMB2.13 trillion, representing an increase of 28.31% as compared with the end of the previous year, accounting for 80.68% of the balance of wealth management products, up by 12.92 percentage points as compared with the end of the previous year.

Secondly, the Company enriched the product system by focusing on segmented customer groups. Aiming at segmented customer groups such as young customers, backbone parent-child and "Feng Run (豐潤)" for the elderly, and starting from customer habits and preferences, created related products, such as "Zhao Zhao Bao (朝朝寶)" with wealth management feature for changes, and strengthened scenario-based product sales to continuously improve customers' recognition and loyalty.

Thirdly, the Company improved the risk management system. In terms of credit risk management, we conducted re-examination on customer rating models and credit limits of key customers, strengthened credit limit control over certain industries on full statistical calibre, so as to prevent concentration risks. In terms of market and compliance risk management, we strengthened the compliance risk assessment of new products and new business strategies, formulated corresponding risk limits and performance evaluation benchmarks, and accelerated the construction of a quantitative risk analysis system.

Fourthly, the Company strengthened the strategic cooperation with JPMorgan Asset Management (Asia Pacific) Limited. Both parties continued to deepen exchanges and cooperation in investment research, product management and risk internal control, and gave full play to their respective advantages to jointly provide customers with high-quality services.

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14 All of which are off-balance sheet wealth management products, excluding structured deposits, and the balance is the sum of customers' principal in wealth management products and the changes in net value of net-value products as at the end of the reporting period.

15 New products are wealth management products in compliance with the relevant provisions of the New Regulation on Asset Management.

Asset custody business

As at the end of the reporting period, the balance of assets under custody of the Company was RMB18.23 trillion, representing an increase of 13.58% compared to the end of the previous year, and maintained second in the domestic custody industry in terms of balance of custody and ranked first in terms of increment according to the data released by China Banking Association. During the reporting period, the Company realised a custodian fee income of RMB2.836 billion, representing a year-on-year increase of 30.15%. The Company ranked third in terms of revenue in the domestic custody industry, representing a rise of one place as compared with the previous year, according to the data released by China Banking Association.

During the reporting period, the Company developed its custody business by focusing on the two mainstays of changes in market financing structure and serving the transformation and development of asset management institutions, and leveraged on its expertise to constantly improve customer acquisition capabilities for custody business and comprehensive service capabilities.

Firstly, the Company constantly optimised its business structure adjustment. The custody scale and custody fee income of mutual funds, pensions, cross-border funds and other high-yield products continued to increase, of which the custody scale of mutual funds increased by 26.34% to RMB1.72 trillion. The Company realised a custodian fee income of mutual funds of RMB1.238 billion, representing a year-on-year increase of 108.07%. During the reporting period, the Company provided custodian service to 124 newly issued mutual funds with a scale totalling RMB239.4 billion, both ranking first in the industry (WIND public data).

Secondly, the Company maintained its leading advantages in key innovative business areas and actively supported supply-side structural reforms. Among the first batch of 9 national public REITs projects in the first half of the year, 7 were under the custody of the Company, accounting for 78% of the market share. By providing all-round and comprehensive services, the Company has realised the full custody coverage of public REITs projects in various categories such as waste incineration, sewage treatment, industrial parks and highways, and has initially formed its leading advantages in the field of public REITs. In addition, during the reporting period, the Company ranked first in terms of the market share of newly approved mutual funds under the innovative index category, MOM funds and other segmented custody markets, forming a competitive advantage in custody with the characteristics of CMB.

Thirdly, by focusing on the core customer groups, through intensive cultivation and careful management, the Company focused on customer needs, created value with its expertise, and continuously improve comprehensive service capabilities. The Company strengthened the construction and promotion of "custody plus (託管+)" comprehensive service platform, empowered customers through custody value-added services, and continuously improved customer experience.

Financial markets business

During the reporting period, the situations of the domestic and foreign economies and financial market were relatively complex. Under the combined effects of repeated global pandemics, uneven economic recovery, slower pace of local debt issuance, and the impact of credit default events, the bond market lacked trending opportunities and showed an overall fluctuation between narrow ranges.

With respect to RMB bond investment, through in-depth research and analysis of domestic and foreign macro economic situations and policies, the Company anticipated market trends, captured market opportunities while effectively controlling market risks and credit risks. During the reporting period, based on the overall judgment of the volatile market this year, the Company proactively increased its investment in the first quarter, allocated accounts to maintain high positions, and extended the duration in a timely manner. At the same time, through continuous range trading operations, the investment income was increased, and through moderate leverage strategy, arbitrage income was obtained. With respect to foreign currency bonds investment, the Company appropriately shortened the portfolio duration of foreign currency bonds investment based on the judgement of the international economic situation and market trends. Meanwhile, the Company grasped the opportunities arising from fluctuation in the spread of credit bonds, and increased range trading operation to effectively improve portfolio yields. In addition, the Company actively explored the application of quantitative technologies in the field of fixed income, and the duration strategy for interest rate bonds achieved firm offer operation.

With respect to customer transaction business, the Company actively promoted the concept of neutral management for foreign exchange risk, conducted customer services in an industry-specific way, and customised foreign exchange risk management plans for customers. At the same time, the Company actively used Fintech to serve customers, promoted the construction of online transaction systems, and improved business processing efficiency and experience of customers. The online wholesale business covered the derivative transactions of financial institution customers for the first time, realising online direct connection between banks for derivative transactions; the Company integrated quantitative trading strategies into the financial product offerings for retail customers, launched the intelligent fixed investment product for gold, and enriched the investment of retail customers. The "CMB Hedging (招銀避險)" service system was further improved, and the number of corporate derivative customers and transaction volume continued to grow.

During the reporting period, the trading volume of RMB exchange rate swaps amounted to USD409.052 billion, representing a year-on-year increase of 16.93%. The trading volume of transaction services to the customers amounted to USD301.804 billion, representing a year-on-year increase of 54.66%, of which the trading volume of derivatives to the wholesale customers reached USD203.710 billion, representing a year-on-year increase of 111.54%, which was mainly due to that the Company increased the utilisation rate of derivatives in customers' risk management by promoting the risk-neutral concept to corporate customers, and at the same time actively promoted online transactions, expanding the Company's customer coverage. In addition, the Company continued to actively participate in the bilateral opening up of the bond market, provided high-quality services to overseas investors, and was awarded the "Excellent Market Maker of Bond Connect (債券通優秀做市商)" award by Bond Connect Company Limited.

3.10.3 Distribution channels

The Company provides products and services via multiple distribution channels, which mainly consist of physical distribution channels and e-banking channels.

Physical distribution channels

The efficiently operated distribution network of the Company is primarily located in the major economic centers of China, such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and certain large- and medium-sized cities in other regions. As at the end of the reporting period, the Company had 143 branches, 1,744 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 2,906 self-service centers, 7,322 self-service machines and 17,612 visual counters in more than 130 cities of Mainland China. The Company also has a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei and a branch in Sydney, Australia.

E-banking channels

Major retail e-banking channels

CMB APP

During the reporting period, CMB APP continued to deepen the exploration of the financial scenarios and pan-financial scenarios, extensively upgraded user experience and continuously improved its digital middle-office capacity. Aiming to build an open wealth management product system on the basis of extensive wealth management, CMB APP upgraded the "people + digitalisation" service model, launched an open wealth management platform to empower our partners, and constructed a new wealth management ecology driven by Fintech.

As at the end of the reporting period, the number of CMB APP users totaled 158 million. During the reporting period, the maximum number of daily active users of CMB APP reached 17,470,600, with a total of 3.776 billion logins and average monthly logins of 10.94 per user, as well as monthly active users of 61,406,900 as at the end of the reporting period. During the reporting period, CMB APP recorded 961 million transactions and a total transaction amount of RMB29.85 trillion, up by 14.27% and 60.83% respectively, as compared with the corresponding period of the previous year.

CMB Life APP for credit card

During the reporting period, CMB Life APP continued to focus on product upgrade and strengthened the link between users and scenarios. With the latest version 8.5 released, CMB Life APP aimed at continuous reinforcement on the management of valuable users, aiming to fuel the development of our credit card business by continuous upgrade of our consumer finance products, optimisation of the member-get-member (MGM) card issuance process and expansion of our young customer base. Meanwhile, it made efforts to expand the scenarios based on the cyclic extensive wealth management value chain, and introduced funds such as "Zhao Zhao Ying (朝朝盈)" into the CMB Life APP in an effort to upgrade our wealth management services. 20 million customers were mobilised through the "Cashback Rebate (筆筆返現)" campaign, helping us develop a continuous, efficient and large-scale customer mobilisation capacity, while maintaining a steady growth of the MAU.

As at the end of the reporting period, the total number of CMB Life APP users was 117 million. During the reporting period, the maximum number of daily active users of CMB Life APP reached 6,827,000 and the number of monthly active users was 43,474,100 as at the end of the period. CMB Life APP continued to outperform other credit card APPs in the banking industry in terms of online activity of users.

Network operation service

The Company's Network Operation Service Center provides instant, comprehensive, prompt, professional and caring services to its customers through telephone, network and video.

During the reporting period, the Company continued to improve and diversify its online service support with the application of new technologies such as multi-screen interaction while constantly optimising its key business process in terms of fluency, precision and simplicity based on the results of customer survey, aiming to continuously strengthen its non-contact online service capabilities and improve customer experience. During the reporting period, the Company achieved a success rate of 98.47% of remote online omni-channel connection for manual services, a remote online omni-channel 20-second manual response rate of 96.89%, and a remote online omni-channel customer satisfaction rate of 97.74%. To adapt to the trend of accelerated online migration of customer behavior, the Company continued to accelerate the development of its Fintech-driven intelligent services by expediting the construction of online service scenarios, continuously intensifying the training and learning of intelligent robots, and strengthening algorithm optimisation, through which our intelligent self-services accounted for 78.07% during the reporting period[16].

Smart service system

The Company continued to optimise its intelligent service network which features two core APPs, i.e. CMB APP and CMB Life APP, and consists of network operation service centers and branch visualisation equipment. During the reporting period, the Company further enhanced the AI service capability and closed-loop service capability of the intelligent customer service robots of CMB APP and CMB Life APP, i.e. "Advisor Xiao Zhao (小招顧問)" and "Assistant Xiao Zhao (小招助理)", while accelerating the construction of the "scenario-based" service ecology, aiming to constantly expand the portfolio of customer-oriented intelligent service products. During the reporting period, the Company further clarified its strategy of decentralised service interaction, aiming to forge an active customer service brand which is driven by technology and capable of accurately matching customer demands and flexibly docking with the service channels. In addition, the Company continued to explore ways to reach out to the Generation Z[17] and conducted high-frequency interaction with young users, aiming to form a bond of communication and interaction with young people.

Major wholesale e-banking channels

During the reporting period, the Company continued to improve its wholesale e-banking channels and enhance the online coverage of wholesale customers. As at the end of the reporting period, the Company had 2,126,200 wholesale customers on the e-banking channels, with a coverage rate of 93.39%.

Online corporate banking

During the reporting period, the Company continued to improve its online service capability for corporate customers, i.e. further optimising the customer's experience in first-time use of and login to its online corporate banking service by establishing a light-model and simple online customer service channel, accelerating the iteration of frequently-used functions that accounts for 90% of the total clicks, and providing its customers with convenient online opening of service packages and automatic configuration services, aiming to turn its online corporate banking service into an "easy-to-use, intelligent and open" digital service platform. As at the end of the reporting period, the number of online corporate banking customers of the Company reached 2,082,800, of which the number of monthly active customers was 1,180,200. During the reporting period, the total number of online corporate banking transactions of the Company reached 128,719,200 and total value of transactions amounted to RMB72.13 trillion.

CMB Corporate APP

During the reporting period, The Company continued to facilitate the docking of the CMB Corporate APP to the retail All-in-one Net user system to accelerate the corporate-private linkage and realise joint operation from the user's perspective. Firstly, it connected with the CMB Zhao Dai (招貸) APP and docked with the Instant Loan for Small- and Micro-Sized Enterprises (小微閃電貸) to provide fully online inclusive loans for CMB Corporate APP users. Secondly, it connected with "Xin Fu Tong (薪福通)", which realised joint operation with the payroll service, and enabled functions such as personal income tax, HR service, cost control, etc. Thirdly, it launched the function of "Multiple Corporate Account View" in the legal entity version of the CMB Corporate APP. As at the end of the reporting period, the number of customers of CMB Corporate APP reached 1,279,400, of which monthly active customers reached 549,900. During the reporting period, the number of transactions initiated by our customers through CMB Corporate APP amounted to 17,061,000, with a transaction value of RMB290.887 billion.

16 The percentage of services undertaken by intelligent robots in all types of remote inquiries (including phone calls and online text).

17 People born between 1995 and 2009, or collectively the generation that has been greatly influenced by technological products such as the Internet, instant messaging, smartphones and tablet computers.

3.10.4 IT and R&D

During the reporting period, the Company formulated a digital infrastructure development plan for the "14th Five-Year Plan" which, with the ultimate goal of building an industry-leading technology system, featuring the construction of CMB Cloud, strengthening of data middle-office and technology middle-office, creating four intelligent business engines that support a high degree of business agility, and building a digital technology system that is well adapted to extensive wealth management, so as to effectively support the rapid business innovation.

In terms of business assurance, the overall operation of our information system remained sound and stable, with industry-leading availability of the core accounting system and backbone network. Our Pinghu Data Center in Shenzhen has been put into operation, aiming to build an agile, intelligent and green cloud data center, and fulfilled the layout of "three centers in two locations" in Shenzhen and Shanghai, providing a more flexible and intelligent, safe and reliable IT foundation for our business.

In terms of Fintech infrastructure, the cloud migration of the application systems of our Head Office and branches and subsidiaries were smoothly progressing, with 6 new cloud services added during the reporting period, adding up to a total of 50 types of cloud services, which has greatly enhanced its ability to support our business development. The data middle-office now supports the development of data applications and use of big data services by our business personnel on their own, and the technology middle-office has made the openness and integration between systems smoother. With the addition of 4 new blockchain application scenarios, the number of blockchain application scenarios reached 42 as at the end of the reporting period. We also made remarkable efforts to promote the "AI Provident Fund Service Innovation Model", and has entered into cooperation intention with 45 institutional clients as at the end of the reporting period, aiming to jointly build an intelligent customer service platform for provident funds and export our AI capabilities to make further achievement in our value-added services provided to the institutional customers.

In terms of business system construction in the retail sector, we launched the large-font version of CMB APP to show our care for the elderly customers; we launched high-quality columns such as "7×24 Hours" and "Wealth Weekly (一周財富精選)" to continuously enrich the content of our services; we have also established a wealth management platform which is open to our external partners where they can perform online operation, aiming to jointly build a wealth management ecology; we have completed the development of core functions of the investment scenarios, which enables quick creation of investment scenarios on our CMB APP. In the field of wholesale business, our Xin Fu Tong (薪福通) is designed to serve the three major areas, i.e. personnel, finance and business of our corporate customers, helping them to gain access to financial services through digital empowerment; we accelerated the online migration of our frequently-used services, the customer service time of our "Yun Shan Dai (雲閃貸)" has been shortened to T+0, and the domestic letter of credit negotiation can be completed within 15 minutes at the earliest. In the middle- and back-office business area, we have launched a unified office platform "Zhaohu (招乎)" for the whole Bank as an efficient communication channel, information sharing platform and collaboration tool. During the reporting period, the Company extended the reach of messages of Zhaohu and enriched its group collaboration and management functions, and its Cloud Meeting effectively satisfied the online meeting needs of the Company's Head Office, branches and subsidiaries.

As for the brand building efforts with Digital Bank, our Fintech exhibition hall (CMB LAB) was opened to the public to showcase the latest technology applications such as link imaging[18], intelligent finance, mobile internet, digital intelligent risk control and intelligent operation. We also held innovative application competitions such as the blockchain, Conch RPA+OCR, API, and Native Cloud, which attracted a large number of participants from our Head Office, branches and subsidiaries, aiming to continuously encourage technical and business innovation.

[18] The Company's proprietary technology designed to serve the needs of could structure transformation and capable of deep-reaching link tracking and performance indicator abnormality warning on system operation status so as to quickly and precisely identify defects and guarantee stable operation of its business systems.

3.10.5 Overseas branches

Hong Kong Branch

Established in 2002, our Hong Kong Branch is the first branch established overseas by the Company, which is licensed to provide a full range of commercial banking services. With respect to corporate banking, it is capable of providing diversified corporate banking products and services, such as deposits, settlement, trade financing, bilateral loans, syndicated loans, cross-border M&A solutions, asset management and asset custody, and engaging in trading of funds, bonds and foreign exchange, as well as funds clearing and asset transfer with other financial institutions. As for retail banking, it is capable of providing its individual customers from Hong Kong and Mainland China with cross-border personal banking and private wealth management services, with such featured products as "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express".

In the first half of 2021, the Hong Kong Branch vigorously promoted cross-border business coordination while relentlessly expanding its high-quality and key retail customer base and pushing the construction of platforms such as commodity trading, offshore asset management and asset custody. During the reporting period, the Hong Kong Branch realised a net operating income of HK$856 million and a profit before tax of HK$592 million.

New York Branch

Established in 2008, the New York Branch of the Company is the first branch of the Chinese banks approved to operate in the U.S. after the promulgation of the US Foreign Bank Supervision Enhancement Act in 1991. Currently, it is mainly engaged in corporate banking business. It is capable of providing products and services such as deposit, settlement, trade financing, bilateral loans, syndicated loans, cross-border M&A, fund financing, project financing and delisting financing. At the same time, it carried out its private banking business in a prudent and compliant manner, providing diversified and comprehensive non-financial value-added services for the high-net-value private banking customers from China and the U.S.

In the first half of 2021, our New York Branch tapped deeply into the potential of cross-border businesses between China and the United States, with the aim of enhancing the comprehensive service capability of its characteristic cross-border financial platform. During the reporting period, our New York Branch realised a net operating income of USD43,349,200 and a profit before tax of USD27,875,000.

Singapore Branch

Established in 2013, the Singapore Branch of the Company is positioned as a significant cross-border financial platform in Southeast Asia, which currently provides both corporate banking and private banking services. With respect to corporate banking, it provides its customers with products and services such as funds settlement, deposit service, foreign exchange trading, coordination financing, trade financing, M&A loans, syndicated loans, real estate trust leveraged financing and delisting financing. As for private banking, the Private Banking (Singapore) Center provides its high-net-value customers with private banking products and value-added services featuring integrated investment and financing solutions, such as cash management, asset allocation and wealth heritage.

In the first half of 2021, our Singapore Branch took an aggressive hold of the opportunities arising from the building of the offshore wealth management center in the area, and continued to optimise its cross-border business development with an effective integration of its corporate and private banking services to achieve synergy. During the reporting period, the Singapore Branch realised a net operating income of USD9,247,600 and a profit before tax of USD1,939,600.

Luxembourg Branch

Established in 2015, the Luxembourg Branch of the Company is positioned as an important cross-border financial platform in Europe, which is mainly engaged in corporate banking business. It provides diversified products and services such as deposits, loans, project financing, trade financing, and M&A financing, and is committed to setting up an operational platform of the Company in Europe leveraging the superior businesses of the parent bank in combination with the special advantages of Luxembourg. At the same time, it carried out private banking business in a prudent and compliant manner to meet the needs of its customers for global services and cross-border non-financial value-added services.

In the first half of 2021, our Luxembourg Branch adapted quickly to the market changes by strengthening cooperation with domestic and overseas financial institutions while making remarkable efforts to expand its business and financing channels, with which it has achieved a sound business development. During the reporting period, our Luxembourg Branch realised a net operating income of €7,478,600 and a profit before tax of €3,887,800.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks and also the first branch established in the United Kingdom directly by a bank from Mainland China since the founding of the PRC. Currently, it is engaged in both corporate banking business and private banking business. It provides its customers with diversified products and services, such as deposits, loans and trade finance products, such as making payments on behalf of customers (代付) and forfaiting (福費廷). As for the private banking business, it is capable of providing basic services such as settlement, fixed deposit, foreign exchange transactions, mortgage loans and insurance referrals to meet the needs of its high-net-value customers for cross-border business and value-added services.

In the first half of 2021, our London Branch took a firm hold of the opportunities emerging from the mutual investment business in China and the UK and reinforced the development of its cross-border services and products while maintaining a tight control of risks and strengthening compliance management, with which it had secured a steady business growth. During the reporting period, our London Branch realised a net operating income of USD10,753,700 and a profit before tax of USD7,315,700.

Sydney Branch

Established in 2017, the Sydney Branch of the Company is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. Currently, it is mainly engaged in corporate banking business. It provides diversified products and services, such as deposits, loans and trade finance products (making payments on behalf of customers (代付) and forfaiting (福費廷)). At the same time, it carried out private banking business in a prudent and compliant manner to meet the needs of its customers for global services and cross-border non-financial value-added services.

In the first half of 2021, our Sydney Branch took an active part in the cross-border investment and financing activities, trade financing and settlement, and development of mineral resources and high-quality infrastructure projects in China and Australia, providing its customers with high-quality financial services. During the reporting period, our Sydney Branch realised a net operating income of AUD14,048,700 and a profit before tax of AUD2,168,500.

3.10.6 Major subsidiaries

CMB Wing Lung Bank

Founded in 1933, CMB Wing Lung Bank has a registered capital of HK$1.161 billion, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of CMB Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, NET banking, "CMB WLB Wintech (招商永隆銀行一點通)" mobile banking, global cash management, syndicated loans, corporate financing, documentary bills, leasing and hire purchase loans, foreign exchange, insurance agency, mandatory provident fund, insurance brokerage and general insurance underwriting, property management and trustee, nominee and asset management services. At present, CMB Wing Lung Bank has one head office, 33 branches and private banking centers in Hong Kong, four branches and sub-branches in Mainland China, one branch in Macau, one branch in Los Angeles and one in San Francisco, the United States, as well as one representative office in Bangkok.

During the reporting period, CMB Wing Lung Group realised an attributable profit to shareholders of HK$2.165 billion and a net operating income of HK$3.207 billion, of which net interest income was HK$2.050 billion and net non-interest income was HK$1.157 billion, with a cost-to-income ratio of 35.32%. As at the end of the reporting period, the total assets of CMB Wing Lung Group amounted to HK$383.705 billion. Total equity attributable to shareholders amounted to HK$44.359 billion. Total loans and advances to customers (including trade bills) amounted to HK$204.084 billion. Deposits from customers amounted to HK$286.332 billion, with a loan-to-deposit ratio of 67.22% and a non-performing loan ratio (including trade bills) of 0.46%. For detailed financial information on CMB Wing Lung Group, please refer to the 2021 interim results of CMB Wing Lung Bank, which is published on the website of CMB Wing Lung Bank (www.cmbwinglungbank.com).

CMB Financial Leasing

CMB Financial Leasing was established in 2008 and wholly owned by the Company with a registered capital of RMB6.0 billion. CMB Financial Leasing has adhered to its operation and development strategy of "professionalisation, digitalisation and internationalisation", carried out the mission of "supporting national strategy, serving the real economy and promoting industrial upgrading", and launched the financial solutions for the ten industries of aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health industry and cultural tourism, public transportation, smart interconnection & logistics and leasing. It satisfies the lessees' different needs in respect of equipment procurement, sales promotion, asset revitalisation, balancing of tax liabilities and improvement of financial structure.

As at the end of the reporting period, the total assets of CMB Financial Leasing amounted to RMB215.728 billion, and its net assets amounted to RMB24.197 billion. It realised a net profit of RMB1.576 billion during the reporting period.

CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong, with a registered capital of HK$4.129 billion. At present, the business scope of CMB International Capital and its subsidiaries mainly covers corporate finance, asset management, wealth management, stocks and structured finance.

As at the end of the reporting period, the total assets of CMB International Capital amounted to HK$58.616 billion, and its net assets amounted to HK$11.573 billion. During the reporting period, it realised a net profit of HK$1.303 billion.

CMB Wealth Management

CMB Wealth Management was established and wholly owned by the Company with a registered capital of RMB5.0 billion, and was officially launched in November 2019. During the reporting period, in order to improve the operation and management expertise of CMB Wealth Management, promote the Company's integrated management strategy in response to the policy of financial opening up, the Company intended to introduce a strategic investor, JPMorgan Asset Management (Asia Pacific) Limited, to make a cash injection in the capital of CMB Wealth Management. Upon completion of the capital increase, CMB Wealth Management will be owned by JPMorgan Asset Management (Asia Pacific) Limited as to 10% and by the Company as to 90%. For further details, please refer to the relevant announcement of the Company dated 19 March 2021 published on the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company's website. The Capital Increase is currently pending the approval of the regulatory authorities.

With its headquarters based in Shenzhen, CMB Wealth Management upholds the values of "professionalism, conscientiousness, innovation, and coordination" and the brand appeal of "providing better answers to the future", and is committed to gradually establish an all-round asset management business model which focuses on fixed income investments with equity and alternative asset investments as the supplements, and provides customers with cross-market, multi-category wealth management product portfolios and asset management service options, so as to meet their diversified needs for asset management and their needs in preserving and increasing their wealth.

As at the end of the reporting period, the total assets of CMB Wealth Management amounted to RMB9.770 billion, and its net assets amounted to RMB9.031 billion. During the reporting period, it realised a net operating income of RMB2.351 billion and a net profit of RMB1.557 billion.

China Merchants Fund

Established in 2002, China Merchants Fund had a registered capital of RMB1.31 billion. As at the end of the reporting period, the Company held 55% of China Merchants Fund's shares. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at the end of the reporting period, the total assets of China Merchants Fund amounted to RMB9.028 billion, and its net assets amounted to RMB6.154 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB1,213.978 billion. It realised a net profit of RMB784 million during the reporting period.

CIGNA & CMAM

CIGNA & CMAM was established in October 2020 with a registered capital of RMB500 million and is an indirectly owned subsidiary of the Company, which is owned as to 87.3458% and 12.6542% by CIGNA & CMB Life Insurance, a joint venture of the Company, and CMB International Capital, a subsidiary of the Company, respectively. The scope of business of CIGNA & CMAM includes entrusted management of client's funds, issuance of insurance asset management products and asset management related consultation business.

As at the end of the reporting period, the total assets of CIGNA & CMAM amounted to RMB528 million, with net assets of RMB500 million and a net profit of RMB15 million for the reporting period.

CMB Europe S.A.

The establishment of CMB Europe S.A. was approved in May 2021 with a registered capital of €50 million. It is a wholly-owned subsidiary of the Company in Europe and is the regional head office of the Company in continental Europe. CMB Europe S.A. will be fully integrated into the parent company's extensive wealth management system and leverage its full license to provide its customers with a wide range of financial products and services such as cross-border financing, M&A finance, private banking, investment management, financial markets, bond underwriting, trade finance, etc., as well as operation and allocation of the global assets of its corporate and individual customers. Currently, CMB Europe S.A. is in the stage of preparation for opening.

3.10.7 Major joint ventures

CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance, a joint venture of the Company, was established in Shenzhen in 2003, with a registered capital of RMB2.8 billion. As at the end of the reporting period, the Company held 50% of CIGNA & CMB Life Insurance's shares. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at the end of the reporting period, the total assets of CIGNA & CMB Life Insurance amounted to RMB92.945 billion, and its net assets amounted to RMB10.310 billion. During the reporting period, CIGNA & CMB Life Insurance realised a net profit of RMB907 million.

Merchants Union Consumer Finance

Merchants Union Consumer Finance, a joint venture of the Company, was established in Shenzhen in 2015, with a registered capital of RMB3.869 billion. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumption loans. During the reporting period, with the approval of the Board of Directors of the Company, the Company intended to acquire the equity held by CMB Wing Lung Bank in Merchants Union Consumer Finance. The acquisition was approved by the regulatory authorities in July 2021, and Merchants Union Consumer Finance has completed the change of industrial and commercial registration. At present, the Company directly holds 50% equity of Merchants Union Consumer Finance.

As at the end of the reporting period, the total assets of Merchants Union Consumer Finance amounted to RMB129.843 billion, and its net assets amounted to RMB12.517 billion. During the reporting period, Merchants Union Consumer Finance realised a net profit of RMB1.542 billion.

China Merchants T-Bank

On 11 December 2020, the CBIRC officially approved the establishment of China Merchants T-Bank, an independent direct-marketing bank, jointly established by the Company and Wangyin Online (Beijing) Business Service Co., Ltd., with a shareholding of 70% and 30%, respectively. With a registered capital of RMB2.0 billion, China Merchants T-Bank is proposed to be a financial institution that legally conducts all types of commercial banking business through the Internet. Currently, the application for opening of China Merchants T-Bank is pending the approval of the CBIRC. Upon the formal establishment, China Merchants T-Bank will be a joint venture of the Company, according to the corporate governance arrangement.

3.10.8 Major Associates

Bank of Taizhou Co., Ltd.

During the reporting period, the Company acquired 14.8559% equity interest of Bank of Taizhou Co., Ltd. ("Bank of Taizhou") held by Ping An Trust Co., Ltd. and Ping An Life Insurance Company of China, Ltd. for a consideration of RMB3.121 billion. Upon the completion of the transaction, the Company held 24.8559% stake of Bank of Taizhou. For details, please refer to the relevant announcements dated 19 March 2021 and 31 May 2021 published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

Bank of Taizhou, an associate of the Company, was established in Taizhou, Zhejiang province in 2002 with a registered capital of RMB1.8 billion. As at the end of the reporting period, the Company had 24.8559% stake of Bank of Taizhou. Bank of Taizhou is engaged in commercial banking business approved by the CBIRC, such as taking public deposits, granting loans and interbank lending.

As at the end of the reporting period, the total assets of Bank of Taizhou amounted to RMB297.556 billion and its net assets amounted to RMB24.448 billion. During the reporting period, Bank of Taizhou realised a net profit of RMB2.405 billion.

3.11 Risk Management

The Company steadily pushed forward the construction of a risk management system adapting to the characteristics of extensive wealth management business under the principles of "Comprehensive, Professional, Independent and Balanced Management". The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and determining the most significant bank-wide risk management policies on risk preferences, strategies, policies and authorisations approved by the Board of Directors.

During the reporting period, the Company continued to improve its overall risk management system while proactively overcoming and preventing all kinds of risk.

3.11.1 Credit risk management

Credit risk refers to the risk arising from a bank's borrowers or counterparties failing to perform its obligations as agreed. Adhering to its management philosophy of "Quality Goes First Based on Compliance and Risk Control (合規為根、風險為本、質量為先)", and with the goal of "fostering a leading risk management bank", the Company promoted the risk management culture of "staying healthy, rational, proactive and comprehensive (穩健、理性、主動、全員)", stuck to the concept of balanced returns and risks and the prudent business strategy in which risks can ultimately be covered by capital, implemented a unified credit risk preference, optimised the life-cycle credit risk management processes, improved credit risk management tools, and fully improved risk management capabilities, so as to prevent and reduce credit risk loss.

During the reporting period, the Company closely monitored the macroeconomic and financial situation, upheld the bottom line, addressed the cause and effect of each issue that emerged, so that a generally stable asset quality was maintained. Firstly, we laid out high-quality assets in advance on the basis of industry knowledge. We continued to leverage "self-initiated" industry research, deepened the reach of our industry network. Through the selection of clients and business segments as well as innovation in business models, we forged a team of experts and furthered the application of research findings. Secondly, we focused on customers and deepen the integrated management of high-quality customers. Specifically, we dynamically adjusted the composition of strategic customers and whitelist customers respectively at the Head Office level and branch level. Customer list management has been adopted accordingly in order to help maintain a solid customer base. The Company also established a risk monitoring system in collaboration with the Head Office and branches for customers with large transaction value, dynamically carried out risk screening, and implemented "different policy for each category" for key customer groups and "different policy for each account" for key customers while controlling the total amount and optimising the structure. Thirdly, we strengthened our foundation and take forward the building of risk management system functions. We improved the risk management system for the whole process of bond investment, upgraded the early warning management system, formulated business review standards and job manuals, improved asset business qualification management, and continuously enhanced the capabilities of systematic risk management. Fourthly, we held fast to the bottom line and continued the transition to "solution-based" risk management. We strictly controlled asset quality to maintain our leading edge; strictly prevented risks in key areas and carried out differentiated management; explored green finance and fulfilled our social responsibility; strengthened institutional management to enhance risk management at the first defence line; and seriously performed duties to enhance the sophistication of basic management. Fifthly, we increased channels for and improved the efficiency of the disposal of non-performing assets. Furthermore, name list management has been adopted for key projects, cash settlement of non-performing assets was enhanced, write-off of non-performing assets was further taken forward. We made use of a number of methods to mitigate risk assets and achieved the effective and efficient disposal of non-performing assets based on compliance regulations. Sixthly, we deepened the application of Fintech and promoted the digital and intelligent transformation of risk management, built a risk data and information system compatible to extensive wealth management, improved the efficiency of management processes and accelerated the intelligence operation of Fintech.

For more information about the Company's liquidity risk management, please refer to Note 41(a) to the financial statements.

3.11.2 Management of large-scale risk exposure

In accordance with the "Management Measures for Large-Scale Risk Exposure of Commercial Banks" (CBIRC Order 2018 No. 1) (《商業銀行大額風險暴露管理辦法》(銀保監會2018年1號令)) issued by the CBIRC, large-scale risk exposure refers to the credit risk exposure (including various credit risk exposures in the banking book and trading book) to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net Tier 1 capital. The Company has incorporated large-scale risk exposure management into its overall risk management system, continued to optimise customer credit management requirements, kept specialising risk exposure measurement rules, dynamically monitored changes in large-scale risk exposure by Fintech measures, and regularly reported to regulators on large exposure indicators and related management so as to effectively control customer concentration risks. As at the end of the reporting period, other than customers with regulatory exemption, single non-financial institution customers, group non-financial institution customers, single financial institution customers and group financial institution customers of the Company that reached the standards of large-scale risk exposure were all in compliance with the regulatory requirements.

3.11.3 Country risk management

Country risks represent the risks of economic, political and social changes or developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfil their obligations to banks, or incur loss to commercial presences of the Company in that country or region, or other loss to the Company in that country or region. Country risk may arise from deteriorating economic conditions, political and social upheavals, nationalisation or expropriation of assets, and government repudiation of external indebtedness, foreign exchange controls and currency depreciation in a country or region.

Following the principles of soundness and prudence, the Company established a country risk management system compatible with strategic objectives, risk profile and complexity, and incorporated country risk management into its overall risk management system so as to promptly identify, measure, evaluate, monitor, report, control and mitigate country risks, assess the country risk ratings in a regular manner and implement limit management, while guiding business to tilt in favour of low-risk countries. Major matters involving country risk management policies and adjustment of limit plans were submitted to the Board for consideration and approval. In the first half of 2021, under the background of spreading pandemic overseas and the complicated and changing political and economic conditions in the international arena, the Company strengthened risk monitoring and management in priority countries, dynamically updated country risk ratings based on risk changes, and strictly restricted business growth in high-risk countries. As at the end of the reporting period, the Company has made adequate allowances for country risks in accordance with the regulatory requirements. As a result, the country risks will not have material effect on the operations of the Company.

