

CZBANK 浙商银行

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

A Share Stock Code : 601916

H Share Stock Code : 2016

Stock Code of Preference Shares : 4610

Interim Report | 2021



IMPORTANT NOTICE

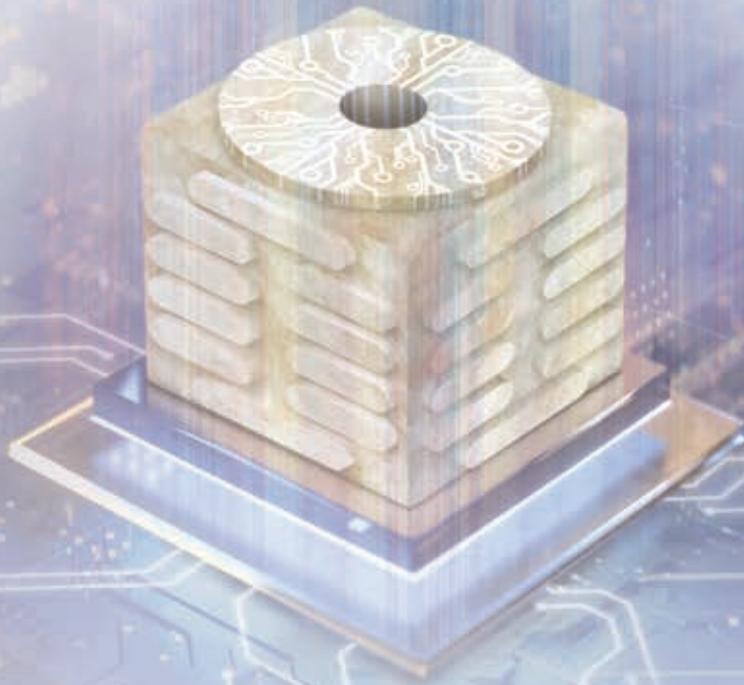
1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.
2. This interim report was approved at the second meeting of the sixth session of the Board of the Company on August 30, 2021. The Company has 12 Directors, among which 11 Directors attended the meeting in person and Mr. Zheng Jindu had appointed Mr. Wang Guocai to attend the meeting on his behalf, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 9 Supervisors of the Company attended the meeting.
3. The Company neither declares interim dividend for 2021 nor makes any transfer from reserves to share capital.
4. Unless otherwise illustrated in this report, the currency for any amount herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.
5. The interim financial report for 2021 of the Company is unaudited.
6. Shen Renkang (Chairman of the Bank), Zhang Rongsen¹ (President of the Bank), Liu Long (Principal in charge of Finance) and Jing Feng (Director of the Financial Department) warrant that the financial report in this report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed “Management Discussion and Analysis – Risk Management” of this report for information about major risks faced and measures to be taken by the Company.

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

1 On August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved.



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DEFINITIONS

“Company”, “Bank”, “our Bank”, China Zheshang Bank Co., Ltd.

**“China Zheshang Bank” or
“CZBank”:**

“CBIRC”: China Banking and Insurance Regulatory Commission

“CSRC”: China Securities Regulatory Commission

“Hong Kong Stock Exchange”: The Stock Exchange of Hong Kong Limited

“SFO”: Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Hong Kong Listing Rules”: The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Model Code”: The Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules

“Zheyin Financial Leasing”: Zhejiang Zheyin Financial Leasing Co., Ltd., a holding subsidiary of the Company, in which the Company holds 51% of equity interest

“Group”: the Company and its subsidiary

COMPANY PROFILE

1. Company name in Chinese:	浙商银行股份有限公司(Abbreviation in Chinese: 浙商银行)
Company name in English:	CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)
2. Legal Representative:	Shen Renkang
3. Registered address:	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC
Postcode:	311200
Principal office address:	No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC
Postcode:	310006
E-mail:	ir@czbank.com
Website:	www.czbank.com
Customer service hotline:	95527
Tel for investor relations management:	86-571-88268966
Fax:	86-571-87659826
4. Principal place of business in Hong Kong:	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong, the PRC
5. Authorized representative:	Zhang Rongsen Liu Long
6. Secretary to the Board and company secretary:	Liu Long
Representative of securities affairs:	Chen Sheng
7. A Shares	
Stock exchange where the securities are listed:	Shanghai Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	601916
H Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	2016
Offshore Preference Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZB 17USDPREF
Stock code:	4610

Note: On August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the CBIRC approved the qualification of Mr. Zhang Rongsen as a Director. The term of office of Mr. Zhang Rongsen as the authorized representative of the Bank under Rule 3.05 of the Hong Kong Listing Rules shall commence from August 31, 2021 and end on the date of the expiry of the term of the sixth session of the Board.

COMPANY PROFILE

8. Share registrar:	
A Shares:	China Securities Depository and Clearing Corporation Limited Shanghai Branch NO. 188 South Yanggao Road, Pudong New Area, Shanghai, the PRC
H Shares:	Computershare Hong Kong Investor Services Limited Shop 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the PRC

9. Legal advisers:	
As to Mainland PRC Laws:	Zhejiang T&C Law Firm
As to Hong Kong Laws:	Freshfields Bruckhaus Deringer

10. Accounting firms engaged by the Company:	
Domestic auditor:	KPMG Huazhen LLP Office address: 8/F, Tower E2, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, the PRC Signing certificated accountants: Chen Sijie, Pan Sheng
International auditor:	KPMG Office address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong, the PRC

11. Newspapers and websites designated for information disclosure:	
Mainland China:	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily Website of the Shanghai Stock Exchange (www.sse.com.cn) Website of the Company (www.czbank.com)
Hong Kong:	Website of the Hong Kong Stock Exchange (www.hkex.com.hk) Website of the Company (www.czbank.com)
Place for inspection of this report:	Office of the Board of the Company (No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC)

12. Sponsor institution for A Shares:	
Name of the institution:	CITIC Securities Co., Ltd.
Office address:	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province, the PRC
Name of the undersigned sponsor representatives:	Cheng Yue, Jiang Ying
The period of continuous supervision and guidance:	November 26, 2019 to December 31, 2021

13. Other information about the Company:	Uniform social credit code: 91330000761336668H Financial institution license serial number: B0010H133010001 Registration date: July 26, 2004
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CORPORATE OVERVIEW

As one of the twelve nationwide joint-stock commercial banks, China Zheshang Bank Co., Ltd. (“CZBank”) officially commenced business on August 18, 2004, with its head office in Hangzhou, Zhejiang Province. CZBank was listed on the Hong Kong Stock Exchange with the stock code of “2016.HK” on March 30, 2016 and listed on the Shanghai Stock Exchange with the stock code of “601916” on November 26, 2019, being the 13th “A+H” listed bank in China.

Since its opening, CZBank has always gained a toehold in Zhejiang and steadily developed its businesses nationwide, according to the requirements specified by General Secretary Xi Jinping when he served Zhejiang. It has developed into a high-quality commercial bank with a solid foundation, strong profitability, rapid growth and prudent risk control.

In line with new trend of Internet information technology development and new requirements for customer value creation, based on the new stage of development, in compliance with the new concept of development, guided by “two most” overall goal, CZBank has fully implemented the platform-based service strategy, and insisted on the five operation principles of “serving the real economy, innovative transformation, compliant operation, risk prevention and dissolution, quality and efficiency improvement”, so as to build a dual engine driven by blockchain and IoT technologies, promote high-quality development and provide customers with comprehensive financial services which are open, efficient, flexible, shared and extremely simple.

As at the end of the reporting period, CZBank has established 278 branch outlets in 20 provinces (autonomous regions and municipalities) and the Hong Kong Special Administrative Region, effectively covering the Yangtze River Delta, the Bohai Rim, the Pearl River Delta Region and the West Straits Economic Zone and certain areas in the Midwestern China.

In the first half of 2021, CZBank’s operating income was RMB25.948 billion, representing a period-on-period increase of 3.05%; net profit attributable to shareholders of the Bank was RMB6.851 billion, representing a period-on-period increase of 1.12%. As of the end of the reporting period, the total assets were RMB2.15 trillion, representing an increase of 5.18% compared with that at the end of last year, and total loans and advances to customers were RMB1.27 trillion, representing an increase of 6.22% compared with that at the end of last year; the total liabilities were RMB2.02 trillion, representing an increase of 5.41% compared with that at the end of last year, and balance of customer deposits were RMB1.37 trillion, representing an increase of 2.37% compared with that at the end of last year; the non-performing loan ratio was 1.50% and allowance to non-performing loans was 180.24%, maintaining a stable asset quality; the capital adequacy ratio was 12.42%, the tier-one capital adequacy ratio was 9.46% and the core tier-one capital adequacy ratio was 8.37%, all maintaining at a reasonable level. In the “Top 1000 World Banks 2021” ranking by The Banker Magazine of the U.K., it ranked 99th and 95th in terms of tier-one capital and total assets, respectively, both ranking among Top 100 in the global banking industry.

DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

I. VISION

To build CZBank into a first-class commercial bank.

II. OVERALL GOAL

Overall Objective of “Two Most”: The most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means a first-class banking group that is committed to innovation and creating distinctive features, being one step ahead in advancing technological innovation and becoming a pioneer bank in financial technology and business model innovation, being one step ahead in developing distinctive strengths and becoming a pioneer bank with a distinctive professional identity, and being one step ahead in performance improvement and risk management and becoming a pioneer bank of high quality development.

“Zhejiang’s Most Important Financial Platform” means a comprehensive financial flagship that understands Zhejiang and Zhejiang merchants best. It has been at the forefront of promoting the development of “important window” and supporting the implementation of major strategies in Zhejiang, continuously strengthening the development of the stronghold, continuously increasing its market share, ranking among the top joint-stock banks in terms of deposit and loan scale in the province, and becoming the most trusted bank of Zhejiang governments at all levels. It has been at the forefront of serving Zhejiang’s economic and social development, innovating technology applications, business models and risk control mechanisms, creating an integrated service platform of “technology + finance + industry + customers”, and becoming the most caring bank for Zhejiang enterprises and residents. It has been at the forefront of strengthening and promoting synergistic cooperation among financial institutions, relying on its advantages of platform-based services and intermediary services to transform the financing needs of enterprises into financial instruments and connect them to the financial market, and becoming an important hub for the linkage and flow of financial elements in Zhejiang.

III. STRATEGIC POSITIONING

The Bank is positioned to deepen the implementation of platform-based service strategy, enhance our digital, professional and leaning capabilities, and establish three major advantages in liquidity services, industrial supply chain services and wealth management services to create an industrial chain bank.

DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

IV. CORE COMPETITIVENESS

Clear and specific strategic positioning. Guided by the “two most” overall goal and the theme of promoting high-quality development, the Bank is positioned to deepen the implementation of platform-based service strategy, enhance our digital, professional and leaning capabilities, and establish three major distinctive features in liquidity services, industrial supply chain services and wealth management services in order to accelerate its progress towards the vision of becoming a “first-class commercial bank”.

Sound Corporate Governance. The Bank strengthens the establishment of modern corporate systems under the leadership of the Party in all aspects and has improved the level of corporate governance continuously, with (1) a more diversified equity structure. Through listing in both Mainland China and Hong Kong, the Company has established a stable, transparent, balanced and orderly ownership structure; (2) a better governance system. The Company has established the Board of Directors, the Board of Supervisors and General Meetings and has its senior management in place, each with specified and definite duties and responsibilities, thus forming a corporate governance structure appropriate for the Company; and (3) more standard information disclosure. The Company has improved the quality of information disclosure and made full use of the supervision role of the market in performing its responsibility.

Rapid and sustainable growth capability. Benefitting from its strategic national layout, efficient operation and management and the strong development foundation in Zhejiang province, the Bank has developed itself into a fast-growing national joint-stock commercial bank with strong base, high profitability and well-established risk control system. Both the economic efficiency and scale of the Company grow in a rapid and sustainable manner with prominent new momentum and new advantages, indicating a broad prospect in the medium to long term.

Financial technology with distinctive edges. Sticking to the use of financial technology and implementing technology-driven transformation, the Bank has taken the lead in exploring the deepened integration of the cutting-edge technologies, such as blockchain, Internet of things, artificial intelligence, cloud computation and big data, with banking business, so as to build a strong technical support platform, realize the interconnection and collaboration between different systems, and export technology platforms and services. Gradually, it has established itself into a leading innovative brand in the financial technology industry.

Distinctive corporate businesses. Based on the success of the platform-based service pattern the Bank has continued to enhance its customized approach by providing “one strategy to one customer” and “one strategy by one bank” services, to apply financial technologies to its pragmatic and efficient corporate financial services and focus on solving the core needs of enterprises. All the above constitutes its competitive advantage in the market.

Leading professional services for the small and micro enterprises. As a pioneer in the small and micro enterprise business in the industry, the Bank has formed various distinctive advantages in the aspect of mechanism, product, process, and risk control. Adhering to the principal of commercially sustainable development, the Bank has a foothold on professional operating mode, and utilizes the internet technology and thinking actively to innovate the application of online procedures, thus to improve customer experience. The professional service ability of the Company has been highly recognized by the customers in the market.

DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

Improving business system. To enhance its differentiated competitiveness, the Bank has focused on the coordinated development of its “five major business segments”, namely great retail, great corporate, great investment banking, great asset management and great cross-border. The combined use of various financial instruments enabled the Bank to provide customers with comprehensive, three-dimensional and systematic financial services solutions, thereby promoting a greatly enriched and adjusted business structure and a more balanced and rational profit source.

Prudent and healthy risk management. Oriented with serving the real economy, the Bank adheres to a prudent and healthy risk appetite and the principle of “small and diversified” in granting credit in an appropriate manner, strengthens vertical management, implements a distinctive risk control officer assignment system, and continuously improves the risk management system, unified credit management system and credit risk limit framework system to maintain stable quality of assets.

Scientific and reasonable talent bank. The Bank strengthens the construction of its cadre team. The management of the Bank has extraordinary strategic vision and business management capability, as well as extensive experience in business operation, financial management, risk control and information technology. It continues to promote a systematic, scientific and precise level of HR management. The employees of the Bank are young, energetic, highly-educated with strong professional competence.

Stable and diversified capital replenishment. The formation of the “A+H” capital replenishment dual channel of the Bank as well as the improvement of a stable and dynamic market-oriented capital replenishment system sustainable in a long term drives the business development and strategy implementation of the Company in an effective manner.

Pragmatic and innovative brand culture. The Bank adheres to and promotes the spirit of doer, fosters a culture of responsibility, diligence, pragmatism and generosity, and implants in its cultural system the cultural genes as innovation, collaboration, foresight and openness that are more contemporary and can better match its development strategy. We are building a vibrant brand image as the “Bank of the 00s”, fulfilling our corporate social responsibilities, vigorously developing green finance, helping to contribute to the carbon peak and carbon neutrality, and actively promoting inclusive finance and technological finance to create value together with our customers.

FINANCIAL SUMMARY

(The financial data and indicators set forth in this report are prepared in accordance with IFRSs and are consolidated data of the Bank and its subsidiary and presented in RMB, unless otherwise specified.)

KEY FINANCIAL DATA AND INDICATORS

Operating results (RMB million)	January to June 2021	January to June 2020	Increase (decrease) (%)	January to June 2019
Operating income	25,948	25,181	3.05	22,573
Profit before income tax	8,151	7,905	3.11	8,744
Net profit attributable to shareholders of the Bank	6,851	6,775	1.12	7,528

Scale indicators (RMB million)	June 30, 2021	December 31, 2020	Increase (decrease) (%)	December 31, 2019
Total assets	2,154,397	2,048,225	5.18	1,800,786
Total loans and advances to customers	1,272,137	1,197,698	6.22	1,030,171
Total liabilities	2,019,280	1,915,682	5.41	1,672,759
Customer deposits	1,367,287	1,335,636	2.37	1,143,741
Equity attributable to shareholders of the Bank	133,024	130,512	1.92	126,246
Net assets per share at the end of the period attributable to shareholders of the Bank ⁽¹⁾ (RMB)	5.55	5.43	2.21	5.23

Per share (RMB)	January to June 2021	January to June 2020	Increase (decrease) (%)	January to June 2019
Basic earnings per share attributable to shareholders of the Bank ⁽²⁾	0.28	0.27	3.70	0.36
Diluted earnings per share attributable to shareholders of the Bank	0.28	0.27	3.70	0.36

Profitability indicators (%)	January to June 2021	January to June 2020	Increase/ decrease	January to June 2019
Return on average total assets ⁽³⁾	0.67	0.73	Decrease by 0.06 percentage point	0.91
Return on average equity ⁽⁴⁾	11.00	11.37	Decrease by 0.37 percentage point	16.03
Net interest margin ⁽⁵⁾	2.27	2.29	Decrease by 0.02 percentage point	2.34
Net interest spread ⁽⁵⁾	2.08	2.03	Increase by 0.05 percentage point	2.01
Net non-interest income to operating income ⁽⁵⁾	21.47	26.98	Decrease by 5.51 percentage points	29.34
Cost-to-income ratio ⁽⁶⁾	25.20	23.58	Increase by 1.62 percentage points	25.80

FINANCIAL SUMMARY

	June 30, 2021	December 31, 2020	Increase/ decrease	December 31, 2019
Asset quality indicators (%)				
Non-performing loan ratio ⁽⁷⁾	1.50	1.42	Increase by 0.08 percentage point	1.37
Allowance to non-performing loans ⁽⁸⁾	180.24	191.01	Decrease by 10.77 percentage points	220.80
Allowance to total loans ⁽⁹⁾	2.71	2.72	Decrease by 0.01 percentage point	3.03

	June 30, 2021	December 31, 2020	Increase/ decrease	December 31, 2019
Capital adequacy indicators (%)				
Core tier-one capital adequacy ratio	8.37	8.75	Decrease by 0.38 percentage point	9.64
Tier-one capital adequacy ratio	9.46	9.88	Decrease by 0.42 percentage point	10.94
Capital adequacy ratio	12.42	12.93	Decrease by 0.51 percentage point	14.24

Notes:

* Annualized return rate.

- (1) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank minus other equity instruments) divided by the total number of ordinary shares at the end of the period.
- (2) Basic earnings per share attributable to shareholders of the Bank = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by weighted average number of ordinary shares outstanding.
- (3) Return on average total assets = Net profit divided by the average balance of total assets at the beginning and at the end of the period.
- (4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by average balance of equity attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).
- (5) According to the requirements of the Notice on the Strict Implementation of Accounting Standards for Enterprises and Effective Enhancement regarding Enterprises' Work on the 2020 Annual Reports (Cai Kuai [2021] No. 2) 《關於嚴格執行企業會計準則、切實加強企業2020年年報工作的通知》(財會[2021]2號) issued by the Ministry of Finance, credit card installment income was not included in handling fee income. The Group adjusted retrospectively the net interest margin, net interest spread and the proportion of non-interest income for the first half of 2020.
- (6) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (7) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (8) Allowance to non-performing loans = Balance of the expected credit loss allowance for loans divided by balance of non-performing loans. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to non-performing loans shall not be less than 140%.
- (9) Allowance to total loans = Balance of the expected credit loss allowance for loans divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to total loans shall not be less than 2.1%.

EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER DOMESTIC AND INTERNATIONAL ACCOUNTING POLICIES

The net profit attributable to shareholders of the Bank for the reporting period ended June 30, 2021 and the equity attributable to shareholders of the Bank as at the end of the reporting period presented in the financial statements prepared by the Group under the China Accounting Standards are the same with that presented in the financial statements prepared by the Group under the International Accounting Standards.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) ANALYSIS OF OVERALL OPERATION PERFORMANCE

Stable increase of business scale

As at the end of the reporting period, total assets of the Group amounted to RMB2,154.397 billion, representing an increase of RMB106.172 billion or 5.18% as compared to that at the end of last year, of which total loans and advances to customers amounted to RMB1,272.137 billion, representing an increase of RMB74.439 billion or 6.22% as compared to that at the end of last year. Total liabilities amounted to RMB2,019.280 billion, representing an increase of RMB103.598 billion or 5.41% as compared to that at the end of last year, of which customer deposits amounted to RMB1,367.287 billion, representing an increase of RMB31.651 billion or 2.37% as compared to that at the end of last year.

Stable and sound operating efficiencies

During the reporting period, operating income of the Group amounted to RMB25.948 billion, representing a period-on-period increase of RMB767 million or 3.05 %, of which net interest income amounted to RMB20.378 billion, representing a period-on-period increase of RMB1.991 billion or 10.83%, and net non-interest income amounted to RMB5.570 billion, representing a period-on-period decrease of RMB1.224 billion or 18.02%. Net profit attributable to shareholders of the Bank amounted to RMB6.851 billion, representing a period-on-period increase of RMB76 million or 1.12%.

Maintaining stable asset quality

As at the end of the reporting period, the non-performing loan ratio was 1.50%, representing an increase of 0.08 percentage point as compared to that at the end of last year; allowance to non-performing loan was 180.24%, representing a decrease of 10.77 percentage points as compared to that at the end of last year; the allowance to total loans was 2.71%, representing a decrease of 0.01 percentage point as compared to that at the end of last year.

Capital adequacy ratio remained at a reasonable level

As at the end of the reporting period, the Group's capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 12.42%, 9.46% and 8.37%, respectively, representing a decrease of 0.51 percentage point, 0.42 percentage point and 0.38 percentage point as compared to that at the end of last year, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of Consolidated Statement of Profit or Loss

In the first half of 2021, facing the new operating environment at home and abroad, the Group adhered to the overall goal of “Two Most” as its guidance and insisted on serving the real economy, thereby maintaining good overall operating conditions. In the first half of 2021, the Group achieved a net profit attributable to shareholders of the Bank of RMB6.851 billion, representing an increase of 1.12% on a period-on-period basis; the return on average total assets was 0.67% and the return on average equity was 11.00%. Operating income was RMB25.948 billion, representing an increase of 3.05% on a period-on-period basis, including net interest income of RMB20.378 billion, representing an increase of 10.83% on a period-on-period basis; net non-interest income of RMB5.570 billion, representing a decrease of 18.02% on a period-on-period basis. Operating expenses were RMB6.963 billion, representing an increase of 11.53% on a period-on-period basis; cost-to-income ratio was 25.20%, representing an increase of 1.62 percentage points on a period-on-period basis. Provision for expected credit losses was RMB10.834 billion, representing a slight decrease of 1.80% on a period-on-period basis. The income tax expense was RMB1.163 billion, representing an increase of 17.12% on a period-on-period basis.

Changes of the main items in the consolidated statement of profit or loss

In RMB million, except percentages

Item	January to June 2021	January to June 2020	Amount of increase (decrease)	Increase (decrease) (%)
Net interest income	20,378	18,387	1,991	10.83
Net non-interest income	5,570	6,794	(1,224)	(18.02)
Operating income	25,948	25,181	767	3.05
Less: operating expenses	6,963	6,243	720	11.53
Less: expected credit losses	10,834	11,033	(199)	(1.80)
Profit before income tax	8,151	7,905	246	3.11
Less: income tax expense	1,163	993	170	17.12
Net profit	6,988	6,912	76	1.10
Attributable to: Shareholders of the Bank	6,851	6,775	76	1.12
Non-controlling interests	137	137	0	0.00

(1) Net interest income

In the first half of 2021, net interest income was RMB20.378 billion, representing an increase of RMB1.991 billion or 10.83% on a period-on-period basis, accounting for 78.53% of operating income; interest income was RMB45.151 billion, representing an increase of RMB3.309 billion or 7.91% on a period-on-period basis; interest expense was RMB24.773 billion, representing an increase of RMB1.318 billion or 5.62% on a period-on-period basis. Net interest spread and net interest margin were 2.08% and 2.27%, respectively, representing an increase of 0.05 percentage point and a decrease of 0.02 percentage point on a period-on-period basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In RMB million, except percentages

Item	January to June 2021			January to June 2020		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	1,268,847	34,105	5.42	1,103,954	31,433	5.73
Investments ⁽¹⁾	446,692	9,306	4.20	413,677	8,563	4.16
Due from banks and other financial institutions ⁽²⁾	105,645	757	1.44	116,463	902	1.56
Balances with the central bank ⁽³⁾	133,910	983	1.48	128,257	944	1.48
Total interest-earning assets	1,955,094	45,151	4.66	1,762,351	41,842	4.77
Item	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)
Interest-bearing liabilities						
Customer deposits	1,339,627	16,625	2.50	1,261,870	16,369	2.61
Due to banks and other financial institutions ⁽⁴⁾	259,778	3,051	2.37	178,842	2,361	2.65
Due to the central bank	59,316	835	2.84	94,864	1,482	3.14
Debt securities issued ⁽⁵⁾	273,398	4,191	3.09	184,297	3,173	3.46
Lease liabilities	2,975	71	4.81	2,919	70	4.82
Total interest-bearing liabilities	1,935,094	24,773	2.58	1,722,792	23,455	2.74
Net interest income		20,378			18,387	
Net interest spread			2.08			2.03
Net interest margin ⁽⁶⁾			2.27			2.29

Notes:

- (1) The investments include financial investments measured at amortized cost, financial investments measured at fair value through other comprehensive income and finance lease receivables.
- (2) Due from banks and other financial institutions include financial assets purchased under resale agreements.
- (3) Balances with the central bank include mandatory reserve of deposits, surplus reserve of deposits and foreign exchange reserve of deposits.
- (4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.
- (5) Debt securities issued include issued inter-bank certificates of deposits, financial bonds and subordinated bonds.
- (6) Net interest margin: the income generated from the business of financial investments measured at fair value through profit or loss was not classified as interest income categorized by accounting item, and its corresponding interest-bearing liabilities and interest expense were adjusted accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of changes in interest income and interest expense

In RMB million

Item	Comparison between January to June 2021 and January to June 2020		
	Factors for increase (decrease)		Net amount of increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	4,596	(1,924)	2,672
Investments	657	86	743
Due from banks and other financial institutions	(86)	(59)	(145)
Balances with the central bank	39	0	39
Changes in interest income	5,206	(1,897)	3,309
Interest-bearing liabilities			
Customer deposits	961	(705)	256
Due to banks and other financial institutions	1,059	(369)	690
Due to the central bank	(557)	(90)	(647)
Debt securities issued	1,520	(502)	1,018
Lease liabilities	1	0	1
Changes in interest expense	2,984	(1,666)	1,318
Changes in net interest income	2,222	(231)	1,991

Note:

- (1) Change in volume represents the average balance for the reporting period minus the average balance for the same period of last year, multiplied by the average yield or average interest-bearing rate for the same period of last year.
- (2) Change in interest rate represents the average yield or average interest-bearing rate for the reporting period minus the average yield or average interest-bearing rate for the same period of last year, multiplied by the average balance for the reporting period.
- (3) Net increase or decrease represents interest income (expense) for the reporting period minus interest income (expense) for the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB34.105 billion, representing an increase of RMB2.672 billion or 8.50% on a period-on-period basis, mainly due to the increase in loans and advances to customers.

In RMB million, except percentages

	January to June 2021			January to June 2020		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	922,183	22,366	4.89	828,203	21,848	5.30
Personal loans and advances	346,664	11,739	6.83	275,751	9,585	6.99
Total loans and advances to customers	1,268,847	34,105	5.42	1,103,954	31,433	5.73

Note:

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB9.306 billion, representing an increase of RMB743 million or 8.68% on a period-on-period basis, mainly due to the increase in size of investment.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB16.625 billion, representing a slight increase of RMB256 million or 1.56% on a period-on-period basis, primarily due to the increase in size of deposits and decrease in cost ratio.

In RMB million, except percentages

	January to June 2021			January to June 2020		
	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Corporate deposits and other deposits⁽¹⁾						
Time	635,111	8,766	2.78	701,537	10,630	3.05
Demand	411,340	2,859	1.40	343,344	2,102	1.23
Sub-total	1,046,451	11,625	2.24	1,044,881	12,732	2.45
Personal deposits						
Time	237,493	4,479	3.80	171,863	3,353	3.92
Demand	55,683	521	1.89	45,126	284	1.26
Sub-total	293,176	5,000	3.44	216,989	3,637	3.37
Total	1,339,627	16,625	2.50	1,261,870	16,369	2.61

Note:

(1) Other deposits include remittance payables, temporary deposits and outward remittance, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB3.051 billion, representing an increase of RMB690 million or 29.22% on a period-on-period basis, primarily because of the decrease in borrowings rates in the market and the Bank's timely increase in debts from other banks.

Interest expense on debt securities issued

Interest expense on debt securities issued amounted to RMB4.191 billion, representing an increase of RMB1.018 billion or 32.08% on a period-on-period basis, primarily due to the increase in debt securities issued.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) Net non-interest income

Net non-interest income in the first half of 2021 amounted to RMB5.570 billion, representing a decrease of RMB1.224 billion or 18.02% on a period-on-period basis. Among which, the net fee and commission income was RMB1.997 billion, representing a decrease of RMB542 million on a period-on-period basis, while other net non-interest income was RMB3.573 billion, representing a decrease of RMB682 million on a period-on-period basis.

Net fee and commission income

In RMB million, except percentages

Item	January to June 2021	January to June 2020	Amount of increase (decrease)	Increase (decrease) (%)
Agency and entrusted business	661	272	389	143.01
Commitment and guarantee business	480	401	79	19.70
Underwriting and consulting business	458	1,411	(953)	(67.54)
Custodian and fiduciary business	247	279	(32)	(11.47)
Settlement and clearing business	246	213	33	15.49
Fees from bank cards	126	151	(25)	(16.56)
Others	91	63	28	44.44
Total fee and commission income	2,309	2,790	(481)	(17.24)
Less: Fee and commission expense	312	251	61	24.30
Net fee and commission income	1,997	2,539	(542)	(21.35)

Fee income from the agency and entrusted business was RMB661 million, representing an increase of RMB389 million on a period-on-period basis, primarily due to the growth in agency business such as fund agency in the first half of the year.

Fee income from the underwriting and consulting business was RMB458 million, representing a decrease of RMB953 million on a period-on-period basis, primarily due to the decrease in bond underwriting on a period-on-period basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Other net non-interest income

In RMB million, except percentages

Item	January to June 2021	January to June 2020	Amount of increase (decrease)	Increase (decrease) (%)
Net trading gains	2,831	2,355	476	20.21
Net gains on financial investments	541	1,665	(1,124)	(67.51)
Other operating income	201	235	(34)	(14.47)
Total other net non-interest income	3,573	4,255	(682)	(16.03)

Other net non-interest income amounted to RMB3.573 billion, representing a decrease of RMB682 million or 16.03% on a period-on-period basis, primarily due to the decrease in net gains on financial investments from the change in market interest rates on a period-on-period basis.

(5) Operating expenses

In RMB million, except percentages

Item	January to June 2021	January to June 2020	Amount of increase (decrease)	Increase (decrease) (%)
Staff costs	4,446	4,139	307	7.42
General and administrative expenses	1,203	920	283	30.76
Depreciation and amortization expenses	827	778	49	6.30
Taxes and surcharges	423	306	117	38.24
Others	64	100	(36)	(36.00)
Total operating expenses	6,963	6,243	720	11.53

Operating expenses amounted to RMB6.963 billion, representing an increase of RMB720 million on a period-on-period basis, primarily due to the ongoing increase in research and development investment and the increase in general and administrative expenses.