3.11.4 Market risk management

The Company's market risk arises from trading book and banking book, and the interest rate risk and exchange rate risk are the major market risks faced by the Company.

Interest rate risk management

Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering interest rate risk factors of various currencies and durations relating to trading book business), interest rate stress testing loss indicators, interest-rate-sensitive indicators and accumulative loss indicators, to measure, monitor and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 140 interest rate indicators or bond yield curves. VaR includes general VaR and stressed VaR, which are both calculated using the historical simulation method and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenarios include the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300 basis points and cover the extremely unfavorable conditions of the market. Major interest rate sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives PV01 (when an interest rate fluctuates unfavorably by 1 basis point). As for daily risk management, the annual scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the Market Risk Management Department is responsible for daily monitoring and continuous reporting.

In the first half of 2021, the domestic economy gradually resumed growth after the recurrence of the pandemic at the beginning of the year. Under the influence of multiple factors such as a stable finance situation after the Chinese New Year, stable inflation expectations and a downward trend in the year-on-year growth rate of existing social financing, bond market interest rates generally showed a downward trend of oscillation, with the interest rates of short-term bond fluctuating significantly more than those of long-term bonds. The investment portfolio of the Company's trading book mainly consists of RMB bonds, and a generally prudent investment strategy and targeted risk control measures are adopted to ensure that all interest rate risk indicators of the trading book fall within the target range.

Banking book

The Company mainly adopts the re-pricing gap analysis, duration analysis, benchmark-correlated analysis, scenario simulation and other methods to measure and analyse the interest rate risk of banking book on a monthly basis. The re-pricing gap analysis mainly monitors the distribution of re-pricing duration and mismatch of assets and liabilities; the duration analysis monitors the duration of major product types and the change in the duration gap of assets and liabilities of the whole Bank; the benchmark-correlated analysis assesses the benchmark risk existing between different pricing benchmark interest rate curves, as well as between the different duration points on each of such curves based on the benchmark-correlated coefficients calculated using our internal models; the scenario simulation is the major approach for the Company to conduct interest rate risk analysis and measurement, which comprises a number of ordinary scenarios and stress scenarios, including the interest rate benchmark impact, the parallel move and the change in the shape of yield curves, the extreme changes in interest rates in history, and the most possible changes in interest rates in the future as judged by experts and other scenarios. The net interest income (NII) for the future one year and the changes in economic value (EVE) indicator are calculated through simulation of the scenario of changes in interest rates. The NII fluctuation ratio and the EVE fluctuation ratio of certain scenarios are included into the interest rate risk limit system of the whole Bank. In addition, the internal limit indicator system is included into the standardised measurement indicators set out in the Guidelines on the Management of Interest Rate Risk of Banking Book of Commercial Banks (Revised) issued by the CBIRC.

During the reporting period, the Company adhered to the principle of neutral and prudent interest rate risk appetite, paid close attention to changes in the external environment and internal interest rate risk exposure structure, made prediction and analysis of the trend of credit and market interest rates based on the macro quantitative model, and flexibly adjusted the active management strategy for interest rate risk. As a result, risk exposure of the banking book has been reduced. As at the end of the reporting period, various on- and off-balance sheet management measures were implemented as scheduled, and the interest rate risks were under control within the annual interest rate risk management and control target range of the Company. The results of stress test also showed that various indicators still stayed within the limits and pre-warning values of the Company, and the interest rate risk of the banking book was generally controllable.

Exchange rate risk management

Trading book

The Company uses the risk indicators such as risk exposure indicator, market risk value indicator (VaR, covering foreign exchange rate risk factors of various currencies related to transactions on the trading book), the exchange loss indicator under stress test, option-sensitive indicator and accumulated loss indicator to conduct risk measurement and monitoring management. As for risk measurement, the selected exchange rate risk factor is applied on spot prices, forward prices and volatilities in all transaction currencies under the trading book. Market value risk indicators comprise general market value at risk and stress market value at risk, and are calculated using historical simulation based on a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. Exchange rate stress test scenarios cover 5%, 10%, 15% or more adverse changes in every transaction currency against RMB, and changed volatility of foreign exchange options. Major option-sensitive indicators include Delta, Gamma, Vega and other indicators. For daily management, we set annual limits on authority associated with exchange rate risks under the trading book and relevant market exposure at the beginning of the year according to the risk appetite, business planning and risk forecast of the Board of Directors, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

In the first half of 2021, the RMB exchange rate fluctuated in both directions within a reasonable range, with a general trend of "weakened first, followed by an appreciation and subsequently weakened again". The Company mainly obtained spread income through foreign exchange trading business on behalf of customers, and utilised system modules to dynamically monitor the exposure of proprietary trading. By adopting close internal control and management and closely monitoring changes in sensitivity index, stop loss and other limit indicators, all exchange rate risk indicators of the trading book of the Company were within the target range at the end of the reporting period.

Banking book

The data for measurement of exchange rate risk of banking book of the Company was derived mainly from database, and the Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods for measurement and analysis. The foreign exchange exposure measurement uses the short-sided method, the correlation approach and the aggregation approach; scenario simulation and stress test analysis are two important exchange rate risk management tools of the Company for managing foreign exchange rate risk in respect of fluctuation of all currency exchange rates, including the standard scenario, historical scenario, forward scenario and stress scenario. Based on the forward exchange rate fluctuation and the scenario of historical extreme fluctuations, each scenario could simulate the impact on the Company's profit or loss. The effects of certain scenarios on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the daily management. The Company conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Company regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. The Audit Department of the Company is responsible for overall auditing of our exchange rate risk.

During the reporting period, the Company paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation program as a scientific reference for the management's decision-making. In the first half of 2021, the Company increased its efforts to monitor and analyse foreign exchange exposure and imposed a stringent control over the scale of foreign exchange risk exposure. A prudent approach to exchange rate risk was favoured. As of the end of the reporting period, the size of the banking book of the Company's foreign exchange exposure was at a relatively low level. The exchange rate risk of the Company is generally stable with all the core limit indicators, general scenarios and stress testing results satisfying the regulatory limit requirement.

For more information about the Company's market risk management, please refer to Note 41(b) to the financial statements.

3.11.5 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or failed internal procedures, incompetent personnel or IT systems, or external events. In view of the various aspects and wide range of operational risks, the Company's operational risk management will, based on the principles of cost-revenue matching and input-output balance, vigorously strengthen the establishment of operational risk management system, implement internal control system, continue to carry out various businesses steadily and reduce or prevent operational risk losses with a certain level of cost. In the process of operational risk management, within the risk limits set by the Board of Directors, the Company will, through measures such as further improving the risk management mechanism, strengthening risk prevention and control in key areas, conducting risk monitoring and pre-warning, improving assessment and evaluation mechanism, and cultivating operational risk prevention culture, so as to further improve operational risk management capabilities and effectiveness, and prevent and reduce operational risk losses.

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company continued to improve its operational risk management system. The first was to integrate cooperative businesses into the comprehensive risk management system, carry out segmented and classified management on cooperative institutions, and promote online management of information of cooperative and business involving mass participation; the second was to strengthen risk prevention and control in key areas, and continue to carry out business and cooperation on P2P platform business, cooperative business and business involving mass participation; the third was to improve management tools, and optimise the evaluation mechanism of operational risk and the economics of operational risk capital allocation plan; the fourth was to strengthen outsourcing risk management, strengthen access management; the fifth was to strengthen IT risk and business continuity management, conduct a review of the monitoring indicator system, launch a bank-wide IT outsourcing and cooperation business security risk survey, and complete the formulation of the annual business continuity plan and business continuity management guidelines; the sixth was to further improve the performance of the operational risk management system, continue to promote the operational risk management system reengineering project to achieve a full migration and optimisation of system functions; the seventh was to increase the empowerment of subsidiaries and branches with online video training for the operational risk management personnel so as to improve operational risk management skills.

3.11.6 Liquidity risk management

Liquidity risk refers to the risk that the Company's unable to obtain sufficient funds at a reasonable cost in a timely manner to grow its assets, pay maturing debts and perform other payment obligations. The liquidity risk management of the Company is based on the principles of prudence, foresight and comprehensiveness, which is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company have basically satisfied the regulatory requirements and its own management needs.

Based on the principle of separating policy-making, strategy implementation and supervision of liquidity risk management, the Company puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the Risk and Capital Management Committee, the Board of Supervisors, senior management, designated committees and relevant departments are segregated to ensure the effectiveness of liquidity risk management.

In the first half of 2021, the central bank maintained a prudent monetary policy and interbank market liquidity remained stable. In response to the market environment and the liquidity profile of the Company, the Company implemented the following measures to enhance liquidity risk management. Firstly, the Company took a number of measures to promote customer deposit growth and lower debt costs. Secondly, the Company dynamically controlled the exposure of credit assets, and further optimised the allocation of credit resources as well as issued proper amount of ABS, in order to achieve balanced development of assets and liabilities. Thirdly, the Company strengthened active liability management in all aspects and channels, enhanced cooperation with counterparties, expanded diversified financing channels, and improved the financing capability of our treasury. Fourthly, the Company conducted in-depth refined and forward-looking liquidity risk management. By using quantitative modeling and dynamic measurement and calculation, the Company enhanced its research and judgment in macroeconomy and the dynamic prediction on the liquidity of the whole Bank, flexibly conducted short-term and medium- to long-term active liability businesses and diversified durations according to its own liquidity profile and market interest rate trend, so as to improve the proactive risk management of the liquidity risk. Fifthly, the Company moderately increased its investments in qualified high-quality bonds, maintained sufficient liquidity reserve, and further enhanced the ability to mitigate liquidity risk. Sixthly, the Company strengthened the monitoring and management of liquidity risks in its business lines, overseas branches and subsidiaries. Seventhly, it conducted regular liquidity risk emergency drills to effectively enhance its emergency management capability at the Group level.

The Company has satisfied the relevant requirements of the "Administrative Measures on Liquidity Risk of Commercial Banks" issued by the CBIRC in May 2018. As at the end of the reporting period, the Company's liquidity coverage ratio was 154.41%, 54.41 percentage points higher than the minimum requirement of the CBIRC. The net stable funding ratio was 124.41%, 24.41 percentage points higher than the minimum requirement of the CBIRC; the liquidity ratio was 45.97%, 20.97 percentage points higher than the minimum requirement of the CBIRC; and the liquidity matching ratio was 152.75%, 52.75 percentage points higher than the minimum requirement of the CBIRC, indicating that the Company had sufficient funding sources to meet the needs of sustainable and healthy development of the business. 9% (8.5%, following the lowering of deposit reserve by the central bank effective on 15 July 2021) of the Company's total RMB deposits and 7% of the Company's total foreign currency deposits were required to be placed with the PBOC. In summary, the Company's liquidity indicators remained at healthy levels. Deposits maintained steady growth. Liquidity reserves were sufficient and overall liquidity was at a safe level.

For more information about the Company's liquidity risk management, please refer to Note 41(c) to the financial statements.

3.11.7 Reputational risk management

Reputation risk refers to the risk of negative evaluation of the Company by stakeholders, the public and the media as a result of the Company's actions, employees' actions or external events, which may damage the Company's brand value, adversely affect the Company's normal operation or even affect market stability and social stability. Reputational risk management is an important part of the corporate governance and the overall risk management system of the Company, covering all activities, operations and businesses undertaken by the Company and its subsidiaries. The Company established rules and systems on reputational risk management and took initiatives to effectively prevent the reputational risk and respond to any reputational incidents, so as to reduce loss and negative impact to the greatest extent.

During the reporting period, the Company initiated the revision of its reputation risk management measures, further improved its reputation risk management structure, standardised the process of verifying public opinion in branches and business departments; strengthened the study and judgment of public opinions, properly responded to public opinion incidents and refined the risk examination plan, thus effectively preventing reputation risks.

3.11.8 Compliance risk management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory punishments, material financial losses, and reputational loss as a result of the failure to observe the laws, rules and standards. The Board of Directors of the Company is ultimately responsible for the compliance of the operating activities, and delegates the Risk and Capital Management Committee under the Board of Directors to supervise the compliance risk management. The Risk and Compliance Management Committee of the Head Office is the organisation to manage compliance risk of the whole company under the senior management. The Company set up three lines of defence for compliance risk management and the double-line reporting mechanism through the establishment of organisational management structure comprising the risk and compliance management committees, compliance supervisors, compliance officers and legal and compliance departments under the Head Office and its branches as well as compliance supervisors at branch and sub-branch levels, continuously improved risk management techniques and management procedures and established a complete and effective compliance risk management system to achieve effective control of compliance risks.

During the reporting period, the Company rigorously implemented regulatory policies, fulfilled requirements and comprehensively improved the systematic capability of compliance management by adopting the following measures: firstly, the Company formulated and issued the "Guidelines on Internal Control and Compliance Work of the Bank in 2021", mapping out plans for the management of compliance on internal control throughout the Bank; secondly, in accordance with the requirements of the China Banking and Insurance Regulatory Commission and in line with the actual situation of the Company, the Company organised the "Year of Internal Control and Compliance Management Construction" activities for the whole Bank, conducted in-depth self-examination and self-correction and concentrated rectification in light of the rectification of market chaos since 2017 and identified problems raised in regulatory notices and through self-examination, and continued to improve the long-term mechanism of internal control and compliance management; thirdly, the Company timely acknowledged and interpreted regulations and policies, having accurate grasp of regulatory direction, so that it effectively identified and assessed the compliance risks associated with new products, new businesses and major projects, thus regulatory requirements were strictly complied with; fourthly, the Company carried out branch system clean-up and established, revised or abolished rules wherever appropriate, and developed the online system search engine function to provide convenience for grassroots staff to check and learn; fifthly, the Company strengthened staff compliance and case alert education, reinforced staff behavior management, and adopted staff behavior management tools such as staff violation points, name list of violating employees, and due diligence investigation upon termination of employment; sixthly, the Company proceeded with coordinated management involving supervision, inspection and problem rectification, enhanced the efficiency of various lines and branches in performing supervision and inspection, promoted effective rectification of issues, and thus ensured the effective implementation of various systems; seventhly, the Company increased its investment in technology to empower internal control and compliance management, and comprehensively promoted the digital transformation of internal control and compliance management.

3.11.9 Money laundering risk management

Money laundering risk refers to the risk that the Company may be used by the three types of activities such as "money laundering", "terrorist financing" and "proliferation financing" in the course of conducting business and managing operations. The Company has established a relatively sound money laundering risk management mechanism, including a governance structure with clear responsibilities from the Board and senior management to ordinary employees, a comprehensive system coverage, an effective risk assessment and monitoring system, scientific anti-money laundering data governance, and elements such as targeted management of customers or businesses associated with high risks, efficient anti-money laundering automated system support, independent inspection and auditing, and continuous and effective anti-money laundering compliance training, so as to provide guarantee for the Company's stable and compliance operations.

During the reporting period, the Company proactively fulfilled its anti-money laundering obligations and took various measures to ensure the effectiveness of its money laundering risk management. Firstly, the Company took into account the supervision and inspection requirements put forth by the regulatory authorities, comprehensively examined, rationalised and optimised the arrangements regarding division of labor and cooperation among the three lines of defense, improved the systems and technical safeguards for the performance of basic anti-money laundering obligations such as customer due diligence and transaction monitoring, and enhanced the effectiveness and efficiency of the internal control management framework for anti-money laundering; secondly, the Company explored the optimisation of the basic risk assessment framework for money laundering among institutions to enhance the effectiveness and accuracy of money laundering risk assessment; thirdly, the Company actively responded to changes in laws and regulations, took the initiative to improve the anti-money laundering internal control system, which is complemented by special anti-money laundering training covering the entire spectrum from senior management to the rank and file; fourthly, the Company further optimised the rating system and process for money laundering risk of individual customers, improved the quantitative indicators used in money laundering risk assessment for individual products, and enhanced risk management of high-risk customers and products; fifthly, the Company co-ordinated the money laundering risk management strategies of its overseas institutions and subsidiaries, and improved the information sharing procedures within the Group to ensure consistency in the Group's money laundering risk management; sixthly, the Company continued to increase its investment in technology in the field of anti-money laundering, continued to explore the expanded application of AI technology in the field of anti-money laundering in the areas of risk identification and transaction monitoring, and launched a series of system development projects focusing on data analysis and customer money laundering risk management to enhance the effectiveness of money laundering risk management through systemisation and datamation.

3.12 Outlook and Coping Tactics

In the second half of the year, as the COVID-19 vaccination rate is further enhanced, the impact of the pandemic on economic activities will gradually weaken. The global economy is expected to pick up its recovery, the production is recovering gradually, and the service sector will continue to rebound. Subject to the availability of vaccines, economies will enter the accelerated recovery phase in stages. The recovery of the US economy gathered pace at the end of the second quarter of this year, while the European economy as a whole is lagging behind the US, and most developing countries will lag significantly behind the US and Europe in their economic recovery. With the forthcoming "vaccine-led recovery", the rebalancing of supply and demand is expected to lead to a marginal fall in inflation in major economies. China's PPI will decline with volatility, while CPI will remain at a low level. Global macro policy will return to neutrality, but with differences in pace, intensity and structure among different regions. Macroeconomic policy stance for China gradually returned to normality in mid-2020, while the turning point of that for the US is looming but for the Europe the turning point will be deferred.

The Chinese economy will maintain its recovery in the second half of the year, with year-on-year GDP growth rate returning to its potential level. Sporadic outbreaks in local areas will create some disturbance to China's effort to rebuild its economy. Structurally, there will be some changes of China's economic growth drivers. On the demand side, the demand spillover effect from the US and European economies will abate as production recovers and government policy changes course, and the "substitution effect" enjoyed by China's exports over the past year or so will subside accordingly; the pull of infrastructure investment on the economy will rise marginally, and manufacturing investment is expected to pick up, supported by growth in corporate profits and industrial transformation and upgrading. The growth rate of real estate investment will fall under the constraint of strict regulation and control policies; consumption may be stuck in a weak recovery state due to income growth constraint and the pandemic. On the supply side, in light of the marginal fall of external demand and gradual withdrawal of supportive policies, coupled with suppressed business profits for mid- and downstream industries, industrial production and corporate profit growth will return to the pre-pandemic trend.

The Company believes that the current macroeconomic situation and the competitive landscape of extensive wealth management call for extra efforts and improvements in customer service, asset organisation, risk management, Fintech and organisational culture. That will give rise to both challenges and opportunities. The Company will continue to march firmly towards the 3.0 model, increasing key capabilities and building core competencies with perseverance. The following specific strategies will be applied:

Firstly, we will promote the upgrading of our service model and enhance our ability to create customer value in extensive wealth management, promote the "Initial Aspiration Plan (初心計劃)" to further solidify the values of the entire Bank, align with the values of clients, employees and institutions, shift from a sales-oriented to a customer value-oriented approach, hasten the exploration of the "people + digitalisation" approach to get rid of the dependence on the growth of staff for the growth of customer group and AUM, in order to achieve higher service efficiency and better customer experience. To create a new model of private banking services, we will build up a joint force of corporate finance and private banking to serve private banking clients and the enterprises behind them and set up channels to tap customers' investment and financing needs, their needs for domestic and overseas banking services, their needs for retail banking services and their related enterprises' needs for corporate banking services.

Secondly, we will quicken customer structural adjustments and enhance our asset and product management capabilities for extensive wealth management. We will actively respond to the national trend of industrial upgrading, continue to deepen the reform of the corporate finance system, accelerate the development in new growth engines, green industries and manufacturing industries, focus on high-quality customer base, promote a "comprehensive investment bank" and "comprehensive asset management" mindset, and integrate the channels and resources concerning corporate finance, retail finance, subsidiaries and financial institutions, and build a targeted tiered and classified service system.

Thirdly, we will enhance our risk management capabilities and safeguard the ecological safety of our extensive wealth management. We will strengthen basic management, improve internal systems and processes, and raise awareness of risk compliance throughout the Bank. Also, we will pay close attention to risk exposures of clients with large transaction value in those high-risk areas, improve internal risk control mechanisms and strategies, and guard the risk bottom line. We will carry on with the construction of a risk management system adapted to the characteristics of the extensive wealth management business and create a "six all" risk management system featuring "all risks, all institutions, all clients, all assets, all processes and all elements", and promote the implementation of all specific tasks in a practical manner.

Fourthly, we will enhance our digital capabilities and improve the technology construction of our extensive wealth management system. We will focus on the three main lines, namely investment and research system, open platform, and sales and services, to carry out the technology construction of the extensive wealth management system, strengthen the overall layout and improve the effectiveness of technology investment. We will further lower the threshold for digitalisation so that more and more employees can master skills such as self-service development and self-service data search. The pace of infrastructure construction such as cloud hosting will speed up, and technology transformation will be used to drive business transformation.

Fifthly, we will enhance openness and integration and accelerate the evolving of organisational culture. We will create an organisational formation that adapts to the needs of openness and integration by exploring the establishment of joint forces for specific tasks and system for wide job duties, continuously optimising staff layout and basic business units, with a view to enhancing our capability to provide integrated customer services. On the other hand, we will improve evaluation and collaboration mechanisms to promote better openness and integration of business units and form a flywheel effect. We will exert great effort to build the light-model culture, step up strategic and cultural promotion to inspire young people to play a greater role amidst a culture of openness and integration.

3.13 Profit Appropriation

The profit appropriation plan for 2020

The profit appropriation plan of the Company for 2020 was considered and approved at its 2020 Annual General Meeting held on 25 June 2021.

10% of the audited net profit of the Company for 2020 of RMB88.674 billion, equivalent to RMB8.867 billion, was allocated to the statutory surplus reserve by the Company, while 1.5% of the total balance of the risk assets, equivalent to RMB8.247 billion, was appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend of RMB1.253 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The retained profits will be carried forward to the next year. In 2020, the Company did not transfer any capital reserve into share capital.

The Board of Directors of the Company has already implemented the above-mentioned dividend appropriation plan. For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

Interim dividend appropriation for 2021

The Company would not distribute interim dividends for the first half of 2021, nor would it transfer any capital reserve into share capital (for January-June 2020: nil).

Environmental, Social and Governance (ESG)

4.1 ESG Review

With the social responsibility notion of "striving for sustainable finance, enhancing sustainable value and contributing to sustainable development" in mind, the Company continued to improve its social responsibility management mechanism while actively communicating with its stakeholders, fulfilling its corporate social responsibility and making contributions to the sustainable development of the economy and society. During the reporting period, the Company attached great importance to the security of financial products and was concerned with the protection of user information security and privacy; actively promoted financial security publicity activities such as "preventing illegal fund-raising" and "anti-money laundering", and strengthened financial security education for financial consumers; constantly advocated the idea of "Monthly Donation" and "Happy Donation", promoted public charity for everybody, and stayed on the path of sustainable public charity activities; promoted rural revitalisation by constantly providing assistance to Wuding and Yongren counties in Yunnan province and consolidating our achievements in poverty alleviation. At the same time, the Company actively assists in the ecological conservation, enhances the efforts in research on risks and opportunities arising from climate change, constantly improves the green credit policy system, underwrites and invests in green bonds, provides important financial support for the mitigation of, response and adaptation to climate change, and helps build a beautiful China with blue sky, green land and clean water.

4.2 Environmental Information

During the reporting period, the Company responded to the national carbon peak and carbon neutral target "3060" by comprehensively promoting green finance and green operation to build a better homeland. The Company had no environmental violations during the reporting period.

Green Finance

In terms of green credit, through "self-initiating industry research", the Company has strengthened the research on the green development trend of key industries and their industrial chains, deepened industrial awareness, and continuously improved the professional capacity and service level of the industry to actively support the achievement of national strategic goals such as carbon peak and carbon neutrality. We have improved credit policies and credit review guidelines by formulating credit policies such as "Green Credit Policy", "Credit Policy for Energy Conservation and Environmental Protection Industry", "New Energy Vehicle Industry Credit Policy", and credit review guidelines such as "Power Battery Industry Credit Review Guidelines", "Credit Review Guideline for Atmospheric Environment Control and Equipment Industry", "Credit Review Guideline for Biomass Power Generation", "Credit Review Guideline for Waste Incineration Power Generation Project", "Credit Review Guideline for Wind Power and Equipment Manufacturing Industry", so as to further divert credit resources to industries and enterprises with low energy consumption, low resources consumption, low pollution and low emissions. The Company has also strictly controlled credit granted to industries with "high pollution, high energy consumption and overcapacity", promoted the digestion, integration, transfer and elimination of overcapacity industries such as steel, cement, glass and electrolytic aluminum, and controlled new loans to industries with high pollution and high energy consumption to effectively prevent and control credit risks and environmental risks. As of the end of the reporting period, the balance of green loans of the Company was RMB238.743 billion, representing an increase of RMB30.155 billion or 14.46% as compared with the beginning of the previous year, 11.21 percentage points higher than the increase in corporate loan, and accounting for 13.15% of the total corporate loan. Green loans were mainly granted to the fields of infrastructure upgrade, clean energy, and energy conservation and environmental protection. The balance of loans to industries with "high pollution, high energy consumption and overcapacity" was RMB91.298 billion, accounting for 5.03% of the corporate loan, and the proportion continued to decline. As at the end of the reporting period, CMB Financial Leasing, a subsidiary of the Company, acquired 26 new customers in the field of new energy power generation, and granted an aggregate amount of RMB4.378 billion loans in this field.

In terms of green bond underwriting, the Company assisted 15 enterprises in issuing 17 green bonds during the reporting period, with a total issuance size of RMB22.615 billion. Among which, the bonds with the Company as the lead underwriter amounted to RMB9.536 billion, including 9 carbon neutrality bonds amounting to RMB4.436 billion, with funds invested in multiple energy-saving and emission-reduction projects in industries such as new energy vehicles, rail transit, photovoltaic power generation, nuclear power, wind power, and biomass power generation, strongly supporting the direct financing of environmental-friendly and low-carbon enterprises.

In terms of green investment, the Company has actively implemented the new development philosophy of innovation, coordination, green, open and sharing. We have increased support for the green, low-carbon and circular economy by investing in green buildings, urban and rural public transport, urban and rural environmental infrastructure, irrigation and water conservancy projects, and new and clean energy equipment manufacturing. As of the end of the reporting period, the balance of the green bonds invested by the Company was RMB3.873 billion. CMB Wealth Management, a subsidiary of the Company, has given priority to supporting the investment in green bonds. By the end of the reporting period, it invested a total amount of RMB18.761 billion in green bonds. China Merchants Fund, a subsidiary of the Company, officially joined The United Nations Principles for Responsible Investment (the "Principles") in 2019, becoming one of the first groups of Chinese mutual fund managers to sign the Principles and pledge to practice the six major Principles for Responsible Investment. During the reporting period, China Merchants Fund had 2 green finance related products, including the established China Merchants CCTV Financial 50 Index Fund (招商央視財經50指數基金) and the issued China Merchants Shanghai and Shenzhen 300ESG Benchmark ETF (招商滬深300ESG基準ETF). By the end of the report, the existing size of related products is RMB638 million.

Green Operation

In terms of green operation, the Company proactively discharged its corporate social responsibilities, pursuing the sustainable development featuring green, environmental protection and low-carbon. Firstly, we have leveraged the advantages of Fintech to optimise the service process, further develop paperless operations such as online business and online approval, vigorously promote the electronic billing service of credit cards. During the reporting period, the Company saved nearly 1 billion pieces of paper in billing to support ecological and environmental improvement. Secondly, we have promoted energy-saving and consumption reduction by organising activities such as Environment Day and Earth Day, in order to deeply lodge the concepts of health, green and environmental protection in people's mind. Thirdly, we have actively promoted coworking in the office area to better utilise the space, and taken measures such as garbage classification, intelligent lighting and intelligent space management to further reduce office energy consumption. Fourthly, we have actively encouraged employees to travel in a green way. Travel product booking, behaviour management and financial reimbursement for business trips are all done online, which effectively promotes the paperless travel of employees in all aspects. Fifthly, we have minimised travel frequency to reduce carbon emission, promoted online meetings in daily work and enriched online meeting products. We launched "Zhaohu (招乎)", a video conference function on the unified office platform, during the reporting period. Sixthly, the priority is given to energy-saving and environment friendly products in the case that the procurement requirements are met and based on same quality and service standards.

4.3 Social Responsibility Information

Security of financial products

In terms of the introduction of cooperative institutions and agency sales products, the Company strictly complied with the internal and external regulations and requirements, conducted in-depth research, strict access and unified management for the planned introduction of cooperative companies and all kinds of asset management products, and established a risk control mechanism for the whole process of product access, marketing and after-sales service. In terms of the display of agency sales products, the Company highlighted the reminders of product management agencies, risk rating and investment duration in various sales channels and information query platforms, so as to help customers identify the sources and elements of products. In terms of system restrictions, the sales system is able to give clear reminders or limit over-risk purchases. In terms of sales quality control, the Company set up special wealth management (agency sales) products sales areas in its outlets to strictly implement the requirements on audio and video recording during the sales process.

At the same time, in order to help customers better understand various wealth management products, the Company carried out a series of online and offline investor education activities during the reporting period. Through live product roadshows and one-minute short videos on wealth management, we helped customers better understand wealth management products; through the interpretation of relevant policies and regulations, investment strategy reviews and comments, quarterly product operation reports, aperiodic market fluctuation reviews, we popularised financial knowledge to customers; through companion service for online wealth management products, we constantly improved after-sales service.

Information security and privacy protection

The Company attaches great importance to the protection of personal information and actively implements the requirements of "Network Security Law of the People's Republic of China" (《中華人民共和國網絡安全法》) and "Personal Financial Information Protection Technical Specification"(《個人金融信息保護技術規範》). In accordance with the organisational structure and the division of responsibilities of each unit stipulated in "Management Measures for Retail Finance Personal Information of China Merchants Bank (Fourth Edition)" (《招商銀行零售金融個人信息管理辦法(第四版)》), the Company has specified our retail financial personal information classification and standards for determining sensitivity and commercial confidential levels, set up a safety protection system for the whole life cycle, from collecting, transmitting, using, sharing to saving retail financial personal information, as well as the emergency plan, risk management, supervision and inspection, and event management of personal information protection, strictly controlling the scope of authorisation for personal information inquiry, standardising the approval management of personal information use, strengthening personal information monitoring and management, carrying out internal control and inspection activities of information security, and strengthening the publicity and education of personal information protection, in order to strictly prevent data leakage risks. During the reporting period, the Company did not have any incident of information security and personal privacy leakage.

Consumer rights protection

The Company attaches great importance to the protection of consumer rights, and follows the service concept of "we are here just for you", striking the balance between corporate governance, business practice and social welfare. We focus on customer experience, and earnestly implements the requirements of the People's Bank of China and China Banking and Insurance Regulatory Commission for the protection of consumer rights.

During the reporting period, the Company effectively assumed the main responsibility of consumer rights protection, and further promoted the development of consumer rights protection in the direction of standardisation, specialisation and normalisation. During the reporting period, the Company updated and improved ten rules and regulations and normative documents of "CMB Stakeholder Business Risk Management Measures". In the "March 15 Financial Consumer Rights Day" and "Popularising Financial Knowledge and Guarding Your Money Bag" activities in 2021 organised by the regulatory authorities, the Company organised a total of 8,620 activities with 257 million consumers attended.

In the regular publicity, the Company continued to organise and carry out various interesting financial knowledge popularisation and consumer education activities during the reporting period to enhance consumers' financial decision-making ability and risk prevention consciousness, helping them to establish rational consumption concept and consciously resist negative understanding of finance, so as to build a harmonious financial consumption environment. Our original anti-fraud single MV, Listen to Parents: Do you know it in your heart? (聽爸媽說：你心里有數嗎？) prompts young consumers to increase their awareness of fraud prevention and self-protection from the perspective of parents. We launched online public service activities with Tencent 110, creating education and publicity cartoons to help teenagers establish a healthy concept of reasonable consumption and guard against campus loans; launched Financial Education Partnership Program (金融教育合作夥伴計劃) with Visa, setting up a column for popularising the protection of personal information and analysing cases from the situations around consumers to reveal risks; promoted a public education game "Urge You to Plant a Consumer Protection Tree" (喊你種一棵消保樹) with the help of internet celebrities to further expand the scope of the audience and improve consumers' independent learning ability and sense of participation in a fun way; cooperated with Lanzhou catering industry to establish financial education and publicity bases in beef noodle restaurants, in which we carried out localised and grounded long-term financial positive energy publicity.

Rural Revitalisation

The Company resolutely implemented the requirements of "Opinions of the Central Committee of the Communist Party of China and the State Council on Comprehensively Promoting Rural Revitalisation and Accelerating the Modernisation of Agriculture and the Countryside" (中共中央、國務院《關於全面推進鄉村振興加快農業農村現代化的意見》) and "Fixed-point Poverty Alleviation and Rural Revitalisation Work Planning of China Merchants Group During the'14th Five-Year Plan' Period" (《招商局集團"十四五"時期定點幫扶及鄉村振興工作規劃》). Taking the three aspects of consolidating the achievements in poverty alleviation, effectively linking up rural revitalisation and coordinating the branches for targeted poverty alleviation as the guiding principles of rural revitalisation assistance, we gradually realised the smooth transition from pooling resources for poverty alleviation to consolidating the achievements in poverty alleviation and comprehensively promoting rural revitalisation in the five-year transition period starting from the date of poverty alleviation. By focusing on both increasing income and preventing the reoccurrence of poverty, we kept optimising the work mechanism of support, and explored the establishment of a long-term mechanism for solving the poverty problem and effectively linked poverty alleviation with rural revitalisation based on the four main goals.

We focused on medical assistance. Taking CMB rural clinics as the bases, we increased investment in medical assistance, and explored the establishment of a rural tertiary health care assistance system covering Yongren and Wuding counties in Yunnan, as well as a commercial operation mode of medical assistance and a mode of assistance for the disabled.

We worked to improve the quality of educational assistance. We actively studied the education pain points of the two counties, summarised the experience, results and weaknesses of the "2+6 all-round help" model, gradually shifted the education assistance from "hardware investment" to "software assistance", focused on student funding and teacher training to retain good students and train good teachers for the two counties, thereby effectively improving the quality of teaching there.

We paid close attention to the industrial development in rural areas. Combining with the industrial development plans of the two counties, we further promoted the application of the market-oriented model of industrial assistance in planting industry, breeding industry, tourism industry and cultural industry; enhanced the trainings to pioneers for becoming rich and technicians, built a talent pool for rural revitalisation industry development, continuously expanded the types of consumer assistance products, and built diversified online and offline sales channels for consumer assistance products, with an aim to effectively help farmers increase production and income.

We formed a synergy of internal and external support work. Through various measures such as formulating policies, conducting trainings, working on publicity, establishing systems, and collaborating internal and external parties, we led all the branches to do our utmost in poverty alleviation.

The Company has formulated the CMB 2021 Rural Revitalisation Work Plan which changed "CMB Fixed-point Poverty Alleviation Work Leading Team" to "CMB Fixed-point Assistance Work Leading Team", and completed the selection of the 22nd batch of designated cadres in poverty alleviation.

4.4 Governance information

The Company continued to improve the scientificity, soundness and effectiveness of corporate governance, uphold prudent operation and strengthen risk control to promote the sustainable quality development of the Company. Through years of practice and exploration, the corporate governance of the Company has been continuously improved and perfected, and has truly achieved efficient operation in both formality and content. The core of the Company's corporate governance mechanism is to adhere to the leadership of the Party, strengthen Party-building, continuously play the core role of the Party in corporate governance, and integrate the leadership of the Party into all aspects of corporate governance. The key to the Company's corporate governance mechanism is to adhere to the President assuming full responsibility under the leadership of the Board of Directors, the market-based talent selection and employment mechanism and the remuneration incentive mechanism. The Company's shareholding structure is reasonable and the shareholders' behaviors are regulated. The Shareholders' General Meeting is the Company's authority and exercises its powers according to law. The Board of Directors, the Board of Supervisors and the senior management diligently perform their duties, especially the Company's adherence to the President assuming full responsibility under the leadership of the Board of Directors, which provides a fundamental guarantee for the long-term, healthy and sustainable development of the Company. The Board of Directors mainly controls overall situation, steers development direction and ensures efficient implementation, focusing on strategic guidance, risk management, incentives and constraints. The Board of Supervisors performed its supervisory functions comprehensively and thoroughly in respect of major issues relating to the operation and development of the Company. It actively carried out supervision and evaluation of the performance of the Board of Directors, senior management and their members, with emphasis on strengthening the supervision of development strategies, financial activities, internal control and risk management in a scientific, standardised and effective manner, so as to provide solid protection for the Company's operation and development and to effectively safeguard the legitimate rights of corporate governance stakeholders such as the Company, its shareholders and employees. The Company has established a sound hierarchical discussion and management authorisation system under which the President is accountable to the Board of Directors. The Company adheres to the market-oriented talent selection and employment mechanism and the remuneration incentive mechanism to fully stimulate the vitality of talents, and guides officials and employees to establish the concept of sharing interests and risks with the Company, thereby providing a strong mechanism guarantee for its long-term stable development.

During the reporting period, the Board of Directors of the Company actively performed its duties in inclusive finance, green finance, consumer rights protection and social responsibilities. The Board of Directors and its relevant special committees reviewed and approved the "Inclusive Finance Development for 2020 and Work Plan Report for 2021", the "Internet Loan Development for 2020 and Work Plan Report for 2021", the "Work Report on Consumer Rights Protection for 2020" and the "Sustainable Development Report for 2020", to further promote the Company's active implementation of the national policy on inclusive finance, vigorously develop green finance to serve the national goal of carbon peak and carbon neutrality, enhance the awareness and strength of consumer rights protection, thoroughly implement the responsibility of "originating from society and returning to society", and work together with all stakeholders to promote a better society. In addition, in accordance with the guidance of national policy and requirements of regulatory policy, and subject to the consideration and approval by the Company at the 28th meeting of the Eleventh Session of the Board of Directors convened on 12 August 2021, the Company has included the following duties in relation to green finance into the duties of the Strategy Committee under the Board of Directors: to be responsible for determining the Company's development strategy and plan of green finance, reviewing the green finance goals set up and green finance reports submitted by the senior management, supervising and evaluating the implementation of the green finance development strategy, and reviewing other green finance matters as required by the regulatory authorities.

During the reporting period, the Board of Supervisors of the Company reviewed and listened to the "Inclusive Finance Development for 2020 and Work Plan Report for 2021", the "Internet Loan Development for 2020 and Work Plan Report for 2021", the "Work Report on Consumer Rights Protection for 2020" and the "Sustainable Development Report for 2020", focusing on the Board of Directors and senior management's performance on the issues related to inclusive finance, green finance, consumer rights protection and social responsibilities.

For more details on corporate governance, please refer to Chapter V.

Corporate Governance

5.1 Overview of Corporate Governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the special committees under the Board of Directors and the Board of Supervisors of the Company functioned in an efficient manner, fully secured prudence and compliance with the Company's operation, and ensured sustainable and healthy growth of the Company. During the reporting period, the Company held 1 shareholders' general meeting, 7 meetings of the Board of Directors, including 3 on-site meetings and 4 meetings voted by way of written resolution, at which 45 proposals were considered and approved and 11 reports were delivered; held 16 meetings of the special committees under the Board of Directors, including 4 meetings of Strategic Committee, 5 meetings of Audit Committee, 2 meetings of Related Party Transactions Management and Consumer Rights Protection Committee, 3 meetings of Risk and Capital Management Committee, and 2 meetings of Nomination Committee, at which 59 issues were considered and 19 reports were delivered; held 7 meetings of Supervisory Committee, at which 21 proposals were considered and 20 reports were delivered; held 5 meetings of the special committees under the Board of Supervisors, at which 7 issues were considered. 1 special research was organised by the Board of Directors and the Board of Supervisors, respectively. Having conducted thorough self-inspection, the Company was not aware of any non-compliance of its corporate governance practice with the requirements set out in the CSRC's regulatory documents governing the corporate governance of listed companies.

5.2 Information about the General Meeting

During the reporting period, the Company convened 1 shareholders' general meeting, being the 2020 Annual General Meeting held in Shenzhen on 25 June 2021. The notice, convening, holding and voting procedures of such meeting were in compliance with the relevant requirements of the Company Law of the People's Republic of China, the Articles of Association of China Merchants Bank Co., Ltd. and the Hong Kong Listing Rules. 14 proposals were reviewed and approved in the meeting, including the 2020 Work Report of the Board of Directors, the 2020 Work Report of the Board of Supervisors, the 2020 Annual Report (including the audited financial report), the 2020 Financial Statement Report, the 2020 Profit Distribution Plan (including the declaration of final dividends), and the appointment of accounting firm for the year 2021. For details of the relevant resolutions considered at the meeting, please refer to the disclosure documents including the 2020 Annual General Meeting documents, the General Meeting Circulars and the announcements on resolutions published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

5.3 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Miao Jianmin	Male	1965.1	Chairman	2020.9–2022.6	–	–
			Non-Executive Director	2020.9–2022.6		
Fu Gangfeng	Male	1966.12	Vice Chairman	2018.7–2022.6	–	–
			Non-Executive Director	2010.8–2022.6		
Tian Huiyu	Male	1965.12	Executive Director	2013.8–2022.6	335,500	335,500
			President and Chief Executive Officer	2013.9–2022.6		
Zhou Song	Male	1972.4	Non-Executive Director	2018.10–2022.6	–	–
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6–2022.6	–	–
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11–2022.6	–	–
Su Min	Female	1968.2	Non-Executive Director	2014.9–2022.6	–	–
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11–2022.6	–	–
Luo Sheng	Male	1970.9	Non-Executive Director	2019.7–2022.6	–	–
Wang Liang[(1)]	Male	1965.12	Executive Director	2019.8–2022.6	240,000	240,000
			Executive Vice President	2015.1–2022.6		
			Chief Financial Officer	2019.4–2022.6		

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1–(note2)	–	–
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1–(note2)	–	–
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2–2022.6	–	–
Li Menggang	Male	1967.4	Independent Non-Executive Director	2018.11–2022.6	–	–
Liu Qiao	Male	1970.5	Independent Non-Executive Director	2018.11–2022.6	–	–
Tian Hongqi	Male	1957.5	Independent Non-Executive Director	2019.8–2022.6	–	–
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8–2022.6	270,000	270,000
Peng Bihong	Male	1963.10	Shareholder Supervisor	2019.6–2022.6	–	–
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6–2022.6	–	–
Guo Xikun	Male	1965.9	Shareholder Supervisor	2021.6–2022.6	–	–
Ding Huiping	Male	1956.6	External Supervisor	2016.6–2022.6	–	–
Han Zirong	Male	1963.7	External Supervisor	2016.6–2022.6	–	–
Xu Zhengjun	Male	1955.9	External Supervisor	2019.6–2022.6	–	–
Wang Wanqing	Male	1964.9	Employee Supervisor	2018.7–2022.6	181,000	181,000
Liu Xiaoming	Male	1963.11	Employee Supervisor	2019.6–2022.6	145,000	145,000
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7–present	240,000	240,000
Wang Jianzhong	Male	1962.10	Executive Vice President	2019.4–2022.6	240,200	240,200
Shi Shunhua	Male	1962.12	Executive Vice President	2019.4–2022.6	245,000	245,000
Wang Yungui	Male	1963.6	Executive Vice President	2019.6–2022.6	160,000	160,000
Li Delin	Male	1974.12	Executive Vice President	2021.3–2022.6	200,000	200,000
Liu Jianjun	Male	1965.8	Former Executive Director	2019.8–2021.5	240,000	240,000
			Former Executive Vice President	2013.12–2021.5		
			Former Secretary of Board of Directors	2019.7–2021.5		
Wen Jianguo	Male	1962.10	Former Shareholder Supervisor	2016.6–2021.4	–	–
Liu Hui	Female	1970.5	Former Executive Assistant President	2019.4–2021.5	222,100	222,100

Notes：

(1) Mr. Wang Liang would perform the duties of secretary of the Board of Directors, company secretary and authorised representative of the Company in charge of matters in relation to listing in Hong Kong, with effect from 31 May 2021 until the date on which the new secretary of the Board of Directors, company secretary and authorised representative in charge of matters in relation to listing in Hong Kong officially takes office.

(2) Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies《關於在上市公司建立獨立董事制度的指導意見》", the term of office of independent directors shall not exceed six years. Therefore, the terms of office of Mr. Leung Kam Chung, Antony and Mr. Zhao Jun, both being Independent Directors, will expire earlier than conclusion of the Eleventh Session of the Board of Directors.

(3) As at the end of the reporting period, the spouse of Mr. Zhou Song held 23,282 A shares in the Company.

(4) None of the Directors, Supervisors or senior management listed in the above table has been punished by the securities regulator(s) over the past three years.

(5) None of the Directors, Supervisors or senior management listed in the above table holds any share options of the Company or has been granted any of its restricted shares.

5.3.1 Appointment and Resignation of Directors, Supervisors and Senior Management

In May 2021, Mr. Liu Jianjun ceased to serve as an Executive Director, an Executive Vice President and the Secretary of Board of Directors of the Company due to a work re-arrangement. In April 2021, Mr. Wen Jianguo ceased to serve as a Shareholder Supervisor of the Company due to a work change. In May 2021, Ms. Liu Hui ceased to serve as an Executive Assistant President of the Company due to a work change.

Pursuant to relevant resolution at the 2020 Annual General Meeting of the Company, Mr. Li Chaoxian and Mr. Shi Yongdong were elected as Independent Non-Executive Directors of the Company and their qualifications are subject to the approval of the CBIRC, for a term commencing from the date of approval and expiring on the date of expiry of the Eleventh Session of the Board of Directors; Mr. Guo Xikun was elected as a Shareholder Supervisor of the Company for a term commencing from 25 June 2021 and expiring on the date of expiry of the Eleventh Session of the Supervisory Committee. Pursuant to a resolution of the 20th meeting of the Eleventh Session of Board of Directors of the Company, Mr. Li Delin was appointed as an Executive Vice President of the Company for a term commencing from 30 March 2021 and expiring on the date of expiry of the Eleventh Session of the Board of Directors.

For details of the above-mentioned matters, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

5.3.2 Changes in Information of Directors and Supervisors

1. Mr. Tian Huiyu ceased to concurrently serve as the Chairman of the Board of Supervisors of National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會).
2. Mr. Zhang Jian ceased to concurrently serve as the Chairman of Board of Directors of China Merchants China Direct Investments Limited (招商局中國基金有限公司), a Director of China Merchants Capital Investment Co., Ltd. (招商局資本投資有限責任公司), a Director of China Great Bay Area Fund Management Co., Limited (粵港澳大灣區產業基金管理有限公司) and a Director of China Merchants Capital Holdings (International) Limited (招商局資本控股(國際)有限公司).
3. Mr. Wang Liang concurrently served as Chairman of the Fourth Standing Committee of the Special Committee on Intermediary Business of China Banking Association (中國銀行業協會中間業務專委會), and exercised the functions of the Secretary of the Board of Directors, the company secretary and Authorised Representative of the Company on matters relating to listing in Hong Kong.
4. Mr. Leung Kam Chung, Antony, ceased to serve as the Chief Executive Officer of Nan Fung Group in Hong Kong, but continued to serve as the Chairman of Nan Fung Group in Hong Kong.
5. Mr. Li Menggang concurrently served as an Independent Director of Huadian Power International Corporation Limited (華電國際電力股份有限公司, a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and ceased to concurrently serve as an Independent Director of Daqin Railway Co., Ltd. (大秦鐵路股份有限公司, a company listed on Shanghai Stock Exchange).
6. Mr. Tian Hongqi concurrently served as an Independent Director of Nanjing Tanker Corporation (招商局南京油運股份有限公司, a company listed on Shanghai Stock Exchange).
7. Mr. Guo Xikun served as the Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司) and ceased to serve as the Vice President and Chief Financial Officer of Qinhuangdao Port Co., Ltd..
8. Mr. Ding Huiping ceased to concurrently serve as an Independent Director of Metro Land Corporation Ltd. (京投發展股份有限公司, a company listed on Shanghai Stock Exchange).
9. Mr. Han Zirong concurrently served as an Independent Director of Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司).

5.3.3 Current Positions Held by Directors and Supervisors in the Shareholders' Companies

Name	Name of Company	Major Title	Term of Office
Miao Jianmin	China Merchants Group Ltd.	Chairman	From July 2020 up to now
Fu Gangfeng	China COSCO Shipping Corporation Limited	Director and General Manager	From September 2019 up to now
Zhou Song	China Merchants Group Ltd.	Chief Accountant	From October 2018 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From September 2011 up to now From June 2018 up to now
Zhang Jian	China Merchants Group Ltd.	Chief Digital Officer Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From January 2019 up to now From June 2018 up to now
Su Min	China Merchants Group Ltd.	Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From June 2018 up to now
Wang Daxiong	COSCO SHIPPING Development Co., Ltd.	Chairman	From July 2019 up to now
Luo Sheng	Dajia Insurance Group Co., Ltd.	Deputy General Manager	From September 2020 up to now
Peng Bihong	China Communications Construction Group Co., Ltd.	Chief Accountant	From September 2019 up to now
Guo Xikun	Hebei Port Group Co., Ltd.	Chief Accountant	From April 2021 up to now
Wu Heng	SAIC Motor Corporation Limited	General Manager of Finance Affairs Department	From August 2019 up to now

5.3.4 Securities transactions of Directors, Supervisors and relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for Directors and Supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry, so far as the Company is aware, all the Directors and Supervisors of the Company had complied with the aforesaid Model Code during the reporting period.

The Company has also established the guidelines for the relevant employees' dealings in the Company's securities, which are no less exacting than the Model Code.

5.3.5 Interests and Short Positions of Directors, Supervisors and Chief Executives under Hong Kong Laws and Regulations

As at 30 June 2021, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including the interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Tian Huiyu	Executive Director, President and Chief Executive Officer	A Share	Long position	Beneficial Owner	335,500	0.00163	0.00133
Zhou Song	Non-Executive Director	A Share	Long position	Interest of spouse	23,282	0.00011	0.00009
Wang Liang	Executive Director, Executive Vice President and Chief Financial Officer	A Share	Long position	Beneficial Owner	240,000	0.00116	0.00095
Liu Yuan	Chairman of Board of Supervisors, Employee Supervisor	A Share	Long position	Beneficial Owner	270,000	0.00131	0.00107
Wang Wanqing	Employee Supervisor	A Share	Long position	Beneficial Owner	181,000	0.00088	0.00072
Liu Xiaoming	Employee Supervisor	A Share	Long position	Beneficial Owner	145,000	0.00070	0.00057

5.4 Information on Employees

As of 30 June 2021, the Group had 90,078 employees[19] (including dispatched employees). The classification of our employees by profession is: 17,979 employees in corporate finance, 35,693 employees in retail finance, 4,286 employees in risk management, 14,271 employees in operation management, 9,279 employees in research and development, 886 employees in administrative and logistical support, and 7,684 employees in general management. The classification of our employees by educational background is: 22,804 employees with master's degrees and above, 59,192 employees with bachelor's degrees and 8,082 employees with junior college degrees or below.

Staff remuneration policy

The Company's remuneration policy is in line with its operation targets, cultural and value concepts. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organisational performance and minimise its operating risk. The remuneration policy adheres to the remuneration management principles featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload". In order to improve the remuneration incentive and restrictive mechanism and mitigate various operating and management risks, the Company has established a mechanism related to remuneration deferred payment and performance-based remuneration recovery in accordance with regulatory requirements and operational management needs.

Staff education and training program

The Company has established a categorised, professional and digital talent training system, and adopts a diversified training method that combines online and offline training. The contents of training mainly focus on knowledge of its business and products, professional ethics and security, cultural values and leadership.

19 Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, CMB Wealth Management, China Merchants Fund, CIGNA & CMAM, CIGNA & CMB Life Insurance, Merchants Union Consumer, CMB YunChuang and CMB Network Technology.

5.5 Head Office and Branches and Representative Offices

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Asset scale (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,850	3,278,143
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	5,900	772,805
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	98	5,028	321,956
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	20	37,308
	Nanjing Branch	199 Lushan Road, Jianye District, Nanjing	210005	84	3,006	219,924
	Hangzhou Branch	300 Fuchun Road, Shangcheng District, Hangzhou	310016	71	2,775	222,197
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	34	1,134	88,606
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	32	1,347	137,022
	Wuxi Branch	6-107, 6-108 1st Financial Street, Binhu District, Wuxi	214001	19	773	58,863
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	14	559	39,795
	Nantong Branch	111 Gongnong Road, Nantong	226007	16	589	37,357
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	12	–
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	108	5,028	381,875
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	51	1,568	60,345
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	43	1,641	97,484
	Jinan Branch	Building 1, District 4, No. 7000, Jingshi Road, High-tech Zone, Jinan	250012	61	1,837	98,178
	Yantai Branch	66 Zhujiang Road, Economic & Technological Development Area, Yantai	264006	17	571	22,651
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	17	486	27,547
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	11	249	9,300
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	74	2,586	197,664
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	120	5,169	460,506
	Fuzhou Branch	316 Jiangbinzhong Boulevard Road, Fuzhou	350014	37	1,229	74,048
	Xiamen Branch	18 Lingshiguan Road, Siming District, Xiamen	361012	31	1,014	66,526
	Quanzhou Branch	180 Jiangbin North Road, Fengze Street, Quanzhou	362800	17	496	27,082
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	28	898	60,512
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	29	1,056	72,481
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	61	1,620	58,317
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	37	1,220	43,987
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,095	46,259
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	24	694	31,955
Central China	Wuhan Branch	188 Yunxia Road, Jianghan District, Wuhan	430023	126	2,696	171,763
	Nanchang Branch	1111 Huizhan Road, Honggutan District, Nanchang City	330038	58	1,523	101,927
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	43	1,512	65,889
	Hefei Branch	169 Funan Road, Hefei	230001	42	1,381	68,538
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	52	1,336	85,066
	Taiyuan Branch	265 Nan Zhong Huan Road, Xiaodian District, Taiyuan	030012	24	864	36,883
	Haikou Branch	Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	9	340	16,087

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Asset scale (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	58	1,725	89,562
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	29	882	37,286
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	69	1,941	109,249
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	50	1,692	112,079
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	750	33,154
	Kunming Branch	1 Chongren Street, Wuhua District, Kunming	650021	53	1,399	62,861
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Hohhot	010098	23	636	32,244
	Nanning Branch	No.136-5 Minzu Avenue, Qingxiu District, Nanning	530028	20	530	35,796
	Guiyang Branch	West 2nd Tower, International Finance Center, Guanshanhu District, Guiyang	550009	16	470	28,109
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	15	422	16,890
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	11	302	12,193
Outside Mainland China	Hong Kong Branch	31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong	/	1	254	89,510
	USA Representative Office	535 Madison Avenue,18th Floor, New York, U.S.A	10022	1	1	–
	New York Branch	535 Madison Avenue,18th Floor, New York, U.S.A	10022	1	103	46,003
	Singapore Branch	1 Raffles Place, Tower2, #32-61, Singapore	048616	1	53	6,202
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	11012	1	2	–
	Luxembourg Branch	20 Boulevard Royal, L-2449, Luxembourg	L-2449	1	41	13,074
	London Branch	18/F, 20 Fenchurch Street, London, UK	/	1	48	12,613
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney, NSW	/	1	35	4,784
Other assignments	/	/	/	/	12	/
	CMB Wing Lung Bank	45 Des Voeux Road Central, Hong Kong	/	/	2,110	HK$383,705
	CMB Financial Leasing	21/F, 22/F, Unit One of 23/F, 24/F, Building 2, 1088 Lujiazui Ring Road, Shanghai	200120	/	307	215,728
	CMB International Capital	45-46/F, Champion Tower, 3 Garden Road, Central, Hong Kong	/	/	575	HK$58,616
	CMB Wealth Management	Level 17-20, CR Capital Tower, 2700 Keyuan South Road, Nanshan District, Shenzhen	518052	/	482	9,770
	China Merchants Fund	China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	698	9,028
	CIGNA & CMAM	2001F, Unit 7, 20/F, 12 Cuiwei Road, Haidian District, Beijing	100036	/	95	528
	CIGNA & CMB Life Insurance	Unit 3102, China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	3,622	92,945
	MUCFC	18/F, Building A4, Kexing Science Park, Nanshan District, Shenzhen	518057	/	1,049	129,843
	CMB YunChuang	1901, Building 5, Shenzhen New Generation Industrial Park, No.136 Zhongkang Road, Meidu Community, Meilin Street, Futian District, Shenzhen	518049	/	942	362
	CMB Network Technology	4/F, Building A, CMB Information R&D Building, Keji Zhongyi Road, Gaoxinzhong District, Nanshan District, Shenzhen	518057	/	4,798	1,097
Total	/	/	/	**1,898**	**90,078**	/

5.6 Compliance with the Corporate Governance Code

During the reporting period, the Company has applied the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, and has complied with all the code provisions and recommended best practices (if applicable).

Important Events

6.1 Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the reporting period.

6.2 Explanation About the Integrity Profile of the Company Senior Management

During the reporting period, none of the Company, its Directors, Supervisors or senior management was subject to investigation by relevant authorities or mandatory measures imposed by judicial organs or disciplinary inspection authorities. None of them had been referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor had they been subject to administrative supervision measures or disciplinary action by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the business of the Company.

6.3 Explanation About the Integrity Profile of the Company

There has not been any significant court judgment with which the Company has not complied, nor has there been any outstanding debt of significant amount during the reporting period.

6.4 Significant Connected Transactions[20]

6.4.1 Overview of connected transactions

A majority of the continuing connected transactions of the Company met the de minimis exemption and the non-exempt continuing connected transactions fulfilled the reporting and announcement requirements under the Hong Kong Listing Rules.

6.4.2 Non-exempt continuing connected transactions

As at the end of the reporting period, the Company and China Merchants Securities Co., Ltd. held 55% and 45% of the equity interest in CMFM, respectively. Therefore, CMFM and its associates ("CMFM Group") are connected parties of the Company and the transactions between the Company and CMFM Group constituted non-exempt continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 3 December 2019, the Company entered into a Business Co-operation Agreement with CMFM on an arm's length basis and on normal commercial principles for a term commencing on 1 January 2020 and expiring on 31 December 2022. CMFM Group shall calculate fees based on the rates specified in the fund offering documents and/or the offering prospectuses, and shall pay agency service fees to the Company according to the agreement. Meanwhile, the Company has announced the annual caps of RMB1.4 billion, RMB1.6 billion and RMB1.8 billion for the continuing connected transactions with CMFM Group for 2020, 2021 and 2022, respectively as approved by the Board of Directors. The annual caps for the service fees, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were not more than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement. For details, please refer to the relevant announcement of the Company dated 3 December 2019.

For the first half of 2021, the continuing connected transactions between the Company and CMFM Group amounted to RMB585 million (unaudited).

20 Both "connected transactions" and "connected parties" in this section are terms used in Hong Kong Listing Rules.

6.5 Material Litigations and Arbitrations

Several litigations were filed during the daily operation of the Company, most of which were filed proactively for the purpose of recovering non-performing loans. As at the end of the reporting period, there were 215 pending cases (including litigations and arbitrations) in which the Company was involved, with an aggregate of principal and interest of RMB1.221 billion. The Company believes that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

6.6 Material Contracts and Their Performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, none of the material contracts of the Company involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa was entered into beyond the normal business scope of banks.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the CBIRC, the Company did not have any other significant discloseable guarantees, neither has the Company entered into guarantee contracts in violation of laws, administrative regulations and the resolution procedures for external guarantees as stipulated by the CSRC.

6.7 Use of Funds by Related Parties

During the reporting period, neither the substantial shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through (among others) any related transactions not entered into on an arm's length basis.

Financial business such as deposits and loans are daily business of the Company. During the reporting period, when the Company provided financial services such as deposits and loans to financial companies with which the Company has affiliated relationships, the interest rates on the deposits and loans were executed strictly in accordance with the floating range of the benchmark interest rates for deposits and loans published by the People's Bank of China, and all financial businesses have followed the Company's business principles for related transactions with fair pricing.

6.8 The Engagement of Accounting Firms for 2021

Upon the approval at the 2020 Annual General Meeting of the Company, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company and its domestic subsidiaries for 2021 and engaged Deloitte Touche Tohmatsu, an overseas member of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international accounting firm of the Company and its overseas subsidiaries for 2021. The term of the engagement is one year. For further details, please refer to the documents for 2020 Annual General Meeting and relevant announcements regarding the resolutions of the Company.

6.9 Explanation of Changes in Accounting Estimates

In order to increase its resilience and guard itself against losses, on 30 June 2021, the Group refined the measurement system of provision for loss of financial instruments, and further optimised the measurement scheme in the principle of prudence and robustness. The changes in accounting estimates were mainly about enhancing the risk differentiation model in order to achieve the refined and foresighted measurement of provision for loss of financial instruments. The changes in accounting estimates resulted in a decrease in the Group's provision for expected credit losses by RMB151 million as of 30 June 2021, and an increase in the Group's pre-tax profit by RMB151 million in the first half of 2021. In the first half of 2021, the expected credit losses of the Group were RMB41.895 billion, representing a year-on-year increase of 3.59%. The changes in accounting estimates are expected to have no significant impact on the current net profit, total assets and net assets of the Group. In accordance with the requirements under "IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors", the changes in accounting estimates are applied prospectively for future periods, and therefore not necessary to adjust the financial reports that already been disclosed retrospectively. Therefore, the changes will not have any impact on the financial conditions and operating results of the previous periods of the Group.

6.10 Review of Interim Results

Deloitte Touche Tohmatsu, our external auditor, has reviewed the interim financial statements of the Company prepared in accordance with the International Financial Reporting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Company has reviewed and agreed with the financial results and financial statements of the Company for the period ended 30 June 2021.

6.11 Publication of Interim Report

The Company prepared the interim report in both English and Chinese versions in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules. These reports are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in interpretation between the English and Chinese versions, the Chinese version shall prevail.

The Company also prepared the interim report in Chinese version in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for interim reports of the CSRC. The report is available on the websites of Shanghai Stock Exchange and the Company.

Changes in Shares and Information on Shareholders

7.1 Changes in Ordinary Shares of the Company During the Reporting Period

		31 December 2020		Changes in the No. of shares during the reporting period	30 June 2021	
		No. of shares	Percentage (%)	No. of shares	No. of shares	Percentage (%)
1.	Shares subject to trading moratorium	–	–	–	–	–
2.	Shares not subject to trading moratorium	25,219,845,601	100.00	–	25,219,845,601	100.00
	(1) Ordinary shares in RMB (A Shares)	20,628,944,429	81.80	–	20,628,944,429	81.80
	(2) Foreign shares listed domestically	–	–	–	–	–
	(3) Foreign shares listed overseas (H Shares)	4,590,901,172	18.20	–	4,590,901,172	18.20
	(4) Others	–	–	–	–	–
3.	Total shares	25,219,845,601	100.00	–	25,219,845,601	100.00

As at the end of the reporting period, the Company had a total of 452,272 ordinary shareholders, including 421,640 holders of A Shares and 30,632 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

Based on the publicly available information and so far as the Directors of the Company were aware, as at the end of the reporting period, the Company had met the public float requirement of the Hong Kong Listing Rules.

7.2 Top Ten Holders of Ordinary Shares and Top Ten Holders of Ordinary Shares Whose Shareholdings Are Not Subject to Trading Moratorium

No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.	Overseas legal person	4,551,881,700	18.05	H Shares not subject to trading moratorium	1,434,303	–	Unknown
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	–	–	–
3	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–

No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
4	Hong Kong Securities Clearing Company Limited	Overseas legal person	1,363,825,818	5.41	A Shares not subject to trading moratorium	290,180,906	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading moratorium	–	–	–
6	China Merchants Finance Investment Holdings Co., Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	–	–	–
7	Hexie Health Insurance Co., Ltd. – Traditional – Ordinary insurance products	Domestic legal person	1,130,991,537	4.48	A Shares not subject to trading moratorium	-127,957,634	–	–
8	Dajia Life Insurance Co., Ltd. – Universal products	Domestic legal person	976,132,435	3.87	A Shares not subject to trading moratorium	-60,000,000	–	–
9	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
10	COSCO Shipping (Guangzhou) Co., Ltd.,	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	–	–	–

Notes:

(1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of China Merchants Bank trading on the transaction platform of HKSCC Nominees Ltd.. Hong Kong Securities Clearing Company Limited is an institution designated by others to hold shares on behalf of them as a nominal holder, and the shares held by it are the shares of China Merchants Bank acquired by investors through Shanghai-Hong Kong Stock Connect.

(2) As at the end of the reporting period, of the aforesaid top ten shareholders, HKSCC Nominees Ltd. is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited; China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Finance Investment Holdings Co., Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are all subsidiaries of China Merchants Group Ltd.; and China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationship or action in concert among other shareholders.

(3) The above holders of A Shares did not hold the shares of the Company through credit securities accounts, neither were there cases of proxy, trustee nor waiver of voting rights.

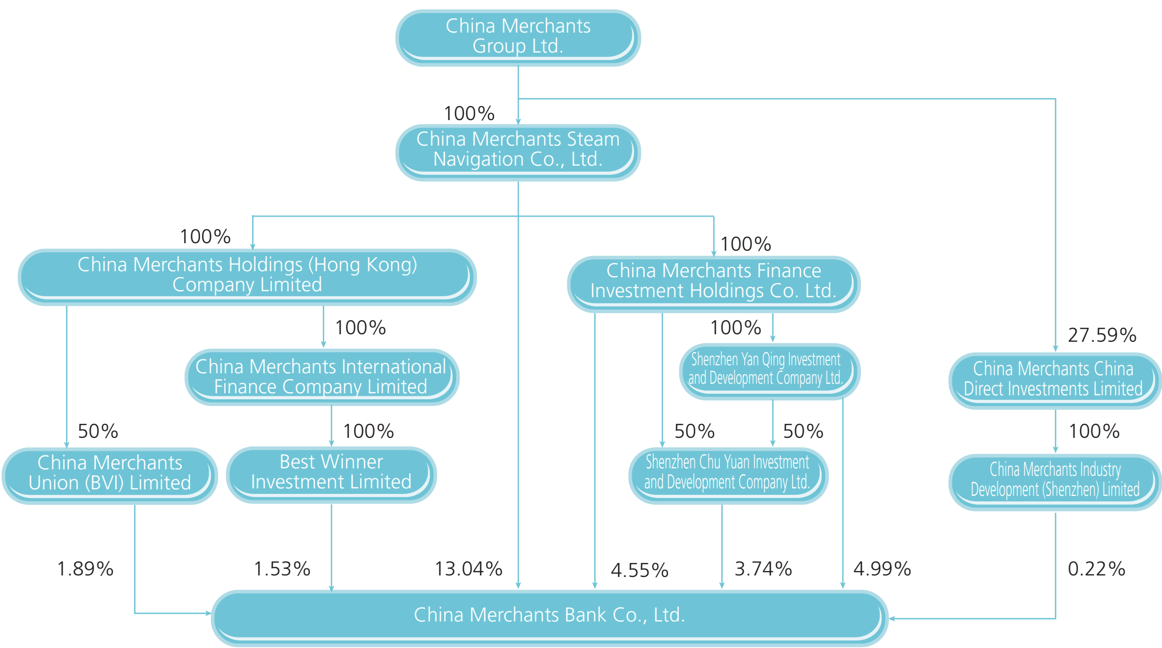
7.3 Information on Substantial Ordinary Shareholders

7.3.1 Information on the Company's largest Shareholder

As at the end of the reporting period, China Merchants Group Ltd., through its subsidiaries, namely China Merchants Steam Navigation Co., Ltd., China Merchants Finance Investment Holdings Co. Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., Shenzhen Chu Yuan Investment and Development Company Ltd., China Merchants Union (BVI) Limited, Best Winner Investment Limited and China Merchants Industry Development (Shenzhen) Limited, indirectly held an aggregate of 29.97% shares in the Company. There was no pledge of the shares of the Company. Specifically, China Merchants Steam Navigation Co., Ltd. directly held 13.04% shares in the Company, and is the largest shareholder of the Company with a registered capital of RMB7.0 billion, and its legal representative is Miao Jianmin. It mainly engages in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; investment and management of tugboat and barge transportation business; repair, construction and trading of ships and offshore oil drilling equipment; sale, purchase and supply of various transportation equipment, spare parts and materials; ship and passenger/goods shipping agency; construction of water and land-based construction projects; and businesses such as investment and management of finance, insurance, trust, securities and futures industries.

As at the end of the reporting period, China Merchants Group Ltd. directly holds 100% equity interests in China Merchants Steam Navigation Co., Ltd. and is the controlling shareholder of the Company's largest shareholder, with a registered capital of RMB16.9 billion. Its legal representative is Miao Jianmin. China Merchants Group Ltd. is a state-owned enterprise under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was founded in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement. It was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a diversified conglomerate, with its businesses focusing on three core industries, namely integrated transportation, featured finance and comprehensive development of cities and industrial zones. It is realising the transformation from three main businesses to three major platforms of industrial operation, financial services, investment and capital operation.