(6) Expected credit losses

In RMB million, except percentages

Item	January to June 2021	January to June 2020	Amount of increase (decrease)	Increase (decrease) (%)
Deposits with banks and other financial institutions	(4)	59	(63)	(106.78)
Placements with banks and other financial institutions	26	(29)	55	25.78
Loans and advances to customers	7,171	5,701	1,470	25.78
Financial investments	3,437	4,840	(1,403)	(28.99)
Finance lease receivables	211	221	(10)	(4.52)
Off-balance sheet items	(187)	145	(332)	(228.97)
Others	180	96	84	87.50
Total	10,834	11,033	(199)	(1.80)

MANAGEMENT DISCUSSION AND ANALYSIS

(7) Income tax expenses

The income tax expenses were RMB1.163 billion, representing a period-on-period increase of RMB170 million or 17.12%, and the effective tax rate was 14.27%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see “Note III to Financial Statements – 8 Income Tax Expense”.

(8) Segment information

Segment operating results by business line

In RMB million

Item	January to June 2021		January to June 2020	
	Operating income	Profit before income tax	Operating income	Profit before income tax
Corporate banking	12,852	4,731	14,084	6,150
Retail banking	6,193	1,724	5,039	2,038
Treasury operations	6,175	1,416	5,406	(580)
Other businesses	728	280	652	297
Total	25,948	8,151	25,181	7,905

Segment operating results by geographic region

In RMB million

Item	January to June 2021		January to June 2020	
	Operating income	Profit before income tax	Operating income	Profit before income tax
Yangtze River Delta Region	15,543	3,927	14,266	2,904
Bohai Rim Region	3,585	1,946	4,218	2,270
Pearl River Delta Region and West Straits Economic Zone	2,004	91	1,875	399
Midwestern China Region	4,816	2,187	4,822	2,332
Total	25,948	8,151	25,181	7,905

For details of business segment and regional division, please see “Note V to Financial Statements – Segment Reporting”

MANAGEMENT DISCUSSION AND ANALYSIS

2. Analysis on Consolidated Statement of Financial Position

In the first half of 2021, the Group adhered to the national policy guidance and centred on the overall goal of “Two Most” and the platform-based service strategy. With a focus on its principal responsibility and business, it served the real economy and promoted its own high-quality development. In the first half of 2021, the scale of various businesses grew steadily, the business structure was continuously optimized, and the level of liquidity and market risk management continued to improve.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB2,154.397 billion, representing an increase of RMB106.172 billion or 5.18% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB1,238.083 billion, representing an increase of RMB72.208 billion or 6.19% as compared to that at the end of last year, financial investments amounted to RMB576.178 billion, representing an increase of RMB47.793 billion or 9.05 % as compared to that at the end of last year. In terms of the structure, net loans and advances to customers accounted for 57.48% of total assets, increased by 0.56 percentage point as compared to that at the end of last year, and the financial investments accounted for 26.74% of total assets, increased by 0.94 percentage point as compared to that at the end of last year.

Assets utilization

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	1,272,137		1,197,698	
Less: allowance for ECLs of loans	34,054		31,823	
Net loans and advances to customers	1,238,083	57.48	1,165,875	56.92
Financial investments ⁽¹⁾	576,178	26.74	528,385	25.80
Cash and balances with the central bank	134,054	6.22	137,441	6.71
Precious metals	5,550	0.26	19,478	0.95
Due from banks and other financial institutions	111,037	5.15	101,531	4.96
Other assets	89,495	4.15	95,515	4.66
Total assets	2,154,397	100.00	2,048,225	100.00

Note:

- (1) The financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and advances to customers

The Group actively implemented the plans of the CCP Central Committee, the State Council and the regulatory authorities in relation to serving the real economy. It continued to increase the granting of facilities to key sectors and industries supported by the State, so as to improve the quality and efficiency of services for the real economy. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB1,272.137 billion, representing an increase of RMB74.439 billion or 6.22% as compared to that at the end of last year.

Loan structure by business type

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans and advances	829,690	65.22	788,066	65.80
Discounted and inter-bank discounted bills	73,028	5.74	73,088	6.10
Personal loans and advances	365,861	28.76	333,108	27.81
Changes in fair value through other comprehensive income	123	0.01	(152)	(0.01)
Accrued interest	3,435	0.27	3,588	0.30
Total	1,272,137	100.00	1,197,698	100.00

Corporate loans and advances

The Group took full advantage of its platform-based service strategy. It acquired customers in batches through the platform-based business, strengthened the cooperation with clients and continued to optimise the structure of corporate loans. As at the end of the reporting period, total corporate loans and advances amounted to RMB829.690 billion, representing an increase of 5.28% as compared to that at the end of last year.

Discounted and inter-bank discounted bills

Through optimization of structure and acceleration of turnover, the Group improved the overall returns on bill assets. As at the end of the reporting period, total discounted and inter-bank discounted bills amounted to RMB73.028 billion, remaining relatively stable as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Personal loans and advances

The Group continued to develop and diversify scenario-based applications to improve customer experience and expand its customer base. It continued to optimise the structure of personal loans and promoted the growth of the personal loan business. As at the end of the reporting period, total personal loans and advances amounted to RMB365.861 billion, representing an increase of 9.83% as compared to that at the end of last year.

Financial investments

On the basis of ensuring liquidity and risk control, the Group improved the efficiency of fund utilisation and optimised the structure of the investment portfolio. As at the end of the reporting period, balance of financial investments amounted to RMB576.178 billion, representing an increase of 9.05% as compared to that at the end of last year.

Financial investment composition

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Fund investments	80,337	13.94	82,673	15.65
Bond investments	423,952	73.57	373,390	70.66
Trust schemes and asset management plans	68,826	11.95	75,499	14.29
Other financial investments	9,032	1.57	3,368	0.64
Accrued interest	6,845	1.19	6,986	1.32
Allowance for ECLs	(12,814)	(2.22)	(13,531)	(2.56)
Total	576,178	100.00	528,385	100.00

Note: Other financial investments include equity investments, other debt instruments and other equity instrument investments.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB2,019.280 billion, representing an increase of RMB103.598 billion or 5.41% as compared to that at the end of last year.

Liabilities composition

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Due to the central bank	59,657	2.95	84,768	4.42
Customer deposits	1,367,287	67.71	1,335,636	69.73
Due to banks and other financial institutions	241,449	11.96	197,716	10.32
Financial liabilities held for trading at fair value through profit or loss	14,028	0.69	9,231	0.48
Debt securities issued	291,909	14.46	236,682	12.35
Others	44,950	2.23	51,649	2.70
Total liabilities	2,019,280	100.00	1,915,682	100.00

Note: Due to banks and other financial institutions include deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements.

Customer deposits

Apart from enhancing the management of debt quality, the Group also diversified the types of deposit products and improved service capability, strengthened the customer base, and continued to optimize the deposit structure. As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB1,367.287 billion, representing an increase of RMB31.651 billion or 2.37% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by RMB22.622 billion or 2.12%; and personal deposits increased by RMB6.192 billion or 2.45%. With respect to term structures, time deposits decreased by RMB22.702 billion or 2.65%; and demand deposits increased by RMB51.516 billion or 11.13%.

MANAGEMENT DISCUSSION AND ANALYSIS

Structure of customer deposits by business type

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	442,572	32.37	417,686	31.27
Time	645,001	47.17	647,265	48.46
Sub-total	1,087,573	79.54	1,064,951	79.73
Personal deposits				
Demand	71,794	5.25	45,164	3.38
Time	187,442	13.71	207,880	15.56
Sub-total	259,236	18.96	253,044	18.94
Other deposits	5,560	0.41	1,941	0.15
Accrued interest	14,918	1.09	15,700	1.18
Total	1,367,287	100.00	1,335,636	100.00

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB133.024 billion in total, representing an increase of RMB2.512 billion or 1.92% as compared to that at the end of last year. Please see "Financial Statements – Consolidated Statement of Changes in Equity.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) ANALYSIS OF THE LOAN QUALITY

1. Loan distribution by risk classification

In RMB million, except percentages

Item	June 30, 2021		December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	1,228,616	96.58	1,156,347	96.55
Special mention	20,824	1.64	20,870	1.74
Non-performing	19,139	1.50	17,045	1.42
Substandard	4,055	0.32	9,913	0.83
Doubtful	13,733	1.08	4,146	0.34
Loss	1,351	0.10	2,986	0.25
Changes in fair value through other comprehensive income	123	0.01	(152)	(0.01)
Accrued interest	3,435	0.27	3,588	0.30
Total loans and advances to customers	1,272,137	100.00	1,197,698	100.00

The loan quality of our Group was kept at a stable level. As at the end of the reporting period, according to the risk classification of the supervision system, the pass loans amounted to RMB1,228.616 billion, representing an increase of RMB72.269 billion as compared with that at the end of last year, accounting for 96.58% of total loans and advances to customers. Loans classified as special mention were RMB20.824 billion, representing a decrease of RMB0.046 billion as compared with that at the end of last year, accounting for 1.64% of total loans and advances to customers. The non-performing loans were RMB19.139 billion, representing an increase of RMB2.094 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.50%, representing an increase of 0.08 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Distribution of loans and non-performing loans by business type

In RMB million, except percentages

Item	June 30, 2021				December 31, 2020			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	829,690	65.22	16,320	1.97	788,066	65.80	14,640	1.86
Personal loans and advances	365,861	28.76	2,819	0.77	333,108	27.81	2,399	0.72
Discounted and inter-bank discounted bills	73,028	5.74	0	0.00	73,088	6.10	6	0.01
Changes in fair value through other comprehensive income	123	0.01	N/A	N/A	(152)	(0.01)	N/A	N/A
Accrued interest	3,435	0.27	N/A	N/A	3,588	0.30	N/A	N/A
Total loans and advances to customers	1,272,137	100.00	19,139	1.50	1,197,698	100.00	17,045	1.42

As at the end of the reporting period, our non-performing corporate loans amounted to RMB16.320 billion, representing an increase of RMB1.680 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.97%, representing an increase of 0.11 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB2.819 billion, representing an increase of RMB420 million as compared with that at the end of last year, with a non-performing loan ratio of 0.77%, representing an increase of 0.05 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Distribution of loans and non-performing loans by industry

In RMB million, except percentages

Item	June 30, 2021				December 31, 2020			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	829,690	65.22	16,320	1.97	788,066	65.80	14,640	1.86
Leasing and commercial services	172,984	13.60	2,311	1.34	168,182	14.04	1,316	0.78
Real estate	172,210	13.54	1,042	0.61	165,208	13.79	146	0.09
Manufacturing	158,389	12.45	7,080	4.47	136,187	11.37	8,187	6.01
Wholesale and retail trade	117,741	9.26	1,554	1.32	99,635	8.32	1,493	1.50
Construction	51,342	4.04	529	1.03	53,241	4.45	635	1.19
Administration of water conservancy, environment and public facilities	49,131	3.86	260	0.53	54,597	4.56	3	0.01
Financing	30,794	2.42	0	0.00	39,498	3.30	0	0.00
Electricity, heat, gas and water production and supply	10,826	0.85	37	0.34	10,900	0.91	44	0.40
Transportation, storage and postal service	10,689	0.84	19	0.18	11,351	0.95	91	0.80
Accommodation and Catering	10,583	0.83	87	0.82	10,711	0.89	41	0.38
Mining	5,644	0.44	239	4.23	3,895	0.33	0	0.00
Others ⁽¹⁾	39,357	3.09	3,162	8.03	34,661	2.89	2,684	7.74
Personal loans and advances	365,861	28.76	2,819	0.77	333,108	27.81	2,399	0.72
Discounted and inter-bank discounted bills	73,028	5.74	0	0.00	73,088	6.10	6	0.01
Changes in fair value through other comprehensive income	123	0.01	N/A	N/A	(152)	(0.01)	N/A	N/A
Accrued interest	3,435	0.27	N/A	N/A	3,588	0.30	N/A	N/A
Total loans and advances to customers	1,272,137	100.00	19,139	1.50	1,197,698	100.00	17,045	1.42

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer services and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education; health, social security and social welfare.

In the first half of 2021, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as industries with excess production capacity, real estate, etc., with a view to optimizing the allocation of credit resources continually.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Distribution of loans and non-performing loans by geographic region

In RMB million, except percentages

Item	June 30, 2021				December 31, 2020			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta Region	715,834	56.27	13,849	1.93	687,825	57.43	11,442	1.66
Midwestern China Region	228,018	17.92	1,545	0.68	203,660	17.00	2,826	1.39
Bohai Rim Region	165,580	13.02	2,795	1.69	167,846	14.01	1,846	1.10
Pearl River Delta and West Strait Economic Zone	159,147	12.51	950	0.60	134,931	11.27	931	0.69
Changes in fair value through other comprehensive income	123	0.01	N/A	N/A	(152)	(0.01)	N/A	N/A
Accrued interest	3,435	0.27	N/A	N/A	3,588	0.30	N/A	N/A
Total loans and advances to customers	1,272,137	100.00	19,139	1.50	1,197,698	100.00	17,045	1.42

As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta Region. Taking into account economic characteristics of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development.

5. Distribution of loans and non-performing loans by security type

In RMB million, except percentages

Item	June 30, 2021				December 31, 2020			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Mortgage loans	566,994	44.57	5,091	0.90	531,033	44.34	4,145	0.78
Pledged loans	123,117	9.68	953	0.77	115,855	9.67	2,031	1.75
Guaranteed loans	179,319	14.10	11,335	6.32	177,085	14.79	9,664	5.46
Unsecured loans	326,121	25.63	1,760	0.54	297,201	24.81	1,199	0.40
Discounted bills	73,028	5.74	0	0.00	73,088	6.10	6	0.01
Changes in fair value through other comprehensive income	123	0.01	N/A	N/A	(152)	(0.01)	N/A	N/A
Accrued interest	3,435	0.27	N/A	N/A	3,588	0.30	N/A	N/A
Total loans and advances to customers	1,272,137	100.00	19,139	1.50	1,197,698	100.00	17,045	1.42

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the mortgage loans accounted for 44.57% of the total loans and advances to customers, which was a relatively high percentage; the mortgage loans balance was RMB566.994 billion, representing an increase of RMB35.961 billion compared with that at the end of last year; the balance of non-performing loans among mortgage loans was RMB5.091 billion, with the non-performing loan ratio of 0.90%, representing an increase of 0.12 percentage point compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Top ten borrowers

In RMB million, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Leasing and commercial services	3,980	0.31
B	Manufacturing	3,477	0.27
C	Leasing and commercial services	3,312	0.26
D	Manufacturing	3,050	0.24
E	Leasing and commercial services	3,038	0.24
F	Real estate	2,738	0.22
G	Manufacturing	2,585	0.20
H	Leasing and commercial services	2,584	0.20
I	Leasing and commercial services	2,478	0.19
J	Real estate	2,300	0.18
Total		29,544	2.32

As at the end of the reporting period, the balance of loans to the single largest borrower of the Group was RMB3.980 billion, representing 2.31% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB29.544 billion, representing 17.14% of the net capital and 2.32% of the total loans and advances to customers of the Group.

7. Overdue loans

In RMB million, except percentages

Overdue period	June 30, 2021		December 31, 2020	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 day to 90 days	6,231	0.49	6,609	0.55
Overdue by 90 days to one year	12,450	0.98	10,186	0.85
Overdue by one year to three years	4,361	0.34	4,720	0.39
Overdue by more than three years	173	0.01	144	0.01
Total	23,215	1.82	21,659	1.81

As at the end of the reporting period, the balance of overdue loans amounted to RMB23.215 billion, representing an increase of RMB1.556 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB16.984 billion, representing an increase of RMB1.934 billion as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Renegotiated loans

The Group exercised strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB563 million, representing a decrease of RMB1 million as compared with that at the end of last year. Among them, total renegotiated loans and advances that were overdue by more than 3 months amounted to RMB65 million, representing an increase of RMB20 million as compared with that at the end of last year.

9. Repossessed assets and provision for impairment

As at the end of the reporting period, the balance of repossessed assets (non-financial instruments) of the Group was RMB1.009 billion, and the net book value was RMB975 million after deducting the provision for impairment of RMB34 million.

10. Movements of the allowance for ECLs of loans

In RMB million

Item	Amount
Balance at the beginning of the period	32,559
Provision for the period	7,171
Unwinding of discount on allowance for ECLs	(94)
Write-offs	(5,245)
Transfer out	(369)
Recoveries of loans and advances previously written off	522
Impact of exchange rate fluctuations	(47)
Balance at the end of the period	34,497

(IV) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial)《商業銀行資本管理辦法(試行)》, the measurement range of the Group's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, capital adequacy ratio of the Group was 12.42%, tier-one capital adequacy ratio was 9.46%, core tier-one capital adequacy ratio was 8.37%, and leverage ratio was 5.12%, all of which met regulatory requirements.

Capital adequacy ratio (the Group)

In RMB million, except percentages

Item	June 30, 2021	December 31, 2020
Net core tier-one capital	116,103	116,378
Other tier-one capital	15,141	15,125
Net tier-one capital	131,244	131,503
Tier-two capital	41,153	40,486
Net capital	172,397	171,988
Risk-weighted assets	1,387,849	1,330,565
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	—	—
Core tier-one capital adequacy ratio (%)	8.37	8.75
Tier-one capital adequacy ratio (%)	9.46	9.88
Capital adequacy ratio (%)	12.42	12.93

Leverage ratio (the Group)

In RMB million, except percentages

Item	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Net tier-one capital	131,244	135,334	131,503	129,434
Adjusted asset balance inside and outside the balance sheet	2,562,779	2,461,065	2,466,330	2,475,323
Leverage ratio (%)	5.12	5.50	5.33	5.23

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, capital adequacy ratio of the Company was 12.41%, tier-one capital adequacy ratio was 9.44%, core tier-one capital adequacy ratio was 8.33%, and leverage ratio was 5.04%, all of which met regulatory requirements.

Capital adequacy ratio (the Company)

In RMB million, except percentages

Item	June 30, 2021	December 31, 2020
Net core tier-one capital	112,488	113,026
Other tier-one capital	14,958	14,958
Net tier-one capital	127,446	127,983
Tier-two capital	40,084	39,755
Net capital	167,530	167,738
Risk-weighted assets	1,350,191	1,296,465
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	—	—
Core tier-one capital adequacy ratio (%)	8.33	8.72
Tier-one capital adequacy ratio (%)	9.44	9.87
Capital adequacy ratio (%)	12.41	12.94

Leverage ratio (the Company)

In RMB million, except percentages

Item	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Net tier-one capital	127,446	131,656	127,983	126,094
Adjusted asset balance inside and outside the balance sheet	2,528,228	2,456,083	2,435,738	2,446,905
Leverage ratio (%)	5.04	5.36	5.25	5.15

MANAGEMENT DISCUSSION AND ANALYSIS

(V) RISK MANAGEMENT

1. Comprehensive risk management system

Guided by the platform-based service strategy, the Company adopts a “prudent and solid” risk appetite by persistently serving the real economy and strengthening innovation driving force. The Company facilitates the admission management to strengthen its customer base and optimize its business structure; strengthens the whole-process management to continuously promote the construction of big data risk control platform; accelerates the collection and resolution work to maintain the stability of asset quality; and gradually improves the comprehensive risk management system to ensure the Company’s development with high quality and facilitate the achievement of the “two most” overall objective in a stable manner.

The Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the Senior Management is responsible for implementing comprehensive risk management. The Company establishes the position of chief risk officer. The senior management has established special committees including the risk management and internal control committee, asset and liability management committee, credit, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the coordination department for comprehensive risk management and the leading executive department for management of the credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general office at our head office is the leading executive department for reputational risk management. The development and planning department at our head office is the leading executive department for strategic risk management.

The Company assigns risk monitoring officers to departments subject to higher business complexity and relatively concentrative risks at our head office. Risk monitoring officers are responsible for helping leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to the president of our head office. They make business judgment and report on risk issues independently. The Company assigns to its branches risk monitoring officers, who help presidents of such branches organize comprehensive risk management with a focus on credit business related risk management, focus on the management and control over risks of large financing customers as well as complicated and difficult businesses and are independent of such branches and directly report to the president of our head office. They make business judgment and report on risk issues independently.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to defaults of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in on- and off-balance sheet business, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit, letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, the Senior Management, the risk management and internal control committee, the credit, investment and transaction review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business operation and management departments, financial technology department, audit department, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of systems and policies relating to credit risk management.

The Company formulates fundamental credit policies based on changes in external operating environment and internal operating and risk conditions. Such policies expressly set out guidances on certain aspects of our credit business, such as customer structure, industry structure, regional structure and key business areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans 《貸款風險分類指引》 of the CBIRC, comprehensively taking into account such factors as a borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of a credit project and status of a guarantee. The Company's credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by authorized people.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Credit risk management for corporate customers

The Company conducts a unified credit management of corporate customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company strictly complies with relevant regulatory requirements of the CBIRC and puts loans (including trade finance), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses where credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limits of single corporate customers, group customers and industries.

The Company continuously enhances the construction of our credit system, formulates a unified credit quota management system for our corporate customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improves the concentration risk management, formulates the concentration risk management related systems, clarifies the responsibilities allocation and main methods of concentration risk management, and continues to promote the construction of concentration risk management.

The Company continuously enhances the management of loan risks related to financing platforms of local governments, strictly complies with various loan policies and regulatory requirements of the CBIRC on financing platforms of local governments, makes dynamic adjustments to targets of credit granting, and further optimizes the loan structure of financing platforms to prevent credit risks that may arise from local governments' financing platforms; sets credit limits for loans to local governments' financing platforms and enhances our monitoring and management on the risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate related credit business prudently, and adjusts our credit extension orientation for the real estate industry in a duly manner according to national policy and industrial operation situation. The Company sets dynamic credit limits for loans we grant to the customers in the real estate industry and adopts the name list system management, and continuously adjusts and optimizes the asset structure, as well as strengthens the monitoring and management of risks relating to existing loans.

The Company continuously enhances the management of loan risks for industries with excessive production capacity, and strictly controls loans that we grant to entities in industries with excessive production capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Credit risk management for small and micro enterprises

The Company conducts unified credit extension management for small and micro enterprise customers, and integrates all types of credit business of small and micro enterprise customers into our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out and standardizes the procedures and requirements for credit extension to gradually cultivate a featured and standard credit extension model of the Company.

The Company continuously strengthens the management of credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by overdue loans tracking and on-site and off-site monitoring.

(3) Credit risk management for retail customers

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company formulates the entry barriers for different groups of customers, adopts controls over overall limits of personal loans, restrains risks associated with loans with multiple borrowers as well as improves and optimizes the management mechanism of credit risks associated with personal loans. The Company continuously enhances selection and management of guarantees and improves its ability to mitigate credit risks. The Company continues to strengthen subsequent management of personal loans such as postloan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre business risk prevention, on-going risk monitoring during the process and post business risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of procedures for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

(4) Credit risk management for financial institution customers

The Company conducts a unified credit management of corporate financial customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company continuously enhances the development of our credit system, formulates a unified credit quota management system for our corporate financial customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate financial customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. Market risk can be divided into interest rate risk, exchange rate risk, stock risk and commodity risk. The term “market risk” in this section refers specifically to market risk other than interest rate risk of banking book (for the interest rate risk of banking book, please refer to the relevant content of “7. Interest rate risk management of banking book” below).

The objectives of our market risk management are to control our market risks within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market department, FinTech department, audit department, other departments, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Company can effectively identify, measure, monitor and control a series of market risks borne by various businesses.

The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Company to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Company has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

The Company regularly updates and improves its market risk appetite and limit management system, continues to improve the market risk management systems and market risk measurement systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management platform. The Company values positions of the trading book on a daily basis, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Liquidity risk management

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, FinTech department, audit department, other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as promoting the establishment of the relevant policies and systems.

The Company managed the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Company can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels construction and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the early-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak links in the Company's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As at the end of the reporting period, the Company's total liquidity ratio of the local currencies and foreign currencies was 41.58%. Our liquidity coverage ratio was 116.06%, among which, high quality liquid assets amounted to RMB191.578 billion, and the net cash outflows over the next 30 days was RMB165.066 billion. The Company's net stable fund ratio was 110.67%, among which, stable fund available was RMB1,186.392 billion and stable fund required was RMB1,072.049 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, the Company's total liquidity ratio of the local currencies and foreign currencies was 41.56%. Our liquidity coverage ratio was 114.63%, among which, the high quality liquid assets amounted to RMB191.578 billion, and the net cash outflows over the next 30 days was RMB167.135 billion. The relevant information on the net stable fund ratio of the Group in the last two quarters was set out below:

Currency: total of local currencies and foreign currencies

Date	Net stable fund ratio (%) (in 100 million of RMB)	Stable fund available (in 100 million of RMB)	Stable fund required (in 100 million of RMB)
As at June 30, 2021	109.16	11,972.04	10,967.09
As at March 31, 2021	106.45	11,557.00	10,856.85

5. Operational risk management

During the reporting period, the Company followed the management principles of “full coverage, clearly defined duties, honest reporting and quick response”. The Company clarified its work priorities and development direction, enhanced the system, promoted system construction, strengthened staff management, strengthened security measures to enhance the quality and efficiency of operational risk management. The Company clarified its annual work objectives, prompted important business risk management and control measures and requirements; improved systems, standardized operation process for key business and fields; optimized functions of business systems to improve the rigid control ability and service capabilities of these systems; strengthen the supervision and inspection of the business lines and functional lines, actively carry out various inspections and standardize business operations; strengthen legal risk prevention and control, interpret and analyze the latest laws and regulations and amend contracts in a timely manner according to the new regulations; carry out investigation on staff's abnormal behavior and strengthen staff's pandemic protection; and strengthen safety and security management and safety prevention capacity building and specify job responsibilities to improve the safety production in celebrating the 100th anniversary of the founding of the Chinese Communist Party.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Country risk management

Country risk refers to the risk incurred due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, financial market department, retail banking department and other business operation and management departments of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management systems, quota management measures and schemes, clarified the organizational structure and division of responsibilities, limit framework, management mechanism, etc., with respect to country risk limit management, and set the index and threshold of country risk limits. We regularly assess and monitor the country risks and make provision for country risks.

MANAGEMENT DISCUSSION AND ANALYSIS

7. Interest rate risk management of banking book

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gain of the banking book arising from adverse changes in interest rate levels and term structure etc., mainly including gap risk, benchmark risk and option risk.

The objectives of our interest rate risk management of banking book are to control our interest rate risk of banking book within a reasonable range acceptable to us, reduce the volatilities of net interest income and economic value of banking book, and maximize the comprehensive benefits across the Bank.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, FinTech department, audit department and other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Company measures and evaluates our interest rate risk of banking book mainly through repricing gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Company has paid close attention to the actual situations of external environment and internal interest rate risk on the banking book, and flexibly adjusted its asset and liability structure. As at the end of the reporting period, the Company's interest rate risk on the banking book was within the Company's risk management targets and was generally under control.

MANAGEMENT DISCUSSION AND ANALYSIS

8. 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 behavior, the conduct of its employees or external events, thereby damaging the Company's brand value, adversely affecting the Company's normal operation and even affecting market stability and social stability.

Reputation risk management refers to the establishment of processes for a reputation risk management system, covering prior assessment, risk monitoring, classification and evaluation, response and disposal, information reporting, assessment and accountability, and evaluation and conclusion, in order to achieve the objectives of reputation risk management and build up a good social image of the Company, thereby forming a complete loop of reputation risk management, and improving the daily management of reputation risk in terms of risk identification and inspection, emergency drills, joint mechanism, social supervision, accumulation of reputation capital, internal audit and interbank collaboration.

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Bank, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, executive office, risk management department, FinTech department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management across the Bank as well as establishing relevant sound systems and policies for reputational risk management of the Company.

During the reporting period, the Company further improved the reputational risk management system. The Company has revised its reputation risk management system, refined its all-process reputation risk management mechanism, continued to strengthen the prior assessment of reputation risk, actively launched the investigation of potential hazards, formulated emergency disposal plans in a timely manner, standardized the reporting and disposal process of reputation risk, strengthened the coordination of reputation risk management, launched staff training and scenario simulation exercises on reputation risk management, and continuously optimized the toolbox for the disposal of negative public opinions, in order to improve the level and effectiveness of reputation risk prevention and control. Meanwhile, the Company further strengthened positive publicity, innovated communication methods, enhanced public opinion guidance and enhanced the brand reputation of the Company effectively.

MANAGEMENT DISCUSSION AND ANALYSIS

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, development and planning department, audit department, FinTech department, other relevant departments of the head office, as well as domestic and foreign branches, sub-branches and subsidiaries.

Adhering to the principle of "clear responsibilities, proactive prevention, overall evaluation and timely adjustment", the Company constantly improves and refines the strategic risk management system suitable for the scale and features of its business, and has realized effective management of strategic risks. Main management measures include: publishing and implementing the "Fourth Five-Year Plan" to specify the medium-term and long-term development goals; planning to promote high quality development by changing the leadership; integrating into the overall digital reform of Zhejiang Province to accelerate the digital transformation; strengthening the regional meticulous management and promoted the efforts in the "U Plan"; supporting the development of private and small and micro enterprises to promote the project of facilitated financing; conducting strategic special research to enhance the ability to support business decisions; and striving its unremitting efforts to prevent and control the pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Compliance risk management

During the reporting period, the Company has paid close attention to the changes in the economic and financial situation, proactively adapted to the adjustment of regulatory policies, focused on the working concept of “seeking changes in stability, leading by technologies, strict control, quality and efficiency improvement”, firmly established the concept of “internal control first and compliance-based”, insisted on the basic “five strict” requirements of internal control and compliance management, and implemented the internal control and compliance and case prevention commitment system to create a good compliance atmosphere. We have also strengthened staff compliance education, by launching internal control compliance examination for all the staff and compliance warning education and compliance knowledge learning activities to enhance staff’s awareness of compliance. The Company has continued to improve the rules and regulations system, strengthen daily management and post-evaluation of the system to effectively enhance the quality and effectiveness of system management. We have insisted on technology empowerment, actively explored the intelligent internal control platform on big data, continuously optimized the systems of operational risk and internal control and compliance management to increase the level of internal control and compliance management; The Company has kept a close watch on the red line and bottom line by strengthening the management and inspection on business lines and functional lines, and standardizing accountability and punishment; launched the “Year of Development of Internal Control and Compliance Management” activity to promote the effective remediation of repeated violations; and focused on innovation support and risk prevention and control to fulfil anti-money laundering and consumer protection.

MANAGEMENT DISCUSSION AND ANALYSIS

11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising from natural factors, human factors, technical bugs and management defects in connection with the application of information technologies by the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, information technology management committee, business continuity management committee, the risk management department, the FinTech department, audit department, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as formulating and implementing relevant systems and policies for information technology risk management.