The Company did not have any controlling shareholder and de facto controller. As at the end of the reporting period, the equity relationship among the Company, its largest shareholder and the controlling shareholder of its largest shareholder is illustrated as follows (in this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):



7.3.2 Information on other shareholders holding more than 5% shares of the Company

As at the end of the reporting period, China COSCO Shipping Corporation Limited indirectly held an aggregate of 9.97% shares in the Company through its subsidiaries, namely China Ocean Shipping Company Limited, COSCO Shipping (Guangzhou) Co., Ltd., Guangzhou Haining Maritime Technology Consulting Co., Ltd. (廣州海寧海務技術諮詢有限公司), COSCO Shipping (Shanghai) Co., Ltd. (中遠海運(上海) 有限公司), COSCO Shipping Investment Holdings Co., Limited (中遠海運投資控股有限公司)and Guangzhou Tri-Dynas Oil & Shipping Co., Ltd. (廣州市三鼎油品運輸有限公司). There was no pledge of the shares of the Company. Specifically, China Ocean Shipping Company Limited held 6.24% shares in the Company. China Ocean Shipping (Group) Company (the predecessor of China Ocean Shipping Company Limited) was established on 22 October 1983, with a registered capital of RMB16.191 billion. Its legal representative is Xu Lirong. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; acceptance of space booking, voyage charter and time charter from cargo owners at home and abroad; leasing, construction, trading and maintenance of vessels and containers and manufacture of related facilities; ship escrowing business; provision of ship materials, spare parts and communications services relating to shipping business at home and abroad; management of enterprises engaging in vessel and cargo agency business and seafarer assignment business.

China COSCO Shipping Corporation Limited held 100% equity interests in China Ocean Shipping Company Limited and is its controlling shareholder. Its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. China COSCO Shipping Corporation Limited was established in February 2016, with a registered capital of RMB11.0 billion. Its legal representative is Xu Lirong. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; imports and exports of goods and technology; marine, land, aviation international freight forwarding business; ship leasing; sales of ships, containers and steel products; offshore engineering equipment design; terminal and port investment; communication equipment sales, information and technical services; warehousing (except hazardous chemicals); engaged in technology development, technology transfer, technical consulting, technical services and equity investment funds in the field of shipping and spare parts.

7.3.3 Other substantial shareholders under the regulatory calibre

1. As of the end of the reporting period, Dajia Life Insurance Co., Ltd. held 3.87% shares in the Company, and is a shareholder which has appointed a Director in the Company. There was no pledge of the shares of the Company. The controlling shareholder of Dajia Life Insurance Co., Ltd. is Dajia Insurance Group Co., Ltd.. Dajia Insurance Group Co., Ltd. was established on 25 June 2019, with registered capital of RMB20.36 billion, and its legal representative is He Xiaofeng. Its controlling shareholder and de facto controller is China Insurance Security Fund Co., Ltd..

2. As at the end of the reporting period, China Communications Construction Group (Limited) through its subsidiaries, namely China Communications Construction Company Limited, CCCC Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co., Ltd., CCCC Shanghai Dredging Co., Ltd., Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Third Harbor Consultants Co., Ltd. indirectly held an aggregate of 1.68% shares in the Company, and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. China Communications Construction Group (Limited) was established on 8 December 2005, with a registered capital of RMB7.274 billion, and its legal representative is Tongzhou WANG (王彤宙). Its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council.

3. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.23% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited was established on 16 April 1984, with a registered capital of RMB11.683 billion, and its legal representative is Chen Hong. Its de facto controller is the State-owned Assets Supervision and Administration Commission of Shanghai City.

4. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.17% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. Hebei Port Group Co., Ltd. was established on 28 August 2002, with a registered capital of RMB8.0 billion. Its legal representative is Cao Ziyu and its de facto controller is the State-owned Assets Supervision and Administration Commission of Hebei Province.

7.3.4 Substantial shareholders' interests and short positions in the Company under Hong Kong laws and regulations

As at 30 June 2021, substantial shareholders had interests and short positions in the shares of the Company under Hong Kong laws and regulations as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (in this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares (share)	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	6,697,550,412			
		Long	Others	55,196,540			
				6,752,746,952	1	32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Steam Navigation Co., Ltd.	A	Long	Beneficial Owner	3,289,470,337			
		Long	Interest of controlled corporation	3,408,080,075			
		Long	Others	55,196,540			
				6,752,746,952	1	32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial Owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520			
		Long	Others	55,196,540			
				3,405,129,475	1	16.51	13.50
Best Winner Investment Limited	A	Long	Beneficial Owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial Owner	328,776,923	1	7.16	1.30
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial Owner	1,258,542,349			
		Long	Interest of controlled corporation	944,013,171			
				2,202,555,520	1	10.68	8.73
China Ocean Shipping Company Limited	A	Long	Beneficial Owner	1,574,729,111		7.63	6.24
Hexie Health Insurance Co., Ltd.	A	Long	Beneficial Owner	1,130,991,537	2	5.48	4.48

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares (share)	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial Owner	477,903,500	3	10.41	1.89
JPMorgan Chase & Co.	H	Long	Interest of controlled corporation	77,287,449			
		Long	Investment Manager	162,513,613			
		Long	Person having a security interest in shares	475,815			
		Long	Trustee	44,730			
		Long	Approved lending agent	104,709,205			
				345,030,812	4	7.52	1.37
		Short	Interest of controlled corporation	69,284,730	4	1.50	0.27
Citigroup Inc.	H	Long	Interest of controlled corporation	29,047,476			
		Long	Approved lending agent	301,905,135			
				330,952,611	5	7.20	1.31
		Short	Interest of controlled corporation	2,500,889	5	0.05	0.01
UBS Group AG	H	Long	Interest of controlled corporation	277,299,334	6	6.04	1.10

* The above information is disclosed on the basis of the information available from the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the Register of the Company.

Notes:

(1) For details of China Merchants Group Ltd. and its subsidiaries' interests in the Company, please refer to section 7.3.1 "Information on the Company's largest shareholder" in this report.

(2) New China Asset Management Co., Ltd. is the trustee of all A shares in the Company held by Hexie Health Insurance Co., Ltd. and therefore was deemed to hold interests in all A shares in the Company held by Hexie Health Insurance Co., Ltd..

(3) Pagoda Tree Investment Company Limited (中國華馨投資有限公司) was deemed to hold interests in the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of its wholly-owned subsidiary, Compass Investment Company Limited:

(3.1) China Merchants Union (BVI) Limited held 477,903,500 H shares (long position) in the Company. Verise Holdings Company Limited was deemed to hold interests in the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of holding the 50% interest in China Merchants Union (BVI) Limited.

(3.2) Verise Holdings Company Limited was wholly-owned by CNIC Corporation Limited. Therefore, CNIC Corporation Limited was deemed to hold interests in the 477,903,500 H shares in the Company which are deemed to be held by Verise Holdings Company Limited.

(3.3) Compass Investment Company Limited was deemed to hold interests in the 477,903,500 H shares in the Company which are deemed to be held by CNIC Corporation Limited by virtue of holding the 98.9% interest in CNIC Corporation Limited.

The 477,903,500 H shares referred to in (3) and (3.1) to (3.3) above represented the same shares.

(4) JPMorgan Chase & Co. was deemed to hold a total of 345,030,812 H shares (long position) and 69,284,730 H shares (short position) in the Company by virtue of its control over a number of companies. The equity interests and short positions of JPMorgan Chase & Co. in the Company included a lending pool of 104,709,205 H shares. Besides, 57,109,000 H shares (long position) and 6,194,645 H shares (short position) were held through derivatives as follows:

2,794,500 H shares (long position) and 2,295,500 H shares (short position)	– through physically settled listed derivatives
639,000 H shares (short position)	– through cash settled listed derivatives
1,200,000 H shares (long position) and 2,544,237 H shares (short position)	– through physically settled unlisted derivatives
53,114,500 H shares (long position) and 715,908 H shares (short position)	– through cash settled unlisted derivatives

(5) Citigroup Inc. was deemed to hold a total of 330,952,611 H shares (long position) and 2,500,889 H shares (short position) in the Company by virtue of its control over a number of companies. The equity interests and short positions of Citigroup Inc. in the Company included a lending pool of 301,905,135 H shares. Besides, 806,727 H shares (long position) and 105,252 H shares (short position) were held through derivatives as follows:

509,475 H shares (long position) and 73,500 H shares (short position)	– through physically settled listed derivatives
93,252 H shares (long position) and 31,752 H shares (short position)	– through physically settled unlisted derivatives
204,000 H shares (long position)	– through cash settled unlisted derivatives

(6) UBS Group AG was deemed to hold a total of 277,299,334 H shares (long position) in the Company by virtue of its control over a number of companies. The equity interests of UBS Group AG in the Company included 14,337,718 H shares (long position) which were held through derivatives as follows:

115,282 H shares (long position)	– through physically settled listed derivatives
13,729,761 H shares (long position)	– through cash settled unlisted derivatives
29,675 H shares (long position)	– through physically settled unlisted derivatives
463,000 H shares (long position)	– through cash settled listed derivatives

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the 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.

7.4 Issuance and Listing of Securities

During the reporting period, the Company did not issue any new ordinary shares. The Company did not have any internal staff shares.

During the reporting period, the Company had no corporate bonds listed on a stock exchange by way of public issuance. For issuance of other bonds of the Company and its subsidiaries, please refer to Note 32 to the financial statements.

7.5 Preference Shares

7.5.1 Issuance and listing of preference shares

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 50,000,000 non-cumulative perpetual offshore preference shares on 25 October 2017. The issuance price is USD20 each and the coupon dividend rate per annum is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). The offshore preference shares of the issuance were listed on Hong Kong Stock Exchange on 26 October 2017 (abbreviated name of shares: "CMB 17USDPREF"; stock code: 04614; number of listed shares: 50,000,000). The total proceeds from the issuance of the offshore preference shares amounted to USD1.0 billion and, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 275,000,000 domestic preference shares on 22 December 2017. The issuance price is RMB100 each and the coupon dividend rate per annum is 4.81% (including tax). The domestic preference shares of the issuance have been listed and traded on the integrated business platform of Shanghai Stock Exchange since 12 January 2018 (abbreviated name of shares: "Zhao Yin You 1 (招銀優1)"; stock code: 360028; number of listed shares: 275,000,000). The total proceeds from the issuance of the domestic preference shares amounted to RMB27.5 billion. The net proceeds after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

For details, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

7.5.2 Number of shareholders of preference shares and their shareholdings

As at the end of the reporting period, the Company had a total of 15 holders of preference shares (or their nominees), including 1 holder of offshore preference shares (or its nominee) and 14 holders of domestic preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten holders of offshore preference shares (or their nominees) were as follows:

No.	Name of shareholders	Type of shareholders	Type of sharers	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference share	–	50,000,000	100	–	Unknown

Notes:

(1) The shareholdings of holders of preference shares are calculated based on the information listed in the register of holders of preference shares maintained by the Company.

(2) As the issuance is an offshore non-public issuance, the information listed in the register of holders of preference shares is the information on the nominees of the placees.

(3) The Company is not aware of any affiliated relationship or action in concert among the above holders of preference shares and the top ten holders of ordinary shares.

(4) "Percentage of shareholdings" represents the percentage of the number of offshore preference shares held by the holders of preference shares to the total number of offshore preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten holders of domestic preference shares (or their nominees) were as follows:

No.	Name of shareholders	Type of shareholders	Type of Shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	China Mobile Communications Group Co., Ltd	State-owned legal person	Domestic preference share	–	106,000,000	38.55	–	–
2	CCB Trust Co., Ltd.	State-owned legal person	Domestic preference share	-2,000,000	28,000,000	10.18	–	–
3	BOC Asset Management Co., Ltd. (中銀資產管理有限公司)	Others	Domestic preference share	–	25,000,000	9.09	–	–
4	China National Tobacco (Henan Province) Company	State-owned legal person	Domestic preference share	–	20,000,000	7.27	–	–
	Ping An Property & Casualty Insurance Company of China, Ltd.	Others	Domestic preference share	–	20,000,000	7.27	–	–
6	China Everbright Bank Company Limited	Others	Domestic preference share	–	17,000,000	6.18	–	–
7	China National Tobacco (Sichuan Province) Company	State-owned legal person	Domestic preference share	–	15,000,000	5.45	–	–
	China National Tobacco (Anhui Province) Company	State-owned legal person	Domestic preference share	–	15,000,000	5.45	–	–
9	China Construction Bank Corporation, Guangdong Branch	State-owned legal person	Domestic preference share	–	10,000,000	3.64	–	–
10	China National Tobacco (Liaoning Province) Company	State-owned legal person	Domestic preference share	–	5,000,000	1.82	–	–
	Changjiang Pension Insurance Co., Ltd.	State-owned legal person	Domestic preference share	–	5,000,000	1.82	–	–
	China Resources SZITIC Trust Co., Ltd.	State-owned legal person	Domestic preference share	–	5,000,000	1.82	–	–

Notes:

(1) The shareholdings of preference shareholders are calculated based on the information listed in the register of holders of preference shares maintained by the Company.

(2) China National Tobacco (Henan Province) Company, China National Tobacco (Sichuan Province) Company, China National Tobacco (Anhui Province) Company and China National Tobacco (Liaoning Province) Company are all wholly-owned subsidiaries of China National Tobacco Corporation. Save for the above, the Company is not aware of any affiliated relationship or action in concert among the above holders of preference shares or between the above holders of preference shares and the Company's top ten holders of ordinary shares.

(3) "Percentage of shareholdings" represents the percentage of the number of domestic preference shares held by the holders of preference shares to the total number of domestic preference shares.

7.5.3 Dividend distribution of preference shares

During the reporting period, no distribution of dividend for preference shares was made by the Company.

7.5.4 Repurchase or conversion of preference shares

During the reporting period, there had been no repurchase and conversion of preference shares.

7.5.5 Restored voting rights of preference shares

During the reporting period, the voting rights of the Company's domestic and offshore preference shares in issue had not been restored.

7.5.6 Accounting policies for preference shares and the reason of adoption

The Company made accounting judgments over its preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the "International Financial Reporting Standard 9 – Financial Instruments" and the "International Financial Reporting Standard 7 – Financial Instruments: Disclosures" promulgated by International Accounting Standards Board. As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as equity instruments.

Report on Review of Interim Consolidated Financial Statements

Deloitte. 德勤

To the board of directors of China Merchants Bank Co., Ltd.
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 102 to 190 which comprise the consolidated statement of financial position as of 30 June 2021 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Bank are responsible for the preparation and presentation of these interim consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim consolidated financial statements 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" issued by the International Auditing and Assurance Standards Board. A review of these interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong

13 August 2021

Unaudited Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	Six months ended 30 June 2021	2020
Interest income	3	**159,243**	153,685
Interest expense	4	**(59,902)**	(62,812)
Net interest income		**99,341**	90,873
Fee and commission income	5	**56,005**	45,611
Fee and commission expense		**(3,751)**	(3,342)
Net fee and commission income		**52,254**	42,269
Other net income	6	**15,050**	13,839
– Disposal of financial instruments at amortised cost		**1**	(145)
Operating income		**166,645**	146,981
Operating expenses	7	**(50,612)**	(44,882)
Operating profit before impairment losses and taxation		**116,033**	102,099
Expected credit losses	8	**(41,895)**	(40,443)
Share of profits of joint ventures		**1,668**	930
Share of profits of associates		**517**	252
Profit before taxation		**76,323**	62,838
Income tax	9	**(14,675)**	(12,760)
Profit for the period		**61,648**	50,078
Attributable to:			
Equity holders of the Bank		**61,150**	49,788
Non-controlling interests		**498**	290
Earnings per share			
Basic and diluted (RMB)	11	**2.35**	1.97

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	Six months ended 30 June 2021	2020
Profit for the period		**61,648**	50,078
Other comprehensive income for the period after tax			
Items that may be reclassified subsequently to profit or loss			
Fair value loss on debt instruments measured at fair value through other comprehensive income		**(210)**	(142)
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		**3,478**	845
Net movement in cash flow hedge reserve		**47**	(50)
Share of other comprehensive income from equity-accounted investees		**(142)**	250
Exchange difference on translation of financial statements of foreign operations		**(744)**	826
Items that will not be reclassified subsequently to profit or loss			
Fair value gain on equity instruments designated at fair value through other comprehensive income		**1,045**	108
Remeasurement of defined benefit scheme redesigned through reserve		**26**	(46)
Other comprehensive income for the period, net of tax	10	**3,500**	1,791
Attributable to:			
Equity holders of the Bank		**3,551**	1,705
Non-controlling interests		**(51)**	86
Total comprehensive income for the period		**65,148**	51,869
Attributable to:			
Equity holders of the Bank		**64,701**	51,493
Non-controlling interests		**447**	376

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Unaudited Consolidated Statement of Financial Position

At 30 June 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	30 June 2021	31 December 2020
Assets			
Cash		**11,852**	13,088
Precious metals		**3,602**	7,970
Balances with central banks	12	**558,433**	525,358
Balances with banks and other financial institutions	13	**123,451**	103,335
Placements with banks and other financial institutions	14	**253,003**	226,919
Amounts held under resale agreements	15	**334,278**	286,262
Loans and advances to customers	16	**5,154,030**	4,804,361
Investments at fair value through profit or loss	17(a)	**474,776**	495,723
Derivative financial assets	41(f)	**31,690**	47,272
Debt investments at amortised cost	17(b)	**1,084,214**	1,049,280
Debt investments at fair value through other comprehensive income	17(c)	**565,665**	516,553
Equity investments designated at fair value through other comprehensive income	17(d)	**7,031**	7,139
Interests in joint ventures	18	**13,778**	12,403
Interests in associates	19	**8,118**	2,519
Investment properties	20	**1,537**	1,623
Property and equipment	21	**76,163**	69,470
Right-of-use assets	22	**18,311**	19,104
Intangible assets	23	**4,289**	4,763
Goodwill	24	**9,954**	9,954
Deferred tax assets	25	**79,866**	72,893
Other assets		**71,845**	85,459
Total assets		**8,885,886**	8,361,448

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

	Notes	30 June 2021	31 December 2020
Liabilities			
Borrowing from central bank		**304,116**	331,622
Deposits from banks and other financial institutions	26	**766,992**	723,402
Placements from banks and other financial institutions	27	**169,124**	143,517
Financial liabilities at fair value through profit or loss	28	**72,673**	60,351
Derivative financial liabilities	41(f)	**37,315**	50,061
Amounts sold under repurchase agreements	29	**122,143**	142,927
Deposits from customers	30	**6,018,945**	5,664,135
Salaries and welfare payable		**20,195**	15,462
Tax payable		**22,160**	18,648
Contract liabilities		**6,769**	6,829
Lease liabilities		**13,748**	14,242
Provision	31	**21,887**	8,229
Debt securities issued	32	**428,718**	346,141
Deferred tax liabilities	25	**1,228**	1,073
Other liabilities		**118,305**	104,455
Total liabilities		**8,124,318**	7,631,094
Equity			
Share capital	33	**25,220**	25,220
Other equity instruments		**84,054**	84,054
– Preference shares	34(a)	**34,065**	34,065
– Perpetual bonds	34(b)	**49,989**	49,989
Capital reserve		**67,523**	67,523
Investment revaluation reserve	35	**11,047**	8,207
Hedging reserve		**(19)**	(66)
Surplus reserve		**71,158**	71,158
Regulatory general reserve		**98,452**	98,082
Retained earnings		**398,825**	338,664
Proposed profit appropriations		**–**	31,601
Exchange reserve		**(1,385)**	(693)
Total equity attributable to equity holders of the Bank		**754,875**	723,750
Non-controlling interests		**6,693**	6,604
– Non-controlling interest		**2,992**	2,851
– Perpetual debt capital	43(a)	**3,701**	3,753
Total equity		**761,568**	730,354
Total equity and liabilities		**8,885,886**	8,361,448

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Approved and authorised for issue by the board of directors on 13 August 2021.

Miao Jianmin
Director

Tian Huiyu
Director

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June 2021															
		Total equity attributable to equity holders of the Bank												Non-controlling interests		
			Other equity instruments													
	Notes	Share capital	Preference shares	Perpetual bonds	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained earning	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2021		25,220	34,065	49,989	67,523	8,207	(66)	71,158	98,082	338,664	31,601	(693)	723,750	2,851	3,753	730,354
Changes in equity for the period		–	–	–	–	2,840	47	–	370	60,161	(31,601)	(692)	31,125	141	(52)	31,214
(a) Net profit for the period		–	–	–	–	–	–	–	–	61,150	–	–	61,150	384	114	61,648
(b) Other comprehensive income for the period		–	–	–	–	4,196	47	–	–	–	–	(692)	3,551	1	(52)	3,500
Total comprehensive income for the period		–	–	–	–	4,196	47	–	–	61,150	–	(692)	64,701	385	62	65,148
(c) Profit appropriations		–	–	–	–	–	–	–	370	(2,345)	(31,601)	–	(33,576)	(244)	(114)	(33,934)
(i) Appropriations to regulatory general reserve		–	–	–	–	–	–	–	370	(370)	–	–	–	–	–	–
(ii) Dividends appropriations for the year 2020		–	–	–	–	–	–	–	–	–	(31,601)	–	(31,601)	(244)	–	(31,845)
(iii) Distribution to perpetual bonds		–	–	–	–	–	–	–	–	(1,975)	–	–	(1,975)	–	–	(1,975)
(iv) Distribution to perpetual debt capital	43(a)	–	–	–	–	–	–	–	–	–	–	–	–	–	(114)	(114)
(d) Transfers within equity upon disposal of equity instruments designated at FVTOCI		–	–	–	–	(1,356)	–	–	–	1,356	–	–	–	–	–	–
At 30 June 2021		25,220	34,065	49,989	67,523	11,047	(19)	71,158	98,452	398,825	–	(1,385)	754,875	2,992	3,701	761,568

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Six months ended 30 June 2020

		Total equity attributable to equity holders of the Bank											Non-controlling interests		
	Notes	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained earnings	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interest	Perpetual debt capital	Total
At 1 January 2020		25,220	34,065	67,523	8,919	(39)	62,291	90,151	291,346	30,264	1,561	611,301	2,427	3,979	617,707
Changes in equity for the period		–	–	–	998	(50)	–	(696)	50,497	(30,264)	744	21,229	4	81	21,314
(a) Net profit for the period		–	–	–	–	–	–	–	49,788	–	–	49,788	167	123	50,078
(b) Other comprehensive income for the period		–	–	–	1,011	(50)	–	–	–	–	744	1,705	5	81	1,791
Total comprehensive income for the period		–	–	–	1,011	(50)	–	–	49,788	–	744	51,493	172	204	51,869
(c) Profit appropriations		–	–	–	–	–	–	(696)	696	(30,264)	–	(30,264)	(168)	(123)	(30,555)
(i) Appropriations to regulatory general reserve		–	–	–	–	–	–	275	(275)	–	–	–	–	–	–
(ii) Reversal of regulatory general reserve (note)		–	–	–	–	–	–	(971)	971	–	–	–	–	–	–
(iii) Dividends appropriations for the year 2019		–	–	–	–	–	–	–	–	(30,264)	–	(30,264)	(168)	-	(30,432)
(iv) Distribution to perpetual debt capital	43(a)	–	–	–	–	–	–	–	–	–	–	–	-	(123)	(123)
(d) Transfers within equity upon disposal of equity instruments designated at FVTOCI		–	–	–	(13)	–	–	–	13	–	–	–	–	–	–
At 30 June 2020		25,220	34,065	67,523	9,917	(89)	62,291	89,455	341,843	–	2,305	632,530	2,431	4,060	639,021

Note: During the six months ended 30 June 2020, CMB Wing Lung Bank Limited, one of the wholly-owned subsidiaries of the Group reversed its regulatory general reserve by RMB971 million, in accordance with the latest regulatory requirements of the Hong Kong Monetary Authority.

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Unaudited Consolidated 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	2020
Operating activities		
Profit before tax	**76,323**	62,838
Adjustments for:		
– Impairment losses on loans and advances	**14,457**	36,211
– Impairment losses on investments and others	**27,438**	4,232
– Unwinding of discount on the allowances of loans and advances	**(141)**	(98)
– Depreciation of property and equipment and investment properties	**4,253**	3,737
– Depreciation of right-of-use assets	**2,162**	2,208
– Amortisation of other assets	**670**	629
– Net gain on debt securities and equity investments	**(7,403)**	(8,517)
– Interest income on investments	**(26,800)**	(25,008)
– Interest expense on issued debt securities	**6,047**	8,570
– Share of profits of associates	**(517)**	(252)
– Share of profits of joint ventures	**(1,668)**	(930)
– Net gains on disposal of property and equipment and other assets	**(23)**	(17)
– Interest expense on lease liabilities	**291**	314
Changes in:		
Balances with central bank	**(19,230)**	22,634
Loans and advances to customers	**(364,614)**	(455,590)
Other assets	**14,262**	(20,070)
Deposits from customers	**351,829**	595,628
Amount due to banks and other financial institutions	**49,096**	167,262
Amount due from banks and other financial institutions with original maturity over 3 months	**(40,918)**	(32,224)
Borrowing from central bank	**(29,751)**	(53,967)
Other liabilities	**(28,870)**	(33,834)
Cash generated from operating activities before income tax payment	**26,893**	273,756
Income tax paid	**(20,571)**	(19,502)
Net cash generated from operating activities	**6,322**	254,254
Investing activities		
Payment for the purchases of investments	**(644,655)**	(676,213)
Payment for the purchases of property and equipment and other assets	**(11,686)**	(8,898)
Payment for investments in subsidiaries, associates or joint venture	**(4,935)**	(157)
Proceeds from disposals of investments	**584,181**	471,464
Gains received from investments	**34,625**	33,571
Proceeds from disposals of subsidiaries, associates or joint venture	**264**	328
Proceeds from disposals of property and equipment and other assets	**286**	561
Net cash used in investing activities	**(41,920)**	(179,344)

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

	Note	Six months ended 30 June 2021	2020
Financing activities			
Proceeds from the issuance of debt securities		**43,994**	1,183
Proceeds from the issuance of negotiable interbank certificates of deposit		**187,385**	79,711
Proceeds from the issuance of certificates of deposit		**16,492**	15,250
Proceeds from other financing activities		**6,496**	2,374
Repayment of negotiable interbank certificates of deposit		**(140,240)**	(221,393)
Repayment of certificates of deposit		**(18,958)**	(15,258)
Repayment of debt securities		**(10,830)**	(27,948)
Repayment of lease liabilities		**(2,460)**	(2,022)
Distribution paid on perpetual debt capital		**(114)**	(123)
Distribution paid on appropriations		**(244)**	-
Interest paid on financing activities		**(3,195)**	(6,620)
Repayments for other financing activities		**(126)**	(1)
Net cash generated from/(used in) financing activities		**78,200**	(174,847)
Net increase/(decrease) in cash and cash equivalents		**42,602**	(99,937)
Cash and cash equivalents as at 1 January		**552,790**	589,675
Effect of foreign exchange rate changes		**(1,627)**	1,311
Cash and cash equivalents as at 30 June	37(a)	**593,765**	491,049
Cash flows from operating activities include:			
Interest received		**131,395**	127,813
Interest paid		**49,047**	49,738

The notes on pages 110 to 190 form part of this interim consolidated financial statements.

Notes to the Unaudited Interim Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi unless otherwise stated)

1. General information

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002. On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK").

The principal activities of the Bank and its subsidiaries (the "Group") are the provision of corporate and personal banking services, conducting treasury business, and the provision of asset management and other financial services.

As at 30 June 2021, apart from the Head Office, the Bank had 51 branches in Mainland China, Hong Kong, New York, Singapore, Luxembourg, London and Sydney. In addition, the Bank has three representative offices in Beijing, New York and Taipei.

The particulars of the Group's major subsidiaries as at 30 June 2021 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank directly and indirectly	Principal activity	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited ("CMBICHC")	Hong Kong	HKD4,129	100%	Investment bank and investment managements	Limited liability	Tian Huiyu
CMB Financial Leasing Company Limited ("CMBFLC")	Shanghai	RMB6,000	100%	Finance leasing	Limited liability	Shi Shunhua
CMB Wing Lung Bank Limited ("CMB WLB")	Hong Kong	HKD1,161	100%	Banking	Limited liability	Zhu Qi
China Merchants Fund Management Co., Ltd. ("CMFM")	Shenzhen	RMB1,310	55%	Fund management	Limited liability	Wang Xiaoqing
CMB Wealth Management Co., Ltd ("CMBWM")	Shenzhen	RMB5,000	100%	Asset management	Limited liability	(note (i))
China Merchants Europe S.A. ("CMB Europe S.A.") (note (ii))	Luxembourg	EUR50	100%	Banking	Limited liability	Li Biao
Cigna & CMB Asset Management Company Limited ("CIGNA & CMAM")	Beijing	RMB500	(note (iii))	Asset management	Limited liability	Liu Hui

Notes:

(i) The legal representative of CMBWM was changed from Liu Hui to Chen Yisong on 8 July, 2021.

(ii) CMB Europe S.A. is a wholly-owned subsidiary of which the establishment was approved by the China Banking and Insurance Regulatory Commission ("CBIRC") Yin Jianfu [2016] No. 460. It was formally established in November 2019 and has obtained a commercial banking license in Luxemburg from European Central Bank (ECB) in 2021.

(iii) CIGNA & CMAM was registered and established on 18 October, 2020 with the approval of CBIRC Yinbao Jianfu [2020] No.708. CIGNA & CMAM is an indirectly controlled subsidiary of the Bank, with 87.3458% held by CIGNA & CMB Life Insurance Co., Ltd., a joint venture of the Bank, and 12.6542% held by CMBICHC, a subsidiary of the Bank.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements

(a) Basis of preparation and principal accounting policies

This unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

This unaudited interim consolidated financial statements do not include all of the information required for full set of financial statement prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the 2020 annual consolidated financial statements.

Other than the application of the following amendments to IFRSs, the Group's accounting policies and methods of computation applied in preparing this unaudited interim consolidated financial statements are consistent with those applied in preparing the Group's annual consolidated financial statements for the year ended 31 December 2020.

In the current interim period, the Group has applied the following amendments to IFRSs, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's unaudited interim consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	Covid-19-Related Rent Concessions

Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Hedge accounting

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Cash flows hedges

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Transition and summary of effects

The Group has financial instruments linked to London Interbank Offered Rate (LIBOR) that will be subject to interbank offered rates (IBOR) reform. These financial instruments mainly include loans and advances to customers, debt investments, etc. The Group has gradually changed the interest rate benchmark for these financial instruments to Sterling Overnight Index Average (SONIA) or Secured Overnight Financing Rate (SOFR) in 2021. In order to reflect the changes that are required by the interest rate benchmark reform, the Group has recalculated the effective interest rate of the financial instruments whose change of future cash flow is necessary as a direct consequence of interest rate benchmark reform, and used these effective interest rates as the basis of subsequent measurements. Such changes in effective interest rate have no significant impact on the interim consolidated financial statements.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

Impacts and accounting policies on application of Amendment to IFRS 16 – "Covid-19-Related Rent Concessions"

The amendment provides a practical expedient to covid-19-related rent concessions if certain conditions are met. This amendment has no significant impact on the interim consolidated financial statements.

(b) Accounting estimates and judgements

The preparation of the interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

The Group's significant accounting estimates and judgements applied in preparing the unaudited interim consolidated financial statements are consistent with those applied in preparing the consolidated financial statements for the year ended 31 December 2020 except for impairment under the Expected Credit Loss ("ECL") model.

Impairment under the ECL model:

In order to increase the Group's resilience and guard itself against losses, the Group refined the measurement system of loss allowance for financial instruments, and further optimised the measurement system in the principle of prudence and robustness as at 30 June 2021. The changes in accounting estimates were mainly about enhancing the risk differentiation of the model in order to optimise the fineness and foresight of loss allowance for financial instruments. Among which, when determining whether there is any significant increase in credit risk, the application of early warning signal is further deepened; when considering forward-looking information, the macroeconomic index database is expanded; in terms of the classification of risk characteristics, the reference index is optimised. The changes in accounting estimates resulted in a decrease in the Group's loss allowance by RMB151 million as at 30 June 2021, and an increase in the Group's profit before taxation by RMB151 million in the first half of 2021. In the first half of 2021, the expected credit losses of the Group were RMB41,895 million, representing a year-on-year increase of 3.59%. The changes in accounting estimates are expected to have no significant impact on the current period net profit, total assets and net assets of the Group. The changes in accounting estimates are applied prospectively for future periods, and do not require to adjust the announced financial reports retrospectively. Therefore, the changes will not have any impact on the financial conditions and operating results of the Group in previous periods. Details of the accounting estimates about the ECL are set out in note 41 (a).

3. Interest income

	Six months ended 30 June	
	2021	2020
Loans and advances to customers	**122,537**	118,376
– Corporate loans and advances	**39,925**	41,687
– Retail loans and advances	**77,542**	72,824
– Discounted bills	**5,070**	3,865
Balances with central banks	**3,894**	3,744
Balances with banks and other financial institutions	**346**	1,173
Placements with banks and other financial institutions	**2,693**	3,298
Amounts held under resale agreements	**2,973**	2,086
Investments	**26,800**	25,008
– Debt investments at fair value through other comprehensive income	**7,667**	6,899
– Debt investments at amortised cost	**19,133**	18,109
Total	**159,243**	153,685

Note: For the six months ended 30 June 2021, included in the above is the interest income of RMB5,729 million accrued on loans and advances to customers at fair value through other comprehensive income (six months ended 30 June 2020: RMB4,507 million).