The Company has established a relatively well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO20000, ISO22301 and ISO27001 management system and regulatory requirements; established relatively well-organized systems for business continuity management, information technology outsourcing risk management, information security management, information technology services management etc. and a relatively well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company has been implementing the "Development Plan of CZBank in 2021-2025" in an orderly manner, insisting on financial technology innovation-driven development to develop an industrial chain bank; We have also continued to carry out network security governance to strengthen data security management and protection of customers' financial information; continued to carry out operation monitoring, evaluation and security testing of important information systems to promote "automatic, intelligent and digital" operation and maintenance of safety production; continued to improve the "two places and three centers" disaster preparedness system and the deployment of "double-active" disaster preparedness application to further enhance our ability to guarantee business continuity; and continued to promote emergency management by deploying annual emergency drill plans, improving emergency plans and conducting real emergency drills. During the reporting period, our system has operated stably and no material IT risk incidents have occurred.

MANAGEMENT DISCUSSION AND ANALYSIS

12. Anti-money laundering management

The Company has established and optimized the anti-money laundering operation mechanism under the comprehensive risk management framework in accordance with the anti-money laundering laws and regulations, including the Anti-money Laundering Law of the People's Republic of China 《中華人民共和國反洗錢法》, the Administrative Measures for Anti-money Laundering and Counter-terrorist Financing of Financial Institutions in the Banking Sector 《銀行業金融機構反洗錢和反恐怖融資管理辦法》 and the Guidelines for the Management of Money Laundering and Terrorist Financing Risks for Corporate Financial Institutions (for Trial Implementation) 《法人金融機構洗錢和恐怖融資風險管理指引(試行)》, so as to further solidify the foundation of anti-money laundering works and continuously improve the compliance and effectiveness of anti-money laundering management.

During the reporting period, the Company has strictly complied with the laws and regulations on anti-money laundering, seriously fulfilled its legal obligations and social responsibilities in anti-money laundering, and taken a number of measures to improve the quality and effectiveness of the Company's anti-money laundering operation: optimizing the anti-money laundering management structure and operational mechanism to improve the anti-money laundering system and business process; strengthening customer identification and account management to enhance the effectiveness of customer identification; strengthening the monitoring and reporting of large-amount transactions and suspicious transactions by continuously optimizing the monitoring model to improve the quality and efficiency of suspicious transaction reporting; strictly implementing efforts to combat telecom network fraud by issuing money laundering risk tips to strengthen the monitoring and control of high-risk customers; promoting the establishment of the intelligent anti-money laundering system to enhance the anti-money laundering risk prevention and control capability; increasing internal supervision and inspection efforts and improving anti-money laundering training and guidance to implement various anti-money laundering regulatory requirements, resulting in steady and orderly anti-money laundering operation.

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) BUSINESS SUMMARY

1. Corporate banking business segment

(1) Corporate business

The Company strictly implemented the decisions and plans of the CCP Central Committee and the State Council by pushing forward the development strategy for the major company business sector. Centering on “scaling up, structural adjustment, risk control and increasing cost-effectiveness” as its main goals, it focused its efforts to improve quality and efficiency. It also paid attention to key customers, businesses, areas and staff to boost operating income and provide effective services for the real economy.

Steady growth of business scale. As at the end of the reporting period, the Company’s balance of RMB corporate deposits amounted to RMB1,064.473 billion, representing an increase of RMB24.213 billion as compared to that at the beginning of the year. Costs of corporate deposits in RMB was 2.28%, representing a decrease of 21 bps as compared to that at the beginning of the year and marking the consecutive six months of decline. The Company’s on-balance sheet assets in RMB amounted to RMB714.436 billion, representing an increase of RMB16.318 billion as compared to that at the beginning of the year and a steady growth in the face of the new deposit policy and the restrictions on scale.

Continuous development of supply chain business. Capitalizing on the platform-based service strategy, the Company focused on the three core demands of “lowering financing costs, improving service efficiency and maintaining stable supply chain” for enterprises, as it integrated banking business and services into corporate production, operation and capital management to help core enterprises build the ecosystem and sales network, and solve the problem of difficult, expensive and slow financing for upstream and downstream small and medium enterprises. As at the end of the reporting period, the platform-based service platform has served 66,600 clients, representing an increase of 4,100 clients or 6.56% as compared to that at the beginning of the year. Financing balance amounted to RMB701.495 billion, representing an increase of RMB23.034 billion or 3.40% as compared to that at the beginning of the year.

Initial progress in professional development of the industry. After analyzing the business characteristics of different sectors and customers, the Company formulated comprehensive financial service solutions for a wide range of industries for the in-depth development and expansion of service offering. To help establish the industrial chain ecosystem for core enterprises, it rolled out unique and differentiated solutions in more than 20 industries, including pharmaceuticals, grains, warehousing and logistics, automobiles, home appliance, metal processing and breeding. As at the end of the reporting period, the Company introduced various new scenario-based applications and launched 1,442 projects with a business balance of more than RMB60.0 billion, representing an increase of approximately RMB5 billion or approximately 9% as compared to that at the beginning of the year. It provided services to over 6,200 upstream and downstream key small and medium enterprises which were mainly in the physical manufacturing industry. Of which, over 75% were private enterprises and over 70% were inclusive small and micro enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) International business

The Bank has actively been pushing forward the innovative application of digitalized and platform-based operation philosophy in foreign trade, comprehensively sorted out the application scenarios and customer contacts, and continuously been innovating and improving online services in diversified scenarios, such as “Speedy Online Document Issuance” (網銀極速開證) and “Yongjin Global Exchange” (佣金全球匯). By such means, the Company can offer an outstanding user experience through diversified service functions, allowing users to have entire online service access without going to bank outlets and filling out various documents. Also, the promotion of big data credit models as Export Data Loan (出口數據貸), Export Exchange Collection Loan (出口收匯貸) and Export Bank & Tax Loan (出口銀稅貸) helps the Bank stabilize foreign trade and supply chain. In addition, the Bank has been optimizing liquidity services of the foreign trade industry with Yongjin Export Pool (佣金出口池) as the core and promoting such supply chain financial services that integrate domestic and foreign trade as Export Pooled Chain Connect (出口池鏈通) and Import Pooled Financing Connect (進口池融通). At the end of June 2021, the Bank provided international clearing service of USD77.035 billion, increased by 58% on a period-on-period basis, and on-balance sheet and off-balance sheet international trade financing amount was USD9.842 billion, increased by 12% on a period-on-period basis, of which USD3.793 billion was made through the platform-based model.

The Bank has actively responded to the national “Belt and Road Initiative” and the strategic implementation of the high-level opening-up. Leveraging the free trade accounting units (FTU) of the Bank and the “Dual platform” linking the domestic and overseas banking businesses of Hong Kong branch as well as a wide range of channels for global correspondent banks, the Bank has been exploring both domestic and overseas markets for those quality real enterprises with a “going global” strategy. In addition, the Bank has been broadening overseas financing channels and reducing financing costs, so as to provide integrated comprehensive cross-border financial services. As at the end of June 2021, the Bank provided various types of cross-border guarantee and financing balance of USD4.508 billion.

Advocating the philosophy of “Risk-Neutral” actively, the Bank has been providing efficient and convenient exchange rate risk aversion services to enterprises. It has continuously enriched “Zheshang Huiliying” (浙商匯利盈), a product providing agency services for foreign exchange transactions, continuously optimized “Zheshang Trading Treasure” (浙商交易寶), a multi-functional and comprehensive foreign exchange trading platform, and provided support to foreign trade enterprises, allowing them to handle foreign exchange transactions conveniently and fast and respond to exchange rate fluctuation risks effectively. As at the end of June 2021, the amount of foreign exchange transaction services provided by the Bank to its customers reached US\$36.497 billion, increased by 51% on a period-on-period basis, of which the transaction amount of “Zheshang Trading Treasure” (浙商交易寶) was USD16.476 billion, increased by 121% on a period-on-period basis.

The Company has been actively supporting new foreign trades to expand and grow and carrying out extensive studies on new foreign trade models such as cross-border e-commerce, integrated foreign trade platform and market procurement, combined with its characteristics such as diversified market entities, high-frequency online transactions and differentiated business models, and by the use of direct bank-enterprise connection, the Company has created a unique service model with one-click access and comprehensive services. As at the end of June 2021, the amount of international settlement and foreign exchange transaction services provided by the Company for new foreign trade models was USD20.099 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Investment banking and financial market business segment

Leveraging the unique advantages of the investment banking and financial market business segment of being customer-oriented and familiar with the market, the Company maintained flexible and innovative service features, closely followed the pace of economic and financial reform, deeply analyze the investment and financing needs of the real economy, flexibly expand financial market, capital market, investment banking, financial institution, asset management and asset custodian businesses, and accelerated business model innovation based on platform-based service strategies to enhance comprehensive financial service capabilities.

(1) *Financial market business*

In terms of financial market business, the Company continued to build a comprehensive Fixed income, Currency and Commodity (FICC) trading platform which integrates proprietary investment and financing, proprietary trading and trading agency service, continuously strengthened its capabilities of innovating and its abilities to serve customers, and actively promoted business development. All kinds of licenses are available for the financial market business of the Company, covering domestic and foreign markets for fixed income, foreign exchange, precious metal, commodity, etc.; The Company has provided various products and relevant agency and commissioned services for customers, such as Bond Trading Connect (債券通), agency in bond bidding, foreign exchange transaction agency (代客外匯), precious metal transaction agency, commissioned interest rate derivatives transaction etc. During the reporting period, various financial markets experienced ups and downs, while the Company managed to control risks and grasp market opportunities, remained its leading market presence in terms of the activities in the foreign and domestic currency and precious metals trading markets and further enhanced its market influence. During the reporting period, the Company has successfully become interbank bond market spot market maker (general category), interbank RMB foreign exchange market forward swap trial market maker, interbank RMB foreign exchange market spot trial market maker, interbank RMB foreign exchange market option trial market maker, and interbank gold enquiry market trial market maker, thus further expanding the room for the development of financial market businesses of the Bank.

In respect of domestic currency trading, the Company made timely adjustments to its bond investment strategy in the first half of 2021 in response to changes in the market environment. While controlling its overall risk exposure, the Company actively seized market opportunities to lengthen the duration of its portfolio and better responded to changes in market interest rates. During the reporting period, the Company was awarded the Core Interbank Domestic Currency Market Dealer, Outstanding Bond Market Dealer, Outstanding Currency Market Dealer and Outstanding Derivatives Market Dealer for 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of foreign currency trading, in the first half of 2021, the Company strengthened its research on the foreign exchange market and explored a diversified portfolio of trading strategies based on market conditions. In respect of market making, the Company made great efforts to improve market making by marketing counterparties and developing market making strategies. During the reporting period, the yields of developed sovereign bonds and credit spreads of Chinese enterprises both changed significantly, and the Company adjusted the size and duration of its foreign currency bond positions in accordance with market changes. During the reporting period, the Company was awarded the Standard Innovation Award for 2020 of interbank foreign exchange market transaction recognition standard developing project team.

For precious metal transactions, in the first half of 2021, the Company effectively captured trends of the precious metal market, actively conducted precious metal transactions and physical sales, and innovated and improved the precious metal service solution so as to support the real entity customers. During the reporting period, the Company took a leading position in the market in terms of proprietary trading of gold and the proprietary trading of silver both in Shanghai Gold Exchange and Shanghai Futures Exchange. The Company was awarded the Third Prize for Outstanding Member in the Financial Category, Best Self-operating Member in Auction Trading, Best Quotation Trading Institution of the Year, Best Business Innovation Contribution Institution, Special Contribution Member in International Business, Special Contribution Member in Market Stability during the Pandemic, and Best Risk Control Member of Shanghai Gold Exchange in 2020, and Awards for Outstanding Member, Diamond Award in Market Making Business, and Special Contribution Award in Market Making Business Industry of Shanghai Futures Exchange in 2020.

(2) Capital market business

Adhering to the basic requirement of the “financial sector serving the real economy”, the Company actively implemented the central financial policies and focused on the development strategy of the head office to drive business transformation during the reporting period. It cooperated with external investment institutions and provided services to private enterprises and small and micro businesses by utilizing equity-based financial instruments. Focusing on intelligent warehousing, intelligent manufacturing, semi-conductor and other emerging technology industries, it tapped into the direct equity investment business. The Company also adopted comprehensive financing tools to offer long-term and stable fund support to medium-sized and small growing enterprises. It strived to “control risk and create cost-effectiveness” as its business philosophy while establishing cooperation with strategic customers through equity investment and actively exploring equity investment business in the capital market.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Financial institution business

As for the financial institution business, the Company actively adapted to the new situation, focused on the “two most” (兩最) overall goal and the platform-based service strategy, insisted on the development direction of “going back to basics, deepening transformation, serving the general public and lawful operation”, and took advantage of the channels and platforms by relying on the financial institution customers, with a view to promoting asset sales, fund collection and service output.

The financial institution business aims to support the strategy of the Bank and meet its operational and management needs. It cooperated with the investment banking sector and the financial market sector to focus its efforts in boosting operating income. Centering on the operating goals of “exploring potential, increasing income and lowering costs”, it maintained strict compliance with laws and regulations and exercised strict control of business risks. The financial institution business continued to enhance the differentiated marketing management and collaborative value analysis of financial institution customers, thereby improving the sales of all range of products and the return on assets. It also expanded inter-bank financing channels and promoted the integrated bill business. In order to bring additional income and profit for the Bank, it established the new financial institution business system with sales and comprehensive services as its core strengths and enhanced business value through comprehensive synergy and in-depth cooperation on all fronts.

The Company was honored with the “Outstanding Contribution Award for Collateral Business 2020” (擔保品業務卓越貢獻獎) presented by China Central Depository & Clearing Co., Ltd., the “Outstanding Member Unit Award 2020” (優秀會員單位) granted by Shanghai Commercial Paper Exchange Corporation Ltd. and the “Outstanding Innovative Business Promotion Institution Award 2020” (優秀創新業務推進機構獎) presented by Shanghai Clearing House. As one of the first five pilot banks approved by the People’s Bank of China to carry out bill brokerage business in China, the Company has ranked top among all kinds of business data.

(4) Asset management business

The Company’s asset management business is centered on serving customers professionally, aiming to establish a professional platform that is equipped with cross-market and multi-tool applications, which enjoys professional efficiency higher than its peers and provides one-stop solutions to fulfil customers’ investment and financing needs. The Company positively accommodated to the market and policy changes, thoroughly implemented the platform-based service strategies, accelerated the transformation towards net-value-based management, improved the management level in respect of investment and research, products, sales and risk control on an ongoing basis, continued to enrich the product system, made full efforts to satisfy various investment and financing demands of customers, and strived to build a respectable asset management business brand featured with “professional management, customer first, differentiated competition and leading efficiency”.

MANAGEMENT DISCUSSION AND ANALYSIS

With the increased efforts in the research and development of net-value products, the Company has successfully launched diversified wealth management products, including “Shengxin Win” (升鑫赢), “Juxin Win” (聚鑫赢) and “Yongxin”(佣薪), covering cash management, fixed income, “fixed income+” and equity, all of which have been issued with success.

As of the end of the reporting period, the balance of the Company’s wealth management products amounted to RMB242.559 billion, representing a decrease of 16.04% as compared with that at the beginning of the year, of which, the proportion of funds for the individuals and institution customers was 92.68% and 7.32%, respectively. During the reporting period, the Company issued wealth management products with a total amount of RMB409.687 billion, representing an increase of 8.17% on a period-on-period basis, and realized handling fee income from asset management business of RMB199 million.

As at the end of the reporting period, the balance of net-value wealth management products was RMB109.432 billion, representing an increase of RMB11.559 billion as compared to that at the beginning of the year, which accounted for 45.12% of wealth management products, representing an increase of 11.24 percentage points as compared to that at the beginning of the year.

(5) Investment banking business

During the reporting period, the investment banking business of the Company continuously improved its market competitiveness and influence relying on its business model and channel innovation, and maintained a strong momentum of development to serve the real economy in a sustainable way.

For the bond underwriting business, the Company underwrote various direct financial instruments such as financial bonds, corporate bonds and asset-backed securities, with a total amount of RMB51.734 billion during the reporting period.

For the syndicated loan and M&A loan business, the Company proactively developed the business to provide indirect financing services related to investment banking to its customers. During the reporting period, the total amount of syndicated loans and M&A loans was RMB5.162 billion.

For credit asset securitization business, the Company issued the first tranche of non-performing asset-backed securities of RMB249 million during the reporting period.

(6) Asset custodian business

During the reporting period, the Company’s asset custodian business developed in a healthy and steady manner. As of the end of the reporting period, the balance of assets held in custody by the Company reached RMB1.6 trillion. With a focus on the custody of public fund products, as of the end of the reporting period, the Company has entered into cooperation agreements with more than 60 public fund managers in relation to the custody of public fund products, covering 45% of the sector. As of the end of the reporting period, the Company held over 150 public fund products in custody and was ranked top 50% among 27 custodian banks in terms of the number of newly established funds in custody for the year. During the reporting period, the Company’s income from the asset custodian business was RMB247 million, representing a decrease of 11.47% from the same period last year, which was mainly due to the decrease in rate of custodian fees of the custody products.

MANAGEMENT DISCUSSION AND ANALYSIS

Since the beginning of this year, the Company's asset custodian business was operated under the persistent guidance of the "two most (兩最)" overall goal. It continued to enhance marketing efforts for the custodian business of the licensed financial institutions including funds, securities, insurance, futures, trusts, urban and rural commercial banks, and adhered to the comprehensive and coordinated development of efficiency, quality and scale. The asset custodian business kept close tabs on the market and innovative hotspots, actively launched various major custody products and continued to optimize the structure of the Company's custodian business. With a focus on the public fund custodian business, the Company continuously increased the contribution of public fund business to its custodian business. In the meantime, committed to serving the real economy, the Company continued to leverage the custodian business as a platform connecting the asset side to the liability side and integrated various resources to fulfill the duties and responsibilities as an asset custodian, so as to provide various licensed financial institutions with high-quality custodian services with distinctive characteristics, efficient operation and controllable risks.

3. Small enterprise business segment

During the reporting period, the Company actively followed the economic and financial policies and the decision and arrangement of the PRC to promote inclusive finance and render services to the real economy of the small and micro businesses, thereby meeting the target of the regulatory policy. As of the end of the reporting period, 188 bodies were specialized for the small enterprise business, with the balance of the small and micro enterprise loans¹ under inclusive finance of RMB221.825 billion, representing an increase of RMB19.743 billion or 9.77% compared with that at the beginning of the year, which was 3.53 percentage points higher than the growth of loans by domestic institutions; the number of borrowers amounted to 108,300, representing a growth of 4,300 or 4.13% as compared with that at the beginning of the year. The Company continued to lower the finance costs and interest rates for loans of small and micro businesses. The comprehensive finance costs of new small and micro enterprise loans under inclusive finance decreased by 0.23 percentage point on a period-on-period basis. The non-performing loan ratio of small and micro enterprise loans under inclusive finance was 0.79%, showing that the asset quality remained excellent. During the reporting period, the Company won various honors, including the "2020 Outstanding Contribution Award for Smooth Financing in Zhejiang Province" (2020年度浙江省融資暢通工程突出貢獻獎).

Focus efforts to expand the coverage of inclusive finance. The Company actively launched the three-year development plan for first-time loan customers which increased the number of borrowers significantly. As at the end of the reporting period, 2,700 small and micro enterprises became new borrowers of "first-time loans", representing an increase of 1,400 from the same period last year. The Company took initiative to enhance mid-to-long term financial support for the manufacturing industry and emerging sectors. As of the end of the reporting period, mid-to-long-term loans accounted for over 60%. The Company also put in substantial efforts to facilitate the transformation and upgrading of small and micro manufacturing enterprises. With a focus on small and micro enterprise parks, it promoted comprehensive financial services and improved the accuracy of services. As of the end of the reporting period, it backed 778 small and micro enterprise park projects with a credit line of RMB98.693 billion.

Boost inclusive finance capacity through technology empowerment. The Company accelerated the promotion and application of "small enterprise procedure 2.5", which streamlined the loan renewal process and further launched the "contactless services" for small and micro enterprises. As of the end of the reporting period, both the number and the amount of online drawdowns accounted for over 95%, while more than 90% of mortgage registrations in Zhejiang Province were handled online.

¹ According to information on small and micro enterprise loans under inclusive finance from the CBIRC for 2021, the data excludes those of the discounted and inter-bank discounted bills business.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Retail banking business segment

As of the end of the reporting period, the Company had 8,379,900 personal customers (including debit and credit card customers). It had 11,916 private banking customers with a daily average balance of financial assets of RMB6 million or above every month. Its private banking customers had a balance of financial assets of RMB170.454 billion.

1) *Personal deposits and loans business*

During the reporting period, the Company stepped up efforts in the optimization of personal deposit structure and recorded a steady increase in the size of personal deposits. As of the end of the reporting period, the Company had personal deposits balance of RMB259.236 billion, representing an increase of 2.45% as compared with that at the beginning of the year.

During the reporting period, the Company's personal loans recorded robust growth. As of the end of the reporting period, the balance of personal loans (including personal housing loans and personal consumption loans) was RMB204.347 billion, representing an increase of 12.39% as compared with that at the beginning of the year. For personal housing loans, the Company firmly implemented the positioning of "houses are for living in, not for speculation", strictly followed national macro-control policies and supported the reasonable housing demand of residents, which resulted in its stable development. For consumption loans, the Company continued to follow the development path of platform-based customer acquisition, online operation and intelligent risk control, and innovatively optimized the "e-banking" asset pool platform, which has accumulated 613,800 contracted customers, with total pooled assets of RMB205.333 billion and financing balance of RMB78.847 billion. It also cooperated with external institutions for online retail loan business under the principle of "independent risk control, equality and mutual benefit", while further developing the scenario-based installment business for various consumption scenarios.

2) *Wealth management*

The Company committed to establishing itself into a "platform-based wealth management bank". It launched many net-value wealth management products, including "Shengxin Win" (升鑫赢), "Juxin Win" (聚鑫赢), "Yongxin Zengli Anxiang" (佣薪增利安享) and "Yongxin Zengli Zunxiang" (佣薪增利尊享). It also kept diversifying the consigned wealth management products and optimizing "Zengjin Smart Investment" (增金智投), a fund portfolio investment service, to meet the demand of individual customers for comprehensive financial services. During the reporting period, its agency distribution of non-currency public funds increased by 148.49% period-on-period, and the agency distribution of collective asset management schemes increased by 59.42% period-on-period. It innovated marketing approaches and continued to build up its platform-based, digitalized and socialized innovative marketing ability and customer service capability. Besides, it proactively established a personal customer loyalty management and equity incentive framework based on its "points reward system & e-mall platform" and gave full play to the retailing comprehensive financial service platform for customer acquisition, maintenance and improvement.

MANAGEMENT DISCUSSION AND ANALYSIS

3) *Private banking*

The Company's private banking business adheres to the philosophy of "passing of wealth and wisdom for sustainable development". It continued to improve its ability to serve customers, manage wealth and allocate assets by three main systems, namely product optimization, featured value-added service and professional team, thus developing the core competitiveness of private banking. While expanding the exclusive portfolio of investment and wealth management products for private banking customers, the Company enhanced assets allocation for customers, and strongly promoted the family trusts and insurance trust businesses to cater to the needs of private banking customers for wealth continuity. Additionally, it made continuous efforts to develop distinctive value-added services including "airport and highspeed rail 7×24 car pickup", airport VIP lounge, private banking customer health interests and customized activities for ultra-high-net-worth customers.

4) *Credit card business*

As the entire bank accelerated the establishment of the new development pattern in general, the Company expedited the transformation of the credit card business towards online and scenario-based services. It continued to enhance business quality and strengthened risk prevention and control, thereby facilitating cost-effective, high-quality and sustainable business development. In addition, the Company introduced more credit card products. To cater to customers' credit needs for daily spending and small overdraft, it launched the "Xinhui Card" (鑫惠卡) for high-quality customers in the housing loan and education loan markets after considering its customer characteristics and product functions. It continued to optimize and further promote the instalment business under the equal principal and interest instalment model, which offered diversified repayment options and improved the customers experience. Moreover, the Company built customer loyalty through various marketing campaigns for its credit card services, such as the "UnionPay Card 12306 Premium Ticket Sales" and "Visa Monthly Spending Campaign" under the "Fun Life" (趣生活) brand, double instalment offers for the campaign of "Farewell to the Year of the Rat and embrace the golden Ox" during the Chinese New Year period, discount on instalment fees and points for fees program. Besides, the Company strengthened the whole-process risk control and enhanced its risk alert and response capability by updating the risk control policies, increasing and improving intelligent review and approval application, and expanding and upgrading various risk control systems.

As of the end of the reporting period, the Company had issued 3,835,600 credit cards, with credit-card loan balances of RMB17.547 billion. During the reporting period, the Company issued 43,200 new credit cards and recognized credit card spending of RMB31.776 billion. Income from the credit card business was RMB569 million, including income from the instalment business of RMB395 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(VII) FINANCIAL TECHNOLOGIES

During the reporting period, the Bank included financial technologies in the “2021-2025 China Zhesang Bank Development Plan” 《浙商銀行2021-2025年發展規劃》 as a major sub-strategy. It further stated that it should pursue growth driven by new financial technologies and empower the innovation and transformation of business models and operation management under the platform-based service strategy on all fronts. In full accordance with the principles and requirements of digitalization proposed by the state and the government, the Bank has developed the digitalization awareness and mindset and promoted digitalization capabilities and practices. It also continued to facilitate digitalization transformation of the Bank in general through improving technology infrastructure, enhancing the research and application of new technologies, advancing the in-depth integration and innovation of technology and business, and promoting the technological output.

■ Push forward the platform-based service strategy projects and support “five major” business segments

The Company promoted business innovation through financial technology with a focus on the system development for the “five major” business segments so as to accelerate the iterative development of products and processes. Focusing on the upstream and downstream portions of the industry and supply chain, the Company continued to introduce new platform-based products, established the three major platforms, the supply chain financial service platform and the small and micro enterprise financing platform, and introduced the “Connect” series products including Distribution Connect (分銷通), Trading and Financing Connect (貿融通) and Inventory Connect (存貨通). It customized the supply chain financial service platform, the “Bill Cloud” (票據雲) system and interest-bearing engine product projects while launching the technology and business platform. Furthermore, it enhanced the service capability of the scenario application platform and further opened up interfaces of bank services including payment settlement, account management, fund deposit and financing. It also assigned dedicated personnel to offer systematic service solutions for major enterprises including Jinyang Commercial Factoring (晉企保理), Ouyeel Financial Service (歐冶金服), Anyi County in Nanchang, Zhesang Development (浙商中拓), Guangxi Nongken (廣西農墾), New Hope Liuhe (新希望六和), H3C (新華三), Mengniu (蒙牛) and Zoomlion (中聯重科). This helped to develop large-scale applications for different sectors.

■ Innovate fintech research and application to build unique core strengths

In terms of blockchain technology, the Company continued the independent research and development of the basic inter-blockchain function and the blockchain BaaS platform. It introduced new “blockchain+supply chain finance” products such as the receivables blockchain platform. Apart from that, it participated in the formation of 27 international and domestic standards, and rolled out more blockchain technology and blockchain-based service solutions. As for IoT technology, the Company developed a series of applications for the blockchain-based technology platform and the management of procurement, sales and inventory. It also set up the IoT dynamic monitoring system and product monitoring solution for metal processing, breeding and warehousing industries. Regarding AI technology, the knowledge graph has covered 1 billion entities and their relations, which facilitated the relationship and association analysis for big data risk control and other applications. At the same time, the Company adopted intelligent recognition and AI trading bots in a flexible manner to increase efficiency and save manpower. For secure multi-party computation, it cooperated with several external parties in the research of the secure data sharing mechanism. Moreover, it took a forward-looking approach to explore new technologies of cloud computing, biometrics and 5G.

MANAGEMENT DISCUSSION AND ANALYSIS

■ **Improve technology infrastructure construction and boost independent control capability**

The Company further enhanced the operation and maintenance management system. It adopted the DevOps nimble research and development mechanism that integrated development, operation and maintenance. Apart from expanding the scenario-based application of the integrated operation and maintenance platform, it optimized the automation test level and improved the agility and stability of technology services. The Company continuously intensified data governance and application by advancing data standards and quality management. While increasing data acquisition channels, it promoted the integration and application of data resources across departments, lines and businesses. This not only enabled data sharing for customer entry, granting of credit facilities, fraud prevention and target marketing, but also improved data insight capability and scenario-based data mining capability. The Company further pushed forward the transformation towards a distributed IT structure by establishing enterprise technology platforms, such as the distributed application platform, distributed data platform and mobile development platform. It facilitated the planning and construction of the “Two Cities and Three Centers” disaster recovery system in Hangzhou and Xi’an. In addition, it completed the intracity disaster recovery exercise with the major information systems for actual switch of several core functions, such as accounting, counter business and online banking service.

■ **Strengthen the cybersecurity protection system to ensure stable production and operation**

The Company continued to reinforce the cybersecurity protection system, carried out cybersecurity drills and enhanced the regular protection mechanism. In compliance with data and personal data protection regulations, it established secure data sharing. The Company optimized the information technology risk identification, monitoring and control mechanism, while assessing the internal and external safety of extranet access, new technology application and outsourcing management. The Company achieved the goal of information technology protection set out for the 100th anniversary of the Chinese Communist Party. In the first half of 2021, the information system maintained safe and stable operation with no significant information security incidents.

■ **Enhance technology management system and develop the new mechanism for external cooperation**

The Company actively developed the new technology management system and pushed forward digital transformation in full force, so as to improve business digitalization. Apart from increasing technology investment, it also devoted more efforts to recruit and train professional talents. The Company participated in the cooperation among the industry, university and research institute on an ongoing basis. It entered into the strategic cooperation agreement with the Advanced Institute of Information Technology of Peking University. Besides, Zhejiang University-Zheshang Bank Joint Research Center has been conducting blockchain and manufacturing localization research projects. At the same time, the Company continued to strengthen intellectual property protection and applied for 58 fintech patents in total.

MANAGEMENT DISCUSSION AND ANALYSIS

(VIII) E-FINANCE CHANNELS

During the reporting period, the Company has formed a complete E-finance service system consisting of online banking, mobile banking, telephone banking, WeChat banking and self-service banking. The replacement rate of transactions via electronic channels reached 99.70%, taking a leading position in the industry. During the reporting period, the Company made substantial efforts in establishing e-finance channels, enhancing customer experience and optimizing risk control measures, which resulted in the steady growth of channel customers, increase in business scale, quality and efficiency, as well as improvement of channel services capability.

■ Online banking

During the reporting period, the Company continued to optimize the personal online banking experience and upgraded all business segments. Adopting a customer-oriented approach, it simplified frequently-used functions and operations, expanded applications for channel services and extended customer channel services. As of the end of the reporting period, the Company had 1,536,300 customers with personal online banking certificates, representing a period-on-period growth of 7.44%, including 65,600 monthly active customers. During the reporting period, the customers of the Bank conducted 19,752,300 transactions totalling RMB1,120.227 billion via personal online banking.

During the reporting period, based on the genuine need of enterprises, the Company refined core transaction functions and introduced the new function for purchasing book-entry bonds. It also continuously simplified frequently-used functions and operations to further reduce customer operations and improve customer experience. With the optimization of various anti-fraud and anti-attack process control strategies, the risk control level of the Company was enhanced. As of the end of the reporting period, the Company had 171,400 customers with corporate online banking certificates, representing a period-on-period increase of 14.68%, including 101,800 monthly active customers, representing a period-on-period increase of 17.01%. During the reporting period, the customers of the Bank conducted 39,721,300 transactions totaling RMB7,189.526 billion via corporate online banking.

■ Mobile banking

During the reporting period, relying on artificial intelligence, big data and other advanced technologies, the Company's personal mobile banking intensified the application of interactive intelligence to improve customer experience and provide one-stop comprehensive financial service to customers in an efficient, safe and convenient manner. During the reporting period, the Company used big font size and simplistic design for the "simplified" mobile banking APP that allowed biometric authentication, passwordless login, quick payment and one-click binding of cards. Apart from optimizing the registration, transfer and device binding processes, it further enhanced voice service support to help elderly customers get started in no time. At the same time, it continued to improve mobile bank transfer, facial recognition, fingerprint login and smart search functions, so as to strengthen its online services capability. As of the end of the reporting period, the Company had 4,334,800 personal mobile banking customers, representing a period-on-period increase of 17.04%, including 1,058,700 monthly active customers, representing a period-on-period increase of 1.95%. As of the end of the reporting period, the customers of the Company conducted 49,450,100 transactions totaling RMB1,247.729 billion via mobile banking.

MANAGEMENT DISCUSSION AND ANALYSIS

■ Telephone banking

The Company upheld the service philosophy of “customer-oriented, beyond expectation” and broke the traditional mindset on customer service. By applying the multi-channel service platform, big data and intelligent technology and expanding all-media service channels continuously, it centered on customer experience and established the intelligent customer service system that offered inclusive financial services to its customers in an efficient and cost-saving manner. Through intelligent voice service, intelligent online robot, telephone operator service, online services by real persons, WeChat, email and other means, the Company provided customers with rapid, comprehensive and professional high-quality services and was committed to establishing a 7×24 comprehensive one-stop service platform.

During the reporting period, the Company’s telephone banking segment received 891,000 calls from customers, of which 560,700 calls or 93.55% were passed to operators, with customer satisfaction rate reaching 99.87%. It also served 292,900 online customers and recorded a period-on-period increase of 17.42% in the intelligent online self-service diversion ratio. The complaint resolution rate was 100%, which helped maintain the high-quality customer service experience.

■ WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform for the introduction of new financial services and brand marketing. The WeChat banking of the Company consists of the WeChat official account and the WeChat official mini program of China Zheshang Bank. The WeChat official account of China Zheshang Bank provided various functions, such as financial services, credit cards and recruitment services. On the other hand, the WeChat official mini program of China Zheshang Bank offered personal e-deposits (個人e存款), personal loans, outlet appointment and recommendation with gift (推薦有禮).

■ Self-service banking

During the reporting period, the Company continued to step up the construction of traditional self-service equipment, including the automated teller machines, cash recycling systems and other 7×24 self-service banking services, available for customers to make deposits, withdrawals, account transfers, balance checks, password reset and other financial service needs. With a focus on transaction processes frequently used by elderly customers, including deposit and withdrawal, transfer and wealth management, the Company optimized the intelligent teller machines and queueing machines to further improve the user experience of self-service machines at its outlets for elderly customers. As of the end of the reporting period, the Company had 273 self-service banks providing 7×24 services and 1,582 self-service machines of various types in its outlets.

MANAGEMENT DISCUSSION AND ANALYSIS

(IX) BUSINESS OF OVERSEAS BRANCH

The Company's Hong Kong Branch was established in 2018 and is the first branch established overseas. As a fully licensed bank, Hong Kong Branch can operate a full range of commercial banking services currently focusing on wholesale business. During the reporting period, Hong Kong Branch was licensed for Type 1 and Type 4 regulated activity. Based on this, it continued to focus on strategic opportunities including the "Guangdong-Hong Kong-Macao Greater Bay Area" and the "Belt and Road Initiative", promoted cross-border linkage business, continued to expand the local customer base and expand market share, so as to provide customers with professional cross-border financial solutions and financial services. Through close cooperation with customers and banking peers, the Branch realized sustainable growth of trade finances, bilateral loans, syndicated loans and domestically guaranteed loans. Meanwhile, it also engaged in financial market business activities including trading agency, proprietary trading, banking account bond investments and monetary market transactions, as well as investment banking business which was mainly underwriting. During the reporting period, Hong Kong Branch actively implemented the platform-based service strategy for the entire bank, met the requirements for establishing the cross-border business segment, gave full play to the interactive role of the platform and enhanced the exploration of distinctive businesses. As a result, both the volume and coverage of the cross-border business were effectively expanded and the functions of the core and peripheral systems were further improved, all of which lay a solid foundation for innovative business development.

As of the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK\$42.82 billion, of which financial assets measured at fair value through other comprehensive income amounted to HK\$14.218 billion, accounting for 33.20%; and net loans and advances to customers amounted to HK\$16.433 billion, accounting for 38.38%. During the reporting period, the net profit was HK\$136 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(X) MAJOR SUBSIDIARY AND EQUITY PARTICIPATION COMPANIES

1. Major Subsidiary

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Leasing”) is a 51%-owned subsidiary of our Bank, with paid-in capital of RMB3 billion, and is a national non-bank financial institution approved for establishment by and under the supervision of the CBIRC. Established on January 18, 2017, the principal business scope of Zheyin Leasing covers leasing, transfer and grant of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of 3 months (inclusive) or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leasehold, economic consulting as well as other businesses approved by the CBIRC. Since its establishment, Zheyin Leasing has upheld its mission of serving entity and the philosophy of prudent operation, with an aim to build itself into a first-class professional platform-based digital financial leasing company, and has comprehensively implemented professional transformation strategy by energetically embracing financial technology and continuously innovating financial services. It is also committed to providing professional financial services to quality entity customers mainly from “five distinctive sectors”, namely smart manufacturing, modern agriculture and husbandry, supply chain, environment protection and marine economy. As the corporate governance structure and management system gets better, the innovation capability and research and development strength gradually improved as well as the profitability and development quality enhanced year by year, Zheyin Leasing has currently built itself team comprising talents with high comprehensive quality and strong professional ability, and blazed a trail of development featuring professional services and distinctive operations, thus gradually developing itself into a new force in financial leasing industry in China. Zheyin Leasing received various awards, including “Zhejiang Advanced Entity in Supporting Economic and Social Development” (浙江省支持經濟社會發展先進單位) and “Zhoushan Social Contribution Award for Supporting Local Economic Development” (舟山市支持地方經濟發展社會貢獻獎) successively, and was assigned an AAA corporate credit rating (the highest rating) by China Chengxin International Credit Rating Co., Ltd. As of the end of the reporting period, Zheyin Leasing has 135 employees, with total assets of RMB37.332 billion and net assets of RMB4.427 billion. It realized a net profit of RMB305 million for the reporting period.

2. Equity Participation Companies

Equity Participation Companies	Place of Incorporation	Date of Incorporation	Number of Shares	Investment Amount	Shareholding Ratio
China UnionPay Co., Ltd	Shanghai	2002-3-26	10 million	RMB25 million	0.34%
National Financing Guarantee Fund Co., Ltd	Beijing	2018-7-26	1 billion	RMB1 billion	1.51%

MANAGEMENT DISCUSSION AND ANALYSIS

(XI) OUTLOOK

In the second half of 2021, consistently guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Company will fully implement the decisions and arrangements of the CCP Central Committee, the State Council, the Zhejiang Provincial Committee and the Provincial Government, and firmly stick to the top priority of development by focusing on the “two most (兩最)” overall goal and carrying out the platform-based service strategy. Besides, the Company will attach greater importance to main responsibilities and principal businesses, comprehensive and coordinated development, value creation as well as the cultivation of core competitiveness. The Company will make consistent efforts to explore and form its three competitive edges of liquidity service, industrial chain and supply chain service, and wealth management service, while promoting the development of our three capabilities of digitalization, professionalization and refinement. With a focus on “scaling up (上規模), structural adjustment (調結構), risk control (控風險) and efficiency creating (創效益)”, the Company attaches equal importance to both organic growth and external development to facilitate the coordinated development of the “five major business segments”, namely great retail, great corporate, great investment banking, great asset management, and great cross-border, and win in the struggle for increasing operating income, risk control and internal control and compliance management. Therefore, the Bank will be able to maintain the momentum of stable operation throughout the entire bank, thus making achievements in “shaping scale (出規模), generating efficiency (出效益), building image (出形象), gaining awareness (出口碑) and cultivating talents (出人才)”.

CORPORATE GOVERNANCE

I. OVERVIEW OF CORPORATE GOVERNANCE

Upholding and strengthening the Party's overall leadership, the Company continued to improve its corporate governance structure of "leadership by the Party Committee, strategic decision by the Board of Directors, supervision by the Board of Supervisors in accordance with law and operation authorized by the senior management". The Shareholder's General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management performed their respective duties and responsibilities effectively in a balanced and coordinated manner, hence promoting the standardization of the operating mechanism of corporate governance.

During the reporting period, a total of 34 meetings were held, including two shareholders' meeting, 10 Board meetings, 12 meetings of special committees of the Board, six meetings of the Board of Supervisors, and four meetings of special committees of the Board of Supervisors. At the aforesaid meetings, the Company considered and approved the annual report of the Company, the work reports of the Board of Directors, the Board of supervisors and the president, the final account report, the financial budget report, the profit distribution plan, the related party transaction report and other material proposals.

The Company has always made unremitting efforts to pursue standardized business operation and extraordinary corporate governance to continuously improve the corporate governance systems. During the reporting period, according to requirements of domestic and foreign regulatory authorities, the Company has formulated or amended various internal systems, including the Rules for Independent Directors of China Zheshang Bank Co., Ltd., the Administrative Measures for Annual Report Works of Independent Directors of China Zheshang Bank Co., Ltd., the Rules for Secretary to the Board of China Zheshang Bank Co., Ltd., the Administrative Measures on Suspension and Exemption of Information Disclosure of China Zheshang Bank Co., Ltd., the Accountability System in relation to Serious Faults in Information Disclosure in the Annual Report of China Zheshang Bank Co., Ltd. and the Administrative Measures for Investors Relations of China Zheshang Bank Co., Ltd.

II. SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company held the 2021 first extraordinary general meeting of shareholders on January 5, 2021, and held the 2020 annual general meeting on June 30, 2021. For details of the relevant proposals and announcements about the resolutions passed at the meetings, please refer to the respective notice of general meeting and announcement of resolutions of general meeting published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings above were in compliance with the relevant provisions of the Company Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Hong Kong Listing Rules and the Articles of Association. The Chairmen of the meetings had explained the detailed procedures for voting by poll to the shareholders at the general meetings. Lawyers attended the meetings for onsite witnessing and provided legal opinions thereat.

CORPORATE GOVERNANCE

III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, the Board of the Company organized and convened 10 Board meetings, at which 52 resolutions were considered and approved and reports on related matters were heard.

During the reporting period, the special committees of the Board of the Company organized and convened a total of 12 meetings, including two meetings by the Strategic Committee, two meetings by the Audit Committee, four meetings by the Risk and Related Party Transaction Control Committee, two meetings by the Nomination and Remuneration Committee, one meeting by the Consumer Rights Protection Committee and one meeting by the Inclusive Finance Development Committee, at which 51 resolutions were considered and approved and reports on related matters were heard.

IV. MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Company held a total of six meetings of the Board of Supervisors, at which 24 resolutions were considered and 17 reports were heard and reviewed; the Nomination Committee of the Board of Supervisors held two onsite meetings and 6 resolutions were considered thereat; and the Supervision Committee of the Board of Supervisors convened two onsite meetings and 8 resolutions were considered thereat.

V. BOARD DIVERSITY POLICY

In accordance with relevant provisions of the Hong Kong Listing Rules, for the purpose of Board diversity, the Company has formulated the Board Diversity Policy of China Zhesang Bank Co., Ltd. (《浙商银行股份有限公司董事會多元化政策》), providing that in setting up the composition of the Board, it shall consider various diversifying factors, including but not limited to gender, age, culture, educational background, professional experience, skill, knowledge and/or length of service. The Company will also, from time to time, take into account its business models and other specific requirements as well as a balanced inclusion of executive and non-executive Directors.

The Board of the Company carefully examined its diversity as well as the independence of its independent non-executive Directors, and believed that its diversification construction complied with relevant provisions under the Hong Kong Listing Rules and other laws and regulations, met the requirements for the Company to achieve strategic targets and sustainable development, and that all of the independent non-executive Directors had the requisite independence to act as independent non-executive Directors.

VI. IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company has always been attaching high importance to information disclosure, and has been strictly complying with various regulatory rules of the places where its shares are listed. In addition to fully implementing various regulatory rules, the Company has been, by taking into account day-to-day business practices, continuously sorting and improving the implementation rules with respect to the management of information disclosure from the perspectives of system construction and work procedure design.

CORPORATE GOVERNANCE

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. Information disclosure management system has been put in place, which designated the department responsible for inside information management and provided that information shall be disclosed in a timely and compliant manner pursuant to the requirements and procedures under the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

During the reporting period, the Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations. The Company disclosed a total of 72 various announcements for A Shares on newspapers, including China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, the websites of the Shanghai Stock Exchange and the Company, and disclosed a total of 81 various announcements for H Shares on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of the Company's governance.

VII. MANAGEMENT OF INVESTOR RELATIONS

The Company made consistent efforts to improve the management of investor relations and to promote the alignment between market value and intrinsic value. With an aim of maximizing investors profit and protecting their legitimate rights and interests, the Company cultivated a corporate culture to serve and respect investors. Sound interaction between the Company and the investors was also encouraged so as to enhance investors' understanding and recognition of the Company.

During the reporting period, the Company organized its 2020 domestic and overseas annual results briefing through live web casting, which strengthened its communicating and marketing efforts in both domestic and overseas markets by having in-depth exchanges with investors and analysts and timely addressing investors' concerns, therefore effectively expanding the scope of investors that were covered.

During the reporting period, the Company adopted various means to carry out investor relations management and consistently improved the service level of investors in accordance with the regulatory requirements of the listing place, taking into account practical experience. The Company accepted and handled matters related to investor relations by way of reverse roadshow, investor relation websites, telephone, e-mail and other means, and addressed and provided feedback on questions raised by investors in a timely manner, which effectively promoted a deeper understanding of the Company's value by investors and analysts on investment and enhanced the Company's influence in the capital market.

In order to get the attention and recognition from more investors, the Company consistently strengthened the management of the webpage for investor relations, timely updated the content of such webpage and made efforts to improve the collection of investor information. The Company also tracked in a timely manner analyst reports, monitored on a dynamic basis media and public opinions and earnestly understood from the capital market its advice and recommendation on the operation and development of the Company.

CORPORATE GOVERNANCE

VIII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct for securities transactions by Directors and supervisors, which is not less rigorous than the Model Code set out in Appendix 10 of the Hong Kong Listing Rules. The Company has confirmed with all Directors and supervisors and hereby acknowledged that they had complying with the aforesaid code during the period from January 1, 2021 to June 30, 2021.

IX. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN THE HONG KONG LISTING RULES

The Company agrees to the principles as set out in Corporate Governance Code and Corporate Governance Report (Appendix 14 to the Hong Kong Listing Rules). From January 1, 2021 to June 30, 2021, the Company has been in full compliance with the code provisions under such Code.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

(I) Table of Changes in Ordinary Shares

Unit: Share, %

	December 31, 2020		Changes during the Reporting Period (Share)	June 30, 2021	
	Number	Proportion (%)		Number	Proportion (%)
I. Shares Subject to Selling Restrictions	9,704,050,594	45.63	-	9,704,050,594	45.63
1. Shares Held by State	-	-	-	-	-
2. Shares Held by State-owned Legal Persons	3,496,621,526	16.44	-	3,496,621,526	16.44
3. Other Domestic Shares	6,207,429,068	29.19	-	6,207,429,068	29.19
Including: Shares Held by Domestic Non-State-owned Legal Persons	6,207,429,068	29.19	-	6,207,429,068	29.19
Shares Held by Domestic Natural Persons	-	-	-	-	-
4. Foreign Shares	-	-	-	-	-
Including: Shares Held by Foreign Legal Persons	-	-	-	-	-
Shares Held by Foreign Natural Persons	-	-	-	-	-
II. Listed Shares without Selling Restrictions	11,564,646,184	54.37	-	11,564,646,184	54.37
1. RMB Ordinary Shares	7,010,646,184	32.96	-	7,010,646,184	32.96
2. Domestic Listed Foreign Shares	-	-	-	-	-
3. Overseas-listed Foreign Shares	4,554,000,000	21.41	-	4,554,000,000	21.41
4. Other	-	-	-	-	-
III. Total Ordinary Shares	21,268,696,778	100.00	-	21,268,696,778	100.00

As of the end of the reporting period, the issued shares of the Bank were 21,268,696,778 ordinary shares, including 16,714,696,778 A Shares and 4,554,000,000 H Shares.

(II) Description on Change in Ordinary Shares

During the reporting period, there was no change in ordinary shares of the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

II. INFORMATION ON SHAREHOLDERS OF ORDINARY SHARES

(I) Number of Shareholders of Ordinary Shares and Their Shareholdings

As of the end of the reporting period, the Bank had 285,005 shareholders of ordinary shares in total, including 284,883 shareholders of A Shares and 122 shareholders of H Shares.

As of the end of the reporting period, the table of shareholdings of the top ten shareholders and top ten shareholders of circulating shares (or shareholders without selling restrictions) was as follows:

Shareholdings of Top Ten Shareholders

Unit: Share

Name of Shareholder (full name)	Increase/ Decrease during the reporting period	Number of shares held at the end of period	Proportion (%)	Number of Shares held subject to selling restrictions	Pledge and freezing		Nature of Shareholders
					Status of Shares	Number	
HKSCC Nominees Limited	-	4,553,781,800	21.41	-	Unknown	-	-
Zhejiang Provincial Financial Holdings Co., Ltd.	-	2,655,443,774	12.49	2,655,443,774	-	-	State-owned Legal Person
Traveller Automobile Group Co., Ltd.	-	1,346,936,645	6.33	1,346,936,645	Freezing	1,346,936,645	Domestic Non-state-owned Legal Person
Hengdian Group Holdings Limited	-	1,242,724,913	5.84	1,242,724,913	-	-	Domestic Non-state-owned Legal Person
Zhejiang Provincial Energy Group Co., Ltd.	-	841,177,752	3.96	841,177,752	-	-	State-owned Legal Person
Minsheng Life Insurance Company Ltd. - self-owned capital	-	803,226,036	3.78	-	-	-	Domestic Non-state-owned Legal Person
Zhejiang Yongli Industry Group Co., Ltd.	-	548,453,371	2.58	-	Pledge	544,419,371	Domestic Non-state-owned Legal Person
Tong Lian Capital Management Co., Ltd.	-	543,710,609	2.56	543,710,609	-	-	Domestic Non-state-owned Legal Person
Zhejiang Hengyi High-tech Material Co., Ltd.	-	508,069,283	2.39	508,069,283	Pledge	508,069,283	Domestic Non-state-owned Legal Person
Zhejiang Hengyi Group Co., Ltd.	-	494,655,630	2.33	494,655,630	Pledge	494,655,630	Domestic Non-state-owned Legal Person

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of Top Ten Shareholders without Selling Restrictions

Unit: Share

Name of Shareholder	Number of circulating shares held without selling restrictions	Class and number of Shares	
		Class	Number
HKSCC Nominees Limited	4,553,781,800	H Shares	4,553,781,800
Minsheng Life Insurance Company Ltd. -self-owned capital	803,226,036	A Shares	803,226,036
Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	A Shares	548,453,371
Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	A Shares	457,816,874
Jinggong Group Co., Ltd.	454,403,329	A Shares	454,403,329
Lizi Industry Group Co., Ltd.	380,292,205	A Shares	380,292,205
Zhejiang RIFA Holding Group Co., Ltd.	365,509,000	A Shares	365,509,000
Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	302,993,318	A Shares	302,993,318
Zhejiang Huatong Holdings Group Co., Ltd.	206,136,242	A Shares	206,136,242
Zhejiang Xin'ao Industry Co., Ltd.	186,278,473	A Shares	186,278,473
Description on the connected relationship and action in concert of the shareholders above	To the best knowledge of the Company, Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. have a connected relationship, and Zhejiang China Light & Textile Industrial City Group Co., Ltd. and Shaoxing City Keqiao District Development and Operation Group Co., Ltd. have a connected relationship. Apart from that, the Company is not aware of other connected relationship between the above shareholders or whether they are parties acting in concert.		
Description on shareholders of preference shares with restoration of voting rights and their number of shares held	Nil		

Note: The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system, and whether the H Shares were pledged was unknown to the Bank.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(II) Number of Shares Held by Top Ten Shareholders Subject to Selling Restrictions and Conditions of Selling Restrictions

Unit: Share

No.	Name of Shareholders subject to Selling Restrictions	Listing and Trading of Shares Subject to Selling Restrictions			Conditions of Selling Restriction
		Number of Shares Held Subject to Selling Restrictions	Listing and Trading Date	Number of Additional Listing and Trading Shares	
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	2022-11-28	0	Selling Restriction for Initial Offering
2	Traveller Automobile Group Co., Ltd.	1,346,936,645	2022-11-28	0	Selling Restriction for Initial Offering
3	Hengdian Group Holdings Limited	1,242,724,913	2022-11-28	0	Selling Restriction for Initial Offering
4	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	2022-11-28	0	Selling Restriction for Initial Offering
5	Tong Lian Capital Management Co., Ltd.	543,710,609	2022-11-28	0	Selling Restriction for Initial Offering
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2022-11-28	0	Selling Restriction for Initial Offering
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2022-11-28	0	Selling Restriction for Initial Offering
8	Xizi Elevator Group Co., Ltd.	469,708,035	2022-11-28	0	Selling Restriction for Initial Offering
9	Guangsha Holding Group Co., Ltd.	457,005,988	2022-11-28	0	Selling Restriction for Initial Offering
10	Shanghai Xizi United Investment Co., Ltd.	380,838,323	2022-11-28	0	Selling Restriction for Initial Offering
Description on the connected relationship and action in concert of the shareholders above		To the best knowledge of the Company, Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. have a connected relationship. Apart from that, the Company is not aware of other connected relationship between the above shareholders or whether they are parties acting in concert.			

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

III. PLEDGE AND FREEZING OF ORDINARY SHARES

As at the end of the reporting period, to the knowledge of the Company, 4,043,222,355 shares of the Company were pledged; among which 1,338,434,590 shares were subject to judicial freezing.

IV. INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of June 30, 2021, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	A Shares	Long position	2,655,443,774	12.49	15.89
Traveller Automobile Group Co., Ltd. ^(Note 1)	Beneficial owner	A Shares	Long position	1,346,936,645	6.33	8.06
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Qiu Jianlin (邱建林)	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Hengdian Group Holdings Limited	Beneficial owner	A Shares	Long position	1,242,724,913	5.84	7.43
Hengdian Association For Economics Corporation	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	954,655,630	4.49	5.71
Lou Zhongfu (樓忠福)	Interest of controlled corporation	A Shares	Long position	954,655,630	4.49	5.71
Zhejiang Provincial Energy Group Co., Ltd.	Beneficial owner	A Shares	Long position	841,177,752	3.96	5.03
Zhejiang Provincial Energy Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.04	14.18
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner and Interest of controlled corporation	H Shares	Long position	645,708,000	3.04	14.18

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Energy International Co., Ltd.	Beneficial owner	H Shares	Long position	280,075,000	1.32	6.15
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,061,000,000	4.99	23.30
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	925,700,000	4.35	20.33
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	925,700,000	4.35	20.33
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.39	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51
FTLIFE INSURANCE COMPANY LIMITED	Beneficial owner	H Shares	Long position	297,722,000	1.40	6.54
EARNING STAR LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
SUCCESS IDEA GLOBAL LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
NWS SERVICE MANAGEMENT LIMITED ^(Note 2)	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
NWS SERVICE MANAGEMENT LIMITED ^(Note 2)	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
NWS HOLDINGS LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
NEW WORLD DEVELOPMENT COMPANY LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
CHOW TAI FOOK ENTERPRISES LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
CHOW TAI FOOK (HOLDING) LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
CHOW TAI FOOK CAPITAL LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
CHENG YU TUNG FAMILY (HOLDINGS) LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
CHENG YU TUNG FAMILY (HOLDINGS II) LIMITED	Interest of controlled corporation	H Shares	Long position	297,722,000	1.40	6.54
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.18	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業 (有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Aeon Life Insurance Company Ltd.	Beneficial owner	H Shares	Long position	228,651,000	1.08	5.02
Goncius I Limited ^(Note 3)	Beneficial owner	H Shares	Long position	792,843,890	3.73	17.41
	Beneficial owner	H Shares	Short position	792,843,890	3.73	17.41
DBS Group Holdings Ltd ^(Note 3)	Interest of controlled corporation	H Shares	Long position	442,609,936	2.08	9.72
	Interest of controlled corporation	H Shares	Short position	416,571,783	1.96	9.15
DBS Bank Ltd ^(Note 3)	Beneficial owner	H Shares	Long position	442,609,936	2.08	9.72
	Beneficial owner	H Shares	Short position	416,571,783	1.96	9.15

Notes:

- (1) Since Traveller Automobile Group Co., Ltd., one of the shareholders, cannot provide relevant information, the Company is not aware of the latest situation of its share interests and short position.
- (2) These two companies that have the same name have different addresses of registration. For the details, please refer to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.
- (3) This part involves derivative instrument. For the details, please refer to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on June 30, 2021.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

V. INFORMATION ON THE CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As of the end of the reporting period, the Bank had no controlling shareholders and de facto controllers.

VI. INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 12.49% of the shares of the Company and was the Company's largest shareholder of ordinary shares.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with the uniform social credit code of 913300000542040763 and its legal representative was Zhang Qicheng (章啟誠). With a registered capital of RMB12.0 billion, the company is a financial investment management platform established by Zhejiang Provincial Government. The company is a state-owned enterprise directly subordinated to the provincial government and is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial equity investment, government equity investment fund management, asset management and other business.

VII. INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES⁽¹⁾

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	12.49	12.49	Holding 5% or more of our Bank's shares	-	Zhejiang Provincial Department of Finance	Zhejiang Provincial Department of Finance	Nil	Zhejiang Provincial Financial Holdings Co., Ltd.
2	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	3.96	6.99	Holding 5% or more of our Bank's shares in total with the related parties	-	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Energy Group Co., Ltd.
3	Zhejiang Energy Capital Holdings Co., Ltd. (H share)	365,633,000	1.72			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy Capital Holdings Co., Ltd.
4	Zhejiang Energy International Co., Ltd. (H share)	280,075,000	1.32			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy International Co., Ltd.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
5	Traveller Automobile Group Co., Ltd. ⁽²⁾	1,346,936,645	6.33	6.33	Holding 5% or more of our Bank's shares	-	-	-	-	-
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2.39	5.84	Holding 5% or more of our Bank's shares in total with the related parties	508,069,283	Zhejiang Hengyi Petrochemical Co., Ltd.	Qiu Jianlin (邱建林)	Nil	Zhejiang Hengyi High-tech Material Co., Ltd.
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2.33			494,655,630	Qiu Jianlin (邱建林)		Nil	Zhejiang Hengyi Group Co., Ltd.
8	Zhejiang Hengyi Petrochemical Co., Ltd.	240,000,000	1.13			240,000,000	Hengyi Petrochemical Co., Ltd.		Nil	Zhejiang Hengyi Petrochemical Co., Ltd.
9	Hengdian Group Holdings Limited	1,242,724,913	5.84	5.84	Holding 5% or more of our Bank's shares	-	Dongyang Hengdian Association For Economics Corporation	Dongyang Hengdian Association For Economics Corporation	Nil	Hengdian Group Holdings Limited
10	Zhejiang Seaport (Hong Kong) Co., Limited (H share)	925,700,000	4.35	4.99	Jointly dispatch Directors to our Bank	-	Zhejiang Seaport Asset Management Co., Limited	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Seaport (Hong Kong) Co., Limited
11	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. (H share)	135,300,000	0.64			-	State-owned Assets Supervision and Administration Commission of the People's Government of Ningbo Municipal	Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
12	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	2.15	3.58	Jointly dispatch Supervisors to our Bank	-	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	Shaoxing City	Nil	Zhejiang China Light & Textile Industrial City Group Co., Ltd.
13	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	302,993,318	1.42			-	Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.	Keqiao Finance Bureau	Nil	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.

Notes:

- (1) Since July 15, 2021, Guangsha Holding Group Co., Ltd. and its related parties Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd. have not appointed Directors, and Minsheng Life Insurance Company Ltd. has not appointed Supervisors, and hence currently ceased to be the substantial shareholder of the Company; while Aeon Life Insurance Company Ltd. will become a substantial shareholder of the Company after the ratification of the eligibilities of the appointed Directors.
- (2) All the shares of the Company held by Traveller Automobile Group Co., Ltd. have been judicially frozen. The judicial disposal has not been completed, and the completion time is uncertain. Traveller Automobile Group Co., Ltd. did not provide information on and the Company was not aware of its controlling shareholder, de facto controller, parties acting in concert and ultimate beneficial owner.

VIII. ISSUANCE AND LISTING OF SECURITIES

During the reporting period, the Company had not issued any new ordinary shares.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

IX. INFORMATION ABOUT OFFSHORE PREFERENCE SHARES

(I) Issuance and listing of offshore preference shares

Pursuant to the approval of the CBIRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360), the Bank made a non-public issuance of US\$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US\$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017 (Stock Code of Preference Shares: 4610).

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBIRC and the CSRC, the capital raised from the Offshore Preference Shares issuance were used to replenish the Bank's additional tier 1 capital after deducting the issuance expenses, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure.

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US\$/share)	Initial Annual Dividend Rate (%)	Issue Volume (Share)	Total Issue Amount (US\$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	2017/3/29	20	5.45	108,750,000	2,175,000,000	2017/3/30	108,750,000

(II) Relevant articles with respect to rights and interests of the offshore preference shares have been included to the Company's articles of association, which can be found on the websites of the Hong Kong Stock Exchange and the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(III) Number of shareholders and shareholding of offshore preference shares

As at the end of the reporting period, the total number of shareholders (or nominees) of the Company for the Offshore Preference Shares was one, being The Bank of New York Depository (Nominees) Limited as the nominee.

Name of Shareholder	Nature of Shareholder	Share Class	Increase/Decrease during the Reporting Period		Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
			Period (Share)	Shareholding Ratio (%)			
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore Preference Shares	-	100	108,750,000	-	Unknown

Notes:

- (1) Shareholding information on shareholders of Offshore Preference Shares was provided based on the information specified in the register of shareholders of Offshore Preference Shares of the Bank.
- (2) As the issuance was an offshore non-public offering, what is set out in the register of shareholders of Offshore Preference Shares is the information on the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as a nominee on behalf of the placees in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as of the end of the reporting period.