4. Interest expense

	Six months ended 30 June 2021	2020
Deposits from customers	**40,383**	41,916
Borrowing from central bank	**4,187**	4,583
Deposits from banks and other financial institutions	**5,374**	4,118
Placements from banks and other financial institutions	**2,271**	2,628
Amounts sold under repurchase agreements	**1,349**	683
Debt securities issued	**6,047**	8,570
Lease liabilities	**291**	314
Total	**59,902**	62,812

5. Fee and commission income

	Six months ended 30 June 2021	2020
Bank cards fees	**9,396**	9,418
Settlement and clearing fees	**7,277**	6,362
Agency services fees	**15,173**	10,810
Commissions from credit commitment and lending business	**3,852**	3,654
Commissions on trust and fiduciary activities	**15,882**	13,558
Others	**4,425**	1,809
Total	**56,005**	45,611

6. Other net income

	Six months ended 30 June 2021	2020
Net gains/(losses) from fair value change		
– financial instruments at fair value through profit or loss ("FVTPL")	**253**	(1,628)
– derivative instruments	**810**	(38)
– precious metals	**(367)**	498
Investment net income		
– financial instruments at FVTPL	**6,644**	7,381
– disposal of financial instruments at amortised cost	**1**	(145)
– disposal of debt instruments at fair value through other comprehensive income ("FVTOCI")	**2,267**	2,967
Of which: gains on disposal of bills	**1,519**	1,709
– dividend income from equity investments designated at FVTOCI	**33**	139
– others	**(23)**	6
Exchange gains	**1,925**	1,789
Other income		
– lease income on operating leases	**2,903**	2,591
– insurance income	**228**	211
Others	**376**	68
Total	**15,050**	13,839

7. Operating expenses

	Six months ended 30 June 2021	2020
Staff costs		
– Salaries and bonuses	**23,419**	20,284
– Social insurance and corporate supplementary insurance	**4,533**	3,680
– Others	**3,375**	3,619
Subtotal	**31,327**	27,583
Tax and surcharges	**1,426**	1,304
Property, equipment and investment properties depreciation	**4,253**	3,737
Intangible assets amortisation	**582**	586
Right-of-use assets depreciation	**2,162**	2,208
Short-term rent and low-value asset rent	**154**	132
Charge for insurance claims	**154**	143
Other general and administrative expenses	**10,554**	9,189
Total	**50,612**	44,882

8. Expected credit losses

	Six months ended 30 June 2021	2020
Loans and advances to customers		
– Loans and advances at amortised cost	**13,586**	36,407
– Loans and advances at FVTOCI	**871**	(196)
Amounts due from banks and other financial institutions	**4,419**	672
Investments		
– Debt investments at amortised cost	**5,352**	(125)
– Debt investments at FVTOCI	**3,740**	1,303
Expected credit losses relating to financial guarantees and loan commitments	**13,662**	1,923
Others	**265**	459
Total	**41,895**	40,443

9. Income tax

(a) Income tax in the unaudited consolidated statement of profit or loss represents:

	Six months ended 30 June 2021	2020
Current income tax expense		
– Mainland China	**22,495**	18,041
– Hong Kong	**459**	580
– Overseas	**121**	101
Subtotal	**23,075**	18,722
Deferred taxation	**(8,400)**	(5,962)
Total	**14,675**	12,760

9. Income tax *(continued)*

(b) A reconciliation of income tax expense in the unaudited consolidated statement of profit or loss and that calculated at the applicable tax rate is as follows:

	Six months ended 30 June 2021	2020
Profit before taxation	**76,323**	62,838
Tax at the PRC statutory income tax rate of 25% (Six months ended 30 June 2020: 25%)	**19,080**	15,709
Tax effects of the following items:		
– Effects of non-deductible expenses	**792**	845
– Effects of non-taxable income	**(5,570)**	(4,582)
– Effects of different applicable rates of tax prevailing in other jurisdictions	**(212)**	(361)
– Transfer out of prior year's deferred tax assets	**585**	1,149
Income tax expense	**14,675**	12,760

Note:

(i) Taxation for Hong Kong and overseas operations is charged at the applicable rates of tax prevailing in relevant regions or countries.

10. Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	Six months ended 30 June 2021			2020		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Items that may be reclassified to profit or loss						
– Fair value loss on debt instruments measured at FVTOCI	**(138)**	**(72)**	**(210)**	(141)	(1)	(142)
– Net changes in expected credit losses of debt instruments measured at FVTOCI	**4,650**	**(1,172)**	**3,478**	1,119	(274)	845
– Net movement in cash flow hedge reserve	**38**	**9**	**47**	(60)	10	(50)
– Share of other comprehensive income from equity-accounted investees	**(142)**	**–**	**(142)**	250	–	250
– Exchange difference on translation of financial statements of foreign operations	**(744)**	**–**	**(744)**	826	–	826
Items that will not be reclassified subsequently to profit or loss						
– Fair value gain on equity instruments designated at FVTOCI	**1,392**	**(347)**	**1,045**	137	(29)	108
– Remeasurement of defined benefit scheme redesigned through reserve	**31**	**(5)**	**26**	(55)	9	(46)
Other comprehensive income	**5,087**	**(1,587)**	**3,500**	2,076	(285)	1,791

10. Other comprehensive income *(continued)*

(b) Fair value change on the components of other comprehensive income

	Six months ended 30 June 2021	2020
Fair value changes in debt instruments at FVTOCI		
Changes in fair value recognised during the period	**1,490**	2,083
Reclassification adjustments for amounts transferred to profit or loss upon disposal	**(1,700)**	(2,225)
Net movement in the debt instrument revaluation reserve during the period recognised in other comprehensive income	**(210)**	(142)
Changes in expected credit losses in financial assets at FVTOCI		
Changes in expected credit losses recognised during the period	**3,478**	845
Net movement in the debt instrument revaluation reserve during the period recognised in other comprehensive income	**3,478**	845
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	**(21)**	(42)
Reclassification adjustment for realised gains/(loss) transferred to profit or loss	**68**	(8)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**47**	(50)
Equity instruments designated at FVTOCI		
Changes in fair value recognised during the period	**1,045**	108
Net movement in the equity investment revaluation reserve during the period recognised in other comprehensive income	**1,045**	108

11. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2021 and 2020 is based on the net profit attributable to shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended 30 June 2021 and 2020.

	Six months ended 30 June 2021	2020
Net profit attributable to equity holders of the Bank (in RMB million)	**61,150**	49,788
Net profit attributable to investors of perpetual bonds (in RMB million)	**(1,975)**	–
Net profit attributable to ordinary shareholders of the Bank (in RMB million)	**59,175**	49,788
Weighted average number of shares in issue (in million shares) (note)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**2.35**	1.97

Note:

The Bank issued non-cumulative preference shares in 2017 and non-cumulative perpetual bonds in 2020. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares and interests on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to equity holders of the Bank. There were no dividends on non-cumulative preference shares declared during the six months ended 30 June 2021 and 2020. The Bank declared interests on perpetual bonds amounting to 1,975 million on 23 June 2021 (six months ended 30 June 2020: nil).

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as of 30 June 2021 and 2020. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation.

12. Balances with central banks

	30 June 2021	31 December 2020
Statutory deposit reserve (note (i))	**499,816**	495,630
Surplus deposit reserve (note (ii))	**38,267**	24,408
Fiscal deposits	**20,124**	5,080
Interest receivable	**226**	240
Total	**558,433**	525,358

Notes:

(i) Statutory deposit reserve funds are deposited with The People's Bank of China ("PBOC") and other central banks outside Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank's institutions located in Mainland China are calculated at 9% and 7% of the eligible RMB deposits and foreign currency deposits respectively as at 30 June 2021 (31 December 2020: 9 % and 5 % of the eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organisations, retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by the financial institutions outside Mainland China.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside Mainland China is mainly for clearing purpose.

13. Balances with banks and other financial institutions

	30 June 2021	31 December 2020
Principal (a)	**124,025**	103,448
Impairment losses (a)(b)	**(632)**	(277)
Subtotal	**123,393**	103,171
Interest receivable	**58**	164
Total	**123,451**	103,335

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
Balances in Mainland China		
– Banks	**75,319**	55,117
– Other financial institutions	**11,496**	1,694
Subtotal	**86,815**	56,811
Balances outside Mainland China		
– Banks	**35,556**	45,942
– Other financial institutions	**1,654**	695
Subtotal	**37,210**	46,637
Total	**124,025**	103,448
Less: Impairment allowances		
– Banks	**(483)**	(265)
– Other financial institutions	**(149)**	(12)
Subtotal	**(632)**	(277)
Net carrying amount	**123,393**	103,171

(b) Movements of allowances for losses are as follows:

	2021	2020
Balance as at 1 January	**277**	372
Charge/(reversal) for the period/year	**364**	(93)
Exchange difference	**(9)**	(2)
Balance as at 30 June/31 December	**632**	277

14. Placements with banks and other financial institutions

	30 June 2021	31 December 2020
Principal (a)	**254,233**	226,516
Impairment allowances (a)(c)	**(2,436)**	(376)
Subtotal	**251,797**	226,140
Interest receivable	**1,206**	779
Total	**253,003**	226,919

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
Placements in Mainland China		
– Banks	**23,397**	27,637
– Other financial institutions	**105,057**	108,914
Subtotal	**128,454**	136,551
Placements outside Mainland China		
– Banks	**125,052**	89,965
– Other financial institutions	**727**	–
Subtotal	**125,779**	89,965
Total	**254,233**	226,516
Less: Impairment allowances		
– Banks	**(659)**	(145)
– Other financial institutions	**(1,777)**	(231)
Subtotal	**(2,436)**	(376)
Net carrying amount	**251,797**	226,140

(b) Analysed by contractual remaining maturity

	30 June 2021	31 December 2020
Maturing		
– Within one month (inclusive)	**124,797**	96,002
– Between one month and one year (inclusive)	**124,829**	125,969
– Over one year	**2,171**	4,169
Total	**251,797**	226,140

(c) Movements of allowances for impairment are as follows:

	2021	2020
Balance as at 1 January	**376**	338
Charge for the period/year	**2,055**	53
Exchange difference	**5**	(15)
Balance as at 30 June/31 December	**2,436**	376

15. Amounts held under resale agreements

	30 June 2021	31 December 2020
Principal (a)	**336,881**	286,879
Impairment allowances (a)(d)	**(2,743)**	(743)
Subtotal	**334,138**	286,136
Interest receivable	**140**	126
Total	**334,278**	286,262

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
Amounts held under resale agreements in Mainland China		
– Banks	**41,683**	29,227
– Other financial institutions	**294,628**	257,155
Subtotal	**336,311**	286,382
Amounts held under resale agreements outside Mainland China		
– Other financial institutions	**570**	497
Subtotal	**570**	497
Total	**336,881**	286,879
Less: Impairment allowances		
– Banks	**(122)**	(185)
– Other financial institutions	**(2,621)**	(558)
Subtotal	**(2,743)**	(743)
Net carrying amount	**334,138**	286,136

(b) Analysed by contractual remaining maturity

	30 June 2021	31 December 2020
Maturing		
– Within one month (inclusive)	**333,990**	279,446
– Between one month and one year (inclusive)	**148**	6,690
Total	**334,138**	286,136

(c) Analysed by asset types

	30 June 2021	31 December 2020
Bonds	**317,578**	278,817
Bills	**16,560**	7,319
Total	**334,138**	286,136

(d) Movements of allowances for impairment are as follows:

	2021	2020
Balance as at 1 January	**743**	396
Charge for the period/year	**2,000**	347
Balance as at 30 June/31 December	**2,743**	743

16. Loans and advances to customers

(a) Loans and advances to customers

	30 June 2021	31 December 2020
Gross loans and advances to customers at amortised cost (i)	**4,907,943**	4,647,140
Interest receivable	**9,758**	9,528
Subtotal	**4,917,701**	4,656,668
Loss allowances of loans and advances to customers at amortised cost (i)	**(238,582)**	(234,426)
Loss allowances of interest receivable	**(467)**	(96)
Subtotal	**(239,049)**	(234,522)
Loans and advances to customers at amortised cost	**4,678,652**	4,422,146
Loans and advances to customers at FVTOCI (ii)	**468,424**	375,359
Loans and advances to customers at FVTPL (iii)	**6,954**	6,856
Total	**5,154,030**	4,804,361

(i) Loans and advances to customers at amortised cost

	30 June 2021	31 December 2020
Corporate loans and advances	**2,042,846**	1,965,980
Retail loans and advances	**2,864,990**	2,681,160
Discounted bills	**107**	–
Gross loans and advances to customers at amortised cost	**4,907,943**	4,647,140
Less: loss allowances		
– Stage 1 (12-month ECL)	**(158,802)**	(159,918)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(33,102)**	(27,401)
– Stage 3 (Lifetime ECL-credit impaired)	**(46,678)**	(47,107)
Subtotal	**(238,582)**	(234,426)
Net loans and advances to customers at amortised cost	**4,669,361**	4,412,714

(ii) Loans and advances to customers at FVTOCI

	30 June 2021	31 December 2020
Corporate loans and advances	**42,455**	44,623
Discounted bills	**425,969**	330,736
Loans and advances to customers at FVTOCI	**468,424**	375,359
Loss allowances		
– Stage 1 (12-month ECL)	**(988)**	(226)
– Stage 2 (Lifetime ECL-not credit-impaired)	**(122)**	(12)
– Stage 3 (Lifetime ECL-credit impaired)	**–**	–
Total	**(1,110)**	(238)

No impairment allowance is recognised in the carrying amount of loans and advances to customers at FVTOCI as it is at fair value.

(iii) Loans and advances to customers at FVTPL

	30 June 2021	31 December 2020
Corporate loans and advances	**6,954**	6,856
Total	**6,954**	6,856

16. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operations in Mainland China

	30 June 2021	31 December 2020
Transportation, storage and postal services	**396,826**	381,898
Property development	**342,105**	342,667
Manufacturing	**267,364**	256,173
Production and supply of electric power, heat, gas and water	**168,369**	161,777
Leasing and commercial services	**162,763**	143,805
Wholesale and retail	**130,837**	132,055
Construction	**113,452**	101,442
Water conservancy, environment and public utilities management	**65,786**	52,911
Finance services	**63,432**	74,892
Information transmission, software and IT services	**61,441**	54,491
Mining	**29,956**	31,097
Others	**65,983**	65,330
Corporate loans and advances subtotal	**1,868,314**	1,798,538
Discounted bills	**426,076**	327,479
Residential mortgage	**1,319,638**	1,264,466
Credit cards	**796,870**	746,560
Micro-finance loans	**539,420**	474,545
Others	**164,879**	156,713
Retail loans and advances subtotal	**2,820,807**	2,642,284
Gross loans and advances to customers	**5,115,197**	4,768,301

Operations outside Mainland China

	30 June 2021	31 December 2020
Property development	**62,359**	48,125
Finance services	**45,221**	39,402
Transportation, storage and postal services	**30,733**	30,526
Manufacturing	**27,090**	26,962
Wholesale and retail	**14,129**	17,720
Information transmission, software and IT services	**10,547**	9,644
Production and supply of electric power, heat, gas and water	**9,600**	8,636
Leasing and commercial services	**6,299**	11,223
Mining	**5,349**	9,579
Construction	**3,983**	2,177
Water conservancy, environment and public utilities management	**1,442**	2,383
Others	**6,866**	12,317
Corporate loans and advances subtotal	**223,618**	218,694
Discounted bills	**–**	3,257
Residential mortgage	**10,398**	10,349
Credit cards	**115**	127
Micro-finance loans	**1,603**	1,183
Others	**32,067**	27,217
Retail loans and advances subtotal	**44,183**	38,876
Gross loans and advances to customers	**267,801**	260,827

As at 30 June 2021, over 90% of the Group's loans and advances to customers are originated in the People's Republic of China (31 December 2020: over 90%).

16. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by type of guarantees:

	30 June 2021	31 December 2020
Credit loans	**1,864,395**	1,758,502
Guaranteed loans	**738,330**	696,634
Collateralised loans	**2,026,608**	1,914,658
Pledged loans	**327,589**	328,598
Subtotal	**4,956,922**	4,698,392
Discounted bills	**426,076**	330,736
Gross amount of loans and advances to customers	**5,382,998**	5,029,128

(iii) Analysed by overdue term:

	30 June 2021				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	**9,438**	**10,603**	**2,516**	**962**	**23,519**
Guaranteed loans	**1,396**	**5,160**	**6,196**	**1,871**	**14,623**
Collateralised loans	**2,160**	**3,692**	**3,972**	**1,816**	**11,640**
Pledged loans	**415**	**92**	**4,063**	**490**	**5,060**
Gross amount of loans and advances to customers	**13,409**	**19,547**	**16,747**	**5,139**	**54,842**

	31 December 2020				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	11,350	11,753	1,538	688	25,329
Guaranteed loans	737	3,982	6,165	2,268	13,152
Collateralised loans	3,116	3,901	4,033	1,883	12,933
Pledged loans	381	476	3,737	560	5,154
Gross amount of loans and advances to customers	15,584	20,112	15,473	5,399	56,568

Note: Loans are classified as overdue when the principal or interest is overdue more than one day.

Among the above-mentioned overdue loans and advances to customers, collateralised loans and pledged loans that are overdue but not impaired at the end of the reporting period are as follows:

	30 June 2021	31 December 2020
Collateralised loans that are overdue but not impaired	**1,609**	2,308
Pledged loans that are overdue but not impaired	**268**	177
Total	**1,877**	2,485

16. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(iv) Analysed by ECL:

	30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	**4,739,710**	**113,691**	**54,542**	**4,907,943**
Less: Loss allowances of loans and advances to customers at amortised cost	**(158,802)**	**(33,102)**	**(46,678)**	**(238,582)**
Net loans and advances to customers at amortised cost	**4,580,908**	**80,589**	**7,864**	**4,669,361**
Loans and advances to customers at FVTOCI	**467,648**	**776**	**–**	**468,424**
Loss allowances of loans and advances to customers at FVTOCI	**(988)**	**(122)**	**–**	**(1,110)**

	31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	4,517,239	76,286	53,615	4,647,140
Less: Loss allowances of loans and advances to customers at amortised cost	(159,918)	(27,401)	(47,107)	(234,426)
Net loans and advances to customers at amortised cost	4,357,321	48,885	6,508	4,412,714
Loans and advances to customers at FVTOCI	374,800	559	–	375,359
Loss allowances of loans and advances to customers at FVTOCI	(226)	(12)	–	(238)

16. Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

(i) Movements of allowances for expected credit loss on loans and advances measured at amortised cost:

	Six months ended 30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2021	**159,918**	**27,401**	**47,107**	**234,426**
Transfer to				
– Stage 1	**1,347**	**(1,345)**	**(2)**	**–**
– Stage 2	**(1,729)**	**2,132**	**(403)**	**–**
– Stage 3	**(285)**	**(5,075)**	**5,360**	**–**
(Reversal)/charge for the period	**(470)**	**9,990**	**4,066**	**13,586**
Write-offs/disposals	**–**	**–**	**(14,789)**	**(14,789)**
Unwinding of discount on allowances	**–**	**–**	**(141)**	**(141)**
Recoveries of loans and advances written off	**–**	**–**	**5,485**	**5,485**
Exchange difference	**21**	**(1)**	**(5)**	**15**
Balance as at 30 June 2021	**158,802**	**33,102**	**46,678**	**238,582**

	Year ended 31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2020	138,803	37,644	46,309	222,756
Transfer to				
– Stage 1	2,636	(2,571)	(65)	–
– Stage 2	(552)	1,398	(846)	–
– Stage 3	(565)	(10,698)	11,263	–
Charge for the year	19,696	1,652	25,635	46,983
Write-offs/disposals	–	–	(43,734)	(43,734)
Unwinding of discount on allowances	–	–	(186)	(186)
Recoveries of loans and advances written off	–	–	8,781	8,781
Exchange difference	(100)	(24)	(50)	(174)
Balance as at 31 December 2020	159,918	27,401	47,107	234,426

16. Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

(ii) Movements of allowances for impairment losses on loans and advances measured at FVTOCI:

	2021	2020
Balance as at 1 January	**238**	341
Charge/(reversal) for the period/year	**871**	(101)
Exchange difference	**1**	(2)
Balance as at 30 June 2021/31 December 2020	**1,110**	238

17. Investments

	Notes	**30 June 2021**	31 December 2020
Investments at FVTPL	17(a)	**474,776**	495,723
Debt investments at amortised cost	17(b)	**1,084,214**	1,049,280
Debt investments at FVTOCI	17(c)	**565,665**	516,553
Equity investments designated at FVTOCI	17(d)	**7,031**	7,139
Total		**2,131,686**	2,068,695

(a) Investments at FVTPL

	Notes	**30 June 2021**	31 December 2020
Investments measured at FVTPL	(i)	**444,776**	464,466
Investments designated at FVTPL	(ii)	**30,000**	31,257
Total		**474,776**	495,723

17. Investments *(continued)*

(a) Investments at FVTPL *(continued)*

(i) Investments measured at FVTPL

Investments held for trading

	30 June 2021	31 December 2020
Bonds:		
Classified by issuer		
– Government bonds	45,686	32,254
– Bonds issued by policy banks	24,165	4,845
– Bonds issued by commercial banks and other financial institutions	18,966	22,636
– Other debt securities	41,264	71,395
Subtotal	130,081	131,130
Classified by listing		
– Listed in Mainland China	110,318	110,561
– Listed outside Mainland China	19,301	20,361
– Unlisted	462	208
Subtotal	130,081	131,130
Other investments:		
Classified by underlying assets		
– Equity investments	104	56
– Investments in funds	3,009	2,971
– Wealth management products	279	961
– Long position in precious metal contracts	203	96
Subtotal	3,595	4,084
Classified by listing		
– Listed in Mainland China	83	31
– Listed outside Mainland China	266	140
– Unlisted	3,246	3,913
Subtotal	3,595	4,084
Total investments held for trading	133,676	135,214

17. Investments *(continued)*

(a) Investments at FVTPL *(continued)*

(i) Investments measured at FVTPL *(continued)*

Other investments measured at FVTPL

	30 June 2021	31 December 2020
Bonds:		
Classified by issuer		
– Bonds issued by commercial banks and other financial institutions	**9,246**	8,706
– Other debt securities	**6,855**	6,667
Subtotal	**16,101**	15,373
Classified by listing		
– Listed in Mainland China	**14,555**	14,244
– Listed outside Mainland China	**1,108**	995
– Unlisted	**438**	134
Subtotal	**16,101**	15,373
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	**134,506**	175,303
– Equity investments	**4,030**	3,354
– Investments in funds	**153,403**	133,861
– Wealth management products	**1,846**	298
– Others	**1,214**	1,063
Subtotal	**294,999**	313,879
Classified by listing		
– Listed in Mainland China	**27**	65
– Listed outside Mainland China	**931**	739
– Unlisted	**294,041**	313,075
Subtotal	**294,999**	313,879
Total other investments measured at FVTPL	**311,100**	329,252

(ii) Investments designated at FVTPL

	30 June 2021	31 December 2020
Bonds:		
Classified by issuer		
– Government bonds	**41**	41
– Bonds issued by policy banks	**19,138**	18,431
– Bonds issued by commercial banks and other financial institutions	**9,693**	10,567
– Other debt securities	**1,128**	2,218
Total	**30,000**	31,257
Classified by listing		
– Listed in Mainland China	**28,265**	28,533
– Listed outside Mainland China	**1,735**	2,710
– Unlisted	**–**	14
Total	**30,000**	31,257

17. Investments *(continued)*

(b) Debt investments at amortised cost

	30 June 2021	31 December 2020
Debt investments at amortised cost (i)(ii)	**1,101,842**	1,060,387
Interest receivable	**14,332**	15,099
Subtotal	**1,116,174**	1,075,486
Loss allowances for debt investments at amortised cost (i)(ii)(iii)	**(31,864)**	(26,118)
Loss allowances for interest receivable	**(96)**	(88)
Subtotal	**(31,960)**	(26,206)
Total	**1,084,214**	1,049,280

(i) Debt investments at amortised cost by type：

	30 June 2021	31 December 2020
Bonds:		
Classified by issuer		
– Government bonds	**677,537**	623,727
– Bonds issued by policy banks	**253,562**	252,996
– Bonds issued by commercial banks and other financial institutions	**25,174**	28,157
– Other debt securities	**5,791**	6,529
Subtotal	**962,064**	911,409
Classified by listing		
– Listed in Mainland China	**956,271**	906,053
– Listed outside Mainland China	**2,506**	2,064
– Unlisted	**3,287**	3,292
Subtotal	**962,064**	911,409
Fair value of listed bonds	**971,317**	916,422
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	**–**	12,725
– Non-standard assets – Loans	**126,082**	123,681
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**7,700**	6,400
– Non-standard assets – Others	**5,390**	5,580
– Others	**606**	592
Subtotal	**139,778**	148,978
Classified by listing		
– Unlisted	**139,778**	148,978
Total	**1,101,842**	1,060,387
Less: loss allowances		
Stage 1 (12-month ECL)	**(18,302)**	(11,832)
Stage 2 (Lifetime ECL – not credit-impaired)	**(354)**	(326)
Stage 3 (Lifetime ECL – credit impaired)	**(13,208)**	(13,960)
Subtotal	**(31,864)**	(26,118)
Net debt investments at amortised cost	**1,069,978**	1,034,269

17. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analysed by ECL:

	30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	1,087,200	1,228	13,414	1,101,842
Less: Loss allowances of debt investments at amortised cost	(18,302)	(354)	(13,208)	(31,864)
Net debt investments at amortised cost	1,068,898	874	206	1,069,978

	31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	1,044,826	971	14,590	1,060,387
Less: Loss allowances of debt investments at amortised cost	(11,832)	(326)	(13,960)	(26,118)
Net debt investments at amortised cost	1,032,994	645	630	1,034,269

(iii) Movements of allowances for impairment losses

	Six months ended 30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2021	11,832	326	13,960	26,118
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	–	–	–	–
– Stage 3	–	–	–	–
Charge/(reversal) for the period	6,471	28	(1,147)	5,352
Recoveries of debt previously written off	–	–	397	397
Exchange difference	(1)	–	(2)	(3)
Balance as at 30 June 2021	18,302	354	13,208	31,864

17. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for impairment losses *(continued)*

	Year ended 31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2020	9,179	283	4,533	13,995
Transfer to:				
– Stage 1	–	–	–	–
– Stage 2	–	–	–	–
– Stage 3	(204)	–	204	–
Charge for the year	2,858	43	10,974	13,875
Write-offs	–	–	(1,822)	(1,822)
Recoveries of debt previously written off	–	–	80	80
Exchange difference	(1)	–	(9)	(10)
Balance as at 31 December 2020	11,832	326	13,960	26,118

(c) Debt investments at FVTOCI

	30 June 2021	31 December 2020
Debt investments at FVTOCI (i)	**558,550**	510,307
Interest receivable	**7,115**	6,246
Total	**565,665**	516,553
Impairment allowances of debt investments at FVTOCI (ii)	**(7,745)**	(4,014)
Impairment allowances of interest receivable	**(53)**	(25)
Total	**(7,798)**	(4,039)

No impairment allowance is recognised in the carrying amount of debt investments at FVTOCI as it is at fair value.

17. Investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(i) Debt investments at FVTOCI by type：

	30 June 2021	31 December 2020
Bonds:		
Classified by issuer		
– Government bonds	**334,469**	287,007
– Bonds issued by policy banks	**86,251**	71,542
– Bonds issued by commercial banks and other financial institutions	**85,495**	97,487
– Other debt securities	**52,335**	54,271
Total	**558,550**	510,307
Classified by listing		
– Listed in Mainland China	**456,211**	400,456
– Listed outside Mainland China	**63,795**	64,191
– Unlisted	**38,544**	45,660
Total	**558,550**	510,307

(ii) Movements of allowances for impairment losses

	2021	2020
Balance as at 1 January	**4,014**	2,600
Charge for the period/year	**3,740**	1,492
Exchange difference	**(9)**	(78)
Balance as at 30 June 2021/31 December 2020	**7,745**	4,014

(d) Equity investments designated at FVTOCI

	30 June 2021	31 December 2020
Repossessed equity instruments	**951**	899
Others	**6,080**	6,240
Total	**7,031**	7,139
Listed in Mainland China	**60**	52
Listed outside Mainland China	**2,333**	2,023
Unlisted	**4,638**	5,064
Total	**7,031**	7,139

During the six months ended 30 June 2021, the fair value of equity investments designated at FVTOCI at the date of derecognition was RMB2,217 million (year ended 31 December 2020: RMB433 million), the cumulative profit of RMB1,356 million (year ended 31 December 2020: the cumulative loss of RMB26 million) previously recognised in investment revaluation reserve was then transferred to retained earnings.

18. Interests in joint ventures

	30 June 2021	31 December 2020
Share of net assets	**13,778**	12,403
Share of profits for the period/year	**1,668**	2,392
Share of other comprehensive (expense)/income for the period/year	**(138)**	456

Details of the Group's interests in major joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership held by the Bank	Percentage of ownership held by subsidiaries	Principal activity
CIGNA & CMB Life Insurance Co., Ltd. (note(i))	Limited liability	Shenzhen	RMB2,800,000	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited (note(ii))	Limited liability	Shenzhen	RMB3,868,964	50.00%	24.15%	25.85%	Consumer finance

Notes:

(i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Co., Ltd. ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds the other 50.00% equity interests in CIGNA & CMB Life. The Bank and INA share the joint venture's risk, profits and losses based on their shareholding proportionally. The Bank's investment in CIGNA & CMB Life is accounted for as an investment in joint venture.

(ii) CMB WLB, one of the Group's wholly-owned subsidiaries, and China United Network Communications Limited ("CUNC"), a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"), CBIRC (formerly China Banking Regulatory Commission) approved the operation of MUCFC on 3 March 2015. CMB WLB and CUNC each held 50.00% equity interests in MUCFC and share the risks, profits and losses proportionally based on their shareholdings. In December 2017, the Bank made a capital contribution of RMB600 million in MUCFC, and other shareholders injected capital proportionally. After the capital injection, the capital of MUCFC increased to RMB2,859 million, with the Bank's shareholding percentage becoming 15%, CMB WLB's shareholding percentage becoming 35%, and the Group's total shareholding percentage remained at 50%. In December 2018, the Bank made another capital contribution of RMB1,000 million in MUCFC, and CUNC made the same amount of capital injection. Since then, the Bank holds 24.15% and CMB WLB holds 25.85% of equity interest of MUCFC, respectively, and the Group's total shareholding percentage remains at 50%.

19. Interests in associates

	30 June 2021	31 December 2020
Share of net assets	**8,118**	2,519
Share of profits for the period/year	**517**	489
Share of other comprehensive (expense)/income for the period/year	**(4)**	7

Details of the Group's interests in major associate are as follows:

	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership held by the Bank	Percentage of ownership held by subsidiaries	Principal activity
Bank of Taizhou Co., Ltd.	Limited liability	Taizhou	RMB1,800,000	24.8559%	24.8559%	–	Commercial Bank

Note: The Bank, which originally held a 10% stake in Bank of Taizhou, acquired a total of 14.8559% stake from Ping An Trust Co., Ltd. and Ping An Life Insurance Company of China, Ltd. for a total consideration of RMB3,121 million on 31 May 2021. Upon the completion of the transaction, the Bank held 24.8559% stake of Bank of Taizhou. The Bank can exercise significant influence on Bank of Taizhou and therefore this investment is converted from equity investments designated at FVTOCI to interests in associates.

20. Investment properties

	2021	2020
Cost:		
At 1 January	3,276	3,558
Transfers out for the period/year	–	(173)
Exchange difference	(28)	(109)
At 30 June/31 December	3,248	3,276
Accumulated depreciation:		
At 1 January	1,653	1,633
Depreciation for the period/year	77	166
Transfers out for the period/year	–	(72)
Exchange difference	(19)	(74)
At 30 June/31 December	1,711	1,653
Net book value:		
At 30 June/31 December	1,537	1,623
At 1 January	1,623	1,925

The Group's total future minimum leases receivable under non-cancellable operating leases are as follows:

	30 June 2021	31 December 2020
Within 1 year (inclusive)	324	625
1 year to 2 years (inclusive)	163	358
2 years to 3 years (inclusive)	121	114
3 years to 4 years (inclusive)	106	87
4 years to 5 years (inclusive)	102	66
Over 5 years	403	364
Total	1,219	1,614

21. Property and equipment

	Leasehold land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2021	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Additions	70	669	474	207	9,962	212	11,594
Reclassification and transfers	1	(1)	5	–	–	(5)	–
Disposals	(14)	–	(278)	(28)	(297)	(528)	(1,145)
Exchange difference	(40)	–	(16)	(4)	(518)	(1)	(579)
At 30 June 2021	28,296	3,775	15,334	9,836	57,271	5,977	120,489
Accumulated depreciation:							
At 1 January 2021	11,750	–	11,489	6,132	6,729	4,813	40,913
Depreciation for the period	645	–	1,037	456	1,771	267	4,176
Reclassification and transfers	–	–	3	–	–	(3)	–
Disposals	(2)	–	(244)	(24)	(139)	(472)	(881)
Exchange difference	(21)	–	(11)	(3)	(83)	–	(118)
At 30 June 2021	12,372	–	12,274	6,561	8,278	4,605	44,090
Impairment loss:							
At 1 January 2021	–	–	–	–	236	–	236
Additions for the period	–	–	–	–	–	–	–
At 30 June 2021	–	–	–	–	236	–	236
Net book value:							
At 30 June 2021	15,924	3,775	3,060	3,275	48,757	1,372	76,163
At 1 January 2021	16,529	3,107	3,660	3,529	41,159	1,486	69,470

21. Property and equipment *(continued)*

	Leasehold land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2020	27,356	2,964	13,750	8,510	43,309	6,351	102,240
Additions	290	1,003	2,078	1,081	10,475	777	15,704
Reclassification and transfers	841	(860)	25	172	–	(5)	173
Disposals	(33)	–	(641)	(12)	(2,613)	(821)	(4,120)
Exchange difference	(175)	–	(63)	(90)	(3,047)	(3)	(3,378)
At 31 December 2020	28,279	3,107	15,149	9,661	48,124	6,299	110,619
Accumulated depreciation:							
At 1 January 2020	10,512	–	10,163	5,441	4,523	5,100	35,739
Depreciation for the year	1,270	–	1,948	779	3,109	443	7,549
Reclassification and transfers	72	–	23	–	–	(23)	72
Disposals	(13)	–	(609)	(5)	(479)	(704)	(1,810)
Exchange difference	(91)	–	(36)	(83)	(424)	(3)	(637)
At 31 December 2020	11,750	–	11,489	6,132	6,729	4,813	40,913
Impairment loss:							
At 1 January 2020	–	–	–	–	93	–	93
Additions for the year	–	–	–	–	153	–	153
Exchange difference	–	–	–	–	(10)	–	(10)
At 31 December 2020	–	–	–	–	236	–	236
Net book value:							
At 31 December 2020	16,529	3,107	3,660	3,529	41,159	1,486	69,470
At 1 January 2020	16,844	2,964	3,587	3,069	38,693	1,251	66,408

(a) As at 30 June 2021, the Group had no significant unused property and equipment (31 December 2020: nil).

(b) The Group's total future minimum leases receivable under non-cancellable operating leases relating to its assets under operating leases are as follows:

	30 June 2021	31 December 2020
Within 1 year (inclusive)	**7,029**	5,851
1 year to 2 years (inclusive)	**6,564**	5,316
2 years to 3 years (inclusive)	**5,602**	4,883
3 years to 4 years (inclusive)	**4,711**	4,303
4 years to 5 years (inclusive)	**4,199**	3,916
Over 5 years	**12,857**	13,550
Total	**40,962**	37,819

22. Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Cost:					
At 1 January 2021	5,957	21,122	4	16	27,099
Additions for the period	–	1,562	4	–	1,566
Disposals for the period	(2)	(931)	(1)	–	(934)
At 30 June 2021	5,955	21,753	7	16	27,731
Accumulated depreciation:					
At 1 January 2021	1,009	6,978	2	6	7,995
Depreciation for the period (note 7)	92	2,067	1	2	2,162
Disposals for the period	–	(736)	(1)	–	(737)
At 30 June 2021	1,101	8,309	2	8	9,420
Net carrying amount:					
At 30 June 2021	4,854	13,444	5	8	18,311
At 1 January 2021	4,948	14,144	2	10	19,104

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Cost:					
At 1 January 2020	5,968	18,602	3	18	24,591
Additions for the year	–	3,888	4	2	3,894
Disposals for the year	(11)	(1,368)	(3)	(4)	(1,386)
At 31 December 2020	5,957	21,122	4	16	27,099
Accumulated depreciation:					
At 1 January 2020	830	3,755	1	5	4,591
Depreciation for the year	183	4,228	2	3	4,416
Disposals for the year	(4)	(1,005)	(1)	(2)	(1,012)
At 31 December 2020	1,009	6,978	2	6	7,995
Net carrying amount:					
At 31 December 2020	4,948	14,144	2	10	19,104
At 1 January 2020	5,138	14,847	2	13	20,000

23. Intangible assets

	Software and others	Core deposits	Total
Cost:			
At 1 January 2021	9,576	1,118	10,694
Additions for the period	118	–	118
Exchange difference	(4)	(15)	(19)
At 30 June 2021	9,690	1,103	10,793
Amortisation:			
At 1 January 2021	5,442	489	5,931
Additions for the period (note 7)	563	19	582
Exchange difference	(2)	(7)	(9)
At 30 June 2021	6,003	501	6,504
Net book value:			
At 30 June 2021	3,687	602	4,289
At 1 January 2021	4,134	629	4,763

	Software and others	Core deposits	Total
Cost:			
At 1 January 2020	8,161	1,186	9,347
Additions for the year	1,419	–	1,419
Exchange difference	(4)	(68)	(72)
At 31 December 2020	9,576	1,118	10,694
Amortisation:			
At 1 January 2020	4,294	478	4,772
Additions for the year	1,148	40	1,188
Exchange difference	–	(29)	(29)
At 31 December 2020	5,442	489	5,931
Net book value:			
At 31 December 2020	4,134	629	4,763
At 1 January 2020	3,867	708	4,575

24. Goodwill

	As at 1 January 2021	Addition in the period	Release in the period	As at 30 June 2021	Impairment loss at 1 January 2021 and 30 June 2021	Net value at 1 January 2021 and 30 June 2021
CMB WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
Zhaoyin Internet (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. On the acquisition date, the fair value of CMB WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million, of which the Bank accounted for RMB414 million. A sum of RMB355 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill.

(iii) On 1 April 2015, CMBICHC acquired the 100% equity interests in Zhaoyin Internet Technology (Shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 million. A sum of RMB1 million, being the excess of acquisition cost over the fair value of the identifiable net assets, was recognised as goodwill.

25. Deferred tax assets and liabilities

	30 June 2021	31 December 2020
Deferred tax assets	**79,866**	72,893
Deferred tax liabilities	**(1,228)**	(1,073)
Net amount	**78,638**	71,820

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	30 June 2021		31 December 2020	
	Deductible/ (taxable) temporary difference	**Deferred tax**	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment loss/allowances on loans and advances to customers at amortised cost and other assets	**277,789**	**69,264**	245,221	61,340
Financial assets at FVTOCI	**(7,279)**	**(1,823)**	(6,673)	(1,406)
Financial instruments at FVTPL	**2,219**	**556**	6,309	1,577
Salaries and welfare payable	**40,493**	**10,088**	37,592	9,363
Others	**7,137**	**1,781**	8,665	2,019
Total	**320,359**	**79,866**	291,114	72,893
Deferred tax liabilities				
Impairment loss/allowances on loans and advances to customers at amortised cost and other assets	**369**	**61**	–	–
Financial assets at FVTOCI	**(77)**	**(12)**	10	2
Financial instruments at FVTPL	**(133)**	**(24)**	8	2
Others	**(7,546)**	**(1,253)**	(6,677)	(1,077)
Total	**(7,387)**	**(1,228)**	(6,659)	(1,073)

25. Deferred tax assets and liabilities *(continued)*

(b) Movements of deferred tax are as follows:

	Impairment loss/allowances on loans and advances to customers at amortised cost and other assets	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable	Others	Total
At 1 January 2021	61,340	(1,404)	1,579	9,363	942	71,820
Recognised in profit or loss	8,018	1,152	(1,047)	725	(448)	8,400
Recognised in other comprehensive income	–	(1,591)	–	–	4	(1,587)
Exchange difference	(33)	8	–	–	30	5
At 30 June 2021	69,325	(1,835)	532	10,088	528	78,638

	Impairment loss/allowances on loans and advances to customers at amortised cost and other assets	Financial assets at FVTOCI	Financial instruments at FVTPL	Salaries and welfare payable	Others	Total
At 1 January 2020	59,232	(2,244)	(313)	6,621	899	64,195
Recognised in profit or loss	2,160	336	1,899	2,742	28	7,165
Recognised in other comprehensive income	–	507	–	–	(3)	504
Exchange difference	(52)	(3)	(7)	–	18	(44)
At 31 December 2020	61,340	(1,404)	1,579	9,363	942	71,820

Note: No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

26. Deposits from banks and other financial institutions

	30 June 2021	31 December 2020
Principal (a)	**764,090**	719,764
Interest payable	**2,902**	3,638
Total	**766,992**	723,402

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	**145,530**	143,846
– Other financial institutions	**603,877**	568,557
Subtotal	**749,407**	712,403
Outside Mainland China		
– Banks	**13,242**	6,964
– Other financial institutions	**1,441**	397
Subtotal	**14,683**	7,361
Total	**764,090**	719,764

27. Placements from banks and other financial institutions

	30 June 2021	31 December 2020
Principal (a)	**168,687**	143,117
Interest payable	**437**	400
Total	**169,124**	143,517

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	**92,313**	75,768
– Other financial institutions	**26,111**	21,142
Subtotal	**118,424**	96,910
Outside Mainland China		
– Banks	**49,786**	46,011
– Other financial institutions	**477**	196
Subtotal	**50,263**	46,207
Total	**168,687**	143,117

28. Financial liabilities at fair value through profit or loss

	30 June 2021	31 December 2020
Financial liabilities held for trading (a)	**18,193**	20,990
Financial liabilities designated at FVTPL (b)	**54,480**	39,361
Total	**72,673**	60,351

(a) Financial liabilities held for trading

	30 June 2021	31 December 2020
Financial liabilities related to precious metal	**17,216**	20,361
Short position on bonds	**977**	629
Total	**18,193**	20,990

(b) Financial liabilities designated at FVTPL

	30 June 2021	31 December 2020
In Mainland China		
– Placements of precious metal from financial institutions	**10,200**	1,589
– Others	**29,997**	20,773
Outside Mainland China		
– Certificates of deposit issued	**593**	605
– Debt securities issued	**10,575**	13,914
– Others	**3,115**	2,480
Total	**54,480**	39,361

As at 30 June 2021 and 31 December 2020, the difference between the fair values of the Group's financial liabilities designated at FVTPL and the contractual amount payable at maturity is not material. The amounts of changes in the fair value that are attributable to changes in credit risk of these liabilities are not significant during the six months ended 30 June 2021 and the year ended 31 December 2020 and as at 30 June 2021 and 31 December 2020.

29. Amounts sold under repurchase agreements

	30 June 2021	31 December 2020
Principal (a)(b)	**122,081**	142,881
Interest payable	**62**	46
Total	**122,143**	142,927

(a) Analysed by nature of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	**117,631**	136,248
– Other financial institutions	**2,007**	980
Subtotal	**119,638**	137,228
Outside Mainland China		
– Banks	**1,244**	4,868
– Other financial institutions	**1,199**	785
Subtotal	**2,443**	5,653
Total	**122,081**	142,881

(b) Analysed by asset types

	30 June 2021	31 December 2020
Bonds		
– Government bonds	**49,448**	45,684
– Bonds issued by policy banks	**24,708**	53,445
– Bonds issued by commercial banks and other financial institutions	**2,099**	4,872
– Others	**4,530**	4,351
Subtotal	**80,785**	108,352
Discounted bills	**41,296**	34,529
Total	**122,081**	142,881

30. Deposits from customers

	30 June 2021	31 December 2020
Principal (a)	**5,980,165**	5,628,336
Interest payable	**38,780**	35,799
Total	**6,018,945**	5,664,135

(a) Analysed by category

	30 June 2021	31 December 2020
Corporate customers		
– Demand deposits	**2,453,136**	2,306,134
– Time deposits	**1,382,437**	1,289,556
Subtotal	**3,835,573**	3,595,690
Retail customers		
– Demand deposits	**1,517,728**	1,400,520
– Time deposits	**626,864**	632,126
Subtotal	**2,144,592**	2,032,646
Total	**5,980,165**	5,628,336

31. Provision

	30 June 2021	31 December 2020
Expected credit loss provision	**20,894**	7,236
Others	**993**	993
Total	**21,887**	8,229

Expected credit loss provisions for loan commitments and financial guarantee contracts are as follows:

	30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provision	**17,403**	**2,901**	**590**	**20,894**

	31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provision	5,560	1,073	603	7,236

32. Debt securities issued

	Notes	30 June 2021	31 December 2020
Subordinated bonds issued	(a)	**34,264**	34,302
Long-term debt securities issued	(b)	**181,942**	146,559
Negotiable interbank certificates of deposit issued		**192,797**	144,816
Certificates of deposit issued		**15,117**	18,479
Interest payable		**4,598**	1,985
Total		**428,718**	346,141

(a) Subordinated bonds issued

At the end of the reporting period, subordinated bonds issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual coupon rate (%)	Nominal value (in million)	Beginning balance (in RMB million)	Discount or premium amortisation (in RMB million)	Repayment during the period (in RMB million)	Ending balance (in RMB million)
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,694	(4)	–	11,690
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	19,995	(3)	–	19,992
Total					31,689	(7)	–	31,682

At the end of the reporting period, subordinated note issued by CMB WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual coupon rate (%)	Nominal value (in million)	Beginning balance (in RMB million)	Discount or premium amortisation (in RMB million)	Exchange difference (in RMB million)	Ending balance (in RMB million)
Fixed to floating rate notes	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75% (from the 6th year onwards, if the notes are not called by CMBWLB)	USD400	2,613	–	(31)	2,582
Total					2,613	–	(31)	2,582

* T represents 5-year US Treasury bond yield.

32. Debt securities issued *(continued)*

(b) Long-term debt securities issued

At the end of reporting period, long-term debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual coupon rate (%)	Nominal value (in million)	Beginning balance (in RMB million)	Issuance during the period (in RMB million)	Discount or premium amortisation (in RMB million)	Exchange difference (in RMB million)	Repayment during the period (in RMB million)	Ending balance (in RMB million)
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	29,983	–	6	–	–	29,989
Medium term note (i)	36 months	12 Jun 2019	0.25	EUR300	2,411	–	(2)	(107)	–	2,302
Medium term note	36 months	19 Jun 2019	3M Libor+0.74	USD600	3,920	–	(1)	(45)	–	3,874
Fixed rate bond	36 months	5 Jul 2019	3.45	RMB30,000	29,991	–	4	–	–	29,995
Medium term note	33 months	4 Sep 2019	3M Libor+0.74	USD60	392	–	(1)	(4)	–	387
Fixed rate bond	36 months	24 Sep 2019	3.33	RMB20,000	19,996	–	1	–	–	19,997
Medium term note (ii)	36 months	25 Sep 2020	1.10	USD400	2,610	–	(1)	(29)	–	2,580
Medium term note (iii)	36 months	25 Sep 2020	0.25	USD300	1,955	–	(2)	(21)	–	1,932
Fixed rate bond	36 months	6 Nov 2020	3.48	RMB10,000	9,998	–	(1)	–	–	9,997
Fixed rate bond	36 months	11 Mar 2021	3.40	RMB10,000	–	9,999	(2)	–	–	9,997
Fixed rate bond	36 months	3 Jun 2021	3.18	RMB20,000	–	19,997	–	–	–	19,997
Total					101,256	29,996	1	(206)	–	131,047

(i) Financial bonds issued by the Bank that were held by CMB WLB amounted to EUR37 million as of 30 June 2021, equivalent to RMB280 million (31 December 2020: EUR37 million, equivalent to RMB293 million).

(ii) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD30 million as of 30 June 2021, equivalent to RMB194 million (31 December 2020: USD30 million, equivalent to RMB196 million).

(iii) Financial bonds issued by the Bank that were held by CMB WLB amounted to USD30 million as of 30 June 2021, equivalent to RMB194 million (31 December 2020: USD30 million, equivalent to RMB196 million).

32. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

At the end of the reporting period, long-term debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual coupon rate (%)	Nominal value (in million)	Beginning balance (in RMB million)	Issuance during the period (in RMB million)	Discount or premium amortisation (in RMB million)	Exchange difference (in RMB million)	Repayment during the period (in RMB million)	Ending balance (in RMB million)
Fixed rate bond	60 months	29 Nov 2016	3.25	USD900	5,873	–	3	(65)	–	5,811
Fixed rate bond (i)	36 months	14 Mar 2018	5.24	RMB4,000	3,999	–	1	–	(4,000)	–
Fixed rate bond (ii)	36 months	9 May 2018	4.80	RMB4,000	3,999	–	1	–	(4,000)	–
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	3,998	–	2	–	–	4,000
Fixed rate bond	36 months	14 Mar 2019	3.50	RMB1,500	1,498	–	1	–	–	1,499
Fixed rate bond	60 months	14 Mar 2019	4.00	RMB500	499	–	–	–	–	499
Fixed rate bond	36 months	28 May 2019	3.68	RMB3,000	2,996	–	1	–	–	2,997
Fixed rate bond (iii)	60 months	25 Jun 2019	3.12	USD900	5,843	–	5	(65)	–	5,783
Fixed rate bond (iv)	120 months	25 Jun 2019	3.69	USD100	648	–	–	(7)	–	641
Fixed rate bond	36 months	17 Jul 2019	3.60	RMB3,000	2,995	–	2	–	–	2,997
Fixed rate bond (v)	12 months	17 Apr 2020	1.73	USD40	261	–	–	–	(261)	–
Fixed rate bond	120 months	14 Jul 2020	4.25	RMB2,000	1,992	–	–	–	–	1,992
Fixed rate bond (vi)	60 months	12 Aug 2020	1.88	USD800	5,204	–	2	(58)	–	5,148
Fixed rate bond (vii)	120 months	12 Aug 2020	2.75	USD400	2,588	–	1	(27)	–	2,562
Fixed rate bond (viii)	36 months	17 Nov 2020	3.85	RMB4,000	3,989	–	2	–	–	3,991
Fixed rate bond	12 months	28 Dec 2020	1.50	USD20	131	–	–	(2)	–	129
Fixed rate bond (ix)	36 months	28 Jan 2021	3.60	RMB4,000	–	4,000	(10)	–	–	3,990
Fixed rate bond (x)	60 months	4 Feb 2021	2.00	USD400	–	2,584	1	(12)	–	2,573
Fixed rate bond (xi)	60 months	5 Feb 2021	2.88	USD400	–	2,588	1	(36)	–	2,553
Fixed rate bond	18 months	19 Mar 2021	1.16	USD50	–	326	–	(3)	–	323
Fixed rate bond (xii)	36 months	24 Mar 2021	3.58	RMB2,000	–	2,000	(5)	–	–	1,995
Fixed rate bond	60 months	24 Mar 2021	2.00	USD20	–	130	–	(2)	–	128
Total					46,513	11,628	8	(277)	(8,261)	49,611

Notes:

(i) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to nil as of 30 June 2021 (31 December 2020: RMB260 million).

(ii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to nil as of 30 June 2021 (31 December 2020: RMB140 million).

(iii) Fixed rate bonds issued by China Merchant Bank International Leasing Management Limited (CMBILM), a wholly-owned subsidiary of CMBFLC that were held by the Bank amounted to USD152 million, equivalent to RMB982 million as of 30 June 2021 (31 December 2020: USD98 million, equivalent to RMB639 million).

Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD30 million, equivalent to RMB194 million as of 30 June 2021 (31 December 2020: USD30 million, equivalent to RMB196 million).

(iv) Fixed rate bonds issued by CMBILM that were held by the Bank amounted to USD43 million, equivalent to RMB278 million as of 30 June 2021 (31 December 2020: USD43 million, equivalent to RMB282 million).

(v) Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to nil as of 30 June 2021 (31 December 2020: USD40 million, equivalent to RMB261 million).

(vi) Fixed rate bonds issued by CMBILM that were held by the Bank amounted to USD21 million, equivalent to RMB135 million as of 30 June 2021 (31 December 2020: nil).

Fixed rate bonds issued by CMBILM that were held by CMB WLB amounted to USD32 million, equivalent to RMB207 million as of 30 June 2021 (31 December 2020: USD32 million, equivalent to RMB209 million).

(vii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD5 million, equivalent to RMB31 million as of 30 June 2021 (31 December 2020: nil).

(viii) Fixed rate bonds issued by CMBFLC that were held by the Bank, amounted to RMB500 million as of 30 June 2021 (31 December 2020: RMB500 million).

(ix) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to RMB800 million as of 30 June 2021 (31 December 2020: nil).

(x) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD24 million, equivalent to RMB156 million as of 30 June 2021 (31 December 2020: nil).

(xi) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to USD48 million, equivalent to RMB307 million as of 30 June 2021 (31 December 2020: nil).

(xii) Fixed rate bonds issued by CMBFLC that were held by the Bank amounted to RMB70 million as of 30 June 2021 (31 December 2020: nil).

32. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

As at the end of the reporting period, long-term debt securities issued by CMBICHC were as follows:

Debt type	Term to maturity	Date of issuance	Annual coupon rate (%)	Nominal value (in million)	Beginning balance (in RMB million)	Issuance during the period (in RMB million)	Discount or premium amortisation (in RMB million)	Exchange difference (in RMB million)	Ending balance (in RMB million)
Fixed rate bond	36 months	9 Jul 2018	3.72	USD300	1,962	–	–	(24)	1,938
Fixed rate bond (i)	36 months	2 Jun 2021	1.38	USD600	–	3,900	(6)	(23)	3,871
Total					1,962	3,900	(6)	(47)	5,809

Note:

(i) Fixed rate bonds issued by CMBICHC that were held by CMB WLB amounted to USD31 million, equivalent to RMB197 million as of 30 June 2021 (31 December 2020: nil).

33. Share capital

By type of shares:

	30 June 2021	31 December 2020
Listed shares		
– A-Shares	**20,629**	20,629
– H-Shares	**4,591**	4,591
Total	**25,220**	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares. There is no restriction condition on these shares.

	Share Capital	
	No. of shares (in million)	Amount
At 1 January 2021 and at 30 June 2021	**25,220**	**25,220**

34. Other equity instruments

(a) Preference Shares

	30 June 2021		31 December 2020	
	No. (millions of shares)	Amount (in RMB million)	No. (millions of shares)	Amount (in RMB million)
Issued Offshore Preference Shares (note (i))	**50**	**6,597**	50	6,597
Issued Domestic Preference Shares (note (ii))	**275**	**27,468**	275	27,468
Total	**325**	**34,065**	325	34,065

Notes:

(i) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued US Dollar traded and settled non-cumulative Offshore Preference Shares in the aggregate nominal value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a nominal value of USD20 and 50 million Offshore Preference Shares were issued in total. The dividend rate is initially at 4.40% and subject to reset per agreement subsequently, but not exceeds 16.68%.

(ii) Pursuant to the approvals by the relevant regulatory authorities in China, the Bank issued non-cumulative Domestic Preference Shares in the aggregate par value of RMB27,500 million on 18 December 2017. Each Domestic Preference Share has a nominal value of RMB100 and 275 million Domestic Preference Shares were issued in total. The dividend rate is initially at 4.81% and subject to reset per agreement subsequently, but not exceeds 16.68%.

(iii) Dividends on the Offshore and Domestic Preference Shares shall be paid in cash, in which Domestic Preference Share divided shall be declared and distributed in RMB and Offshore Preference Share divided shall be declared and distributed in USD. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares are not entitled to share the remaining profits of the Bank with the ordinary shareholders. Dividend is non-cumulative. The Bank has the right to cancel any dividend on Preference Shares, and such cancellation shall not be deemed as a default. After the cancellation of all or part of the dividend to preference shareholders, the Bank shall not make any ordinary shares distribution, until the Preference Shares dividend is resumed in full. As the dividends on the Offshore and Domestic Preference Shares are non-cumulative, the Bank will not distribute the dividends that were cancelled in prior years to Preference Shares holders.

The Offshore and Domestic Preference Shares have no maturity date. However, after the fifth anniversary of the issuance date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Offshore and Domestic Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem preference shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that Preference Shares will be redeemed.

Both Domestic and Offshore Preference Shares have clauses that state certain events would trigger mandatory conversion, those clauses are as follows:

(1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, part or all of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares in order to restore the Core Tier-1 Capital Adequacy Ratio of the Bank to above 5.125%. In the case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.

(2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the consent of the holders of Preference Shares, all of the Preference Shares then issued and outstanding into Ordinary A Shares (Domestic Preference Shares) or Ordinary H Shares (Offshore Preference Shares) based on the total nominal value of the Preference Shares. A Tier-2 Capital Trigger Event means the earlier of the following events: 1) CBIRC having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBIRC for review and determination. The Bank shall fulfil the relevant information disclosure requirements of the Securities Law, the CSRC and Hong Kong's relevant laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

34. Other equity instruments *(continued)*

(b) Perpetual Bonds

	30 June 2021		31 December 2020	
	No. (millions of shares)	Amount (in RMB million)	No. (millions of shares)	Amount (in RMB million)
Issued Perpetual Bonds (note (i))	**500**	**49,989**	500	49,989
Total	**500**	**49,989**	500	49,989

Note:

(i) With the approval of the relevant regulatory authorities in China, the Bank issued RMB50,000 million of *2020 China Merchants Bank Co., Ltd. Undated Additional Tier-1 Capital Bonds (Series 1)* (the "Perpetual Bonds") in the national inter-bank bond market on 9 July 2020. The unit face value is RMB100. The initial coupon rate is 3.95%, and the adjusted period is every 5 years from the issuance of the Perpetual Bonds. In any coupon rate adjusted period, the coupon rate of the Perpetual Bonds will remain at a prescribed fixed coupon rate. The Perpetual Bonds will continue to be outstanding so long as the Bank continues to operate. With the approval of the competent authorities, the net proceeds from the issuance of the Perpetual Bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

The coupon 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 or benchmark rate reset date, as indicated by the yield curve of applicable 5-year China Treasury Notes (rounded to 0.01%) published on the China Bond website (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

From the fifth anniversary since the issuance of the Perpetual Bonds, the Bank has the right to redeem in whole or part of the Perpetual Bonds on the annual interest payment date (including the interest payment date of the fifth year since the issuance date) subject to the approval of the CBIRC and the satisfaction of the redemption preconditions. If, after the issuance, the Perpetual Bonds no longer qualify as additional Tier 1 capital as a result of an unforeseeable change to relevant provisions of supervisory regulation, the Bank has the right to redeem the whole but not part of the Perpetual Bonds. The investors do not have the right to sell back the Perpetual Bonds to the Bank.

The claims in respect of the Perpetual Bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the Perpetual Bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional Tier-1 capital instruments of the Bank that rank pari passu with the Perpetual Bonds.

The coupon rate will be reset on each benchmark rate reset date (i.e., the date of every five years from the payment settlement date on 9 July 2020). The adjusted coupon rate will be determined based on the benchmark interest rate at adjustment date plus the fixed spread as determined at the time of issuance. The Perpetual Bonds do not contain interest rate step-up mechanism or any other redemption incentives. The Bank has the right to cancel, in whole or in part, distributions on the Perpetual Bonds and any such cancellation will not constitute an event of default. The Bank will fully consider the interests of bondholders when exercising this right. The Bank can use the cancelled bond interest for the current period at its discretion to repay other due debts. The bond interests are non-cumulative. Cancellation of any distributions to the Perpetual Bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares.

35. Investment revaluation reserve

	30 June 2021	31 December 2020
Debt instruments measured at FVTOCI	**7,548**	4,281
Fair value gain on equity instruments designated at FVTOCI	**2,753**	3,064
Remeasurement of defined benefit liability	**99**	73
Share of other comprehensive income from equity-accounted investees	**647**	789
Total	**11,047**	8,207

36. Profit appropriations

(a) Dividends declared/distributed by shareholders

	Six months ended 30 June 2021	Year ended 31 December 2020
Dividends in 2020, approved and declared (RMB1.253 per share)	**31,601**	–
Dividends in 2019, approved and distributed (RMB1.20 per share)	–	30,264

(b) Proposed profit appropriations

	Six months ended 30 June 2021	Year ended 31 December 2020
Statutory surplus reserve	–	8,867
Regulatory general reserve	**370**	7,931
Dividends		
– cash dividend: nil (2020: RMB1.253 per share)	–	31,601
Total	**370**	48,399

The profit appropriation for the year ended 31 December 2020 was proposed in accordance with the resolution passed at the meeting of the board of directors held on 19 March 2021 and approved by the 2020 annual general meeting held on 25 June 2021.

37. Notes to unaudited consolidated statement of cash flows

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	30 June 2021	30 June 2020
Cash and balances with central banks	**50,119**	40,037
Balances with banks and other financial institutions	**119,637**	73,165
Placements with banks and other financial institutions	**82,838**	118,304
Amounts held under resale agreements	**333,164**	225,683
Debt securities investments and discounted bills	**8,007**	33,860
Total	**593,765**	491,049

(b) Significant non-cash transactions

There were no significant non-cash transactions during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

38. Operating segments

The Group's principal business is the provision of deposit and loan business, treasury business, asset management and other financial services for retail and wholesale customers.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geographies. The reportable segments information is as follows:

– Wholesale finance business

The financial services for the corporate clients, government agencies and financial institutions include: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business on lending and repo, asset custody business, financial market business, and other services.

– Retail finance business

The financial services to retail customers include lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

– Other business

Other business covers investment properties, investments in subsidiaries (except for CMB WLB), associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and allocation of the remaining amount.

The accounting policies of the operating segments are the same as the Group's accounting policies. Operating segment income represents income generated from external customers. Inter-segment transactions are eliminated. No customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2021 and 2020. Internal transactions are conducted on fair value basis.

38. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	2021	2020	2021	2020	2021	2020	2021	2020
External net interest income	9,989	8,761	66,112	61,183	23,240	20,929	99,341	90,873
Internal net interest income/(expense)	32,973	30,124	(8,905)	(8,654)	(24,068)	(21,470)	–	–
Net interest income/(expense)	42,962	38,885	57,207	52,529	(828)	(541)	99,341	90,873
Net fee and commission income	16,350	13,577	31,828	25,536	4,076	3,156	52,254	42,269
Other net income	10,595	10,247	1,180	700	3,275	2,892	15,050	13,839
Operating income	69,907	62,709	90,215	78,765	6,523	5,507	166,645	146,981
Operating expenses								
– Property, equipment and investment properties depreciation	(947)	(877)	(1,415)	(1,273)	(1,891)	(1,587)	(4,253)	(3,737)
– Right-of-use assets depreciation	(850)	(895)	(1,201)	(1,216)	(111)	(97)	(2,162)	(2,208)
– Others	(17,016)	(15,496)	(24,262)	(21,418)	(2,919)	(2,023)	(44,197)	(38,937)
Subtotal	(18,813)	(17,268)	(26,878)	(23,907)	(4,921)	(3,707)	(50,612)	(44,882)
Reportable segment profit before expected credit losses	51,094	45,441	63,337	54,858	1,602	1,800	116,033	102,099
Expected credit losses and impairment for other assets	(19,115)	(19,173)	(22,757)	(20,980)	(23)	(290)	(41,895)	(40,443)
Impairment for other assets								
Share of profit of associates and joint ventures	–	–	–	–	2,185	1,182	2,185	1,182
Reportable segment profit before tax	31,979	26,268	40,580	33,878	3,764	2,692	76,323	62,838
Capital expenditure (note)	663	738	971	1,005	10,078	5,083	11,712	6,826

Note: Capital expenditure represents the amount incurred for acquiring segment assets which are expected to be used for more than one year.

	Wholesale finance business		Retail finance business		Other business		Total	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Reportable segment assets	4,746,285	4,489,868	2,790,542	2,617,109	1,243,646	1,163,007	8,780,473	8,269,984
Reportable segment liabilities	5,021,713	4,477,918	2,188,960	2,075,680	791,367	994,548	8,002,040	7,548,146
Interests in associates and joint ventures	–	–	–	–	21,896	14,922	21,896	14,922

38. Operating segments *(continued)*

(b) Reconciliations of reportable segments operating income, profit or loss, assets, liabilities and other material items

	Six months ended 30 June 2021	Six months ended 30 June 2020
Total operating income for reportable segments	**166,645**	146,981
Total profit before taxation for reportable segments	**76,323**	62,838

	30 June 2021	31 December 2020
Assets		
Total assets for reportable segments	**8,780,473**	8,269,984
Goodwill	**9,954**	9,954
Intangible assets	**602**	629
Deferred tax assets	**79,866**	72,893
Other unallocated assets	**14,991**	7,988
Consolidated total assets	**8,885,886**	8,361,448
Liabilities		
Total liabilities for reportable segments	**8,002,040**	7,548,146
Tax payable	**22,160**	18,648
Deferred tax liabilities	**1,228**	1,073
Other unallocated liabilities	**98,890**	63,227
Consolidated total liabilities	**8,124,318**	7,631,094

38. Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in Mainland China with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operating Hong Kong, New York, Singapore, Luxembourg, London and Sydney, subsidiaries operating in Hong Kong, Shanghai, Shenzhen, Luxembourg and Beijing, and representative offices in Beijing, New York and Taipei.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

To support the Bank's operations and management's assessments, the geographical segments are defined as follows:

- "Headquarters" refers to the Group headquarters and credit card centres;
- "Yangtze River Delta" region refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;
- "Bohai Rim region" refers to branches and representative offices in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;
- "Pearl River Delta and West side of Taiwan Strait region" refers to branches in Guangdong province and Fujian province;
- "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;
- "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;
- "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;
- "Overseas" refers to overseas branches in Hong Kong, New York, Singapore, Luxembourg, London, Sydney and representative offices in New York, and Taipei; and
- "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBICHC, CMBFLC, CMFM, CMBWM, CMB Europe S.A., and CIGNA & CMAM etc.

	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
Geographical information	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	Six months ended 30 June 2021	Six months ended 30 June 2020	Six months ended 30 June 2021	Six months ended 30 June 2020
Headquarter	**3,972,998**	3,779,914	**3,376,591**	3,249,998	**45,309**	40,757	**73,701**	62,164	**19,135**	3,575
Yangtze River Delta region	**1,163,018**	1,045,508	**1,152,164**	1,026,332	**5,995**	6,149	**21,249**	18,090	**13,429**	13,407
Bohai Rim region	**697,380**	640,583	**689,433**	625,403	**4,418**	4,525	**15,998**	14,924	**9,718**	11,377
Pearl River Delta and West side of Taiwan Strait region	**955,803**	896,144	**938,847**	871,249	**4,188**	4,263	**18,654**	16,843	**11,929**	12,292
Northeast region	**180,517**	165,961	**179,435**	164,666	**1,643**	1,790	**3,083**	3,042	**1,406**	966
Central region	**546,152**	513,998	**542,059**	504,742	**3,983**	4,132	**10,211**	9,332	**5,268**	6,162
Western region	**569,423**	517,523	**564,268**	508,471	**3,990**	4,150	**10,276**	9,265	**6,620**	6,380
Overseas	**170,868**	220,214	**169,730**	215,032	**954**	1,053	**1,354**	1,708	**844**	1,067
Subsidiaries	**629,727**	581,603	**511,791**	465,201	**61,670**	53,017	**12,119**	11,613	**7,974**	7,612
Total	**8,885,886**	8,361,448	**8,124,318**	7,631,094	**132,150**	119,836	**166,645**	146,981	**76,323**	62,838

Note: Non-current assets include interests in joint ventures, interests in associates, property and equipment, investment properties, intangible assets, right-of-use assets, goodwill and etc.

39. Contingent liabilities and commitments

(a) Credit commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Bills of acceptance represent undertakings by the Group to pay bills of exchange drawn by customers. The Group expects most bills of acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of loan commitments and financial guarantees by category are set out in the following tables. The amounts reflected in the tables for commitments assume that amounts are fully advanced. The amounts reflected in the tables for guarantees and letters of credit represent the maximum potential loss that would be recognised at the end of the reporting period if counterparties default.

	30 June 2021			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Contractual amount				
Irrevocable guarantees	**210,645**	**1,414**	**257**	**212,316**
Of which: Financial guarantees	**74,679**	**514**	**3**	**75,196**
Non-financial guarantees	**135,966**	**900**	**254**	**137,120**
Irrevocable letters of credit	**133,892**	**1,494**	**–**	**135,386**
Bills of acceptances	**320,009**	**7,348**	**570**	**327,927**
Irrevocable loan commitments	**122,589**	**3,924**	**2**	**126,515**
– with an original maturity within 1 year (inclusive)	**23,760**	**–**	**2**	**23,762**
– with an original maturity over 1 year	**98,829**	**3,924**	**–**	**102,753**
Credit card commitments	**1,205,447**	**9,315**	**107**	**1,214,869**
Others	**119,868**	**328**	**–**	**120,196**
Total	**2,112,450**	**23,823**	**936**	**2,137,209**

	31 December 2020			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Irrevocable guarantees	212,580	508	265	213,353
Of which: Financial guarantees	95,914	399	3	96,316
Non-financial guarantees	116,666	109	262	117,037
Irrevocable letters of credit	120,748	241	3	120,992
Bills of acceptances	265,213	1,671	292	267,176
Irrevocable loan commitments	206,524	3,132	45	209,701
– with an original maturity within 1 year (inclusive)	117,712	198	45	117,955
– with an original maturity over 1 year	88,812	2,934	–	91,746
Credit card commitments	1,128,152	6,468	113	1,134,733
Others	100,419	–	–	100,419
Total	2,033,636	12,020	718	2,046,374

39. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

As at 30 June 2021, the Group's irrevocable letters of credit includes sight letters of credit of RMB15,576 million (31 December 2020: RMB12,965 million), usance letters of credit of RMB9,116 million (31 December 2020: RMB6,516 million), and other commitments of RMB110,694 million (31 December 2020: RMB101,511 million).

Irrevocable loan commitments include credit limits granted to offshore customers by overseas branches and subsidiaries, and onshore and offshore syndicated loans etc.

These loan commitments and financial guarantees have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for contingent credit losses accordingly. As the facilities may expire without being drawn upon, the total contractual amounts is not representative of the expected future cash outflows.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB3,815,644 million at 30 June 2021 (31 December 2020: RMB3,606,998 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group does not assume any risks on the unused credit limits for these loan commitments. As a result, such balances are not included in the loan commitments and financial guarantees disclosed above.

	30 June 2021	31 December 2020
Credit risk weighted amounts of loan commitments and financial guarantees	**545,921**	470,782

The Group calculated the credit risk weighted amount of its contingent liabilities and commitments in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the Internal Ratings-Based Approach, and the Weighted Approach are used to cover those amounts not eligible for the Internal Ratings-Based Approach.

(b) Capital commitments

Authorised capital commitments were as follows:

	30 June 2021	31 December 2020
Contracted for	**13,033**	12,851
Authorised but not contracted for	**213**	294
Total	**13,246**	13,145

(c) Outstanding litigations

At 30 June 2021, the Bank and/or its subsidiaries were a defendant in certain outstanding litigations with gross claims of RMB880 million (31 December 2020: RMB573 million) arising from their operating activities. The board of directors considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the interim consolidated financial statements.