(IV) Profit distribution for Offshore Preference Shares

The Bank paid the dividend in cash once a year to the holders of the Offshore Preference Shares. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in the distribution of the remaining profits with the holders of the Ordinary Shares.

According to the resolution and authorization of shareholders' general meeting, the Board meeting dated January 5, 2021 deliberated and adopted the Proposal for Distributing Dividends for Offshore Preference Shares, approving the Bank to distribute the dividends for Offshore Preference Shares on March 29, 2021. Pursuant to relevant laws and regulations of China, while distributing dividends for Offshore Preference Shares to offshore non-resident corporate shareholders, the Bank shall withhold and pay on their behalf the corporate income tax calculated on a tax rate of 10%. According to relevant terms and conditions with respect to the Bank's Offshore Preference Shares, relevant taxes and fees shall be paid by the Bank. The dividends for Offshore Preference Shares distributed this time totaled USD131,708,333.33, including: USD118,537,500 actually paid to shareholders of the Offshore Preference Shares according to an annual dividend yield of 5.45%; pursuant to relevant legal regulations, the corporate income tax withheld and paid on behalf based on a tax rate of 10% was USD13,170,833.33.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

For the implementation plan for the distribution of dividends for Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Bank.

The above dividend was paid in cash on March 29, 2021.

(V) Redemption or conversion of Offshore Preference Shares

During the reporting period, no redemption or conversion occurred for the Bank's Offshore Preference Shares.

(VI) Resumption of voting rights for Offshore Preference Shares

During the reporting period, no resumption of voting rights occurred for the Bank's Offshore Preference Shares.

(VII) Accounting policies adopted for Offshore Preference Shares and the reasons thereof

In accordance with the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and the Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Disclosures and Presentation formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares of the Bank meet the requirements for being accounted as equity instruments and will be accounted as equity instruments.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

I. BASIC INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the end of the reporting period, the Board of the Company comprised 14 Directors, including 1 executive Director, namely Mr. Shen Renkang; 6 non-executive Directors, namely Mr. Wang Jian, Mr. Ren Zhixiang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming and Ms. Lou Ting; and 7 independent non-executive Directors, namely Mr. Tong Benli, Mr. Dai Deming, Mr. Liu Pak Wai, Mr. Zheng Jindu, Mr. Zhou Zhifang, Mr. Wang Guocai and Mr. Wang Wei.

On July 15, 2021, 16 Directors were elected by the general meeting of the Company, of which 4 were executive Directors, namely Mr. Shen Renkang, Mr. Zhang Rongsen, Ms. Ma Hong and Mr. Chen Haiqiang; 6 were non-executive Directors, namely Mr. Hou Xingchuan, Mr. Ren Zhixiang, Ms. Gao Qinhong, Mr. Hu Tiangao, Mr. Zhu Weiming and Mr. Zhuang Yuemin; and 6 were independent non-executive Directors, namely Mr. Zheng Jindu, Mr. Zhou Zhifang, Mr. Wang Guocai, Mr. Wang Wei, Mr. Xu Yongbin and Mr. Guan Pinfang. On August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved. The ratification of eligibilities for appointment as Directors of Ms. Ma Hong, Mr. Chen Haiqiang, Mr. Hou Xingchuan, Mr. Zhuang Yuemin, Mr. Xu Yongbin and Mr. Guan Pinfang by the CBIRC is still in progress. Before the ratification of the new independent non-executive Directors’ eligibilities by the CBIRC, the former independent non-executive Directors Mr. Tong Benli, Mr. Dai Deming and Mr. Liu Pak Wai will continue to perform their duties as Directors.

As of the end of the reporting period, the Board of Supervisors of the Company comprised 10 Supervisors, including 2 shareholder representative Supervisors, namely Mr. Yu Jianqiang and Mr. Pan Jianhua, 4 employee representative Supervisors, namely Mr. Guo Dingfang, Mr. Wang Chengliang, Mr. Zheng Jianming, Mr. Chen Zhongwei, and 4 external Supervisors, namely Mr. Yuan Xiaoqiang, Mr. Wang Jun, Mr. Huang Zuhui and Ms. Cheng Huifang.

On July 15, 2021, the Company held the 2021 second extraordinary general meeting, which considered and approved: Mr. Pan Jianhua as the shareholder Supervisor of the sixth session of the Board of Supervisors; Ms. Cheng Huifang, Mr. Zhang Fanquan, Mr. Song Qinghua and Mr. Chen Sanlian as the external Supervisors of the sixth session of the Board of Supervisors. On June 16, 2021, the Company held the first general meeting of the third session of employees’ representatives to elect Mr. Guo Dingfang, Mr. Zheng Jianming, Mr. Wang Feng, Mr. Pan Huafeng and Mr. Chen Zhongwei as employee Supervisors of the sixth session of the Board of Supervisors, and the terms of office of the employee Supervisors for the sixth session of the Board of Supervisors is the same as the terms of office of the sixth session of the Board of Supervisors of the Company. Mr. Yu Jianqiang ceased to serve as a shareholder Supervisor of the Company, Mr. Wang Chengliang ceased to serve as an employee Supervisor of the Company, and Mr. Yuan Xiaoqiang, Mr. Wang Jun and Mr. Huang Zuhui ceased to serve as external Supervisors of the Company. On September 9, 2021, Mr. Wang Feng resigned as a Supervisor due to work needs and ceased to serve as a Supervisor of the Company.

As of the end of the reporting period, the Senior Management of the Company comprised 8 members, namely Mr. Zhang Rongsen (President), Mr. Chen Haiqiang (Vice President and Chief Risk Officer), Mr. Wu Jianwei (Vice President), Mr. Liu Long (Vice President and Secretary of the Board), Mr. Luo Feng (Vice President), Mr. Jing Feng (Vice President and Chief Financial Officer), Mr. Sheng Hongqing (Assistant to President) and Mr. Jiang Rong (Chief Audit Officer). Among which, on August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved, and the ratification of eligibilities for appointment of Mr. Luo Feng and Mr. Jing Feng (Vice President) by the CBIRC is still in progress. In addition, the Company obtained the approval from the CBIRC in relation to the ratification of eligibility for appointment as Chief Audit Officer of Mr. Jiang Rong on August 30, 2021.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

On July 15, 2021, the Company held the first meeting of the sixth session of the Board, which considered and approved: Zhang Rongsen was appointed as the President of the Company, Chen Haiqiang, Wu Jianwei, Liu Long, Luo Feng and Jing Feng were appointed as the Vice Presidents of the Company, Sheng Hongqing was appointed as the Assistant to President of the Company, Liu Long was appointed as the Secretary of the Board of the Company, Chen Haiqiang was appointed as the Chief Risk Officer of the Company, Jing Feng was appointed as the Chief Financial Officer of the Company and Jiang Rong was appointed as the Chief Audit Officer of the Company. Among which, on August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved, and the ratification of eligibilities for appointment of Mr. Luo Feng and Mr. Jing Feng (Vice President) by the CBIRC is still in progress. In addition, the Company obtained the approval from the CBIRC in relation to the ratification of eligibility for appointment as Chief Audit Officer of Mr. Jiang Rong on August 30, 2021.

II. INFORMATION ON THE APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On January 5, 2021, the Company’s 2021 first extraordinary general meeting elected Mr. Pan Jianhua as a shareholder Supervisor of the fifth session of the Board of Supervisors.

On January 5, 2021, the first extraordinary meeting of the fifth session of the Board of the Company in 2021 agreed to dismiss Mr. Song Shizheng as the Chief Information Officer.

On June 7, 2021, Mr. Xu Renyan resigned as Director and President due to work arrangement and ceased to serve as the Director and President of the Company.

On June 7, 2021, Mr. Xu Manxuan resigned as Vice President due to work arrangement and ceased to serve as Vice President of the Company.

On June 7, 2021, Mr. Liu Guishan resigned as Vice President and Chief Risk Officer due to work arrangement and ceased to serve as Vice President and Chief Risk Officer of the Company.

On June 16, 2021, the appointment of Mr. Zhang Rongsen as the President of the Company was approved at the seventh extraordinary meeting of the fifth session of the Board of the Company in 2021. On August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved.

On June 16, 2021, Mr. Guo Dingfang was elected as an employee Supervisor of the fifth session of the Board of Supervisors at the first general meeting of the third session of employees’ representatives of the Company.

On June 30, 2021, the appointment of Mr. Luo Feng and Mr. Jing Feng as the Vice Presidents of the Company (subject to the ratification of their eligibilities by the CBIRC) and Mr. Chen Haiqiang as the Chief Risk Officer of the Company was approved at the ninth extraordinary meeting of the fifth session of the Board of the Company in 2021.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

III. CHANGE OF DIRECTORS AND SUPERVISORS

Mr. Dai Deming, an independent non-executive Director of the Company, ceased to serve as an independent non-executive director of Haier Smart Home Co., Ltd. (海爾智家股份有限公司).

Ms. Cheng Huifang, an external Supervisor of the Company, serves as an independent director of China Light & Textile Industrial City Group (中國輕紡城集團), an independent director of Ningbo Fujia Industrial Co., Ltd. (寧波富佳實業股份有限公司) and an independent director of Zhejiang UE Medical Corp. (浙江優億醫療器械股份有限公司); ceased to serve as an independent director of Zhejiang Furun Co., Ltd. (浙江富潤股份有限公司), an independent director of Hangzhou Oxygen Plant Group Co., Ltd. (杭州制氧機集團股份有限公司) and the chairman of the board of supervisors of Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司).

IV. CHANGE IN SHAREHOLDING OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE RESIGNED DURING THE REPORTING PERIOD

Unit: Share

Name	Position	Number of shares held at the beginning of the period	Number of shares held at the end of the period	Changes in number of shares during the reporting period	Reasons for the change
Shen Renkang	Chairman, Executive Director	30,000	30,000	-	-
Zhang Rongsen	Executive Director, President (Note 1)	332,000	438,000	106,000	Acquire from secondary market
Yu Jianqiang	Shareholder Representative Supervisor, Chairman of the Board of Supervisors (Note 2)	110,000	110,000	-	-
Chen Haiqiang	Vice President, Chief Risk Officer	157,000	157,000	-	-
Wu Jianwei	Vice President	627,900	627,900	-	-
Liu Long	Vice President, Secretary of the Board, Company Secretary	620,100	746,400	126,300	Acquire from secondary market
Luo Feng	Assistant to President (proposed Vice President)	150,300	170,300	20,000	Acquire from secondary market
Sheng Hongqing	Assistant to President	144,700	144,700	-	-
Jing Feng	Chief Financial Officer (proposed Vice President and Chief Financial Officer)	150,000	150,000	-	-
Xu Renyan	Former Executive Director, President	604,600	604,600	-	-
Xu Manxuan	Former Vice President	604,300	712,300	108,000	Acquire from secondary market
Liu Guishan	Former Vice President, Chief Risk Officer	151,800	242,300	90,500	Acquire from secondary market
Song Shizheng	Former Chief Information Officer	94,900	94,900	-	-
Total		3,682,700	4,133,500	450,800	

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Notes:

1. On August 31, 2021, the Company received the “Approval of Qualification of Zhang Rongsen of China Zheshang Bank” issued by the CBIRC, according to which, the qualification of Mr. Zhang Rongsen as a Director and the President of the Bank has been approved.
2. On July 15, 2021, due to the re-election of the Board of Supervisors, Mr. Yu Jianqiang ceased to serve as a shareholder Supervisor and Chairman of the Board of Supervisors of the Company.
3. As of July 1, 2021, the relevant shareholding increase funds undertaken by the Directors, senior management and volunteers who performed their obligation to increase shareholding during year have been fully used, and the Company has implemented its share price stabilization measures for the year. For details, please refer to the Announcement of China Zheshang Bank Co., Ltd. on Completion of the Implementation of Share Price Stabilization Measures 《浙商銀行股份有限公司關於穩定股價措施實施完成的公告》(No. 2021-030) issued by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

V. EMPLOYEES

As at the end of the reporting period, the Group had 16,272 employees (including dispatched employees, outsourced technicians and employees of the subsidiary of the Company), representing an increase of 275 as compared with that at the end of last year. Divided by the position types, 6,765 employees of the Company were categorized as marketing personnel, 1,552 employees as counter personnel, and 7,820 employees as mid-office and back-office personnel; divided by the educational levels, 3,504 obtained post-graduate degree or above (including 70 with doctorate degree), 11,661 obtained bachelor degree, and 972 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 113 employees had retired from the Company.

VI. EMPLOYEE REMUNERATION POLICY

The Company’s remuneration policy is guided by its growth strategy and the people-oriented concept with unified and classified management by adhering to the principle of marketization and in accordance with the single-level legal person system. The Company continues to improve the linkage mechanism of remuneration level with performance capabilities of individual positions and personal operational performance, and strives to set up a remuneration management system that reflects internal fairness and external competitiveness, promotes the co-growth of employees and the Company, focuses equally on incentives and restraints, gives attention to both position value, contribution and long-term incentives, and matches the change in remuneration with the market rate and economic benefits.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

The Company's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by the Company to its branches is linked with the realization status of overall benefits by such branches and the Company takes into account various kinds of risk factors so that the branch outlets would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and performance allocation methods are applied to different types of employees, and the deferment payment of the performance-based remuneration is implemented in accordance with the internal control principles of prudent operations and strengthened constraints with the payment time basically in line with the risk persistency period of the corresponding business. For employees in the risk and compliance departments, their remuneration is determined by taking into account their position value, abilities to perform duties and other factors, and such remuneration is not directly related to the matters under their regulation and remains independent of other business segments.

VII.EMPLOYEES TRAINING

Based on our operation and development strategy, the Company conducts all-staff training to improve professional capabilities and performance. In addition, it also attaches high importance to the training of key talents and promote the innovation and transformation of businesses. It strengthens digital and intelligent orientation of training to enhance the effectiveness of training, so as to comprehensively improve management abilities and professional capabilities of our employees, and provide knowledge and talents support for the implementation of our strategy. During the reporting period, the Bank held 823 training programmes in total with 157,356 attendances.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

VIII. INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees	Asset size (million)
Yangtze River Delta region	Head office	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang	95527	310006	1	3,103	-
	Small Enterprise Credit Center	2/F, No. 368, Yan'an Road, Hangzhou, Zhejiang	0571-88261193	310006	1	44	-
	Shanghai Branch	No. 567, Weihai Road, Jingan District, Shanghai	021-61333333	200041	11	597	84,027
	Nanjing Branch	No.9, Zhongshan North Road, Nanjing	025-86823636	210008	26	1,021	108,278
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	10	445	61,540
	Hefei Branch	Block A16, Financial Harbour Centre, No. 4872, Huizhou Avenue, Binhu New District, Hefei	0551-65722016	230601	3	217	19,009
	Hangzhou Branch	Block D, Zhujin Building, No.1 Minxin Road, Hangzhou, Zhejiang	0571-87330733	310020	51	2,142	274,002
	Ningbo Branch	No. 128, Wenkang Road, No. 555, Yangfan Road, Gaoxin District, Ningbo	0574-81855678	315000	15	571	70,504
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	0577-88079900	325000	11	442	45,756
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166066	312030	9	426	45,618
	Jinhua Branch	1/F, 2/F, 10/F, Jiafu Business Building, No. 358, Binhong East Road, Jinhua	0579-82999603	321000	7	350	29,109
	Zhoushan Branch	No. 88, Lvdao Road, Qiandao Streets, Dinghai District, Zhoushan, Zhejiang	0580-2260302	316021	2	85	6,163
	Bohai Rim region	Beijing Branch	Huajia Jinbao Complex, No. 269, Chaoyangmen South Street, Dongcheng District, Beijing	010-86608000	100005	20	899
Tianjin Branch		No. 37, Youyi North Road, Hexi District, Tianjin	022-23271379	300204	12	501	31,194
Shenyang Branch		No. 467, Shifu Road, Shenhe District, Shenyang	024-31259003	110000	7	295	19,748
Jinan Branch		No. 801, Caoshanling South Road, Lixia District, Jinan, Shandong	0531-59669515	250101	15	793	72,869
Pearl River Delta and West Strait Economic Zone	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	8	559	85,976
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, Hightech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	0755-82760666	518061	12	545	83,155
	Fuzhou Branch	Huawei Building, No. 169, Binxi Avenue, Nanjiang, Cangshan District, Fuzhou, Fujian	0591-83015888	350007	1	54	1,654

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees	Asset size (million)
Midwestern China region	Hohhot Branch	No. 8, Chilechuan Street, Saihan District, Hohhot	0471-6993000	010098	1	111	10,671
	Nanchang Branch	1-2/F, 14-20/F, Block 35, Alph X, No. 1, Xuefu Road, Honggutan New District, Nanchang, Jiangxi	0791-88250606	330038	2	130	14,691
	Zhengzhou Branch	No. 2 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan	0371-66277001	450018	3	257	25,185
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	0731-82987566	410005	2	201	13,245
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jianghan District, Wuhan, Hubei	027-85331510	430022	4	306	30,794
	Chongqing Branch	Block 3, No. 67, Middle Section of Huangshan Avenue, Yubei District, Chongqing	023-88280805	401121	9	449	61,278
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85037095	610023	14	500	52,833
	Guiyang Branch	No. 88, Yan'an Road Central, Yunyan District, Guiyang	0851-85861088	550000	1	104	10,676
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	029-61833333	710075	11	502	43,663
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	0931-8172110	730030	9	420	20,323
Overseas Institution	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	0852-28018282	999077	1	68	34,834
Subsidiary	Zheyin Financial Leasing	5/F, Block D, Zhujin Building, No.1 Minxin Road, Hangzhou, Zhejiang	0571-87560880	310020	1	135	37,332
Total	-	-	-	-	280	16,272	-

SIGNIFICANT EVENTS

I. PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company and its subsidiary did not purchase, sell or redeem any of the Company's listed securities.

II. USAGE OF PROCEEDS RAISED

The use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

III. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal litigations/arbitrations in the ordinary course of business, most of which were filed by the Company itself for the purpose of recovering non-performing loans. The above litigations/arbitrations also include those arising as a result of other disputes. For the relevant information on the case involving disputes of contracts between the Company and Shantou Yidong Real Estate Development Co., Ltd. (汕頭市宜東房地產開發有限公司), Shantou Huhui Intelligent Technology Co., Ltd. (汕頭市互匯智能科技有限公司), Yihua Enterprise (Group) Co., Ltd. (宜華企業(集團)有限公司), Shenzhen Guanlan Gelan Yuntian Hotel Investment Co., Ltd. (深圳市觀瀾格蘭雲天大酒店投資有限公司), Liu Shaoxi (劉紹喜), Wang Shaonong (王少儂), Liu Shaosheng (劉紹生), Liu Zhuangqing (劉壯青) and Liu Shaoxiang (劉紹香), please refer to the Announcement of China Zheshang Bank Co., Ltd. on the Litigation 《浙商銀行股份有限公司關於訴訟事項的公告》 (Number: 2021-015) issued by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn). For the relevant information on the case involving disputes of contracts between the Company and Henan State-owned Assets Holding & Operation Group Co., Ltd. (河南省國有資產控股運營集團有限公司)、Henan Dashu Property Co., Ltd. (河南大樹置業有限公司) and Henan Province National Security Housing Construction Investment Co., Ltd. (河南省國控保障房建設投資有限公司), please refer to the Announcement of China Zheshang Bank Co., Ltd. on the Litigation 《浙商銀行股份有限公司關於訴訟事項的公告》 (Number: 2021-019) issued by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn).

As of the end of the reporting period, there were totally 39 pending litigations/arbitrations (excluding cases involving enforcement opposition and the third parties) where the Company was a defendant, and the total value of these 39 litigations/arbitrations was RMB264.4339 million. The Company expects that such pending litigations/arbitrations will not have a material adverse impact on the Company's business, financial position or operating results.

IV. MATERIAL CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS

(I) Connected Transactions Related to Daily Operations

The Company carried out the connected transactions in accordance with the relevant requirements of regulatory authorities at home and abroad, i.e. the Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders 《商業銀行與內部人和股東關聯交易管理辦法》, the Interim Measures for the Shareholding Management of Commercial Banks 《商業銀行股權管理暫行辦法》, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Implementation Guide to Listed Companies' Connected Transactions of Shanghai Stock Exchange and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The connected transactions were conducted on normal commercial terms. The terms of transactions were fair and reasonable and in the benefits of the Company and the shareholders as a whole.

SIGNIFICANT EVENTS

During the reporting period, the Company considered and approved the Proposal on the Estimated Quota of Daily Connected Transactions of China Zheshang Bank Co., Ltd. in 2021 《關於浙商銀行股份有限公司2021年度日常關聯交易預計額度的議案》 at the 2020 annual general meeting held on June 30, 2021.

During the reporting period, the actual implementation of the Company's daily connected transactions is as follows:

No.	Related Party	Proposed Annual Caps for Connected Transactions in 2021	Contemplated Business/Transaction in 2021	As of June 30, 2021
1	Zhejiang Provincial Financial Holdings Co., Ltd. and its connected companies	RMB700 million	Comprehensive credit business	Credit balance: RMB357 million
		RMB1.6 billion	Wealth management products purchase business	Total purchases: RMB550 million
2	Guangsha Holding Group Co., Ltd. and its connected companies	RMB1.15 billion	Comprehensive credit business	Credit balance: RMB1.15 billion
3	Shaoxing City Kejiao District State-owned Assets Investment and Operation Group Co., Ltd. and its connected companies	RMB6.5 billion	Comprehensive credit business	Credit balance: RMB930 million
4	Orient Securities Co., Ltd.	RMB6.5 billion	Comprehensive credit business	Inactive
5	Connected natural persons	RMB730 million	Personal loans, credit card overdraft business, etc.	Credit balance: RMB191 million

On March 30, 2021, at the twelfth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Zhejiang Energy Group 《關於本行對浙江能源集團關聯方授信方案的議案》, approving to grant maximum comprehensive credit lines of RMB5 billion to Zhejiang Energy Group Co., Ltd. and its connected parties. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (No.: 2021-014) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn). As of the end of the reporting period, the credit balance of the related parties was RMB0.

On March 30, 2021, at the twelfth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Hengdian Group 《關於本行對橫店集團關聯方授信方案的議案》, approving to grant maximum comprehensive credit lines of RMB5 billion to Hengdian Group Holdings Limited and its related parties. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (No.: 2021-014) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn). As of the end of the reporting period, the credit balance of the related parties was RMB968 million.

SIGNIFICANT EVENTS

On March 30, 2021, at the twelfth meeting of the fifth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Caitong Securities Co., Ltd. (《關於本行對財通證券股份有限公司關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB4 billion to Caitong Securities Co., Ltd. (財通證券股份有限公司). For details, please refer to the Announcement on Related Party Transactions of China Zhesang Bank Co., Ltd. (No.: 2021-014) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn). As of the end of the reporting period, the credit balance of the related parties was RMB0.

On June 16, 2021, at the seventh extraordinary meeting of the fifth session of the Board in 2021, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Zhejiang Hengyi Group (《關於本行對浙江恒逸集團關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB5 billion to Zhejiang Hengyi Group Co., Ltd. and its related parties. For details, please refer to the Announcement on Related Party Transactions of China Zhesang Bank Co., Ltd. (No.: 2021-024) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn). As of the end of the reporting period, the credit balance of the related parties was RMB4.878 billion.

During the reporting period, the Company provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, including our connected persons. These transactions were entered into on normal commercial terms (or on better terms to the Company) in the ordinary and usual course of our business, and thus are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company also enters into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or on better terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company during the half year ended June 30, 2021 are set out in "Notes to Consolidated Financial Statements – Related Party Relationship and Transactions".

Saved as disclosed above, no related party transactions set out in "Notes to Consolidated Financial Statements – Related Party Relationship and Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

SIGNIFICANT EVENTS

(II) Connected Transactions in Acquisition and Disposal of Assets or Equity

During the reporting period, the Company hasn't conducted connected transactions involving the acquisition and disposal of assets or equity.

(III) Connected Transactions in relation to Joint External Investment

During the reporting period, the Company hasn't conducted connected transactions in relation to joint external investment.

(IV) Connected Creditor's Rights and Liabilities

During the reporting period, the Company hasn't had any non-operational connected creditor's rights and liabilities.

V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Material custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved custody, contracting or leasing any assets of other companies or vice versa which fell outside the normal business scope of a bank.

(II) Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBIRC, there were no other significant guarantees that shall be disclosed.

VI. MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

VII. STOCK INCENTIVE PLAN

The Company did not implement any stock incentive plan during the reporting period.

VIII. EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

SIGNIFICANT EVENTS

IX. INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER HONG KONG LAWS AND REGULATIONS

As at June 30, 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 or 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 or 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 by the Company 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 (shares)	Percentage of	Percentage of
						the relevant class of shares in issue (%)	the total issued ordinary shares (%)
Shen Renkang (沈仁康)	Chairman, Executive Director	A Share	Long position	Beneficial Owner	30,000	0.00018	0.00014
Xu Renyan (徐仁艷)	Former Executive Director, President	A Share	Long position	Beneficial Owner	604,600	0.0036	0.0028
Yu Jianqiang (于建強)	Shareholder Supervisor, Chairman of the Board of Supervisors	A Share	Long position	Beneficial Owner	110,000	0.00066	0.00052

Note:

1. On July 15, 2021, due to the re-election of the Board of Supervisors, Mr. Yu Jianqiang ceased to serve as a shareholder Supervisor and Chairman of the Board of Supervisors of the Company.

SIGNIFICANT EVENTS

X. DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, the Board of Supervisors, the Supervisors and senior management of the Company and Shareholders holding 5% or more shares during the reporting period.

XI. PERFORMANCE OF THE UNDERTAKINGS

Background of undertakings	Type of undertakings	Undertaking entities	Undertakings	Time and period of undertakings	Any period for performance	Whether timely and strictly performed
Undertakings in relation to the initial public offering	Shares subject to trading moratorium	Zhejiang Provincial Financial Holdings Co., Ltd., Traveller Automobile Group Co., Ltd., Zhejiang Hengyi Group Co., Ltd. and its related parties Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd., Hengdian Group Holdings Limited, Guangsha Holding Group Co., Ltd. and its related parties Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd., Zhejiang Provincial Energy Group Co., Ltd., Tong Lian Capital Management Co., Ltd., Xizi Elevator Group Co., Ltd., Shanghai Xizi United Investment Co., Ltd., Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (杭州民生醫藥控股集團有限公司) (9,460,000 Domestic Shares), Zhuji Hongyi Electronic Science and Technology Co., Ltd. (諸暨宏億電子科技有限公司), Zhejiang Huasheng Logistics Co., Ltd. (浙江華升物流有限公司)	Within 36 months from the date on which the A Shares of the Bank are listed and traded on the stock exchange, they will not transfer or entrust others to manage the Domestic Shares of the Bank that are directly or indirectly held by them before the issuance, nor sell the above shares back to the Bank.	November 26, 2019 to November 25, 2022	Yes	Yes

Note: Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (杭州民生醫藥控股集團有限公司) held 8,310,000 Domestic Shares of the Bank due to judicial transfer before the application of the Bank's A Shares, and held additional 9,460,000 Domestic Shares of the Bank due to judicial transfer after the application of the Bank's A Shares.

XII. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

(I) Performance and Policies in relation to Environment

During the reporting period, focusing on the national "14th Five-Year" plan and the carbon peak and carbon neutral goals, the Bank conducted organic integration of economic benefits, social benefits and ecological benefits, advanced further development of green finance, and actively responded to climate change risks. During the reporting period, there were no environmental violations within the Bank.

SIGNIFICANT EVENTS

For green finance, the Bank continued to improve management policies, optimize the examination and incentive mechanism and the resource allocation, and lead credit resources mainly to the green area. The Bank adopted innovative product and service models, improved the green channel priority mechanism for examination and approval, gave more support to the green and low-carbon industries, and promoted the green transformation and upgrade of high-carbon industries. The Bank actively applied the big data risk control platform to strengthen the whole-process, dynamic and differentiated management of environmental and social risks, and implemented “One-vote Veto” for companies with poor environmental and social risk performance in credit approval. As of the end of the reporting period, the Bank’s green loan balance was RMB84.662 billion, representing an increase of RMB6.136 billion or 7.81% as compared with the end of last year.

In terms of green operation, the Bank innovatively applied new technologies and new interaction modes to promote online, digital and intelligent transformation of services, promote the construction of intelligent outlet system, and continued to develop online service systems such as personal online banking, mobile banking and WeChat banking, and the replacement rate of transactions via online channels exceeds 99%. The Bank deepened the promotion of paperless and online office management applications to reduce resource and energy consumption in the daily office operation. The Bank encouraged employees and stakeholders to practice a simple, moderate, green and low-carbon working and life style, and actively carried out environmental protection and public benefit activities such as tree planting and afforestation and river protection to work together to build a green ecological home.

(II) Particulars of Consolidating and Expanding Poverty Alleviation Achievements and Rural Revitalization

CZBank firmly implemented the decision-making deployment of the CCP Central Committee and the State Council on consolidating and expanding poverty alleviation achievements and effective connection with rural revitalization, continuously improved the financial service organization system, and increased its financial resource allocation and investment in poverty-stricken areas, so as to make positive contributions to improvement of people’s lives as well as the high-quality and sustainable development of the economy and society.

During the reporting period, the Bank promoted the industrial chain financial service model of “banks + leading enterprises + cooperatives + farmers”, supported the development and growth of distinctive industries in poverty-stricken areas, carried out inclusive agriculture-related loan business, and improved availability of financing for small farmers and new agricultural business entities. As of the end of the reporting period, the Bank’s balance of agricultural-related loans was RMB180.038 billion, representing an increase of RMB8.890 billion or 5.19% as compared with the end of last year. The Bank continued to promote cooperation between Eastern and Western China and assistance in pairs, supported construction of infrastructure such as water irrigation and hardened roads in paired villages, carried out Party building and co-construction activities, and launched caring and greeting activities to rural Party members and farmers; continued to promote the entry of distinctive agricultural products into e-Bank Mall, organized special live marketing activities, and gave priority to poverty alleviation agricultural products in canteen procurement and welfare distribution. As of the end of the reporting period, e-Bank Mall had sold poverty alleviation agricultural products of RMB6.1193 million in aggregate. With a focus on “One Bank to One School” paired assistance, the Bank continued to improve the conditions of compulsory education in poverty-stricken areas, and solved problems for the healthy growth of children. Currently, the Bank has paired up 20 rural primary schools with its own funds and donations from employees totaling RMB15.7545 million to construct teaching buildings and playgrounds, implement nutritious meals and the “Bright Eyes (亮睛睛)” eye protection program, etc., therefore 7,168 students benefited from it.

SIGNIFICANT EVENTS

XIII. REVIEW OF THE INTERIM RESULTS

The 2021 interim report of the Company prepared under the China Accounting Standards and the International Financial Reporting Standards has reviewed by KPMG Huazhen LLP and KPMG in accordance with China Standards on Review Engagements and International Standard on Review Engagements, respectively.