39. Contingent liabilities and commitments *(continued)*

(d) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back bonds underwritten by itself if the bond holders decide to redeem the bonds before maturity. The redemption prices for the bonds at any time before their maturity date are based on the face value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules issued by the Ministry of Finance and the PBOC. The redemption prices may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	30 June 2021	31 December 2020
Redemption obligations	**28,479**	27,095

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be significant.

40. Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital, and instruct the Group to lend it to the specified targets on their behalf in accordance with specific terms and conditions, and the Group is contracted to disburse the loan, monitor its usage and seek loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted loans are not assets of the Group and therefore not recognised in the unaudited consolidated statement of financial position. Income received and receivable for providing these services are recognised in the unaudited consolidated statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	30 June 2021	31 December 2020
Entrusted loans	**270,631**	264,107
Entrusted funds	**(270,631)**	(264,107)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers, and the funds received are invested in Treasury bonds, policy bank bonds, commercial papers, trust loans and etc. The Group initiates those wealth management products, but the investment risks associated with the underlying assets are borne by the holders of the wealth management products. The Group does not consolidate these wealth management products. The Group earns fee and commission for the provision of custody, sales and management services.

The wealth management products and funds obtained are not assets and liabilities of the Group and therefore not recognised in the unaudited consolidated statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	30 June 2021	31 December 2020
Funds received from customers under wealth management services	**2,568,577**	2,386,085

41. Risk management

(a) Credit risk

Credit risk represents the potential losses that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic factors, which may eventually affect their repayment abilities.

The Group designs its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the board of directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulates credit policy guidelines, enhances the standards on credit acceptance and management requirements for corporate, interbank and institutional clients, and implements limits in key risk areas to improve the quality of credit exposure.

With respect to credit risk management of retail financial business, the Group mainly relies on the credit assessment of applicants as the basis for loan approval, which takes into consideration the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or risks migrating measures. Collateral portfolio and legal covenants are reviewed regularly to ensure that they remain sufficient for the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special-mention (grades 1-2), substandard, doubtful and loss).

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers carry out the same business activities, locate in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic factors. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated a limit management policy to monitor and analyse its loan portfolio.

Analysis of loans and advances by industry and loan portfolio are presented in Note 16.

41. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. Credit risk is classified into 25 grades. The internal credit risk rating is based on the forecasted default risk, taking into consideration qualitative and quantitative factors. For customers of wholesale business, such factors include net profit growth rate, sales growth rate, industry, etc. For customers of retail business, such factors include maturity, ageing, collateral ratio, etc.

(ii) Significant increase in credit risk

The Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument and other items at the reporting date with that at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 41(a)(i)), as well as internal early warning signal, the result of 5-tier loan classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation. During the reporting period, the Group further deepened the application of the early warning signal and improved the ability of the model to distinguish risks.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions is met: the 5-tier loan classification is special-mention; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has been downgraded to certain level; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group.

For retail and credit card business, credit risk is considered as significantly increased if any of the following conditions is met: the 5-tier loan classification is special-mention; more than 30 days (inclusive) overdue; the customer or the debt has credit risk early warning signal; or the customer has other significant risk signals identified by the Group.

The Group has made deferred repayment and interest payment arrangements for some debtors affected by the COVID-19. However, the deferred repayment and interest payment arrangements will not directly lead to the conclusion that the debtors' credit risk has increased significantly. Instead, the Group will make a comprehensive judgment based on the risk indicators.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capability to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For loan commitment and financial guarantee, the date when the commitment becomes irrevocable is considered as the initial recognition date.

The Group considers that a debt instrument is impaired when its 5-tier loan classification is substandard, doubtful or loss (debt instruments with more than 90 days overdue are included in these 3 categories).

(iii) Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon;
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD): is the risk exposure on a debt.

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information.

41. Risk management *(continued)*

(a) Credit risk *(continued)*

(iv) Incorporation of forward-looking information

The Group divides financial assets into different asset groups based on their different risk characteristics. According to the risk characteristics of the asset group, the Group collects external data released by external authoritative institutions and internal risk data without undue cost or effort to construct the models. During the reporting period, in addition to the common economic indicators such as Gross Domestic Product ("GDP"), Consumer Price Index ("CPI"), Producer Price Index ("PPI") and Broad Money Supply ("M2"), the Group expands its macroeconomic index database by including various categories of indicators such as industry, interest and exchange rate, and survey index. Based on statistical analysis and expert judgments, the Group sets up multiple forward-looking scenarios to predict macroeconomic indicators and risk parameters. The Group will firstly refer to the forecasts issued by external authoritative institutions as the forecasts of economic indicators under baseline scenario. If there is no external forecasts, the Group will refer to the forecasts issued by the professionals of the Group and the outputs of the models. For the forecasts of economic indicators under the remaining scenarios, the Group will refer to the actual historical data for analysis and forecast. Taking GDP and CPI as an example, detailed forecasts are as follows:

Indicators	Forecasts of baseline scenario used in the models
GDP (year-on-year)	8.8%
CPI (month-on-month)	2.1%

Combined with quantitative measurement and expert judgment, the Group sets the weighting of multiple scenarios based on the principle of taking the baseline scenario as the main and the other scenarios as supplement. The weight of the baseline scenario of the Group as at 30 June 2021 is the highest. According to the sensitivity test results of the Group, when the weighting of the optimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount will decrease by approximately 3% compared to the current result. When the weighting of the pessimistic scenario increases by 10% and the weighting of the baseline scenario decreases by 10%, the ECL amount will increases by approximately 1% compared to the current result.

The Group periodically forecasts macroeconomic indicators, and calculates the ECL based on a weighted 12-month expected credit loss (stage 1) or a weighted lifetime expected credit loss (stage 2 and stage 3).

As the COVID-19 is still evolving, the Group's expected credit loss model as at 30 June 2021 fully reflected the impact of the COVID-19 on the macroeconomic environment through continuous updating of internal and external data, model optimisation and other measures.

(v) Groupings based on shared risk characteristics

The Group divides the primary business into wholesale business, retail business and credit card business. The models are divided based on shared risk characteristics, and the reference indicators include the 5-tier classification, business type and collateral type.

(vi) Maximum exposure

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the unaudited consolidated statement of financial position and the contract amount of the off balance sheet items disclosed in Note 39(a). At 30 June 2021, the amount of the Group's maximum credit risk exposure was RMB10,794,599 million (31 December 2020: RMB10,192,927 million).

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were credit impaired and the terms had been renegotiated was RMB20,797 million as at 30 June 2021 (31 December 2020: RMB24,878 million).

41. Risk management *(continued)*

(a) Credit risk *(continued)*

(viii) Credit quality of financial instruments

The staging analysis for loans and advances to customers and debt investments at amortised cost are disclosed in note 16 and note 17(b) respectively. The staging analysis for other financial instruments is as follows:

	30 June 2021							
	Principal				Expected credit loss			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balances with central banks	558,207	–	–	558,207	–	–	–	–
Balances with banks and other financial institutions	124,014	–	11	124,025	(621)	–	(11)	(632)
Placements with banks and other financial institutions	252,949	1,284	–	254,233	(2,359)	(77)	–	(2,436)
Amounts held under resale agreements	336,741	–	140	336,881	(2,603)	–	(140)	(2,743)
Debt investments at FVTOCI	556,342	2,005	203	558,550	(5,875)	(809)	(1,061)	(7,745)

	31 December 2020							
	Principal				Expected credit loss			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balances with central banks	525,118	–	–	525,118	–	–	–	–
Balances with banks and other financial institutions	103,437	–	11	103,448	(266)	–	(11)	(277)
Placements with banks and other financial institutions	225,411	1,105	–	226,516	(345)	(31)	–	(376)
Amounts held under resale agreements	286,739	–	140	286,879	(603)	–	(140)	(743)
Debt investments at FVTOCI	510,011	14	282	510,307	(2,915)	–	(1,099)	(4,014)

Note: The balances disclosed above do not include interest receivable.

41. Risk management *(continued)*

(b) Market risk

Market risk refers to the risk of loss due to changes in observable market factors such as interest rates, exchange rates, commodity prices and stock prices, resulting in changes in the fair value or future cash flows of the Group's financial instruments. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments and positions under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments can be traded without any restriction. The financial instruments under the banking book are assets and liabilities held by the Group for determinable return with relative stable market value or for the purposes of hedging the risks, which include both the Group's on-balance sheet and off-balance sheet exposure.

(i) Interest rate risk

Interest rate risk arises from unfavourable changes in interest rates and maturity profiles which may result in loss to the income and decline in market value of financial instruments and positions held by the Group.

(1) Trading book

According to the basic principles of risk management, the Group has built and continuously improved the market risk management system, and established the management process of market risk identification, measurement, monitoring, control and reporting, covering interest rate risk, exchange rate risk, commodity and other risks involved in the trading book business. Under the market risk preference formulated by the board of directors, the Group manages the trading book by clearly identifying, accurately measuring and effectively managing the trading book market risk, to ensure that the trading book risk exposure is within an acceptable range and achieve a reasonable balance of risk and return. The Group constantly improves the risk-adjusted return level to maximise the shareholders' value.

The trading book market risk governance organisation structure defines the responsibilities, division of labour and reporting lines of the board of directors, Risk and Capital Management Committee under the board of directors, senior management and relevant departments of the Bank, and safeguard the achievement of management objectives. The Market Risk Management Department is responsible for the Group's trading book market risk, and undertakes the task of risk policy formulation and management.

According to the business practices and market risk governance organisation structure, the Group establishes the trading book market risk limits management system. A top level limit is set based on the risk appetite determined by the board of directors, and is transmitted from top to bottom level by level. Within the scope of their authorisation, management departments at all levels allocate and set limits according to risk characteristics, product types and trading strategies, etc. The business departments carry out the business according to the authorisation and limits requirements, and the supervisory and administrative departments at all levels continuously monitor and report according to the limits management regulations.

The trading book market risk management adopts the scale index, stop loss index, sensitivity index, value at risk index, stress test index and other risk measurement indexes as the limits index, and sets the limit value by comprehensively considering the risk appetite, risk tolerance, business operation strategy, risk return, management conditions and other factors.

The Group uses valuation, sensitivity analysis, value-at-risk analysis, stress test and other measurement methods to identify and quantify risk factors in the interest rate market. The Group applies the market risk measurement model in its daily risk management and takes market risk measurement as the basis for business planning, resource allocation, financial market business operation and risk management.

41. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk *(continued)*

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specifies the roles, responsibilities and reporting lines of the board of directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest rate risk of the banking book is centrally managed by the Asset and Liability Management Department. Internal Audit Department is responsible for auditing.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in net interest income at risk and economic value of equity indicators when there is an extreme fluctuation in interest rates. The Group conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for the six months ended 30 June 2021 showed that the interest rate risk of banking book of the Bank was generally stable with various indicators staying within the set limits.

The preference of the Group in respect of the interest rate risk in the banking book is neutrally prudent. Based on the risk measurement and monitoring results, the Group will propose the corresponding risk management policy at the regular meetings and through the reporting mechanism of the Assets and Liabilities Management Committee. Assets and Liabilities Management Department is responsible for its implementation. The key measures for risk management include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and the utilisation of off-balance sheet derivative to offset risk exposure.

The Group measures and monitors interest rate risk of banking book through the asset and liability management system. Major models and parameter assumptions used in the measurement are verified independently by the Risk Management Department before official use and reviewed and verified regularly after official use.

Major developed economies are actively promoting benchmark interest rate reforms, mainly including the use of risk-free rates generated by real transactions to completely replace IBOR. The Group is paying close attention to the reform of new benchmark interest rate and the developments of its peers, and actively carries out preparations work.

41. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	30 June 2021					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	570,059	558,207	–	–	–	11,852
Amounts due from banks and other financial institutions	709,328	625,668	80,910	2,411	339	–
Loans and advances to customers (note (i))	5,144,739	1,744,662	2,943,384	385,079	71,614	–
Investments (including derivatives)	2,142,025	332,687	291,793	838,338	622,013	57,194
Other assets (note (ii))	319,735	–	–	–	–	319,735
Total assets	8,885,886	3,261,224	3,316,087	1,225,828	693,966	388,781
Liabilities						
Amounts due to central bank, banks and other financial institutions	1,354,718	987,550	359,599	5,279	2,290	–
Deposits from customers	5,980,165	4,617,813	707,750	650,778	380	3,444
Financial liabilities at FVTPL (including derivatives)	109,988	519	4,629	8,349	131	96,360
Lease liabilities	13,748	1,111	2,851	8,189	1,597	–
Debt securities issued	424,120	66,273	203,753	144,116	9,978	–
Other liabilities (note (ii))	241,579	319	–	–	2	241,258
Total liabilities	8,124,318	5,673,585	1,278,582	816,711	14,378	341,062
Asset-liability gap	761,568	(2,412,361)	2,037,505	409,117	679,588	47,719

	31 December 2020					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	538,206	525,118	–	–	–	13,088
Amounts due from banks and other financial institutions	615,447	524,010	87,213	3,840	384	–
Loans and advances to customers (note (i))	4,794,929	1,861,076	2,496,358	365,524	71,971	–
Investments (including derivatives)	2,094,710	351,146	369,495	781,707	524,737	67,625
Other assets (note (ii))	318,156	–	–	–	–	318,156
Total assets	8,361,448	3,261,350	2,953,066	1,151,071	597,092	398,869
Liabilities						
Amounts due to central bank, banks and other financial institutions	1,335,373	952,312	351,961	14,152	3,619	13,329
Deposits from customers	5,628,336	4,387,216	599,077	638,419	292	3,332
Financial liabilities at FVTPL (including derivatives)	110,412	460	6,336	8,367	130	95,119
Lease liabilities	14,242	1,015	2,805	8,577	1,845	–
Debt securities issued	344,156	110,389	105,553	120,655	7,559	–
Other liabilities (note (ii))	198,575	763	15	–	4	197,793
Total liabilities	7,631,094	5,452,155	1,065,747	790,170	13,449	309,573
Asset-liability gap	730,354	(2,190,805)	1,887,319	360,901	583,643	89,296

41. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk *(continued)*

(3) The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period. *(continued)*

Notes:

(i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 30 June 2021 and 31 December 2020, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

(ii) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 30 June 2021 and 31 December 2020.

	30 June 2021		31 December 2020	
Change in interest rates (in basis points)	**25**	**(25)**	25	(25)
(Decrease)/increase in annualised net interest income	**(3,573)**	**3,573**	(3,266)	3,266
(Decrease)/increase in equity	**(3,132)**	**3,463**	(3,671)	3,700

The above-mentioned interest rate sensitivity analysis shows the changes in net interest income and equity in the next 12 months under the assumption of changes in interest rates in the above table. As the actual situation and assumptions may be different, the actual changes in the Group's net interest income and equity caused by the increase or decrease in interest rates may be different from the results of this sensitivity analysis.

(ii) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions, which expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly in USD and HKD. The Group operates the principle of segregation of policy setting, execution and supervision, and establishes a foreign currency risk management governance structure. This structure specifies the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group is prudent in its foreign exchange risk appetite, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group meet the regulatory requirements and the requirements of the Group.

(1) Trading book

The Group has established a market risk structure and system of the trading book, which covers exchange rate risk, to quantify the exchange rate risk of the trading book to facilitate centralised management. The structure, process and method of exchange rate risk of trading book are consistent with that of the interest rate risk of trading book.

The Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, covers interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, cumulative loss index in its management of foreign exchange risk. The management methods include delegation, setting limits, daily monitoring and continuous reporting, etc.

41. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Foreign exchange risk *(continued)*

(2) Banking book

The Group's foreign exchange risk under the banking book is centrally managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The Internal Audit Department is responsible for auditing this. The treasurer is responsible to manage the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and manages the foreign exchange risk through approaches such as transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB financial assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to control it within an acceptable range.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit control framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to mitigate the foreign exchange risk on its banking book.

The Group continues to strengthen banking book exchange rate risk monitoring and authorisation management of limits to ensure that risks are controlled within a reasonable range.

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to obtain sufficient funds at a reasonable cost and in a timely manner to deal with the appreciation of asset growth, to meet its maturity obligations, or to perform other payment obligations.

According to the liquidity risk management policy, the Group operates the principle of segregation of policy setting, execution and supervising, and puts in place a governance framework which defines the roles, responsibilities and reporting lines of the board of directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The board of directors takes the ultimate responsibility for liquidity risk management, ensures the Group can effectively identify, measure, monitor and control liquidity risk and is responsible for determining liquidity risk level which the Group can tolerate. The Risk and Capital Management Committee under the board of directors discharges responsibilities in liquidity risk management on behalf of the board of directors. The board of supervisors is responsible for the supervision and evaluation of the performance of the board of directors and senior management in the liquidity risk management and reports to the general meeting of shareholders. The senior management is responsible for the liquidity risk management work and develops a timely understanding of changes in liquidity risks, and reports the same to the board of directors. Assets and Liabilities Committee (ALCO), under the authority of the senior management, exercises the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and is responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Internal Audit Department of the Head Office conducts comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing its liquidity risk, which suits its current development stage. The Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches acting in concert. The Asset and Liability Management Department acting as the treasurer of the Group is in charge of daily liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirements, and conducting centralised liquidity management through limits management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It monitors the limit indicators closely at fixed intervals. Specifically, the Group uses information sourced from Wind, Refinitiv and other systems as its external liquidity indicators, and uses self-developed liquidity risk management system to measure its internal liquidity indicators and cash flow statements positions.

41. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The Group regularly conducts stress testing to assess its liquidity demand under extreme circumstances. Except for the annual stress testing required by the regulatory authorities, the Group conducts monthly stress testing on the liquidity risk of local and foreign currencies. The Group sets up liquidity contingency plans and conducts liquidity contingency drills to strengthen its capability to handle any liquidity crisis.

Analysis of the Group's assets and liabilities by contractual remaining maturity is as follows:

	30 June 2021								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	50,119	–	–	–	–	–	519,940	–	570,059
Amounts due from banks and other financial institutions	89,510	486,653	48,939	81,665	2,222	339	–	–	709,328
Loans and advances to customers	–	509,999	329,062	1,343,894	1,375,211	1,573,558	318	12,697	5,144,739
Investments (note (ii))									
– Financial assets at FVTPL (including derivatives)	2,014	228,325	19,414	121,769	115,861	18,763	320	–	506,466
– Debt investments at amortised cost	–	5,021	25,663	114,604	444,915	479,618	–	157	1,069,978
– Debt investments at FVTOCI	–	12,607	17,283	69,363	330,920	128,377	–	–	558,550
– Equity investments designated at FVTOCI	–	–	–	–	–	–	7,031	–	7,031
Other assets (note (iv))	54,160	13,226	13,626	11,433	12,658	5,348	205,850	3,434	319,735
Total assets	195,803	1,255,831	453,987	1,742,728	2,281,787	2,206,003	733,459	16,288	8,885,886
Amounts due to central bank,banks and other financial institutions	605,355	203,685	167,659	361,994	12,838	3,187	–	–	1,354,718
Deposits from customers (note (iii))	4,052,844	267,824	290,490	712,119	655,844	1,044	–	–	5,980,165
Financial liabilities at FVTPL (including derivatives)	12,235	21,376	9,957	18,913	18,970	28,537	–	–	109,988
Lease liabilities	–	462	649	2,851	8,189	1,597	–	–	13,748
Debt securities issued	–	27,724	26,620	203,753	156,045	9,978	–	–	424,120
Other liabilities (note (iv))	152,772	31,458	17,428	29,077	8,988	1,856	–	–	241,579
Total liabilities	4,823,206	552,529	512,803	1,328,707	860,874	46,199	–	–	8,124,318
(Short)/long position	(4,627,403)	703,302	(58,816)	414,021	1,420,913	2,159,804	733,459	16,288	761,568

41. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by contractual remaining maturity is as follows: *(continued)*

	31 December 2020								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Over 5 years	Indefinite	Overdue	Total
Cash and balances with central banks (note (i))	37,496	–	–	–	–	–	500,710	–	538,206
Amounts due from banks and other financial institutions	91,085	369,355	62,201	88,213	4,169	384	–	40	615,447
Loans and advances to customers	–	488,169	311,334	1,201,347	1,298,866	1,469,890	12,178	13,145	4,794,929
Investments (note (ii))									
– Investments at FVTPL (including derivatives)	5,409	173,666	63,803	203,872	77,242	18,432	571	–	542,995
– Debt investments at amortised cost	–	2,270	31,937	110,511	467,217	420,686	–	1,648	1,034,269
– Debt investments at FVTOCI	–	7,103	39,717	68,911	297,986	96,590	–	–	510,307
– Equity investments designated at FVTOCI	–	–	–	–	–	–	7,139	–	7,139
Other assets (note (iv))	70,325	6,035	9,720	7,170	25,806	5,824	190,006	3,270	318,156
Total assets	204,315	1,046,598	518,712	1,680,024	2,171,286	2,011,806	710,604	18,103	8,361,448
Amounts due to central bank, banks and other financial institutions	542,955	251,299	171,884	351,464	14,152	3,619	–	–	1,335,373
Deposits from customers (note (iii))	3,704,751	326,452	354,084	600,093	642,047	909	–	–	5,628,336
Financial liabilities at FVTPL (including derivatives)	14,264	8,777	10,745	32,994	20,374	23,258	–	–	110,412
Lease liabilities	–	527	488	2,805	8,577	1,845	–	–	14,242
Debt securities issued	–	61,167	45,304	105,552	124,574	7,559	–	–	344,156
Other liabilities (note (iv))	99,351	48,613	15,632	25,081	8,895	632	371	–	198,575
Total liabilities	4,361,321	696,835	598,137	1,117,989	818,619	37,822	371	–	7,631,094
(Short)/long position	(4,157,006)	349,763	(79,425)	562,035	1,352,667	1,973,984	710,233	18,103	730,354

Notes:

(i) For cash and balances with central banks, the amounts with indefinite maturities represent statutory deposit reserves and fiscal deposit balances.

(ii) Investments at FVTPL included in investments do not represent the Group's intention to hold them to maturity.

(iii) Deposits from customers that are repayable on demand include matured time deposits which are pending for customers' instructions.

(iv) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

(d) Operational risk

Operational risk arises from the direct and indirect loss due to deficiency in internal procedures, staffing or IT structure, as well as external events which have effect on operation, including legal risk but not strategy risk and reputation risk.

During the reporting period, through stepping up the identification, evaluation and monitoring of operational risk in key areas, and by focusing on process, policy, employee system, and existing problems of critical control segments, the Group further improves the risk management framework and method, appraisal and assessment mechanism, and strengthens economic capital allocation mechanism with the goal of enhancing the ability and effectiveness of operational risk's management of the Group. All major indexes meet the requirements of the Group's risk preference.

In view of the challenges from internal and external operations and management, the Group will, based on its risk appetite, continue to upgrade its risk management capabilities and strengthen operational risk monitoring and controls, in order to prevent and reduce operational risk losses.

41. Risk management *(continued)*

(e) Capital management

The objectives of the Group's capital management are to:

– Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base to support its business expansion, social responsibility and strategic planning implementation to achieve a comprehensive,coordinated and sustainable growth;

– Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;

– Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate customer pricing and decision-making, and increase capital deployment efficiency;

– Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjusts it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, additional tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach stipulated by the CBIRC. The Group and the Bank submit required information to the CBIRC every quarter.

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers all branches of the Bank. As at 30 June 2021, the Group's subsidiaries that were within the scope in respect of capital adequacy ratio calculation included: CMB WLB, CMBICHC, CMBFLC, CMFM, CMBWM, CIGNA & CMAM and CMB Europe S.A.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional) and other relevant regulations. On 18 April 2014, the CBIRC approved the Bank to adopt the Advanced Measurement Approach. Within the approved scope, the Bank could calculate corporation and financial institutions risk exposure using the Foundation Internal Ratings-Based Approach, retail risk exposure using the Advanced Internal Ratings-Based Approach, market risk using the Internal Model-Based Approach, and operational risk using the Standardised Measurement Approach. At the same time, the CBIRC implemented a transition period for approved commercial banks to use the Advanced Measurement Approach to calculate capital. During the transition period, commercial banks should use both the Advanced Measurement Approach and other approaches to calculate capital adequacy ratios, and comply with the floor capital requirements.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resistance. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forwards, swaps and option transactions undertaken by the Group in the foreign exchange and interest rate markets.

The Group enters into interest rate, foreign currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivatives can be divided into financial instruments that are held for cash flow hedging purpose and that are designated at fair value through profit or loss.

The Group formulates appropriate hedging strategies and uses proper tools in light of the risk profile of interest rates or foreign exchange rates associated with its assets and liabilities, as well as its analysis and judgement regarding future movements of interest rates or foreign exchange rates.

41. Risk management *(continued)*

(f) Use of derivatives *(continued)*

The Group is exposed to foreign exchange risk when assets or liabilities are denominated in foreign currencies. Such risk can be offset through the use of foreign exchange forwards or foreign exchange options.

In cash flow hedges, the Group uses interest rate swaps as hedging instruments to hedge the interest rate risks arising from RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair values of derivatives of the Group by remaining maturities at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume that has not been delivered at the end of the reporting period, and do not represent the amounts at risk.

	30 June 2021						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	408,388	1,226,497	1,326,148	10,394	2,971,427	9,374	(9,156)
Bond futures	397	–	–	–	397	–	–
Bond options	2,477	6,151	–	–	8,628	1	(2)
Subtotal	411,262	1,232,648	1,326,148	10,394	2,980,452	9,375	(9,158)
Currency derivatives							
Forwards	64,057	15,147	1,925	899	82,028	1,385	(880)
Foreign exchange swaps	490,940	469,463	21,895	864	983,162	11,870	(12,524)
Futures	83	497	–	–	580	–	–
Options	142,274	164,934	10,425	369	318,002	5,775	(12,106)
Subtotal	697,354	650,041	34,245	2,132	1,383,772	19,030	(25,510)
Other derivatives							
Equity swaps	–	277	265	–	542	–	(277)
Equity options purchased	2,665	78,898	–	–	81,563	968	–
Equity options written	2,665	78,898	–	–	81,563	–	(925)
Commodity trading swaps	10,576	5,112	–	–	15,688	2,287	(1,399)
Credit default swaps	–	–	323	–	323	–	(10)
Subtotal	15,906	163,185	588	–	179,679	3,255	(2,611)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	–	–	2,296	1,404	3,700	27	(8)
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives							
Interest rate swaps	388	1,060	350	–	1,798	–	(28)
Currency derivatives							
Foreign exchange swaps	–	694	73	–	767	3	–
Subtotal	388	1,754	423	–	2,565	3	(28)
Total						31,690	(37,315)

41. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	31 December 2020						
	Notional amounts with remaining life					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	561,522	1,223,977	1,499,110	2,913	3,287,522	12,559	(12,318)
Bond forwards	–	–	65	–	65	6	(3)
Bond futures	89	9	–	–	98	–	–
Bond options	220	8,410	–	–	8,630	3	(6)
Subtotal	561,831	1,232,396	1,499,175	2,913	3,296,315	12,568	(12,327)
Currency derivatives							
Forwards	58,155	31,280	1,452	2,703	93,590	1,691	(1,461)
Foreign exchange swaps	440,943	477,298	12,789	867	931,897	20,063	(20,136)
Futures	17	706	–	–	723	–	–
Options	130,903	104,921	3,068	–	238,892	11,344	(14,623)
Subtotal	630,018	614,205	17,309	3,570	1,265,102	33,098	(36,220)
Other derivatives							
Equity options purchased	488	67,353	–	–	67,841	490	–
Equity options written	488	67,353	–	–	67,841	–	(464)
Commodity trading swaps	4,948	3,929	631	–	9,508	1,048	(987)
Subtotal	5,924	138,635	631	–	145,190	1,538	(1,451)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	32	1,030	2,871	819	4,752	–	(15)
Derivatives managed in conjunction with financial instruments designated at FVTPL							
Interest rate derivatives							
Interest rate swaps	471	909	1,358	–	2,738	–	(47)
Currency derivatives							
Foreign exchange swaps	–	1,499	74	–	1,573	68	(1)
Subtotal	471	2,408	1,432	–	4,311	68	(48)
Total						47,272	(50,061)

There was no ineffective portion of cash flow hedges during the six months ended 30 June 2021 and 2020.

41. Risk management *(continued)*

(f) Use of derivatives *(continued)*

The credit risk weighted amounts in respect of these derivatives are as follows:

	30 June 2021	31 December 2020
Default risk weighted assets of counterparties		
Interest rate derivatives	**222**	266
Currency derivatives	**3,939**	5,574
Other derivatives	**4,717**	3,804
Credit valuation adjustment risk weighted assets	**4,409**	6,011
Total	**13,287**	15,655

Note: Since 2019, the Group has calculated the exposure of derivatives according to the Notice of the Measures on Default Risk Weighted Assets of Counterparties in Respect of Derivatives and the related requirements issued by the CBIRC. These amounts have taken the effects of bilateral netting arrangements into account. The risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Provisional) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 are calculated using the Internal Ratings-Based Approach, and the Weighted Approach is adopted to calculate those that are not eligible for the Internal Ratings-Based approach.

(g) Fair value information

(i) Methods of determining fair value of financial instruments

A number of the Group's accounting policies and disclosure requirements stipulate the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that takes the responsibility for overseeing all significant fair value measurements including the three levels of fair values, and reports directly to the person in charge of accounting affairs.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to determine fair value, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the classification of levels in the fair value hierarchy.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques.

The following table presents the fair value information and the fair value hierarchy, at the end of the current interim reporting period, of the Group's assets and liabilities which are measured at fair value on a recurring basis at each reporting date. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level of input that is significant to the entire fair value measurement. The levels are defined as follows:

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers among levels of the fair value hierarchy when they occur.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis

The tables below analyse financial instruments, measured at fair value at the end of the reporting period, by the levels in the fair value hierarchy:

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	22,803	123,013	366	146,182
– Long position in precious metal contracts	203	–	–	203
– Equity investments	938	71	3,125	4,134
– Investments in funds	149	155,674	589	156,412
– Wealth management products	–	2,125	–	2,125
– Non-standard assets – Bills	–	134,506	–	134,506
– Others	–	1,214	–	1,214
Subtotal	24,093	416,603	4,080	444,776
Investments designated at FVTPL				
– Debt securities	1,735	28,265	–	30,000
Derivative financial assets	–	31,690	–	31,690
Loans and advances to customers at FVTPL	–	–	6,954	6,954
Debt investments at FVTOCI	114,700	450,965	–	565,665
Loans and advances to customers at FVTOCI	–	426,180	42,244	468,424
Equity investments designated at FVTOCI	2,393	–	4,638	7,031
Total	142,921	1,353,703	57,916	1,554,540
Liabilities				
Financial liabilities held for trading				
– Financial liabilities related to precious metal	17,216	–	–	17,216
– Short position on bonds	131	846	–	977
Subtotal	17,347	846	–	18,193
Financial liabilities designated at FVTPL				
– Placement of precious metal from financial institutions	10,200	–	–	10,200
– Certificates of deposit issued	–	593	–	593
– Debt securities issued	10,575	–	–	10,575
– Others	–	26,035	7,077	33,112
Subtotal	20,775	26,628	7,077	54,480
Derivative financial liabilities	–	37,315	–	37,315
Total	38,122	64,789	7,077	109,988

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

The tables below analyse financial instruments, measured at fair value at the end of the reporting period, by the levels in the fair value hierarchy: *(continued)*

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	24,267	121,780	456	146,503
– Long position in precious metal contracts	96	–	–	96
– Equity investments	836	836	1,738	3,410
– Investments in funds	84	136,229	519	136,832
– Wealth management products	–	1,259	–	1,259
– Non-standard assets – Bills	–	175,303	–	175,303
– Others	–	1,063	–	1,063
Subtotal	25,283	436,470	2,713	464,466
Investments designated at FVTPL				
– Debt securities	2,618	28,625	14	31,257
Derivative financial assets	–	47,272	–	47,272
Loans and advances to customers at FVTPL	–	–	6,856	6,856
Debt investments at FVTOCI	109,282	407,271	–	516,553
Loans and advances to customers at FVTOCI	–	331,070	44,289	375,359
Equity investments designated at FVTOCI	2,075	–	5,064	7,139
Total	139,258	1,250,708	58,936	1,448,902
Liabilities				
Financial liabilities held for trading				
– Financial liabilities related to precious metal	20,361	–	–	20,361
– Short position on bonds	130	499	–	629
Subtotal	20,491	499	–	20,990
Financial liabilities designated at FVTPL				
– Placement of precious metal from financial institutions	1,589	–	–	1,589
– Certificates of deposit issued	–	605	–	605
– Debt securities issued	13,914	–	–	13,914
– Others	–	17,604	5,649	23,253
Subtotal	15,503	18,209	5,649	39,361
Derivative financial liabilities	–	50,061	–	50,061
Total	35,994	68,769	5,649	110,412

During the period, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(1) Basis of determining the market prices for recurring fair value measurements categorised as Level 1

Bloomberg etc. are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised as Level 2

Fair value of RMB denominated bonds whose value is available on China Bond website on the valuation date is measured using the latest available valuation results.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market future prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of option contracts such as foreign exchange options, commodity options and equity options is measured by using the Black-Scholes model, using market data such as risk-free interest rate, underlying market prices and price volatility of foreign exchange, commodities, and equity contract. The above market data used are quoted price in an active market, provided by Bloomberg, Refinitiv, Wind and other market information providers.

Fair value of interest rate swaps, foreign exchange swaps, and non-option commodity contracts in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related currency denominated swap yield curve as at the end of reporting period.

Observable quoted price in market is used as the basis of determining the value of investment funds.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on the rate of rediscounted bills announced by the Shanghai Commercial Bill Exchange. The Group uses 10-day average discounted rate as the basis for calculating the value of discounted bills. The fair value of loans and advances to customers at FVTOCI outside Mainland China is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of non-standard bills at FVTPL in Mainland China is measured based on the rate of rediscounted bills announced by the Shanghai Commercial Bill Exchange. The Group uses 10-day average discounted rate as the basis for calculating the value of discounted bills.

The fair value of certificates of deposit issued is measured by using the comprehensive valuations on Bloomberg.

The fair value of others under financial liabilities designated at FVTPL is measured based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised as Level 3

	Fair value as at 30 June 2021	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	289	Market approach	Liquidity discount
Equity investments designated at FVTOCI	4,349	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	6,954	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	42,244	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Investments measured at FVTPL			
– Debt securities	366	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	3,125	Market approach	Liquidity discount
– Investments in funds	589	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	152	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	6,925	Net fund value approach	Net assets, liquidity discount

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised as Level 3 *(continued)*

	Fair value as at 31 December 2020	Valuation techniques	Unobservable inputs
Equity investments designated at FVTOCI	1,200	Market approach	Liquidity discount
Equity investments designated at FVTOCI	3,864	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	6,856	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	44,289	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Investments measured at FVTPL			
– Debt securities	456	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,738	Market approach	Liquidity discount
– Investments in funds	519	Market approach	Liquidity discount
Investments designated at FVTPL	14	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	206	Market approach	Liquidity discount
Financial liabilities designated at FVTPL	5,443	Net fund value approach	Net assets, liquidity discount

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised as Level 3 (continued)

1) Valuation of financial instruments with significant unobservable inputs

The following tables show the movements from the beginning balances to the ending balances for Level 3 financial instruments:

Assets	Investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2021	2,727	6,856	44,289	5,064	58,936
Profit or loss					
– In profit or loss	343	(31)	652	–	964
– In other comprehensive income	–	–	63	1,206	1,269
Addition for the period	1,250	143	54,985	685	57,063
Disposals or settlement on maturity	(169)	(13)	(57,745)	(2,217)	(60,144)
Exchange difference	(71)	(1)	–	(100)	(172)
At 30 June 2021	4,080	6,954	42,244	4,638	57,916
Total unrealised gains and losses included in the unaudited consolidated statement of profit or loss for assets held at the end of the reporting period	343	(31)	–	–	312

Assets	Investments at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2020	2,968	5,779	30,346	3,748	42,841
Profit or loss					
– In profit or loss	454	296	1,210	–	1,960
– In other comprehensive income	–	–	20	1,469	1,489
Addition for the year	539	796	86,003	82	87,420
Disposals or settlement on maturity	(1,106)	–	(73,290)	–	(74,396)
Exchange difference	(128)	(15)	–	(235)	(378)
At 31 December 2020	2,727	6,856	44,289	5,064	58,936
Total unrealised gains and losses included in the unaudited consolidated statement of profit or loss for assets held at the end of the reporting period	454	296	–	–	750

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities held at the end of reporting period that are measured at fair value on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised as Level 3 (continued)

1) Valuation of financial instruments with significant unobservable inputs (continued)

Financial liabilities at fair value through profit or loss	2021	2020
Balance as at 1 January	**5,649**	3,105
In profit or loss	**423**	402
Addition for the year	**1,169**	2,686
Disposals and settlement on maturity	**(77)**	(453)
Exchange difference	**(87)**	(91)
Balance as at 30 June 2021/31 December 2020	**7,077**	5,649
Total unrealised gains and losses included in the unaudited consolidated statement of profit or loss for liabilities held at the end of the reporting period	**423**	390

2) Transfers among different levels occurred during the reporting period, the reasons for theses transfers and the principle of determining the dates of transfers for financial instruments measured at fair value on recurring basis

During the six months ended 30 June 2021 and the 2020, there were no significant transfers among different levels for financial instruments which are measured at fair value on recurring basis.

3) Changes in valuation techniques and the reasons for the changes

During the six months ended 30 June 2021 and the 2020, the Group did not change the valuation techniques for the financial assets and liabilities disclosed above which are measured at fair value on recurring basis.

41. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) Financial assets and financial liabilities that are not measured at fair value

(1) Financial Assets

The Group's financial assets that are not measured at fair value mainly include balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers at amortised cost and investments at amortised cost.

Except for loans and advances measured at amortised cost and debt instrument investments measured at amortised cost, most of the financial assets mature within 1 year, and their carrying values approximate to their fair values. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 16). Loans and advances at amortised cost are mostly priced at floating rates with reference to the PBOC benchmark interest rate or Loan Prime Rates (LPRs) and repriced at least annually, and impairment allowances are made to reduce the carrying amounts of impaired loans to estimated recoverable amounts. Accordingly, the carrying value of loans and advances is close to their fair value.

Debt investments measured at amortised cost are carried at amortised cost less allowances for impairment losses. The fair value of the listed investments is disclosed in Note 17(b).

The carrying value, fair value and fair value hierarchy of debt investments at amortised cost not measured at fair value are listed as below：

The Level 1 fair value measurement is based on unadjusted quoted prices in active markets using Bloomberg etc. For Level 2, the latest valuation results released by China Bond website are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured using the published comprehensive valuation by Bloomberg. The Level 3 fair value is measured using discounted cash flow valuation technique.

	30 June 2021					31 December 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	1,069,978	1,092,788	4,289	969,086	119,413	1,034,269	1,049,374	3,387	914,025	131,962

(2) Financial Liabilities

Financial liabilities that are not measured at fair value mainly include deposits from customers, amounts due to banks and other financial institutions, amounts sold under repurchase agreements, and debts securities issued by the Group. The carrying value of financial liabilities approximate to their fair value at the end of the reporting period, except for the financial liabilities set out below:

	30 June 2021					31 December 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	34,264	35,208	–	35,208	–	34,302	35,243	–	35,243	–
Long-term debt securities issued	181,942	185,570	–	185,570	–	146,559	149,115	–	149,115	–
Total	216,206	220,778	–	220,778	–	180,861	184,358	–	184,358	–

42. Material related party transactions

(a) Material connected person information

Details of the Bank's major shareholders and their parent companies are as followed.

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB16,900 million	7,559,427,375	29.97% (note (i)(viii))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited liability	Miao Jianmin
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB7,000 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Limited liability	Miao Jianmin
Shenzhen Yan Qing Investment and Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Xu Xin
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB778 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited liability	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
China Merchants Union (BVI) Ltd.	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited liability	–
China Merchants Industry Development (Shenzhen) Co., Ltd.	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited liability	Wang Xiaoding

42. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Details of the Bank's major shareholders and their parent companies are as followed. *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China COSCO Shipping Corporation Limited.	Beijing	RMB11,000 million	2,515,193,034	9.97% (note(iii))	–	International shipping business, supporting services to international shipping, imports and exports of goods and technology, international freight forwarding agent, etc.	Shareholder's parent company	Limited liability	Xu Lirong
China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, leasing business, ship purchasing and marketing business, warehousing business, etc.	Shareholder	Limited liability	Xu Lirong
COSCO Shipping (Guangzhou) Co., Ltd.	Guangzhou	RMB3,191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited liability	Shou Jian
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guangzhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited liability	Huang Biao
COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	–	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited liability	Zhao Bangtao
COSCO Shipping Investment Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	–	Leasing business, financing business, insurance business etc.	Shareholder	Limited liability	Wang Daxiong
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	Guangzhou	RMB299 million	10,121,823	0.04%	–	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited liability	Ren Zhaoping
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	976,132,435	3.87% (note(iv))	–	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	Limited liability	Yu Hua
Dajia Life Insurance Co., Ltd	Beijing	RMB30,790 million	976,132,435	3.87%	–	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng

42. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Details of the Bank's major shareholders and their parent companies are as followed. *(continued)*

Company name	Registered location	Issued and fully paid capital	No. of shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	Relationship with the Bank	Legal form	Legal representative
China Communications Construction Group Limited	Beijing	RMB7,274 million	422,770,418	1.68% (note(v))	–	General contraction for construction	Shareholder's parent company	Limited liability	Wang Tongzhou
China Communications Construction Company Limited	Beijing	RMB16,175 million	301,089,738	1.19%	–	General contraction for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Wang Tongzhou
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,599 million	310,125,822	1.23% (note(vi))	–	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited liability	Chen Hong
SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	310,125,822	1.23%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
Hebei Port Group Co., Ltd.	Qin Huangdao	RMB8,000 million	296,291,627	1.17% (note(vii))	–	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited liability	Cao Ziyu

Notes:

(i) CMG holds 29.97% of the Bank (31 December 2020: 29.97%) through its subsidiaries.

(ii) As the largest direct shareholder, CMSNCL, a subsidiary of CMG, holds 13.04% of the Bank as at 30 June 2021 (31 December 2020: 13.14%).

(iii) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (31 December 2020: 9.97%) through its subsidiaries.

(iv) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 3.87% of the Bank (2020: 4.11%) through its 98.23% holding in Dajia Insurance Group Co., Ltd.

(v) China Communications Construction Group Limited ("China Communications Construction Group") holds 1.68% of the Bank through its subsidiaries (31 December 2020: 1.68%).

(vi) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the Bank through its subsidiaries (SAIC Motor Corporation Limited) (31 December 2020：1.23%).

(vii) Hebei Port Group Company Ltd. directly holds 1.17% of the Bank (31 December 2020: 1.17%).

(viii) The sum of the direct holding percentage of CMG's shareholdings in the Bank and the sum of the above-mentioned relevant percentages may differ slightly due to rounding.

42. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

The registered capital of the Group's related parties as at 30 June 2021 and 31 December 2020 are as follows:

Name of related party	30 June 2021		31 December 2020	
CMG	RMB	16,900,000,000	RMB	16,900,000,000
CMSNCL	RMB	7,000,000,000	RMB	7,000,000,000
Shenzhen Yan Qing Investment and Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
Shenzhen Chu Yuan Investment and Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	RMB	777,800,000	RMB	777,800,000
Best Winner Investment Co., Ltd.	USD	50,000	USD	50,000
China Merchants Union (BVI) Ltd.	USD	60,000	USD	60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	USD	10,000,000	USD	10,000,000
China Insurance Security Fund Co., Ltd	RMB	100,000,000	RMB	100,000,000
Dajia Life Insurance Co., Ltd	RMB	30,790,000,000	RMB	30,790,000,000
China COSCO Shipping Corporation Limited.	RMB	11,000,000,000	RMB	11,000,000,000
China Ocean Shipping Co., Ltd.	RMB	16,191,351,300	RMB	16,191,351,300
COSCO Shipping (Guangzhou) Co., Ltd.	RMB	3,191,200,000	RMB	3,191,200,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	RMB	2,000,000	RMB	2,000,000
COSCO Shipping (Shanghai) Co., Ltd.	RMB	1,398,941,000	RMB	1,398,941,000
COSCO Shipping Investment Holdings Co., Ltd.	HKD	500,000,000	HKD	500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	RMB	299,020,000	RMB	299,020,000
China Communications Construction Group Limited	RMB	7,274,023,830	RMB	7,274,023,830
China Communications Construction Company Limited	RMB	16,174,735,425	RMB	16,174,735,425
Shanghai Automotive Industry Corporation (Group)	RMB	21,599,175,737	RMB	21,599,175,737
SAIC Motor Corporation Limited	RMB	11,683,461,365	RMB	11,683,461,365
Hebei Port Group Co., Ltd.	RMB	8,000,000,000	RMB	8,000,000,000

(b) Terms and conditions for related-party transactions

The Group enters into transactions with related parties in the ordinary course of its banking business including lending, investing, taking deposit, trading securities, providing agency and trust services, and off-balance sheet transactions. In the opinion of the directors, the Group enters into such material related-party transactions under normal commercial terms, and the transactions are priced at the market rates at the time of transactions.

The amount of loss provision for loans and advances to related parties is not material during the interim reporting period.

42. Material related party transactions *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 29.97% (31 December 2020: 29.97%) of the Bank's shares as at 30 June 2021 (among them 13.04% of the shares are directly held by CMSNCL (31 December 2020: 13.04%)).

The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	30 June 2021	31 December 2020
On-balance sheet:		
– Loans and advances to customers	**43,539**	37,411
– Investments	**2,594**	2,717
– Deposits from customers	**87,773**	85,225
– Placements with banks and other financial institutions	**9,631**	4,500
– Placements from banks and other financial institutions	**500**	–
– Lease liabilities	**47**	57
Off-balance sheet:		
– Irrevocable guarantees	**3,846**	3,615
– Irrevocable letters of credit	**399**	380
– Bills of acceptances	**110**	292

	Six months ended 30 June	
	2021	2020
Interest income	**748**	607
Interest expense	**630**	620
Net fee and commission income	**472**	372
Operating expenses	**23**	16
Other net income/(expenses)	**2**	(23)

(d) Companies that share common directors, supervisors or senior management with the Bank (other than those disclosed in Note 42(c)) and they can control or exercise significant influence over the companies

	30 June 2021	31 December 2020
On-balance sheet:		
– Loans and advances to customers	**19,826**	34,467
– Investments	**965**	840
– Deposits from customers	**52,512**	49,106
Off-balance sheet:		
– Irrevocable guarantees	**141**	395
– Irrevocable letters of credit	**46**	22
– Bills of acceptances	**85**	56

	Six months ended 30 June	
	2021	2020
Interest income	**604**	319
Interest expense	**507**	124
Net fee and commission income	**161**	564
Operating expenses	**765**	661
Other net income	**–**	2

42. Material related party transactions *(continued)*

(e) Associates and joint ventures other than those disclosed in Note 42(c)

	30 June 2021	31 December 2020
On-balance sheet:		
– Loans and advances to customers	**4,258**	4,690
– Placements with banks and other financial institutions	**10,000**	14,500
– Investments	**90**	100
– Deposits from customers	**1,387**	1,354
Off-balance sheet:		
– Irrevocable guarantees	**8,700**	8,700

	Six months ended 30 June	
	2021	2020
Interest income	**8**	42
Interest expense	**9**	9
Net Fee and commission income	**1,014**	704
Operating expenses	**7**	6

(f) Other major shareholders holding more than 5% shares of the Bank and exercising significant influence over the Bank

	30 June 2021	31 December 2020
On-balance sheet:		
– Loans and advances to customers	**30,290**	38,862
– Investments	**2,182**	2,961
– Deposits from customers	**29,896**	45,529
– Lease liabilities	**6**	8
Off-balance sheet:		
– Irrevocable guarantees	**17,584**	32,577
– Irrevocable letters of credit	**640**	823
– Bills of acceptances	**7,082**	5,454

	Six months ended 30 June	
	2021	2020
Interest income	**428**	704
Interest expense	**968**	351
Net fee and commission income	**964**	1,676
Other net income	**1**	132

43. Non-controlling interests

Non-controlling interests represent the interests that the Group is not entitled to in the subsidiaries. As CMFM's net assets and net profit are not material to the Group, there is no subsidiary of the Group which has material non-controlling interests during the reporting period.

(a) Perpetual debt capital

Movements of perpetual debt capital which is issued by the Bank's subsidiary, CMB WLB, as follows:

	Principal	Distributions/Paid	Total
At 1 January 2021	3,753	–	3,753
Distributions in the period	–	114	114
Paid in the period	–	(114)	(114)
Exchange difference	(52)	–	(52)
At 30 June 2021	3,701	–	3,701

There is no maturity for the instruments and the payments of distribution can be cancelled at the discretion of the issuer. Cancelled interest is non-cumulative. There is no contractual obligation to deliver cash to other parties. During the six months ended 30 June 2021 and 2020, CMB WLB did not cancel the payment of distribution and the corresponding amount was paid to the perpetual debt holders accordingly.

44. Transfers of financial assets

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

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire certain investments at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that are securitised and qualified for derecognition, the Group derecognises the transferred credit assets in their entirety. During the six months ended 30 June 2021, the Group has transferred loans amounted to RMB8,388 million (six months ended 30 June 2020: RMB22,295 million) in securitisation arrangements, as well as substantially all the risks and rewards associated with the loans. The full amount of such securitised loans were then derecognised.

In the cases that the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and for which the Group retains control, the Group recognises an asset in the unaudited consolidated statement of financial position to the extent of the Group's continuing involvement in the transferred assets. The extent of the Group's continuing involvement is the extent of the risks and rewards exposed by the Group to the value changes of the transferred assets. For the six months ended 30 June 2021, the carrying amount of the securitised credit transferred assets in which the Group retained the a continuing involvement was RMB9,980 million (for the six months ended 30 June 2020: nil). The carrying amount of the continuing involvement asset and the corresponding continuing involvement liability, are recognised in other assets and other liabilities in the unaudited consolidated statement of financial position, amounting to RMB4,648 million as at 30 June 2021 (31 December 2020: RMB3,128 million).

44. Transfers of financial assets *(continued)*

Transfers of credit assets to third parties

During the six months ended 30 June 2021, in addition to securitisation transactions, the Group transferred credit assets amounting to RMB727 million (six months ended 30 June 2020: RMB301 million) to independent third parties directly. The Group determined that these transferred assets qualified for full derecognition, since the Group has transferred substantially all the risks and rewards of the transferred assets to the counterparties.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group determines that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. Instead, it recognises a financial liability for cash received as collateral.

45. Interests in unconsolidated structured entities

The scope of the Group's consolidated financial statements is determined on a control basis. Control means that the investor has the power over the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to use the power to affect the amount of its return.

The Group has the power over structured subjects, and the other investors have no substantive rights. In the meantime, the Group is entitled to variable returns, and will consolidate entities, in which the Group has the right to affect the amount of its return.

In addition to the above-mentioned structured entities that have been included in the Group's consolidated financial statements, the Group's equity information on structured entities which is not covered by the consolidated financial statements is as follows:

(a) Interests in the structured entities sponsored by third parties

The Group holds interests in some structured entities sponsored by third parties through investments in the units issued by these structured entities. Such interests include investments in wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The purpose of the Group holding these structured entities is to obtain investment income, capital appreciation or both.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2021 and 31 December 2020 in the structured entities sponsored by third parties and an analysis of the line items in the unaudited consolidated statement of financial positions as at 30 June 2021 and 31 December 2020 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2021				
	Carrying amount				
	Investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	85,101	94,282	–	179,383	179,383
Trust beneficiary rights	–	34,671	–	34,671	34,671
Asset backed securities	2,834	1,339	965	5,138	5,138
Investment in funds	155,923	–	–	155,923	155,923
Wealth management products	64	–	–	64	64
Total	243,922	130,292	965	375,179	375,179

	31 December 2020				
	Carrying amount				
	Investments at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	63,453	99,916	–	163,369	163,369
Trust beneficiary rights	–	37,663	–	37,663	37,663
Asset backed securities	3,096	2,691	1,442	7,229	7,229
Investment in funds	136,832	–	–	136,832	136,832
Wealth management products	34	–	–	34	34
Total	203,415	140,270	1,442	345,127	345,127

The maximum loss exposures held by the investments in funds, trust beneficiary rights, asset management schemes, wealth management products and asset backed securities are the carrying amount of those assets.

45. Interests in unconsolidated structured entities *(continued)*

(b) Interests in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, funds and assets management schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors. Interest of the Group in these unconsolidated structured entities is limited to fees charged for management services provided.

As at 30 June 2021, the amount of the unconsolidated non-principal-guaranteed wealth management products sponsored by the Group was RMB2,643,892 million (31 December 2020: RMB2,445,644 million).

As at 30 June 2021, the amount of the unconsolidated mutual funds sponsored by the Group was RMB800,220 million (31 December 2020: RMB717,489 million).

As at 30 June 2021, the amount of the unconsolidated asset management schemes sponsored by the Group was RMB169,764 million (31 December 2020: RMB158,575 million).

As at 30 June 2021, amounts held under resale agreements of the Group with non-principal-guaranteed wealth management products sponsored by the Group were RMB20,154 million (31 December 2020: RMB48,898 million. The above transactions were conducted in accordance with normal business terms and conditions.

As at 30 June 2021, the amount of the unconsolidated non-principal-guaranteed wealth management products held by the Group was RMB2,061 million (31 December 2020: RMB1,225 million).

During the six months ended 30 June 2021, the amount of fee and commission income the Group received from such non-principal-guaranteed wealth management products was RMB5,876 million (six months ended 30 June of 2020: RMB6,234 million).

During the six months ended 30 June 2021, the amount of fee and commission income the Group received from such unconsolidated mutual funds was RMB1,434 million (six months ended 30 June 2020: RMB773 million).

During the six months ended 30 June 2021, the amount of fee and commission income the Group received from such unconsolidated asset management schemes was RMB423 million (six months ended 30 June of 2020: RMB350 million).

The total amount of non-principal-guaranteed wealth management products sponsored by the Group after 1 January 2021 with a maturity date before 30 June 2021 was RMB654,616 million (six months ended 30 June 2020: RMB613,670 million).

46. Comparative Figures

Certain comparative figures in the notes have been adjusted to conform to changes in disclosures in current period.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the *CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional)* issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries and regions.

In accordance with the Advanced Measurement Approach approved by the CBIRC in April 2014, the Group calculates core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	30 June 2021	31 December 2020
Core tier-1 capital adequacy ratio	**11.89%**	12.29%
Tier-1 capital adequacy ratio	**13.47%**	13.98%
Capital adequacy ratio	**16.01%**	16.54%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**67,491**	67,491
Surplus reserves	**71,016**	71,057
Regulatory general reserve	**98,452**	98,082
Retained profits	**392,833**	365,168
Qualifying portion of non-controlling interests	**–**	282
Others (note (i))	**9,516**	7,361
Total core tier-1 capital	**664,528**	634,661
Regulatory deductions from core tier-1 capital	**28,129**	24,569
Net core tier-1 capital	**636,399**	610,092
Additional tier-1 capital (note (ii))	**84,054**	84,092
Net tier-1 capital	**720,453**	694,184
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**24,170**	28,340
Surplus provision for loans impairment	**110,513**	97,119
Qualifying portion of non-controlling interests	**1,644**	1,647
Total tier-2 capital	**136,327**	127,106
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**136,327**	127,106
Net capital	**856,780**	821,290
Total risk-weighted assets	**5,350,441**	4,964,542

Notes:

(i): Under CBIRC's Administrative Measures on the Capital of Commercial Banks (Provisional), others include exchange reserve in the unaudited consolidated financial statements, etc.

(ii): The Group's additional tier-1 capital includes preference shares, qualifying portion of non-controlling interests, etc.

As at 30 June 2021, the Group's core tier-1 capital adequacy ratio was 10.46%, tier-1 capital adequacy ratio was 11.84%, capital adequacy ratio was 13.38%, net capital was RMB814,179 million and total risk-weighted assets was RMB6,086,169 million, using the Weighted Approach for credit risk, Standardised Measurement Approach for market risk and Basic Indicator Approach for operational risk in the calculations.

(B) Leverage ratio

In accordance with the CBIRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio is as follows. The basis used herein may differ from those adopted in Hong Kong or other countries and regions.

The difference between regulatory items and accounting items:

	30 June 2021	31 December 2020
Total consolidated assets as per published financial statements	**8,885,886**	8,361,448
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(63,088)**	(48,399)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**(5,742)**	(18,274)
Adjustment for securities financing transactions	**37,390**	45,094
Adjustment for off-balance sheet items	**1,250,236**	1,079,726
Other adjustments	**(28,129)**	(24,569)
Balance of adjusted on-balance sheet and off-balance sheet assets	**10,076,553**	9,395,026

Leverage ratio, net tier-1 capital, adjusted on-balance sheet and off-balance sheet assets and other information:

	30 June 2021	31 December 2020
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**8,457,763**	7,983,402
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(28,129)**	(24,569)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**8,429,634**	7,958,833
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**10,359**	14,080
Add-on amounts for potential future exposure associated with all derivatives transactions	**15,589**	14,918
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	**–**	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
Less: Exempted central counterparty leg of client-cleared trade exposures	**–**	–
Effective notional amount of written credit derivatives	**–**	–
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**25,948**	28,998
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**333,345**	282,375
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**37,390**	45,094
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**370,735**	327,469
Off-balance sheet exposure at gross notional amount	**2,566,799**	2,368,667
Less: Adjustments for conversion to credit equivalent amounts	**(1,316,563)**	(1,288,941)
Balance of adjusted off-balance sheet assets	**1,250,236**	1,079,726
Net tier-1 capital	**720,453**	694,184
Balance of adjusted on-balance sheet and off-balance sheet assets	**10,076,553**	9,395,026
Leverage ratio	**7.15%**	7.39%

(C) Liquidity coverage ratio

The Group prepares and discloses information on liquidity coverage ratio in accordance with the "Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other regions. The average liquidity coverage ratio of the Group was 138.24% in the second quarter of 2021, an increase of 11.51 percentage points over the previous quarter, which was mainly caused by the increase in cash inflows from financial institutions. The Group's liquidity coverage ratio at the end of the second quarter of 2021 was 144.06%, which was in line with the 2021 regulatory requirements of the CBIRC. The breakdown of the Group's average value of each item of liquidity coverage ratio in the second quarter of 2021 is set out below:

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
Stock of high quality liquid assets			
1	**Total stock of high quality liquid assets**		**1,145,378**
2	Retail and small business customers deposits, of which:	2,291,462	203,930
3	Stable deposits	504,319	25,216
4	Less stable deposits	1,787,143	178,714
5	Unsecured wholesale funding, of which:	3,867,806	1,336,525
6	Operational deposits (excluding correspondent banks)	2,392,186	595,709
7	Non-operational deposits (including all counterparties)	1,449,241	714,437
8	Unsecured debt issuance	26,379	26,379
9	Secured funding		16,266
10	Additional requirements, of which:	1,638,873	394,842
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	321,123	321,123
12	Cash outflows arising from secured debt instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,317,750	73,719
14	Other contractual obligations to extend funds	74,256	74,256
15	Other contingent funding obligations	7,081,601	105,722
16	**Total cash outflows**		**2,131,541**
17	Secured lending (including reverse repo and securities borrowing)	286,630	286,216
18	Contractual inflows from fully performing loans	1,066,428	685,468
19	Other cash inflows	338,301	331,301
20	**Total cash inflows**	**1,691,359**	**1,302,985**

		Adjusted value
21	**Total stock of high quality liquid assets**	**1,145,378**
22	**Net cash outflows**	**828,556**
23	**Liquidity coverage ratio (%)**	**138.24%**

Notes:

(i) Data from domestic operation is a simple arithmetic average of the 91-day value in the latest quarter and the monthly average in the latest quarter is used for the subsidiaries.

(ii) The high quality liquid assets in the above table comprise cash, central bank reserve available under stress conditions, as well as the bonds that meet the definition of Tier 1 and Tier 2 assets set out by the CBIRC on the "Measures for the Liquidity Risk Management of Commercial Banks".

(D) Net stable funding ratio

The Group prepares and discloses information on net stable funding ratio in accordance with the "Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries. The Group's net stable funding ratio at the end of the second quarter of 2021 was 120.68%, representing an increase of 0.77 percentage points as compared with the previous quarter. The breakdown of the Group's net stable fund ratio in the last two quarters is set out below:

30 June 2021

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 1 year	
Available stable funding (ASF) item						
1	Capital	752,791	–	–	20,000	772,791
2	Regulatory capital	741,091	–	–	20,000	761,091
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customers	1,824,662	598,634	30,513	3,471	2,239,291
5	Stable deposits	545,392	2,330	115	83	520,528
6	Less stable deposits	1,279,270	596,304	30,398	3,388	1,718,763
7	Wholesale funding	2,737,126	1,986,786	273,739	259,567	2,381,047
8	Operational deposits	2,446,813	–	–	–	1,223,406
9	Other wholesale funding	290,313	1,986,786	273,739	259,567	1,157,641
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	72,528	84,415	56,585	139,742	102,929
12	NSFR derivative liabilities				65,106	
13	All other liabilities and equity not included in the above categories	72,528	84,415	56,585	74,636	102,929
14	Total ASF					5,496,058
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					146,620
16	Deposits held at other financial institutions for operational purposes	67,582	4,898	–	–	36,240
17	Performing loans and securities	78,879	2,251,307	1,045,205	3,214,152	4,021,869
18	Performing loans to financial institutions secured by Level 1 HQLA	–	297,045	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA or unsecured performing loans to financial institutions	259	739,894	228,954	23,029	293,086
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,086,457	767,364	1,750,178	2,377,976
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	135,385	96,244	182,928	234,717
22	Performing residential mortgages, of which:	–	36,010	29,291	1,270,500	1,110,798
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	78,620	91,901	19,596	170,445	240,009
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	13,338	65,861	22,714	94,964	151,391

(D) Net stable funding ratio *(continued)*

30 June 2021 *(continued)*

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount: No maturity	< 6 months	6 months to 12 months	≥ 1 year	Weighted amount
Required stable funding (RSF) item *(continued)*						
27	Physical traded commodities, including gold	3,600				3,060
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				146	124
29	NSFR derivative assets				57,841	–
30	NSFR derivative liabilities before deduction of variation margin posted				65,425	13,085
31	All other assets not included in the above categories	9,738	65,861	22,714	36,977	135,122
32	Off-balance sheet items				8,899,036	198,199
33	Total RSF					4,554,319
34	Net Stable Funding Ratio (%)					120.68%

31 March 2021

(Expressed in millions of Renminbi except percentage)

Serial No.		Unweighted amount: No maturity	< 6 months	6 months to 12 months	≥ 1 year	Weighted amount
Available stable funding (ASF) item						
1	Capital	753,895	–	–	20,000	773,895
2	Regulatory capital	742,195	–	–	20,000	762,195
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,771,918	608,828	25,806	2,744	2,195,734
5	Stable deposits	539,680	2,087	108	74	514,855
6	Less stable deposits	1,232,238	606,741	25,698	2,670	1,680,879
7	Wholesale funding	2,585,761	1,781,549	503,285	273,778	2,388,020
8	Operational deposits	2,294,382	–	–	–	1,147,191
9	Other wholesale funding	291,379	1,781,549	503,285	273,778	1,240,829
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	37,944	49,368	25,903	194,613	132,618
12	NSFR derivative liabilities				74,947	
13	All other liabilities and equity not included in the above categories	37,944	49,368	25,903	119,666	132,618
14	Total ASF					5,490,267
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					208,103
16	Deposits held at other financial institutions for operational purposes	54,773	8,488	–	–	31,630
17	Performing loans and securities	118,900	2,042,314	1,145,412	3,158,495	4,017,738
18	Performing loans to financial institutions secured by Level 1 HQLA	–	165,672	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA or unsecured performing loans to financial institutions	21,120	625,745	297,424	20,664	291,256
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,122,836	782,546	1,715,269	2,373,392

(D) Net stable funding ratio *(continued)*

31 March 2021 *(continued)*

Serial No.		Unweighted amount No maturity	Unweighted amount < 6 months	Unweighted amount 6 months to 12 months	Unweighted amount ≥ 1 year	Weighted amount
Required stable funding (RSF) item *(continued)*						
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	142,743	108,951	186,387	246,998
22	Performing residential mortgages, of which:	–	35,473	29,527	1,244,181	1,088,250
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	97,780	92,588	35,915	178,381	264,840
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	14,373	53,597	21,959	84,090	119,605
27	Physical traded commodities, including gold	4,448				3,781
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				171	145
29	NSFR derivative assets				68,448	–
30	NSFR derivative liabilities before deduction of variation margin posted				75,860	15,172
31	All other assets not included in the above categories	9,925	53,597	21,959	15,471	100,507
32	Off-balance sheet items				8,912,478	201,618
33	Total RSF					4,578,694
34	Net Stable Funding Ratio (%)					119.91%

Notes:

(i) The Group calculates net stable funding ratio in accordance with the "Measures for the Liquidity Risk Management of Commercial Banks" and relevant statistical regulations.

(ii) Items to be reported in the "no maturity" bucket include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

(iii) The item 26 "Other assets" unweighted amount in the above table does not include the item 30 "NSFR derivative liabilities before deduction of variation margin posted".

(E) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

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

	30 June 2021			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Foreign currencies transactions in Mainland China	**58,990**	**8,428**	**127,532**	**194,950**
Asia Pacific excluding Mainland China	**75,957**	**30,651**	**168,993**	**275,601**
– of which attributed to Hong Kong	**60,033**	**29,148**	**149,082**	**238,263**
Europe	**12,616**	**2,299**	**18,156**	**33,071**
North and South America	**26,153**	**33,822**	**26,554**	**86,529**
Total	**173,716**	**75,200**	**341,235**	**590,151**

	31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	71,342	6,050	111,106	188,498
Asia Pacific excluding Mainland China	65,102	35,237	150,158	250,497
– of which attributed to Hong Kong	37,344	33,862	135,236	206,442
Europe	7,936	1,175	19,162	28,273
North and South America	35,131	28,197	30,223	93,551
Total	179,511	70,659	310,649	560,819

(F) Loans and advances to customers overdue for more than 90 days

(i) By geographical segments

	30 June 2021	31 December 2020
Headquarters	**14,720**	15,328
Yangtze River Delta region	**3,785**	4,704
Bohai Rim region	**7,216**	6,370
Pearl River Delta and West side of Taiwan Strait	**5,573**	5,400
Northeast region	**2,757**	2,357
Central region	**4,110**	2,914
Western region	**2,099**	2,875
Outside Mainland China	**233**	342
Subsidiaries	**940**	694
Total	**41,433**	40,984

(ii) By overdue period

	30 June 2021	31 December 2020
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	**10,972**	10,445
– between 6 and 12 months (inclusive)	**8,575**	9,667
– over 12 months	**21,886**	20,872
Total	**41,433**	40,984
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.20%**	0.21%
– between 6 and 12 months (inclusive)	**0.16%**	0.19%
– over 12 months	**0.41%**	0.41%
Total	**0.77%**	0.81%

(F) Loans and advances to customers overdue for more than 90 days

(continued)

(iii) Collateral information

	30 June 2021	31 December 2020
Secured portion of overdue loans and advances	**16,312**	15,148
Unsecured portion of overdue loans and advances	**25,121**	25,315
Value of collateral held against overdue loans and advances	**39,876**	43,862

The amount of the Group's overdue loans and advances to financial institutions for more than 90 days as at 30 June 2021 was RMB1 million (31 December 2020: RMB150 million).

Note: The above analysis represents loans and advances overdue for more than 90 days as required and defined by the Hong Kong Monetary Authority (the "HKMA").

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

For loans and advances repayable by regular instalments, if part of the instalments of a loan is overdue, the whole amount of the loan is classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

The collateral of the Group includes cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral is estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(G) Rescheduled loans and advances to customers

	30 June 2021		31 December 2020	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Rescheduled loans and advances to customers (Note)	**20,797**	**0.39%**	24,878	0.49%
Less:				
– rescheduled loans and advances overdue more than 90 days	**13,858**	**0.26%**	15,169	0.30%
Rescheduled loans and advances less than 90 days	**6,939**	**0.13%**	9,709	0.19%

Note: Represents the restructured non-performing loans.

The amount of the Group's rescheduled loans and advances to financial institutions as at 30 June 2021 was RMB1 million (31 December 2020: RMB1 million).

(H) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As of 30 June 2021 and 31 December 2020, most of the Bank's exposures arose from businesses with Mainland China non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the interim consolidated financial statements.

(I) Currency concentrations other than RMB

	30 June 2021			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	**480,413**	**40,280**	**59,436**	**580,129**
Spot liabilities	**481,597**	**17,180**	**75,881**	**574,658**
Forward purchased	**568,249**	**10,041**	**73,418**	**651,708**
Forward written	**575,447**	**20,152**	**58,043**	**653,642**
Net option position	**12,520**	**(1,532)**	**1,701**	**12,689**
Net long position	**4,138**	**11,457**	**631**	**16,226**
Net structural position	**15,250**	**34,761**	**1,007**	**51,018**

	31 December 2020			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	514,789	42,491	76,940	634,220
Spot liabilities	498,529	27,393	70,538	596,460
Forward purchased	496,469	9,019	87,616	593,104
Forward written	512,955	14,274	89,931	617,160
Net option position	11,721	169	(2,754)	9,136
Net long position	11,495	10,012	1,333	22,840
Net structural position	9,537	31,120	1,005	41,662

The net option position is calculated using the delta equivalent approach required by the HKMA. The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

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