The Board of Directors and the audit Committee of the Board of Directors of the Company have reviewed and approved the results and financial report of the Company for the period ended June 30, 2021.

XIV. PUBLISHING THE INTERIM REPORT

The English and Chinese version of the interim report prepared by the Company in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website. For any inconsistency between the two versions, the Chinese version shall prevail.

The Chinese version of the semi-annual report prepared by the Company in accordance with the China Accounting Standards and the Rules of CSRC for the Preparation of Semi-annual Reports will be available on the website of Shanghai Stock Exchange and the Company's website.

REVIEW REPORT

To the board of directors of China Zheshang Bank Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements set out on pages 96 to 209, which comprise the condensed consolidated statement of financial position of China Zheshang Bank Co., Ltd. ("the Bank") and its subsidiary ("the Group") at 30 June 2021, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of condensed interim financial statements in accordance with the relevant requirements thereof and the International Accounting Standard 34, *Interim Financial Reporting*, promulgated by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Our responsibility is to form a conclusion, based on our review, on the condensed consolidated interim financial statements 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 the 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 Standard Board. A review of the condensed consolidated interim 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 condensed consolidated interim financial statements at and for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	The six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Interest income		45,151	41,842
Interest expense		(24,773)	(23,455)
NET INTEREST INCOME	III. 1	20,378	18,387
Fee and commission income		2,309	2,790
Fee and commission expense		(312)	(251)
NET FEE AND COMMISSION INCOME	III. 2	1,997	2,539
Net trading gains	III. 3	2,831	2,355
Net gains on financial investments	III. 4	541	1,665
Other operating income	III. 5	201	235
OPERATING INCOME		25,948	25,181
Operating expenses	III. 6	(6,963)	(6,243)
Expected credit losses	III. 7	(10,834)	(11,033)
PROFIT BEFORE TAXATION		8,151	7,905
Income tax expense	III. 8	(1,163)	(993)
PROFIT FOR THE PERIOD		6,988	6,912
Attributable to:			
Shareholders of the Bank		6,851	6,775
Non-controlling interests		137	137

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	The six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Other comprehensive income, net of tax	III. 37		
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial investments designated to be measured at fair value through other comprehensive income		(8)	–
Items that may be reclassified to profit or loss:			
Fair value changes on financial assets at fair value through other comprehensive income		317	(981)
Expected credit losses of financial assets at fair value through other comprehensive income		(128)	634
Exchange difference from the translation of foreign operations		(238)	365
Other comprehensive income, net of tax		(57)	18
Total comprehensive income		6,931	6,930
Attributable to:			
Shareholders of the Bank		6,794	6,793
Non-controlling interests		137	137
Earnings per share attributable to the shareholders of the Bank:	III.9		
Basic (RMB yuan/share)		0.28	0.27
Diluted (RMB yuan/share)		0.28	0.27

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
ASSETS			
Cash and balances with the central bank	III. 10	134,054	137,441
Precious metals		5,550	19,478
Deposits with banks and other financial institutions	III. 11	35,217	38,827
Placements with banks and other financial institutions	III. 12	44,271	5,637
Derivative financial assets	III. 13	12,833	23,434
Financial assets purchased under resale agreements	III. 14	31,549	57,067
Loans and advances to customers	III. 15	1,238,083	1,165,875
Financial investments	III. 16		
– Financial investments measured at fair value through profit or loss		151,857	129,269
– Financial investments measured at amortized cost		353,732	336,109
– Financial investments measured at fair value through other comprehensive income		70,589	63,007
Fixed assets	III. 18	13,321	13,474
Right-of-use assets	III. 19	4,789	4,826
Intangible assets	III. 20	289	294
Deferred tax assets	III. 21	16,480	14,620
Other assets	III. 22	41,783	38,867
TOTAL ASSETS		2,154,397	2,048,225
LIABILITIES			
Due to the central bank		59,657	84,768
Deposits from banks and other financial institutions	III. 24	164,800	148,273
Placements from banks and other financial institutions	III. 25	41,791	48,543
Financial liabilities at fair value through profit or loss	III. 26	14,028	9,231
Derivative financial liabilities	III. 13	12,508	23,478
Financial assets sold under repurchase agreements	III. 27	34,858	900
Customer deposits	III. 28	1,367,287	1,335,636
Employee benefits payable	III. 29	4,233	4,873
Taxes payable	III. 30	5,996	4,663
Provisions	III. 31	5,496	5,686
Lease liabilities		2,997	2,981
Debt securities issued	III. 32	291,909	236,682
Other liabilities	III. 33	13,720	9,968
TOTAL LIABILITIES		2,019,280	1,915,682

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
EQUITY			
Share capital	III. 34	21,269	21,269
Other equity instruments	III. 35	14,958	14,958
Capital reserve	III. 36	32,018	32,018
Other comprehensive income	III. 37	204	261
Surplus reserve	III. 38	8,499	8,499
Statutory general reserve	III. 39	23,680	21,118
Retained earnings		32,396	32,389
Equity attributable to shareholders of the Bank		133,024	130,512
Non-controlling interests		2,093	2,031
TOTAL EQUITY		135,117	132,543
TOTAL LIABILITIES AND EQUITY		2,154,397	2,048,225

The condensed consolidated interim financial statements were approved by the board of directors on 30 August 2021:

Shen Renkang
Chairman

Zhang Rongsen
President

Liu Long
Principal in-charge of Finance

Jing Feng
Chief Finance Officer

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to shareholders of the Bank							Subtotal	Non-Controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			
Balance at 1 January 2021		21,269	14,958	32,018	261	8,499	21,118	32,389	130,512	2,031	132,543
Changes in equity for the period											
1. Total comprehensive income		-	-	-	(57)	-	-	6,851	6,794	137	6,931
2. Appropriation of profits											
- Appropriation to statutory general reserve	III. 39	-	-	-	-	-	2,562	(2,562)	-	-	-
- Distributions to ordinary shareholders	III. 40	-	-	-	-	-	-	(3,424)	(3,424)	(75)	(3,499)
- Distributions to preference shareholders	III. 40	-	-	-	-	-	-	(858)	(858)	-	(858)
Balance at 30 June 2021		21,269	14,958	32,018	204	8,499	23,680	32,396	133,024	2,093	135,117

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to shareholders of the Bank						Retained earnings	Subtotal	Non-Controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve				
Balance at 1 January 2020		21,269	14,958	32,018	2,268	7,294	19,454	28,985	126,246	1,781	128,027
Changes in equity for the period											
1. Total comprehensive income		-	-	-	18	-	-	6,775	6,793	137	6,930
2. Appropriation of profits											
- Appropriation to statutory general reserve	III. 39	-	-	-	-	-	1,559	(1,559)	-	-	-
- Distributions to ordinary shareholders	III. 40	-	-	-	-	-	-	(5,104)	(5,104)	-	(5,104)
- Distributions to preference shareholders	III. 40	-	-	-	-	-	-	(932)	(932)	-	(932)
Balance at 30 June 2020		21,269	14,958	32,018	2,286	7,294	21,013	28,165	127,003	1,918	128,921

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (Audited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to equity holders of the Bank							Subtotal	Non-Controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			
Balance at 1 January 2020		21,269	14,958	32,018	2,268	7,294	19,454	28,985	126,246	1,781	128,027
Changes in equity for the year											
1. Total comprehensive income		-	-	-	(2,007)	-	-	12,309	10,302	250	10,552
2. Appropriation of profits											
- Appropriation to surplus reserve	III. 38	-	-	-	-	1,205	-	(1,205)	-	-	-
- Appropriation to statutory general reserve	III. 39	-	-	-	-	-	1,664	(1,664)	-	-	-
- Distributions to ordinary shareholders	III. 40	-	-	-	-	-	-	(5,104)	(5,104)	-	(5,104)
- Distributions to preference shareholders	III. 40	-	-	-	-	-	-	(932)	(932)	-	(932)
Balance at 31 December 2020		21,269	14,958	32,018	261	8,499	21,118	32,389	130,512	2,031	132,543

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities:		
Profit before taxation	8,151	7,905
Adjustments for:		
– Expected credit losses	10,834	11,033
– Depreciation and amortization	827	778
– Interest income from financial investments	(8,176)	(7,621)
– Net investment income	(1,132)	(4,186)
– Net (gains)/losses from changes in fair value	(610)	1,390
– Net foreign exchange losses/(gains)	206	(155)
– Net losses on disposal of fixed assets	1	1
– Interest expense on debt securities issued	4,191	3,173
– Interest expense on lease liabilities	71	70
– Deferred tax expense	(1,921)	(1,212)
Net changes in operating assets and operating liabilities:		
Net decrease/(increase) in balances with the central bank	764	(16,192)
Net decrease in deposits with banks and other financial institutions	0	1,071
Net decrease/(increase) in placements with banks and other financial institutions	1,666	(1,611)
Net (increase)/decrease in financial assets purchased under resale agreements	(98)	28,941
Net increase in loans and advances to customers	(79,409)	(103,203)
Net (increase)/decrease in financial assets held for trading	(20,775)	1,605
Net decrease in other operating assets	13,798	14,386
Net decrease in due to the central bank	(24,691)	(17,276)
Net increase/(decrease) in deposits from banks and other financial institutions	16,384	(43,505)
Net (decrease)/increase in placements from banks and other financial institutions	(6,848)	4,995
Net increase in financial assets sold under repurchase agreements	33,956	28,600
Net increase in customer deposits	32,433	208,217
Net (decrease)/increase in other operating liabilities	(2,310)	1,756
Net cash flows (used in)/generate from operating activities before tax	(22,688)	118,960
Income tax paid	(2,812)	(3,422)
Net cash (used in)/generate from operating activities	(25,500)	115,538

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from investing activities:		
Proceeds from disposal of fixed assets	2	12
Payment for acquisition of fixed assets, intangible assets and other long-term assets	(360)	(1,006)
Investment returns received	10,101	10,831
Proceeds from disposal of investments	802,961	814,026
Payment for acquisition of investments	(827,990)	(898,886)
Net cash used in investing activities	(15,286)	(75,023)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	242,709	94,531
Repayments of borrowings	(186,544)	(102,038)
Repayment of interest on debt securities issued	(5,131)	(3,406)
Payment for dividend distribution	(858)	(932)
Repayment of principal and interest on lease liabilities	(359)	(318)
Net cash generated from/(used in) financing activities	49,817	(12,163)
Effect of exchange rate changes on cash and cash equivalents	(485)	266
Net increase in cash and cash equivalents	8,546	28,618
Cash and cash equivalents at beginning of the period	112,121	46,944
Cash and cash equivalents at end of the period	120,667	75,562
Net cash flows from operating activities include:		
Interest received	37,229	33,659
Interest paid	(21,473)	(18,880)

The notes on pages 105 to 209 form part of these condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

I GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank established on the basis of the original Zhejiang Commercial Bank with the approval from the China Banking Regulatory Commission (“CBRC” which was renamed to China Banking and Insurance Regulatory Commission in 2018, hereinafter referred to as “CBIRC”) (Yin Jian Fu [2004] No. 91) and Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the CBIRC. On 26 July 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License (No. 330000000013295) in Zhejiang Province, the People’s Republic of China (the “PRC”). On 7 November 2016, the Bank obtained the Uniform Social Credit Code (No.91330000761336668H).

The Bank was listed on the Hong Kong Stock Exchange on 30 March 2016 with stock code of 2016, the Bank was listed on the Shanghai Stock Exchange on 26 November 2019 with stock code of 601916. At 30 June 2021, the Bank’s registered capital is RMB21,268,696,778.

At 30 June 2021, the Bank has established 278 branches in 20 provinces (or municipalities) and Hong Kong in China, including 67 branches (28 of them are tier-one branches), one branch-level specialized institution and 210 sub-branches. The principal activities of the Bank include corporate and retail banking, treasury business, and other banking service.

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) was established on 18 January 2017 with a registered capital of RMB3 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank has included it in the scope of the consolidated financial statements. The Bank and its subsidiary, Zheyin Financial Leasing, are collectively referred to as “the Group”.

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on a going concern basis.

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and do not include all information and disclosures disclosed in the annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the Group’s last annual consolidated financial statements at and for the year ended 31 December 2020.

The following amendments to IFRSs (including IAS and its amendments and IFRIC interpretations) issued by the International Accounting Standards Board take effect for annual periods beginning on or after 1 January 2021 and are relevant to the Group’s operation:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform Phase 2*;
- Amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

Impacts of the adoption of the amended IFRSs (including IAS and its amendments and IFRIC interpretations) are discussed below:

(1) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform Phase 2*

The amendments propose recommendation for changes in financial assets and financial liabilities and amendments to hedging relationship.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2021. The adoption has no material impact on the financial position and the financial result of the Group.

(2) Amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

The Group previously applied the practical expedient in IFRS 16 that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has applied the 2021 amendment retrospectively, with the cumulative effect of initial application recognised adjusted according to the amendment. The adoption has no material impact on the financial position and the financial result of the Group.

Except for the above accounting policy amendments, the accounting policies adopted in the preparation of this condensed consolidated interim financial statement are consistent with the Group’s financial statement for the year ended 31 December 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net Interest Income

	For the six months ended 30 June	
	2021	2020 (Restated)
Interest income:		
Loans and advances to customers		
– Corporate loans and advances	21,148	20,403
– Personal loans and advances	11,739	9,585
– Discounted bills	1,218	1,445
Financial investments		
– Financial investments measured at amortised cost (“AC”)	7,335	6,626
– Financial investments measured at fair value through other comprehensive income (“FVOCI”)	841	995
Balances with the central bank	983	944
Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements	757	902
Finance lease receivables	1,130	942
Total	45,151	41,842
Interest expense:		
Customer deposits		
– Corporate customers	(11,625)	(12,732)
– Personal customers	(5,000)	(3,637)
Debt securities issued	(4,191)	(3,173)
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	(3,051)	(2,361)
Due to the central bank	(835)	(1,482)
Lease liabilities	(71)	(70)
Total	(24,773)	(23,455)
Net interest income	20,378	18,387

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2 Net Fee and Commission Income

	For the six months ended 30 June	
	2021	2020 (Restated)
Fee and commission income:		
Agency and entrustment service	661	272
Commitment and guarantee service	480	401
Underwriting and consultation service	458	1,411
Custodian and other fiduciary service	247	279
Settlement and clearing business	246	213
Fees from bank cards	126	151
Others	91	63
Total	2,309	2,790
Fee and commission expense	(312)	(251)
Net fee and commission income	1,997	2,539

3 Net Trading Gains

	For the six months ended 30 June	
	2021	2020
Financial investments measured at fair value through profit or loss ("FVTPL")	2,118	2,363
Exchange gains and related derivatives	743	155
Precious metals and related derivatives	21	(85)
Other derivatives	(51)	(78)
Total	2,831	2,355

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4 Net Gains on Financial Investments

	For the six months ended 30 June	
	2021	2020
Net gains arising from financial investments measured at FVOCI	486	1,653
Net gains arising from financial investments measured at AC	0	18
Other investment gains/(losses)	55	(6)
Total	541	1,665

5 Other Operating Income

	For the six months ended 30 June	
	2021	2020
Operating lease income	60	65
Government grants	39	41
Other miscellaneous income	102	129
Total	201	235

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

6 Operating Expense

	For the six months ended 30 June	
	2021	2020
Staff costs (i)	4,446	4,139
General and administrative expenses	1,203	920
Depreciation and amortization	827	778
Taxes and surcharges	423	306
Donations	4	21
Auditors' remuneration	2	2
Others (ii)	58	77
Total	6,963	6,243

(i) Staff costs

	For the six months ended 30 June	
	2021	2020
Salaries, bonuses and allowances	3,500	3,502
Other social security and benefit costs	279	211
Housing funds	173	154
Pension costs – defined contribution plans	418	202
Labour union fee and staff education expenses	76	70
Total	4,446	4,139

(ii) During reporting period, the expense relating to short-term leases and leases of low-value assets are not significant.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7 Expected Credit Losses (“ECL”s)

	Note	For the six months ended 30 June	
		2021	2020
Deposits with banks and other financial institutions		(4)	59
Placements with banks and other financial institutions		26	(29)
Loans and advances to customers			
– measured at AC		7,458	5,065
– measured at FVOCI		(287)	636
Financial investments			
– measured at AC		3,314	4,581
– measured at FVOCI		123	259
Finance lease receivables		211	221
Off-balance sheet items		(187)	145
Others		180	96
Total	III.23	10,834	11,033

8 Income Tax Expense

	Note	For the six months ended 30 June	
		2021	2020
Current income tax		3,084	2,205
Deferred tax	III.21	(1,921)	(1,212)
Total		1,163	993

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group in accordance with PRC income tax regulations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8 Income Tax Expense (Continued)

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the statutory tax rate to profit before taxation can be reconciled as follows:

	For the six months ended 30 June	
	2021	2020
Profit before taxation	8,151	7,905
Tax calculated at a tax rate of 25%	2,038	1,976
Effects of non-taxable income (i)	(979)	(1,090)
Effects of non-deductible expenses (ii)	104	107
Income tax expense	1,163	993

- (i) The non-taxable income mainly represents interest income arising from treasury bonds and municipal government bonds, and dividend income arising from fund investments, which is income tax free in accordance with the PRC tax regulations.
- (ii) The non-deductible expenses mainly include certain expenses, which are not deductible before taxation according to PRC tax regulations.

9 Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of the conversion did not occur during the six months ended 30 June 2021, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	For the six months ended 30 June	
	2021	2020
Net profit attributable to shareholders of the Bank	6,851	6,775
Less: Net profit attributable to other equity instruments holders of the Bank	(858)	(932)
Consolidated net profit attributable to ordinary shareholders of the Bank	5,993	5,843
Weighted average number of ordinary shares (in millions of shares)	21,269	21,269
Basic earnings per share (RMB yuan/share)	0.28	0.27

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10 Cash and Balances with the Central Bank

	Note	30 June 2021	31 December 2020
Cash		503	505
Balances with the central bank			
– Statutory reserve	(1)	123,379	124,496
– Surplus reserve	(2)	9,699	12,314
– Fiscal deposits		417	64
Subtotal		133,495	136,874
Interest accrued		56	62
Total		134,054	137,441

- (1) The Group is required to place statutory reserves with the People's Bank of China (the "PBOC"). At the balance sheet date, rates for mandatory reserves were as follows:

	30 June 2021	31 December 2020
Statutory reserve rate for deposits denominated in RMB	9.0%	9.0%
Statutory reserve rate for deposits denominated in foreign currencies	7.0%	5.0%

The statutory deposit reserve ratios of the subsidiary of the Bank was consistent with the requirement of the PBOC.

- (2) Surplus reserve with the PBOC are mainly for settlement purpose.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11 Deposits with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	20,996	22,166
– Other financial institutions	6,385	7,189
Outside Mainland China		
– Banks	8,025	9,725
– Other financial institutions	135	56
Interest accrued	21	40
Total	35,562	39,176
Less: Allowance for ECLs (Note III.23)	(345)	(349)
Carrying amount	35,217	38,827

12 Placements with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	4,851	2,961
– Other financial institutions	–	2,000
Outside Mainland China		
– Banks	39,422	778
Interest accrued	1	49
Total	44,274	5,788
Less: Allowance for ECLs (Note III.23)	(3)	(151)
Carrying amount	44,271	5,637

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

13 Derivative Financial Instruments

The Group' derivative financial instruments include swaps, options and forwards. At the balance sheet date, the derivative financial instruments held by the Group are listed below:

At 30 June 2021

	Notional amount	Fair value	
		Derivative financial asset	Derivative financial liability
Swap contracts	2,252,543	12,377	(11,911)
Option contracts	130,928	370	(541)
Forward contracts	7,129	86	(56)
Total	2,390,600	12,833	(12,508)

At 31 December 2020

	Notional amount	Fair value	
		Derivative financial asset	Derivative financial liability
Swap contracts	2,048,917	22,688	(22,665)
Option contracts	68,787	598	(592)
Forward contracts	9,933	148	(221)
Total	2,127,637	23,434	(23,478)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14 Financial Assets Purchased Under Resale Agreements

(1) Analyzed by type and location of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	1,898	32,981
– Other financial institutions	29,647	24,083
Interest accrued	4	3
Total	31,549	57,067
Less: Allowance for ECLs	(0)	(0)
Carrying amount	31,549	57,067

(2) Analyzed by type of collateral

	30 June 2021	31 December 2020
Bills	20,704	5,225
Bonds		
– Financial bonds	10,121	25,685
– Government bonds	720	26,154
Interest accrued	4	3
Total	31,549	57,067
Less: Allowance for ECLs	(0)	(0)
Carrying amount	31,549	57,067

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers

	30 June 2021	31 December 2020
Loans and advances to customers measured at AC	1,025,635	965,235
Loans and advances to customers measured at FVOCI	212,448	200,640
Total	1,238,083	1,165,875

(1) Analyzed by classification and nature

	30 June 2021	31 December 2020
Loans and advances to customers measured at AC		
Corporate loans and advances		
– Corporate loans	672,983	649,296
– Trade finance	17,410	11,066
Corporate loans and advances	690,393	660,362
Personal loans and advances		
– Personal business loans	161,514	151,294
– Consumer loans	115,134	106,153
– Residential mortgage loans	89,213	75,661
Personal loans and advances	365,861	333,108
Loans and advances to customers measured at FVOCI		
Corporate loans and advances		
– Trade finance	139,297	127,704
– Discounted bills	73,028	73,088
Subtotal	1,268,579	1,194,262
Fair value changes	123	(152)
Interest accrued	3,435	3,588
Gross amount	1,272,137	1,197,698
Less: Allowance for ECLs (Note III. 23)	(34,054)	(31,823)
Carrying amount	1,238,083	1,165,875

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers *(Continued)*

(2) Analyzed by type of collateral

	30 June 2021		31 December 2020	
	Amount	Proportion	Amount	Proportion
Unsecured loans	326,121	25.71%	297,201	24.89%
Guaranteed loans	179,319	14.14%	177,085	14.83%
Collateralized loans				
– Mortgage loans	566,994	44.69%	531,033	44.47%
– Pledged loans	123,117	9.70%	115,855	9.70%
Discounted bills	73,028	5.76%	73,088	6.11%
Subtotal	1,268,579	100.00%	1,194,262	100.00%
Fair value changes	123		(152)	
Interest accrued	3,435		3,588	
Gross amount	1,272,137		1,197,698	
Less: Allowance for ECLs (Note III. 23)	(34,054)		(31,823)	
Carrying amount	1,238,083		1,165,875	

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers (Continued)

(3) Overdue loans and advances to customers analyzed by type of collateral and overdue period

	30 June 2021				Total
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	
Unsecured loans	2,361	1,217	283	6	3,867
Guaranteed loans	2,160	7,468	2,379	58	12,065
Collateralized loans					
– Mortgage loans	1,435	3,485	1,254	107	6,281
– Pledged loans	275	280	445	2	1,002
Total	6,231	12,450	4,361	173	23,215

	31 December 2020				Total
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	
Unsecured loans	892	1,608	123	24	2,647
Guaranteed loans	2,945	5,138	1,704	42	9,829
Collateralized loans					
– Mortgage loans	2,482	2,934	1,388	75	6,879
– Pledged loans	290	506	1,505	3	2,304
Total	6,609	10,186	4,720	144	21,659

The Group classifies loans and advances to customers with principal or interest overdue 1 day and above as overdue loans and advances to customers.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers (Continued)

(4) Analyzed by assessment of allowance for ECLs

(a) Allowance for ECLs of loans and advances to customers measured at AC

	30 June 2021			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers measured at AC				
– Corporate loans and advances	655,518	17,561	17,314	690,393
– Personal loans and advances	360,824	2,111	2,926	365,861
Interest accrued	3,370	65	–	3,435
Total	1,019,712	19,737	20,240	1,059,689
Less: Allowance for ECLs (Note III. 23)	(14,857)	(5,404)	(13,793)	(34,054)
Carrying amount	1,004,855	14,333	6,447	1,025,635

	31 December 2020			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers measured at AC				
– Corporate loans and advances	625,960	18,083	16,319	660,362
– Personal loans and advances	328,750	1,369	2,989	333,108
Interest accrued	3,517	71	–	3,588
Total	958,227	19,523	19,308	997,058
Less: Allowance for ECLs (Note III. 23)	(16,381)	(4,136)	(11,306)	(31,823)
Carrying amount	941,846	15,387	8,002	965,235

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers (Continued)

(4) Analyzed by assessment of allowance for ECLs (Continued)

(b) Allowance for ECLs of loans and advances to customers measured at FVOCI

	30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Trade finance	139,018	279	–	139,297
– Discounted bills	73,015	–	13	73,028
Fair value changes	124	(1)	–	123
Total	212,157	278	13	212,448
Less: Allowance for ECLs (Note III. 23)	(421)	(11)	(11)	(443)

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Trade finance	127,704	–	–	127,704
– Discounted bills	73,069	–	19	73,088
Fair value changes	(152)	–	–	(152)
Total	200,621	–	19	200,640
Less: Allowance for ECLs (Note III. 23)	(726)	–	(10)	(736)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers (Continued)

(5) Movements of the allowance for ECLs of loans and advances to customers

(a) Movements of the allowance for ECLs of loans and advances to customers measured at AC

	For the six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	16,381	4,136	11,306	31,823
Transfer:				
– to Stage 1	27	(12)	(15)	–
– to Stage 2	(929)	945	(16)	–
– to Stage 3	(149)	(523)	672	–
(Reversal)/Charge	(453)	865	7,046	7,458
Write-off and transfer out	–	–	(5,608)	(5,608)
Recoveries of loans and advances previously written off	–	–	522	522
Other movements	(20)	(7)	(114)	(141)
Balance at 30 June 2021	14,857	5,404	13,793	34,054
	For the year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	16,373	5,280	9,407	31,060
Transfer:				
– to Stage 1	103	(87)	(16)	–
– to Stage 2	(1,005)	1,050	(45)	–
– to Stage 3	(349)	(1,528)	1,877	–
Charge/(Reversal)	1,275	(575)	8,569	9,269
Write-off and transfer out	–	–	(9,084)	(9,084)
Recoveries of loans and advances previously written off	–	–	704	704
Other movements	(16)	(4)	(106)	(126)
Balance at 31 December 2020	16,381	4,136	11,306	31,823

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

15 Loans and Advances to Customers (Continued)

(5) Movements of the allowance for ECLs of loans and advances to customers (Continued)

(b) Movements of the allowance for ECLs on loans and advances to customers measured at FVOCI

	For the six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	726	–	10	736
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	(7)	7	–	–
– to Stage 3	–	–	–	–
(Reversal)/Charge	(298)	4	7	(287)
Write-off	–	–	(6)	(6)
Balance at 30 June 2021	421	11	11	443

	For the year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	135	–	43	178
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(0)	–	0	–
Charge	591	–	17	608
Write-off	–	–	(50)	(50)
Balance at 31 December 2020	726	–	10	736

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment

	Note	30 June 2021	31 December 2020
Financial investments measured at FVTPL	16.1	151,857	129,269
Financial investments measured at AC	16.2	353,732	336,109
Financial investments measured at FVOCI	16.3	70,589	63,007
Total		576,178	528,385

16.1 Financial investments measured at FVTPL

	30 June 2021	31 December 2020
Fund investments	80,337	82,673
Bond investments		
– Financial bonds	12,049	10,686
– Government bonds	10,023	1,723
– Interbank certificates of deposit	2,179	–
– Other bonds and asset-backed securities (“ABS”)	44,236	30,651
Trust schemes and asset management plans	1,064	1,629
Equity investments	1,969	1,907
Total	151,857	129,269

Analyzed by listing location:

	30 June 2021	31 December 2020
Fund investments		
– Listed outside Hong Kong	80,337	82,673
Bond investments and ABS		
– Listed in Hong Kong	18,824	18,068
– Listed outside Hong Kong	49,663	24,992
Trust schemes and asset management plans		
– Unlisted	1,064	1,629
Equity investments		
– Listed outside Hong Kong	501	433
– Unlisted	1,468	1,474
Total	151,857	129,269

Bonds traded on the Mainland interbank bond market are included in the outside Hong Kong listed category.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment (Continued)

16.1 Financial investments measured at FVTPL (Continued)

Analyzed by type of issuers:

	30 June 2021	31 December 2020
Mainland China issuers		
– Banking and other financial institutions	110,917	91,923
– Corporate entities	17,976	24,310
– Government	9,313	1,723
Issuers outside Mainland China		
– Corporate entities	7,542	6,741
– Banking and other financial institutions	5,399	4,572
– Government	710	–
Total	151,857	129,269

16.2 Financial investments measured at AC

	30 June 2021	31 December 2020
Bond investments		
– Government bonds	122,120	117,777
– Financial bonds	84,174	70,325
– Corporate bonds and other bonds	86,245	81,666
Trust schemes and asset management plans	67,762	73,870
Interest accrued	6,245	6,002
Total	366,546	349,640
Less: Allowance for ECLs (Note III. 23)	(12,814)	(13,531)
Carrying amount	353,732	336,109

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

Analyzed by listing location:

	30 June 2021	31 December 2020
Bond investments		
– Listed in Hong Kong	594	–
– Listed outside Hong Kong	207,253	189,653
– Unlisted	84,692	80,115
Trust schemes and asset management plans		
– Unlisted	67,762	73,870
Interest accrued	6,245	6,002
Total	366,546	349,640

Analyzed by type of issuers:

	30 June 2021	31 December 2020
Mainland China issuers		
– Banking and other financial institutions	151,342	144,369
– Government	122,120	117,777
– Corporate entities	86,245	81,492
Issuers outside Mainland China		
– Banking and other financial institutions	594	–
Interest accrued	6,245	6,002
Total	366,546	349,640

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment (Continued)

16.2 Financial investments measured at AC (Continued)

The gross amount and allowance for ECLs of financial investments measured at AC are analyzed as follows:

	30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	343,009	5,612	11,680	360,301
Interest accrued	6,153	92	–	6,245
Total	349,162	5,704	11,680	366,546
Less: Allowance for ECLs (Note III. 23)	(2,194)	(2,006)	(8,614)	(12,814)
Carrying amount	346,968	3,698	3,066	353,732

	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	324,183	6,977	12,478	343,638
Interest accrued	5,934	68	–	6,002
Total	330,117	7,045	12,478	349,640
Less: Allowance for ECLs (Note III. 23)	(2,623)	(1,878)	(9,030)	(13,531)
Carrying amount	327,494	5,167	3,448	336,109

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment (Continued)

16.2 Financial investments measured at AC (Continued)

Movement of allowance for ECLs of financial investments measured at AC

	For the six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	2,623	1,878	9,030	13,531
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	(7)	7	–	–
– to Stage 3	(1)	(381)	382	–
(Reversal)/Charge	(421)	502	3,233	3,314
Write-off	–	–	(4,490)	(4,490)
Recoveries of financial investments previously written off	–	–	459	459
Balance at 30 June 2021	2,194	2,006	8,614	12,814

	For the year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	2,200	2,718	8,248	13,166
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	(46)	46	–	–
– to Stage 3	(17)	(957)	974	–
Charge	486	71	8,668	9,225
Write-off	–	–	(9,085)	(9,085)
Recoveries of financial investments previously written off	–	–	225	225
Balance at 31 December 2020	2,623	1,878	9,030	13,531

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment (Continued)

16.3 Financial investments measured at FVOCI

	30 June 2021	31 December 2020
Bond investments:		
– Government bonds	40,609	39,149
– Financial bonds	18,747	17,784
– Interbank certificates of deposit	379	776
– Other bonds and ABS	3,191	2,853
Other debt instruments	5,829	467
Interest accrued	600	984
Subtotal	69,355	62,013
Financial investments designated to be measured at FVOCI		
Equity investments	1,234	994
Total	70,589	63,007

Analyzed by listing location:

	30 June 2021	31 December 2020
Bond investment and other debt instruments:		
– Listed in Hong Kong	818	1,513
– Listed outside Hong Kong	62,108	59,049
– Unlisted	5,829	467
Equity investments		
– Unlisted	1,234	994
Interest accrued	600	984
Total	70,589	63,007

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment *(Continued)*

16.3 Financial investments measured at FVOCI *(Continued)*

Analyzed by type of issuers:

	30 June 2021	31 December 2020
Mainland China issuers:		
– Government	40,154	38,259
– Banking and other financial institutions	12,588	11,049
– Corporate entities	6,300	995
Issuers outside Mainland China:		
– Government	455	890
– Banking and other financial institutions	6,991	7,513
– Corporate entities	2,267	2,323
Interest accrued	600	984
Subtotal	69,355	62,013
Equity investments	1,234	994
Total	70,589	63,007

Certain non-trading equity investments are designated by the Group as financial investments measured at FVOCI. During the reporting period, the Group has not recognized dividend income on such equity investments.

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 Financial Investment (Continued)

16.3 Financial investments measured at FVOCI (Continued)

Movement of allowance for ECLs of debt instruments measured at FVOCI

	For the six months ended 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	26	–	19	45
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(0)	–	0	–
(Reversal)/Charge	(4)	–	127	123
Balance at 30 June 2021	22	–	146	168

	For the year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	198	–	8	206
Transfer:				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(0)	–	0	–
(Reversal)/Charge	(172)	–	11	(161)
Balance at 31 December 2020	26	–	19	45

17 Investment in Subsidiaries

The Bank

	30 June 2021	31 December 2020
Zheyin Financial Leasing	1,530	1,530

For details of subsidiaries, please refer to Note IV. 1.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18 Fixed Assets

	Note	30 June 2021	31 December 2020
Fixed assets	(1)	11,828	11,732
Construction in progress	(2)	1,493	1,742
Total		13,321	13,474

(1) Fixed assets

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets leased out under operating leases	Total
Cost					
At 1 January 2021	11,360	1,796	160	1,045	14,361
Additions	36	56	4	–	96
Transfers from construction in progress	407	–	–	–	407
Disposals	(1)	(17)	(4)	–	(22)
At 30 June 2021	11,802	1,835	160	1,045	14,842
Less: Accumulated depreciation					
At 1 January 2021	(1,349)	(1,040)	(116)	(124)	(2,629)
Charge	(231)	(135)	(9)	(30)	(405)
Disposals	–	16	4	–	20
At 30 June 2021	(1,580)	(1,159)	(121)	(154)	(3,014)
Carrying amounts					
Balance at 30 June 2021	10,222	676	39	891	11,828
Balance at 1 January 2021	10,011	756	44	921	11,732

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18 Fixed Assets (Continued)

(1) Fixed assets (Continued)

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets leased out under operating leases	Total
Cost					
At 1 January 2020	8,985	1,752	155	1,057	11,949
Additions	39	196	14	–	249
Transfers from construction in progress	2,360	–	–	–	2,360
Disposals	(24)	(152)	(9)	(12)	(197)
At 31 December 2020	11,360	1,796	160	1,045	14,361
Less: Accumulated depreciation					
At 1 January 2020	(975)	(916)	(101)	(65)	(2,057)
Charge	(377)	(269)	(22)	(61)	(729)
Disposals	3	145	7	2	157
At 31 December 2020	(1,349)	(1,040)	(116)	(124)	(2,629)
Carrying amounts					
Balance at 31 December 2020	10,011	756	44	921	11,732
Balance at 1 January 2020	8,010	836	54	992	9,892

At the balance sheet date, there is no significant idle assets held by the Group.

At 30 June 2021, the Group's properties and buildings with a net value of RMB843 million (31 December 2020: RMB904 million) were still in progress of obtaining the legal titles.

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18 Fixed Assets *(Continued)*

(2) Construction in progress

	Construction in progress
Balance at 1 January 2020	2,781
Additions	1,417
Transfers to fixed assets	(2,360)
Transfers to long-term prepaid expenses	(96)
Balance at 31 December 2020	1,742
Additions	185
Transfer to fixed assets	(407)
Transfer to long-term prepaid expenses	(27)
Balance at 30 June 2021	1,493

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(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

19 Right-of-use Assets

	Land use rights	Properties and buildings	Others	Total
Cost				
At 1 January 2020	1,950	3,794	28	5,772
Additions	–	492	16	508
Disposals	–	(116)	–	(116)
At 31 December 2020	1,950	4,170	44	6,164
Additions	–	336	4	340
Disposals	–	(58)	(0)	(58)
At 30 June 2021	1,950	4,448	48	6,446
Less: Accumulated depreciation				
At 1 January 2020	(125)	(562)	(4)	(691)
Charge	(49)	(617)	(6)	(672)
Reductions	–	25	–	25
At 31 December 2020	(174)	(1,154)	(10)	(1,338)
Charge	(25)	(306)	(4)	(335)
Reductions	–	16	0	16
At 30 June 2021	(199)	(1,444)	(14)	(1,657)
Carrying amounts				
Balance at 30 June 2021	1,751	3,004	34	4,789
Balance at 1 January 2021	1,776	3,016	34	4,826

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

20 Intangible Assets

	Computer software
Cost	
At 1 January 2020	523
Additions	73
At 31 December 2020	596
Additions	19
At 30 June 2021	615
Less: Accumulated amortization	
At 1 January 2020	(255)
Charge	(47)
At 31 December 2020	(302)
Charge	(24)
At 30 June 2021	(326)
Carrying amounts	
Balance at 30 June 2021	289
Balance at 1 January 2021	294

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21 Deferred Tax Assets and Liabilities

(1) Deferred tax assets and liabilities before offsetting

	30 June 2021		31 December 2020	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Allowance for ECLs and provisions	61,792	15,448	54,344	13,586
Employee benefits payable	3,639	910	3,414	853
Unrealized losses of financial instruments measured at FVTPL and precious metals	738	185	223	56
Unrealized losses of financial investments measured at FVOCI	131	33	542	136
Others	719	179	627	156
Deferred tax assets before offsetting	67,019	16,755	59,150	14,787
Depreciation of fixed assets	(449)	(112)	(478)	(119)
Unrealized gains of derivative financial instruments	(650)	(163)	(193)	(48)
Deferred tax liabilities before offsetting	(1,099)	(275)	(671)	(167)
Net amount after offsetting	65,920	16,480	58,479	14,620

(2) Changes in deferred tax

	30 June 2021	31 December 2020
Balance at the beginning of the period/year	14,620	11,831
Charge to profit or loss for the period/year	1,921	2,543
Charge to other comprehensive income	(61)	246
Balance at the end of the period/year	16,480	14,620

At the balance sheet date, the Group has no significant unrecognized deferred tax assets and liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

22 Other Assets

	Note	30 June 2021	31 December 2020
Finance lease receivables	(1)	34,309	30,387
Continuing involvement assets		978	978
Repossessed assets		975	731
Settlement and cleaning accounts		930	1,966
Prepayment of land and building and deposit		835	683
Commission receivables		802	938
Long-term prepaid expenses		702	739
Interest receivable		475	476
Guaranteed deposits		422	343
Deductible input value added tax ("VAT")		161	588
Others		1,194	1,038
Total		41,783	38,867

(1) Finance lease receivables

	30 June 2021	31 December 2020
Finance lease receivables	39,275	35,209
Less: Unrecognized finance income	(3,749)	(3,602)
Subtotal	35,526	31,607
Less: Allowance for ECLs (Note III.23)	(1,217)	(1,220)
Carrying amount	34,309	30,387

The undiscounted finance lease receivables to be received by the Group in each of the five consecutive accounting years after the balance sheet date are as follows:

	30 June 2021		31 December 2020	
	Amount	Proportion	Amount	Proportion
Within 1 year	17,401	44.31%	12,927	36.72%
1- 2 years	11,415	29.06%	9,860	28.00%
2- 3 years	6,000	15.28%	6,652	18.89%
3- 4 years	2,118	5.39%	2,721	7.73%
4- 5 years	761	1.94%	1,173	3.33%
Above 5 years	1,580	4.02%	1,876	5.33%
Total	39,275	100.00%	35,209	100.00%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

23 Allowance for ECLS

	Note	1 January 2021	(Reverse)/ Charge for the period	Write- off and transfer out for the period	Others (i)	30 June 2021
Deposits with banks and other financial institutions	III. 11	349	(4)	–	–	345
Placements with banks and other financial institutions	III. 12	151	26	(174)	–	3
Loans and advances to customers	III. 15					
– measured at AC		31,823	7,458	(5,608)	381	34,054
– measured at FVOCI		736	(287)	(6)	–	443
Financial investment	III. 16					
– measured at AC		13,531	3,314	(4,490)	459	12,814
– measured at FVOCI		45	123	–	–	168
Finance lease receivables	III. 22(1)	1,220	211	(214)	–	1,217
Other assets		95	180	(49)	7	233
Off-balance sheet items	III. 31	5,686	(187)	–	(3)	5,496
Total		53,636	10,834	(10,541)	844	54,773

	Note	1 January 2020	Charge/ (Reverse) for the year	Write- off and transfer out for the year	Others (i)	31 December 2020
Deposits with banks and other financial institutions	III. 11	54	295	–	–	349
Placements with banks and other financial institutions	III. 12	32	119	–	–	151
Loans and advances to customers	III. 15					
– measured at AC		31,060	9,269	(9,084)	578	31,823
– measured at FVOCI		178	608	(50)	–	736
Financial investment	III. 16					
– measured at AC		13,166	9,225	(9,085)	225	13,531
– measured at FVOCI		206	(161)	–	–	45
Finance lease receivables	III. 22(1)	794	583	(157)	–	1,220
Other assets		74	78	(69)	12	95
Off-balance sheet items	III. 31	5,544	150	–	(8)	5,686
Total		51,108	20,166	(18,445)	807	53,636

(i) Others include the recoveries of financial assets previously written off and effect of changes in exchange rates.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

24 Deposits from Banks and Other Financial Institutions

Analyzed by type and geographical location of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	94,190	79,878
– Other financial institutions	66,559	66,119
Outside Mainland China		
– Other financial institutions	2,704	1,072
Interest accrued	1,347	1,204
Total	164,800	148,273

25 Placements from Banks and Other Financial Institutions

Analyzed by type and geographical location of counterparties

	30 June 2021	31 December 2020
In Mainland China		
– Banks	34,234	43,640
– Other financial institutions	3,007	220
Outside Mainland China		
– Banks	4,256	4,485
Interest accrued	294	198
Total	41,791	48,543

26 Financial Liabilities at Fair Value through Profit or Loss

	30 June 2021	31 December 2020
Financial liabilities related to precious metals (i)	12,710	9,231
Short positions of trading bonds	1,318	–
Total	14,028	9,231

- (i) According to the risk management strategy, the Group matches the financial liabilities related to precious metals with precious metals or derivatives, and therefore recognized them as financial liabilities measured at fair value through profit and loss.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

27 Financial Assets Sold Under Repurchase Agreements

Analyzed by type of collateral

	30 June 2021	31 December 2020
Bonds sold under repurchase agreements	31,035	900
Bills sold under repurchase agreements	3,821	–
Interest accrued	2	0
Total	34,858	900

28 Customer Deposits

	30 June 2021	31 December 2020
Demand deposits		
– Corporate customers	442,572	417,686
– Personal customers	71,794	45,164
Subtotal	514,366	462,850
Time deposits		
– Corporate customers	645,001	647,265
– Personal customers	187,442	207,880
Subtotal	832,443	855,145
Other deposits	5,560	1,941
Interest accrued	14,918	15,700
Total	1,367,287	1,335,636

Pledged deposits are listed as follows:

	30 June 2021	31 December 2020
Bank acceptances deposits	7,288	9,508
Letters of credit and guarantee deposits	9,670	13,343
Other pledged deposits	120,624	105,173
Total	137,582	128,024

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

29 Employee Benefits Payable

	1 January 2021	Accrual during the period	Payments during the period	30 June 2021
Salaries, bonuses and allowances	4,789	3,500	(4,117)	4,172
Staff welfare	-	172	(172)	-
Housing fund	-	173	(173)	-
Social insurance				
- Medical insurance	-	99	(99)	-
- Work-related injury insurance	-	2	(2)	-
- Maternity insurance	-	4	(4)	-
Commercial insurance	-	2	(2)	-
Labour union fee and staff education fee	84	76	(99)	61
Post employment benefits	-	169	(169)	-
Unemployment insurance	-	6	(6)	-
Annuity	-	243	(243)	-
Total	4,873	4,446	(5,086)	4,233

	1 January 2020	Accrual during the year	Payments during the year	31 December 2020
Salaries, bonuses and allowances	4,355	6,524	(6,090)	4,789
Staff welfare	-	413	(413)	-
Housing fund	-	334	(334)	-
Social insurance				
- Medical insurance	-	156	(156)	-
- Work-related injury insurance	-	1	(1)	-
- Maternity insurance	-	8	(8)	-
Commercial insurance	-	53	(53)	-
Labour union fee and staff education fee	84	149	(149)	84
Post employment benefits	-	66	(66)	-
Unemployment insurance	-	2	(2)	-
Annuity	-	491	(491)	-
Total	4,439	8,197	(7,763)	4,873

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

30 Taxes Payable

	30 June 2021	31 December 2020
Income tax payable	4,375	4,103
Value added tax (“VAT”) payable	1,308	332
Others	313	228
Total	5,996	4,663

31 Provisions

	30 June 2021	31 December 2020
ECL allowance for off-balance sheet items (Note III.23)	5,496	5,686

32 Debt Securities Issued

	Note	30 June 2021	31 December 2020
Fixed-rate financial bonds – 2021	(1)	–	10,000
Fixed-rate offering – tier 2 capital bond – 2026	(2)	10,000	10,000
Fixed-rate offering – tier 2 capital bond – 2028	(3)	15,000	15,000
Fixed-rate financial bonds – 2021	(4)	20,000	20,000
Fixed-rate green financial bonds – 2022	(5)	5,000	5,000
Fixed-rate small and micro businesses financial bonds – 2023	(6)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2023	(7)	15,000	15,000
Fixed-rate USD medium term note – 2024	(8)	3,230	–
Certificates of deposit	(9)	388	392
Interbank certificates of deposit	(10)	211,959	149,675
Subtotal		290,577	235,067
Interest accrued		1,332	1,615
Total		291,909	236,682

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

32 Debt Securities Issued *(Continued)*

- (1) Fixed-rate financial bond of RMB10 billion was issued on 24 February 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity. The bond matured on 25 February 2021.
- (2) Fixed-rate offering – tier 2 capital bond of RMB10 billion was issued on 14 September 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem the bond at the end of year 2021.
- (3) Fixed-rate offering – tier 2 capital bond of RMB15 billion was issued on 13 June 2018, with a maturity of 10 years and a fixed coupon rate of 4.80% per annum payable annually. The Bank has an option to redeem the bond at the end of year 2023.
- (4) Fixed-rate financial bond of RMB20 billion was issued on 27 August 2018, with a maturity of 3 years and a fixed coupon rate of 4.39% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (5) Fixed-rate green financial bond of RMB5 billion was issued on 16 September 2019, with a maturity of 3 years and a fixed coupon rate of 3.42%. The Bank has no option to redeem the bond before maturity.
- (6) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 3 March 2020, with a maturity of 3 years and a fixed coupon rate of 2.95%. The Bank has no option to redeem the bond before maturity.
- (7) Fixed-rate small and micro businesses financial bonds of RMB15 billion was issued on 8 April 2020, with a maturity of 3 years and a fixed coupon rate of 2.50%. The Bank has no option to redeem the bond before maturity.
- (8) Fixed-rate USD medium term note of USD0.5 billion (total value amounted RMB3.23 billion) was issued by the Hong Kong Branch on 9 March 2021, with a maturity of 3 years and a fixed coupon rate of 1.10%.
- (9) There was one outstanding certificates of deposit issued by the Hong Kong Branch with a total face value of RMB388 million at 30 June 2021. The certificate of deposit was issued in US dollar with maturity less than one year and annual interest rate of 0.20%. (There was one outstanding certificates of deposit issued by the Hong Kong Branch with a total face value of RMB392 million at 31 December 2020. The certificate of deposit was issued in US dollar with maturity less than one year and annual interest rate of 0.95%.)
- (10) At 30 June 2021, the Bank has issued a total of 120 inter-bank certificates of deposit in the inter-bank market but not yet due, with maximum maturity of one year. (At 31 December 2020, the Bank issued a total of 86 inter-bank certificates of deposit in the inter-bank market but not yet due, with maximum maturity of one year.)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Continued)

33 Other Liabilities

	30 June 2021	31 December 2020
Dividends payable	3,759	261
Deposits related to finance lease	2,621	2,285
Settlement accounts	2,942	3,506
Bills payable	1,226	1,050
Continuing involvement liabilities	978	978
Deferred income	594	582
Others	1,600	1,306
Total	13,720	9,968

34 Share Capital

	30 June 2021	31 December 2020
Ordinary shares listed in Mainland China (A share)	16,715	16,715
Ordinary shares listed In Hong Kong (H share)	4,554	4,554
Total	21,269	21,269

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Continued)

35 Other Equity Instruments

	30 June 2021	31 December 2020
Offshore preference shares		
Amount of issuance	14,989	14,989
Less: Issuance expense	(31)	(31)
Total	14,958	14,958

(1) List of preference shares issued at the end of the period/year

Equity instruments in issue	Preference shares (Offshore)
Issue date	29 March 2017
Accounting treatment	Equity instrument
Dividend rate	5.45%
Original issuance price per share (USD/share)	20
Number (In millions)	108.75
In original currency (USD in millions)	2,175
In RMB (RMB in millions)	14,989
Issuance fee (RMB in millions)	31
Maturity date	No maturity date
Conversion condition	Mandatory
Conversion status	No conversion during the period

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(Continued)

35 Other Equity Instruments *(Continued)*

(2) Main terms of preference shares

(a) Dividend

The dividend for offshore preference shares is non-cumulative. The offshore preference shares dividend will be calculated on following dividend yields:

- from the issuance date (including the issuance date) to the first reset date (excluding the reset date), at the rate of 5.45% per annum; and
- thereafter, for the period from the first reset date and the period from each reset date (including the former reset date) to the next coming reset date (excluding the latter reset date), at the relevant reset dividend rate.

(b) Conditions to distribution of dividends

On the premise of ensuring that the Bank's capital adequacy ratio meets regulatory requirements, the Bank has a distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and statutory general reserve, and the Bank's board of directors has announced the distribution in accordance with the Bank's articles of association. In the case of the dividend resolution, the Bank may distribute such dividends to shareholders of overseas preference shares.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in total or in partial) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness which are due.

Under the circumstances where the Bank cancels a dividend in total or in partial, in accordance with the shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

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(Continued)

35 Other Equity Instruments *(Continued)*

(2) Main terms of preference shares *(Continued)*

(c) Conversion

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- Cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- On the conversion date, all or some of the offshore preference shares shall be irrevocably and compulsorily converted into H shares with equal number. The converted H shares number is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7544) divided by the effective conversion price, rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares. Any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The “trigger event” refers to an additional tier 1 capital instrument trigger event or a non-viability trigger event, as the case may be. The “additional tier 1 capital instrument trigger event” refers to the occasion where the Bank’s core tier 1 capital adequacy ratio of the Bank has fallen to 5.125% or below. The “non-viability trigger event” is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

(d) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (1) junior to holders of all liabilities of the Bank including subordinated liabilities and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (2) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (3) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be pari passu with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

35 Other Equity Instruments (Continued)

(2) Main terms of preference shares (Continued)

(e) Redemption

The Bank may, subject to obtaining the CBIRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from the immediately preceding dividend payment date (inclusive) to the date scheduled for redemption (exclusive).

(3) Information related to the holders of the equity instrument

	30 June 2021	31 December 2020
Equity attributable to:		
– Ordinary shareholders of the Bank	118,066	115,554
– Other equity holders of the Bank	14,958	14,958
Non-controlling interest:		
– Ordinary shareholders of non-controlling interest	2,093	2,031

(4) Changes in issued preference shares

	31 December 2020	Increase during the period	Decrease during the period	30 June 2021
Number of shares (In millions)	108.75	–	–	108.75
In original currency (USD in millions)	2,175	–	–	2,175
Total in RMB (RMB in millions)	14,958	–	–	14,958

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36 Capital Reserve

	1 January 2021	Additions during the period	Transfers during the period	30 June 2021
Share premium	32,018	–	–	32,018

	1 January 2020	Additions during the year	Transfers during the year	31 December 2020
Share premium	32,018	–	–	32,018

37 Other Comprehensive Income

	Other comprehensive income in the consolidated statement of financial position			Other comprehensive income in the consolidated statement of comprehensive income for the six months ended 30 June 2021			
	1 January 2021	Net-of-tax amount attributable to shareholders of the Bank	30 June 2021	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Deferred tax	Net-of-tax amount attributable to shareholders of the Bank
Items that may not be reclassified to profit or loss							
– Gains or losses arising from changes in fair value of financial investments designated to be measured at FVOCI	165	(8)	157	(10)	–	2	(8)
Items that may be reclassified to profit or loss							
– Gains or losses arising from changes in fair value of financial assets measured at FVOCI	(572)	317	(255)	908	(486)	(105)	317
– Allowance for ECLs of financial assets measured at FVOCI	586	(128)	458	(170)	–	42	(128)
– Translation differences arising from translation of foreign currency financial statements	82	(238)	(156)	(238)	–	–	(238)
Total	261	(57)	204	490	(486)	(61)	(57)

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III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

37 Other Comprehensive Income (Continued)

	Other comprehensive income in the consolidated statement of financial position			Other comprehensive income in the consolidated statement of comprehensive income for the year ended 31 December 2020			
	1 January 2020	Net-of-tax amount attributable to shareholders of the Bank	31 December 2020	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Deferred tax	Net-of-tax amount attributable to shareholders of the Bank
Items that may not be reclassified to profit or loss							
- Gains or losses arising from changes in fair value of financial investments designated to be measured at FVOCI	124	41	165	54	-	(13)	41
Items that may be reclassified to profit or loss							
- Gains or losses arising from changes in fair value of financial assets measured at FVOCI	505	(1,077)	(572)	106	(1,541)	358	(1,077)
- Allowance for ECLs of financial assets measured at FVOCI	288	298	586	397	-	(99)	298
- Translation differences arising from translation of foreign currency financial statements	1,351	(1,269)	82	(1,269)	-	-	(1,269)
Total	2,268	(2,007)	261	(712)	(1,541)	246	(2,007)

38 Surplus Reserve

	Statutory surplus reserve
Balance at 1 January 2020	7,294
Appropriation	1,205
Balance at 31 December 2020	8,499
Appropriation	-
Balance at 30 June 2021	8,499

Pursuant to the Company Law of the PRC and the Articles, the Bank is required to transfer 10% of its net profit to the statutory surplus reserve.

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(Continued)

39 Statutory General Reserve

	Statutory general reserve
Balance at 1 January 2020	19,454
Appropriation	1,664
Balance at 31 December 2020	21,118
Appropriation	2,562
Balance at 30 June 2021	23,680

Pursuant to the *Administrative Measures on Accrual of Provisions by Financial Enterprises* (Caijin [2012] No. 20), the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks, which should not be less than 1.5% of the year-end balance of its risk assets.

40 Dividends

(a) *Approved and distributed dividends of ordinary shareholders*

As approved by shareholders in 2020 Annual General Meeting on 30 June 2021, based on the Bank's total ordinary shares amounting to 21,269 million shares on the record date of profit distribution, the Bank declared a cash dividend of RMB1.61 for each 10 ordinary shares, with total amount of RMB3,424 million.

As approved by shareholders in 2019 Annual General Meeting on 16 June 2020, based on the Bank's total ordinary shares amounting to 21,269 million shares on the record date of profit distribution, the Bank declared a cash dividend of RMB2.40 for each 10 ordinary shares, with total amount of RMB5,104 million.

(b) *Approved and distributed dividends of offshore preference shareholders*

On 5 January 2021, the board of directors approved to distribute dividends with a total amount of USD132 million (tax inclusive) to offshore preference shareholders. It is calculated at a dividend rate of 5.45% (after tax), equivalent to RMB858 million. The dividend issuance date was 29 March 2021.

On 11 March 2020, the board of directors approved to distribute dividends with a total amount of USD132 million (tax inclusive) to offshore preference shareholders. It is calculated at a dividend rate of 5.45% (after tax), equivalent to RMB932 million. The dividend issuance date was 30 March 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

41 Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	30 June 2021	30 June 2020
Cash	503	535
Surplus deposit reserve with the central bank	9,699	29,113
Deposits with banks and other financial institutions with original maturities of less than three months	35,197	26,209
Placements with banks and other financial institutions with original maturities of less than three months	43,821	1,273
Financial assets purchased under resale agreements with original maturities of less than three months	31,447	18,432
Total	120,667	75,562

42 Transfer of Financial Assets

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

(1) Securitization transactions

The Group transfers credit assets to structured entities which issue asset-backed securities to investors. The Group would determine whether or not to derecognize the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets or if cease to retain control over the asset.

At 30 June 2021, the gross amount of the Group's transferred credit assets under securitization transactions was RMB4,713 million (31 December 2020: RMB5,535 million). Among the transferred credit assets, the Group determined that it had continuing involvement of RMB4,304 million at 30 June 2021 (31 December 2020: RMB5,375 million). The Group recognized the same amount of continuing involvement assets and liabilities of RMB978 million at 30 June 2021 (31 December 2020: RMB978 million) arising from such continuing involvement.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

III NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

42 Transfer of Financial Assets *(Continued)*

(2) Loan transfers

For the six months ended 30 June 2021, the Group transferred non-performing loans amounting to RMB720 million (For the year ended 31 December 2020: RMB5,057 million) to the asset management companies. As the Group transferred substantially all the risks and rewards of these non-performing loans, the Group derecognized these non-performing loans.

(3) Securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but have obligations to return the securities at the maturity of the contracts. The Group determined that it retained substantially all the risks and rewards of these securities and therefore had not derecognized them. At 30 June 2021, the carrying amount of debt securities lent to counterparties was RMB18,480 million (31 December 2020: RMB7,290 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES

1 The equity in subsidiary

At the balance sheet date, details of the subsidiary included in the consolidated financial statements are as follows:

Name	Place of incorporation	Registered address	Business nature	Registered capital	Proportion of equity/ voting rights
Zhejiang Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Financial institution	RMB3 billion	51%

2 Interests in the unconsolidated structured entities

The Group manages or invests in multiple structured entities, which include investment funds, trust schemes, asset management plans and asset-backed securities. To determine whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities. If the Group has power over such structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements. If the Group does not have substantive rights to the primary activities of the structured entities, or the Group only has insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES *(Continued)*

2 Interests in the unconsolidated structured entities *(Continued)*

(1) Basic information of unconsolidated structured entities directly held by the Group

The unconsolidated structured entities directly held by the Group include investment funds, trust schemes and asset management plans and asset-backed securities initiated and established by third-party institutions directly held by the Group.

Considering the relevant agreements and the Group's investments in the structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

The following table sets out an analysis of the line items in the consolidated statement of financial position in which assets were recognized relating to the Group's interests in structured entities sponsored by third party institutions and directly held by the Group:

	30 June 2021			Total
	Financial investments measured at FVTPL	Financial investments measured at AC	Financial investments measured at FVOCI	
Investment funds	80,337	–	–	80,337
Trust schemes and asset management plans	1,064	57,247	–	58,311
Asset-backed securities	21,427	–	454	21,881
Total	102,828	57,247	454	160,529

	31 December 2020			Total
	Financial investments measured at FVTPL	Financial investments measured at AC	Financial investments measured at FVOCI	
Investment funds	82,673	–	–	82,673
Trust schemes and asset management plans	1,629	62,613	–	64,242
Asset-backed securities	3,035	–	–	3,035
Total	87,337	62,613	–	149,950

The maximum exposures to loss in the above unconsolidated structured entities directly held by the Group are the fair value or amortized cost of the assets held by the Group at the balance sheet date.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES *(Continued)*

2 Interests in the unconsolidated structured entities *(Continued)*

(2) Interests in structured entities, of which the Group is the sponsor, but which are not included in the consolidated financial statements

The types of unconsolidated structured entities sponsored by the Group include non-principal-guarantee wealth management products. 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 issue of wealth management products to investors. Interest held by the Group are fees charged by providing management services.

At 30 June 2021, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group was RMB242,559 million (31 December 2020: RMB288,908 million). For the six months ended 30 June 2021, the commission income received by the Group for providing asset management services for such financial products was RMB199 million (For the six months ended 30 June 2020: RMB90 million). At the balance sheet date, the balance of service charges receivable for asset management services of the Group was not material.

V SEGMENT REPORTING

1 Business segment

For management purposes, the Group is organized into different operating segments, namely corporate banking, retail banking and treasury operations, based on internal organizational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and other institutions. The products and services include corporate loans and advances, trade financing, deposit products and various types of corporate intermediary services, etc.

Retail banking

The retail banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans and advances, deposit products, card business and various types of personal intermediary services, etc.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

1 Business segment *(Continued)*

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, as well as financial products and services provided to other financial institutions. The division also manages the liquidity level of the Group, including the issuance of debt securities.

Other business

Other business segments refer to other businesses not included in the above reporting segments and related businesses of the subsidiary.

The accounting policies adopted in the preparation of segment reports are consistent with those adopted in the preparation of the Group's consolidated financial statements.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as internal net interest income/expense. Net interest income and expense relating to third parties are referred to as external net interest income/expense.

Segment revenues, expenses, profits, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, profits, assets and liabilities are included in the internal balances and internal transactions that are offsetted in preparing the financial statements. Segment capital expenditure refers to the total cash outflow of purchasing fixed assets, intangible assets and other long-term assets in the accounting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2021				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	8,875	6,070	4,855	578	20,378
Inter-segment net interest income/(expenses)	2,268	(171)	(2,097)	–	–
Net interest income	11,143	5,899	2,758	578	20,378
Net fee and commission income/(expenses)	1,488	282	229	(2)	1,997
Net trading gains	–	–	2,831	–	2,831
Net gains on financial investments	221	–	320	–	541
Other operating income	–	12	37	152	201
Operating income	12,852	6,193	6,175	728	25,948
Operating expenses	(3,760)	(1,697)	(1,300)	(206)	(6,963)
Expected credit losses	(4,361)	(2,772)	(3,459)	(242)	(10,834)
Total operating expenses	(8,121)	(4,469)	(4,759)	(448)	(17,797)
Profit before taxation	4,731	1,724	1,416	280	8,151
Segment assets	1,002,256	389,589	707,856	38,216	2,137,917
Unallocated assets					16,480
Total assets					2,154,397
Segment liabilities	(1,110,109)	(263,820)	(627,185)	(18,166)	(2,019,280)
Other segment information:					
Credit commitments and financial guarantee	670,995	14,668	–	–	685,663
Depreciation and amortization	454	204	150	19	827
Capital expenditure	169	66	119	6	360

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2020 (Restated)				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	7,574	5,302	5,015	496	18,387
Inter-segment net interest income/(expenses)	4,068	(499)	(3,569)	-	-
Net interest income	11,642	4,803	1,446	496	18,387
Net fee and commission income	2,032	180	318	9	2,539
Net trading gains	-	-	2,355	-	2,355
Net gains on financial investments	410	-	1,255	-	1,665
Other operating income	-	56	32	147	235
Operating income	14,084	5,039	5,406	652	25,181
Operating expenses	(3,561)	(1,423)	(1,116)	(143)	(6,243)
Expected credit losses	(4,373)	(1,578)	(4,870)	(212)	(11,033)
Total operating expenses	(7,934)	(3,001)	(5,986)	(355)	(17,276)
Profit/(losses) before taxation	6,150	2,038	(580)	297	7,905
Segment assets	978,274	310,414	641,627	47,132	1,977,447
Unallocated assets					13,159
Total assets					1,990,606
Segment liabilities	(1,139,696)	(219,765)	(482,349)	(19,875)	(1,861,685)
Other segment information:					
Credit commitments and financial guarantee	613,310	14,678	-	-	627,988
Depreciation and amortization	450	180	143	5	778
Capital expenditure	582	233	185	6	1,006

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

2 Regional division

The Group operates principally in mainland China, and also has a branch in Hong Kong, China. Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

“Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Shaoxing, Zhoushan, Shanghai, Nanjing, Suzhou, Hefei, Jinhua;

“Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;

“Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hong Kong, Fuzhou; and

“Midwestern China” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Guiyang, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha, Hohhot, Nanchang.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

Regional Division

	For the six months ended 30 June 2021					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China	Elimination	Total
External net interest income	12,009	1,780	1,604	4,985	-	20,378
Inter-segment net interest (expenses)/income	(265)	1,179	153	(1,067)	-	-
Net interest income	11,744	2,959	1,757	3,918	-	20,378
Net fee and commission income	675	455	154	713	-	1,997
Net trading gains/(losses)	2,622	106	(7)	110	-	2,831
Net gains on financial investments	368	46	90	37	-	541
Other operating income	134	19	10	38	-	201
Operating income	15,543	3,585	2,004	4,816	-	25,948
Operating expenses	(4,393)	(980)	(518)	(1,072)	-	(6,963)
Expected credit losses	(7,223)	(659)	(1,395)	(1,557)	-	(10,834)
Total operating expenses	(11,616)	(1,639)	(1,913)	(2,629)	-	(17,797)
Profit before taxation	3,927	1,946	91	2,187	-	8,151
Segment assets	1,818,623	305,378	205,620	283,359	(475,063)	2,137,917
Unallocated assets						16,480
Total assets						2,154,397
Segment liabilities	(1,703,865)	(305,557)	(204,749)	(280,172)	475,063	(2,019,280)
Other segment information :						
Credit commitments and financial guarantee	304,542	154,343	55,265	171,513	-	685,663
Depreciation and amortization	445	150	76	156	-	827
Capital expenditure	251	42	28	39	-	360

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

Regional Division (Continued)

	For the six months ended 30 June 2020 (Restated)					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China	Elimination	Total
External net interest income	10,410	2,114	1,054	4,809	-	18,387
Inter-segment net interest (expenses)/income	(371)	1,262	347	(1,238)	-	-
Net interest income	10,039	3,376	1,401	3,571	-	18,387
Net fee and commission income	1,092	576	129	742	-	2,539
Net trading gains	1,477	180	306	392	-	2,355
Net gains on financial investments	1,476	71	36	82	-	1,665
Other operating income	182	15	3	35	-	235
Operating income	14,266	4,218	1,875	4,822	-	25,181
Operating expenses	(3,825)	(933)	(429)	(1,056)	-	(6,243)
Expected credit losses	(7,537)	(1,015)	(1,047)	(1,434)	-	(11,033)
Total operating expenses	(11,362)	(1,948)	(1,476)	(2,490)	-	(17,276)
Profit before taxation	2,904	2,270	399	2,332	-	7,905
Segment assets	1,722,486	321,218	171,303	296,451	(534,011)	1,977,447
Unallocated assets						13,159
Total assets						1,990,606
Segment liabilities	(1,607,484)	(322,236)	(171,428)	(294,548)	534,011	(1,861,685)
Other segment information :						
Credit commitments and financial guarantee	306,093	127,533	45,481	148,881	-	627,988
Depreciation and amortization	445	123	70	140	-	778
Capital expenditure	744	230	14	18	-	1,006

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES

1 Credit commitments and financial guarantee

Bank acceptances refer to the Group's commitment to honor bills issued by customers. Block chain receivables confirmation refer to the Group's commitment to block chain receivables confirmation issued by customers. The Group expects that most of the bank acceptances and block chain receivables confirmation will be settled at the same time as the payment of customers. The Group provides letter of credit and financial guarantee services to guarantee the performance of customers to third parties. The Group's credit commitments include approved loan commitments and undrawn credit card limit.

The contractual amount of credit commitments and financial guarantee are set out below: the amount of bank acceptances, letter of credit and letter of guarantee, block chain receivables confirmation and other financial guarantee contracts disclosed is the maximum potential loss amount that the Group will recognize at the balance sheet date if the counterparties fail to oblige. The disclosed corporate loan commitments amount and undrawn credit line of credit card are the contract amount assumed to be fully issued. The relevant credit line may not be used before maturity. Therefore, the contract amount mentioned below does not represent the expected cash outflow in the future.

	30 June 2021	31 December 2020
Bank acceptances	322,600	348,075
Letters of credit issued	117,082	104,480
Letters of guarantee issued		
– financing letters of guarantee	13,878	14,594
– non-financing letters of guarantee	8,877	9,749
Undrawn credit card facility	14,668	14,537
Corporate loan commitments	1,658	653
Block chain receivables confirmation and other financial guarantee contracts	206,900	190,376
Total	685,663	682,464

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES *(Continued)*

2 Capital commitments

At the balance sheet date, the Group's capital commitments are as follows:

	30 June 2021	31 December 2020
Contracted but not yet incurred	2,426	2,571
Authorized but not contracted	2,588	2,706
Total	5,014	5,277

3 Bond underwriting and redemption commitments

- (1) At 30 June 2021, the Group has outstanding bond underwriting commitment with an amount of RMB1,015 million (31 December 2020: RMB250 million).
- (2) As a member of the saving bonds underwriting syndicate of the Central Government, the Group is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds deducting commissions for early redeemed, plus any interest accrued up to the redemption date. The interest accrued shall be calculated in accordance with the relevant rules of the Ministry of Finance (the "MOF") and the PBOC.

At 30 June 2021, the Group had underwritten bonds with an accumulated amount of RMB1,096 million (31 December 2020: RMB983 million) to the general public, and these government bonds have not yet matured nor been redeemed. The Group expects that the amount of redemption of these government bonds through the Group prior to maturity will not be material.

4 Litigations and arbitrations

At the balance sheet date, the Group was involved in certain legal proceedings in the ordinary course of business. The Group expects that such pending litigations will not materially affect the Group's financial position.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

VII FIDUCIARY BUSINESS

1 Entrusted loan business

The Group enters into entrusted loan agreements with principals and receives fees in return for its services, whereby the principals provide funding through the Group to their targeted third parties, with the help of the Group managing the administration and collection of these entrusted loans. As the Group does not assume the risks and rewards of the entrusted loans, the entrusted loans are recorded as off-balance sheet items at their principal amount.

At the balance sheet dates, the entrusted business assets and liabilities of the Group are as follows:

	30 June 2021	31 December 2020
Entrusted loans	26,482	25,610
Entrusted loan funds	26,482	25,610

2 Wealth management services

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

At balance sheet date, please refer to Note IV. 2 (2) for information about wealth management services.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

VIII COLLATERAL INFORMATION

1 Assets pledged as security

The book value (excluding interest accrued) of the Group's secured liabilities related to the assets as collateral on the balance sheet dates are presented as due to the central bank, financial assets sold under repurchase agreements and customer deposits. These transactions are conducted on the general standard terms of the relevant business.

	30 June 2021	31 December 2020
Due to the central bank	58,975	83,666
Financial assets sold under repurchase agreements	34,856	900
Customer deposits	30,980	42,620
Total	124,811	127,186

(1) Analyzed by collateral type

	30 June 2021	31 December 2020
Bond investments	117,014	123,432
Bills	16,926	14,966
Total	133,940	138,398

In addition, the Group provides collateral for the bonds borrowed through the bond lending business. At 30 June 2021, the assets as collateral under the bond lending business of the Group were RMB1,400 million (At 31 December 2020: Nil).

2 Assets received as collateral

At 30 June 2021, the Group received securities amounting to RMB100 million (At 31 December 2020: RMB200 million) as collateral for financial assets purchased under resale agreements, the Group could sell or repledge the collateral in the absence of default by the owner of the collateral. The Group has an obligation to return the collateral to the owner on the date of resale, at the balance sheet date, none of the collateral is re-sold or re-pledged. Details of collateral related information in the granting of loans and advances to customers and financial investments that are credit-impaired could be referred to in Note X. 1(10).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1 Shareholders

At the balance sheet date, the shareholding of major shareholder units directly or indirectly holding more than 5% of the Bank's shares are as follows:

	Number of shares held (in million shares)	Shareholding Percentage
Zhejiang Provincial Financial Holdings Co., Ltd.	2,655	12.49%
Zhejiang Provincial Energy Group Co., Ltd. and its group members, Zheneng Capital Holding Co., Ltd. and Zhejiang Energy International Co., Ltd.	1,487	6.99%
Traveller Automobile Group Co., Ltd.	1,347	6.33%
Zhejiang Hengyi Group Co., Ltd. and its group members Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd.	1,243	5.84%
Hengdian Group Holdings Limited	1,243	5.84%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

2 Related party transactions

The amount of major transactions between the Group and related parties and the balance of major current accounts at the balance sheet date are as follows:

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Group Co., Ltd. and its subsidiaries	Traveller Automobile Group Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengqian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/ balance of related similar transactions
The amount of significant transactions from 1 January 2021 to 30 June 2021 is as follows:								
Interest income	1	-	-	50	-	31	82	0.18%
Interest expense	192	2	-	9	2	44	249	1.01%
Fee and commission income	0	0	-	8	0	1	9	0.39%
Net trading gains/(losses)	26	-	-	-	(8)	-	18	0.64%
At 30 June 2021, the balance of major current accounts is as follows:								
Loans and advances to customers	56	-	-	1,400	-	1,486	2,942	0.23%
Financial investments measured at FVTPL	1,317	-	-	-	4,247	-	5,564	3.66%
Financial investments measured at AC	-	-	-	1,500	-	600	2,100	0.58%
Customer deposits	(6,861)	(325)	-	(544)	(64)	(2,835)	(10,649)	0.79%
The major off balance sheet items at 30 June 2021 are as follows:								
Credit commitments and financial guarantee	31	-	-	1,978	168	20	2,197	0.32%
Loan balance guaranteed by related parties	1,337	-	-	1,027	168	2,729	5,261	0.41%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

2 Related party transactions (Continued)

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Group Co., Ltd. and its subsidiaries	Traveller Automobile Group Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengdian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/ balance of related similar transactions
The amount of significant transactions from 1 January 2020 to 30 June 2020 is as follows :								
Interest income	68	-	-	-	-	48	116	0.28%
Interest expense	171	10	-	-	3	3	187	0.80%
Net fee and commission income	-	-	-	3	-	4	7	0.21%
Net trading gains	53	1	-	-	83	-	137	5.82%
At 31 December 2020, the balance of major current accounts is as follows:								
Loans and advances to customers	58	-	-	851	-	2,174	3,083	0.26%
Financial investments measured at FVTPL	1,323	-	-	-	2,490	-	3,813	2.95%
Financial investments measured at AC	-	-	-	1,500	1,000	600	3,100	0.90%
Customer deposits	(5,896)	(237)	-	(502)	(36)	(2,438)	(9,109)	0.69%
The major off balance sheet items at 31 December 2020 are as follows:								
Credit commitments and financial guarantee	1	-	-	2,108	106	543	2,758	0.41%
Loan balance guaranteed by related parties	300	-	-	1,122	106	3,108	4,636	0.39%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(Continued)*

3 Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. The Group enters into banking transactions with key management personnel in the normal course of business. For the reporting period, the Group had no material banking transactions and balances with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended	
	30 June 2021	30 June 2020
Fees	1	1
Salaries and allowances and benefits	6	7
Discretionary bonuses	5	6
Contribution to pension	1	1
Total	13	15

The total compensation packages for directors and key management personnel have not been finalised.

The total compensation packages will be further disclosed when determined.

4 Transactions between the Bank and the subsidiary

The transactions between the Bank and its subsidiary include deposits with banks and other financial institutions, deposits from banks and other financial institutions, placements with banks and other financial institutions, leasing of movable and real estate, financial assets at fair value through other comprehensive income, credit commitments and financial guarantee and others. These transactions are mainly subject to general business terms and carried out in accordance with normal business procedures or in accordance with the contractual agreements of the Bank, and shall be approved by the corresponding decision-making authority depending on the nature and the amount of the transaction.

5 Plan and transaction of annuity

Except for normal contributions, there were no other related party transactions in the enterprise annuity funds established by the Group and the Bank during the reporting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks arising from its operating activities. The Group analyzes, evaluates, accepts and manages those risks or risk portfolios of a certain degree. Managing those risks is critical to the financial industry, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The board of directors takes the ultimate responsibility for comprehensive risk management; the board of supervisors is responsible for supervising comprehensive risk management; and the senior management is responsible for implementing comprehensive risk management. The position of chief risk officer has been established in place. The senior management has established special committees including risk management and internal control committee, asset and liability management committee, credit extension, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at the head office is the coordination department for comprehensive risk management and the leading executive department for management of credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at the head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at the head office is the leading executive department for operational risk and compliance risk management. The general office at the head office is the leading executive department for reputational risk management. The development and planning department at the head office is the leading executive department for strategic risk management.

The primary financial risks to which the Group is exposed to when using financial instruments are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

1 Credit Risk

The Group is exposed to credit risk, which is the risk of loss arising from a client or counterparty's failure to discharge its contractual obligations. Exposure to credit risk mainly arises from interbank transactions, corporate and retail loans, as well as loan commitments from lending activities. It can also be derived from credit enhancement provided by the Group, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department at the head office and reported to the Bank's senior management in a timely manner.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement

Loans and advances to customers, loan commitments and financial guarantees

Based on changes in external business environment, internal business conditions and risk profile, the Group has formulated basic credit policies, and specified the policy orientation in respect of customer structure, industry structure, regional structure and key business areas of the Group's credit business. In addition, the Group regularly adjusts its credit policy on the basis of continuous tracking of macro and industry economic development trends. The Group shall continue to improve the credit system construction, the unified credit extension management system for corporate and institutional customers, group customer identification and unified credit extension management, the overall management and unified control of the total credits of corporate and institutional customers, and the standardized credit approval process, group customer management. The Bank shall also establish a differentiated authorization system, and timely adjust the credit policy and take effective measures to guard against credit risks.

The Group has established the credit risk limit framework system, credit risk limit management plans and methods, and specified a management mechanisms in respect of setting, adjusting, monitoring and processing quota indicators to effectively transmit risk preferences. Financial assets are written off when the Group is unable to recover the whole or a part of them even after taking necessary measures and implementing necessary procedures, and when the write-off conditions set by the Ministry of Finance and the Group are met.

Bonds

The Group manages investment in bonds and other instruments based on the internal credit rating and credit rating of external rating agencies. Except for financial instruments with available credit ratings such as government bonds, central bank bills and policy bank financial bonds, all other bonds are subject to credit approval process and credit rating requirements. At the same time, the Group continues to focus on the credit access, rating access, business development and changes in the industry, and performs continuous evaluation and management of credit risk.

Non-bond debt investment

Non-bond debt investment includes trust schemes and asset management plans. The Group implements rating assessment system for cooperative trust companies and securities companies, and sets credit lines for the ultimate financing party of the trust income and targeted asset management plans, and conducts follow-up review of risk management on a regular basis.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement *(Continued)*

Interbank business

Credit risk of individual financial institutions is reviewed and managed on a regularly basis. Credit lines are set for individual banks or other financial institutions that engage in financial transactions with the Group.

(2) Risk limits and mitigation measures

The Group has established policies and procedures for credit risk limits management. Credit risk limits are set based on specific customers, industries and the quality of assets, and a working mechanism is established regarding credit risk limits management, including limits setting, adjustment, monitoring, reporting and processing.

The Group transfers or mitigates its credit risk exposure by way of guarantee, collateral (pledge), net settlement and credit derivatives. Other specific management and mitigation measures include:

Collateral and pledge

The Group has formulated a series of policies to mitigate credit risks through various measures. The acquisition of collateral and margins and obtaining corporate or individual guarantees is an important means measures for the Group to control credit risk. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties;
- Business assets such as commercial properties, inventories and accounts receivables; and
- Financial instruments such as debt securities and stocks

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(2) Risk limits and mitigation measures *(Continued)*

Collateral and pledge (Continued)

The fair value of collaterals and pledges are assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan amount to fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and the maximum loan-to-value ratio for corporate and retail loans are as follows:

	Maximum loan to value ratio
Collaterals and pledge assets	
Time deposits (RMB)	100%
Time deposits (Foreign currency)	90%
PRC treasury bonds	90%
Financial bonds	80%
Residential properties and commercial properties	70%
Land use rights	70%
Special equipment	70%
Vehicles	60%
General equipment	50%

For loans guaranteed by a third-party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

Derivative financial instruments

The Group imposes strict restrictions on the trading of derivative financial instruments. The Group controls the credit risks associated with derivative financial instruments by collecting margins or grant credits from/to counterparties.

Deposits of credit commitments and financial guarantee

The main purpose of credit commitments and financial guarantee is to ensure that customers can receive the funds needed. The letter of guarantee and the letter of credit represent the Group's irrevocable undertaking, that is, the Group will perform the payment obligations on behalf of its customers who fail to meet their payment obligations to third parties, and the Group bears the same credit risk as the case of loans. In the event that the amount of credit commitments and financial guarantee requested by the customer exceeds its original credit limit, the Group will collect deposit to reduce the credit risk involved in providing the service.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs

The ECL model is used for the measurement of the provision for financial assets at AC, financial assets at FVOCI and credit commitments and financial guarantee.

The ECL model is developed according to the accounting standards. The top-down development method is used to establish the logistic regression model of risk parameters and macroeconomic indicators such as GDP and etc. The Group applies the ECL model to calculate credit impairment losses under multiple scenarios by using a VAR model expert-adjusted work mechanism to regularly predict three macro scenarios, including optimistic, neutral and pessimistic.

Staging classification of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECLs accordingly, depending on whether credit risk of a financial instrument has increased significantly since initial recognition. The three risk stages are defined as follows:

Stage 1: Credit risk has not increased significantly since initial recognition. A 12-month ECL is recognized.

Stage 2: Credit risk has increased significantly since initial recognition but there is no objective evidence of impairment of the financial instrument. A lifetime ECL is recognized.

Stage 3: When there is objective evidence of impairment of the financial assets at the balance sheet date. A lifetime ECL is recognized.

The Group's staging criteria has taken into consideration the probability of default, overdue days, credit risk rating, etc.

Definition of significant increase in credit risk

At each balance sheet date, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since initial recognition. The Group fully considers all reasonable information with solid evidence, including forward-looking information that reflects significant changes in its credit risk. The main considerations are regulatory and operating environment, external credit rating, solvency, operating capacity, loan contract terms, and repayment behavior. The Group determines the changes in credit risk over the expected lifetime of the financial instruments by comparing the credit risk of the financial instruments at the balance sheet date with that at the date of initial recognition.

The Group determines whether the credit risk of financial instruments has changed significantly since initial recognition by setting quantitative and qualitative criteria. The judgment criteria mainly include more than 30 days overdue, changes in probability of default, changes in credit risk classification and other cases that indicate a significant change in credit risk.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Definition of credit-impaired financial assets

Generally, financial assets are considered to be credit-impaired if:

- The borrower is more than 90 days overdue after the contractual payment date;
- For economic or contractual reasons related to the financial difficulties of the borrower, concessions which normally are not available are being made to the borrower;
- The borrower is experiencing significant financial difficulties;
- The borrower is likely to enter bankruptcy or other financial restructuring; and
- The active market for the financial assets disappears as a result of the financial difficulties of the issuer or debtor.

An impairment of financial assets may be caused by the combined effect of multiple events, and may not be the result of a separately identifiable events.

The above criteria apply to all financial instruments and credit commitments and and financial guarantee of the Group; the definition of credit-impaired financial assets is consistently applied to the calculation of ECLs of the Group and when considering about historical statistics and forward-looking information.

Measurement of ECLs: explanation of parameters, assumptions and valuation techniques

Except for the credit-impaired financial assets, depending on whether there is a significant increase in credit risk and whether the assets are credit-impaired, the Group recognizes loss allowance for different financial instruments with expected credit losses over 12 months or the lifetime of the instrument, respectively. Expected credit loss allowance is the result of multiplication of probability of default (PD), loss given default (LGD) and exposure at default (EAD) and discount factor. Related definitions are as follows:

- Probability of default (PD) refers to the possibility that the debtor will not be able to fulfil his obligations in the next 12 months or throughout the life of the asset. The Group builds the migration matrix to calculate the 12-month probability of default, and derives the default probability of the lifetime from the 12-month probability of default through the Markov chain model;

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Measurement of ECLs: explanation of parameters, assumptions and valuation techniques (Continued)

- Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty, the way of recourse and priority and the availability of collateral or other credit support. The LGD varies by financial assets; and
- Exposure at default (EAD) refers to the amount that the Group should pay when the default occurs in the next 12 months or throughout the life of the asset. The Group's exposure at default is determined by the expected repayment arrangements, and it varies depending on the types of products. For installments payment and lump sum repayment, the Group determines the exposure at default according to the repayment plan stipulated in the contract.

The Group determines the ECLs by forecasting the probability of default, loss given default and exposure at default of future individual debt. The Group multiplies the three parameters to calculate the expected credit losses for future periods, and then discount the results of each period to the report date in lump sum. The discount rate used in the calculation of expected credit loss is the initial effective interest rate or its approximate value.

Forward-looking information and other adjustments included in the ECL model

The Group has established macro-economic forecast model, along with adjustments from internal economy experts. The Group conduct forecasts regularly to establish three economic scenarios, optimistic, neutral and pessimistic, so as to ensure coverage of non-linear features for the main expected credit loss model. Neutral scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than neutral scenario respectively. It can also be used as one of the sources of sensitivity testing.

The impairment model is established through a top down approach. The Group has developed regression models for different macro-economic indicators such as Gross Domestic Product (GDP) growth rate, Producer Price Index growth (PPI), growth rate of broad measure of money supply (M2), etc. The Group uses forecasting results of macro-indicators to achieve "forward-looking" calculation of provision.

At 30 June 2021, the GDP growth rate adopted by the Group in neutral scenario is 4.35%. The Group's management has considered external economic situation that have not been reflected in the model such as the impact of COVID-19 pandemic on macro economy and the Group has increased the provision for particular credit risk exposure based on stress testing, thereby enhancing the Group's risk compensation capability.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(4) Maximum exposure to credit risk

The following table provides an analysis of the exposure to credit risk of financial instruments applicable to the expected credit loss measurement. The carrying amount of the following financial assets is the maximum exposure to credit risk of the Group:

	30 June 2021	31 December 2020
Cash and balances with the central bank	134,054	137,441
Deposits with banks and other financial institutions	35,217	38,827
Placements with banks and other financial institutions	44,271	5,637
Financial assets purchased under resale agreements	31,549	57,067
Loans and advances to customers		
– measured at AC	1,025,635	965,235
– measured at FVOCI	212,448	200,640
Financial investments		
– measured at AC	353,732	336,109
– measured at FVOCI	69,355	62,013
Other financial assets	36,218	33,251
Total	1,942,479	1,836,220

At the balance sheet date, the Group's maximum exposure to credit risk in respect of off-balance-sheet credit commitments and financial guarantee contracts is disclosed in Note VI. 1.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(5) Risk concentration

The credit risk usually increases if the counterparties are concentrated in a certain industry, region or based on certain economic characteristics. Meanwhile, the economic development is differentiated by the unique characteristics of industries and regions, so the credit risk varies from industry to industry and region to region.

Geographical segments

The gross amount of loans and advances to customers (excluding fair value changes and interest accrued) granted by the Group are listed as follows by region:

	30 June 2021		31 December 2020	
	Gross amount	Proportion	Gross amount	Proportion
Yangtze River Delta Region	715,834	56.43%	687,825	57.60%
Midwestern China	228,018	17.97%	203,660	17.05%
Bohai Rim Region	165,580	13.05%	167,846	14.05%
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	159,147	12.55%	134,931	11.30%
Total	1,268,579	100.00%	1,194,262	100.00%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(5) Risk concentration *(Continued)*

Industry segments

The gross amount of loans and advances to customers (excluding fair value changes and interest accrued) granted by the Group are listed as follows by industry:

	30 June 2021		31 December 2020	
	Gross amount	Proportion	Gross amount	Proportion
Corporate loans and advances				
Leasing and commercial services	172,984	13.64%	168,182	14.08%
Real estate	172,210	13.58%	165,208	13.84%
Manufacturing	158,389	12.49%	136,187	11.41%
Wholesale and retail trade	117,741	9.28%	99,635	8.34%
Construction	51,342	4.05%	53,241	4.46%
Administration of water conservancy, environment and public facilities	49,131	3.87%	54,597	4.57%
Financing	30,794	2.43%	39,498	3.31%
Information transmission, computer services and software industry	13,891	1.10%	13,281	1.11%
Production and supply of electricity, heat, gas and water	10,826	0.85%	10,900	0.91%
Transportation, storage and postal service	10,689	0.84%	11,351	0.95%
Accommodation and catering	10,583	0.83%	10,711	0.90%
Scientific research, technology services and geological exploration	9,468	0.75%	8,325	0.70%
Agriculture, forestry, animal husbandry and fishery	6,159	0.49%	3,724	0.31%
Mining	5,644	0.44%	3,895	0.33%
Culture, sports and entertainment	3,848	0.30%	3,842	0.32%
Education	2,312	0.18%	2,090	0.18%
Health, social security and social welfare	2,213	0.17%	1,928	0.16%
Household services and other services	1,443	0.11%	1,464	0.12%
Public administration and social organization	23	0.00%	7	0.00%
Corporate loans and advances	829,690	65.40%	788,066	66.00%
Personal loans and advances	365,861	28.84%	333,108	27.89%
Discounted bills	73,028	5.76%	73,088	6.11%
Total	1,268,579	100.00%	1,194,262	100.00%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(6) Credit risk analysis of loans and advances to customers

At the balance sheet date, the stage, overdue information and allowance for ECLs of loans and advances to customers of the Group are listed as follows:

	30 June 2021	31 December 2020
Credit-impaired	20,253	19,327
Less: Allowance for ECLs	(13,793)	(11,306)
Subtotal	6,460	8,021
Overdue but not credit-impaired	4,641	5,133
Less: Allowance for ECLs	(765)	(644)
Subtotal	3,876	4,489
Neither overdue nor credit-impaired	1,243,808	1,169,650
Interest accrued	3,435	3,588
Less: Allowance for ECLs	(19,496)	(19,873)
Subtotal	1,227,747	1,153,365
Total	1,238,083	1,165,875

At 30 June 2021, the total allowance for ECLs of the loans and advances to customers measured at FVOCI which were either credit-impaired, overdue but not credit-impaired or neither overdue nor credit-impaired, were RMB11 million (31 December 2020: RMB10 million), RMB3 million (31 December 2020: RMB0 million) and RMB429 million (31 December 2020: RMB726 million), respectively. The ECL allowance are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(7) Credit risk analysis of the amount due from banks and other financial institutions

Amount due from banks and other financial institutions include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements. At the balance sheet date, the carrying amount of the Group's due from banks and other financial institutions classified by stage, overdue information and counterparties are analyzed as follows:

	30 June 2021	31 December 2020
Credit-impaired	345	545
Less: Allowance for ECLs	(345)	(495)
Subtotal	–	50
Neither overdue nor credit-impaired		
– Commercial banks	72,263	68,266
– Policy banks	2,584	0
– Other financial institutions	36,167	33,128
Interest accrued	26	92
Less: Allowance for ECLs	(3)	(5)
Subtotal	111,037	101,481
Total	111,037	101,531

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(8) Credit risk analysis of debt investments

The Group continuously monitors the credit risk profile of the debt instrument portfolios held. At the balance sheet date, the carrying amount of the debt instruments which are subjected to the ECL model is listed as follows:

	30 June 2021	31 December 2020
Credit-impaired	11,743	12,509
Less: Allowance for ECLs	(8,614)	(9,030)
Subtotal	3,129	3,479
Overdue but not credit-impaired	258	2,584
Less: Allowance for ECLs	(34)	(375)
Subtotal	224	2,209
Neither overdue nor credit-impaired		
– Government	162,729	156,926
– Policy banks	86,318	71,182
– Commercial banks	14,178	15,928
– Other financial institutions	59,081	2,505
– Corporate entities	94,749	143,033
Interest accrued	6,845	6,986
Less: Allowance for ECLs	(4,166)	(4,126)
Subtotal	419,734	392,434
Total	423,087	398,122

At 30 June 2021, the total allowance for ECLs of the debt investments measured at FVOCI which were either credit-impaired or neither overdue nor credit-impaired, were RMB146 million (31 December 2020: RMB19 million) and RMB22 million (31 December 2020: RMB26 million), respectively. The ECL allowance are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

(9) Restructured loans and advances to customers

Restructured loans refer to those whose repayment terms of loan contracts are amended because of deterioration in the financial position or insolvency of the borrower. At 30 June 2021, the Group has credit-impaired loans and advances with carrying amount of RMB256 million (31 December 2020: RMB307 million) and the relevant contract terms have been renegotiated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(10) Collaterals and other credit enhancement

The Group closely monitors the collateral corresponding to credit-impaired financial assets, as compared with other collaterals, the Group is more likely to confiscate these collaterals to reduce potential credit losses. At the balance sheet date, the Group's credit-impaired loans and advances to customers and financial investments and the value of collateral held to reduce its potential losses are listed as follows:

	30 June 2021			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	17,327	(11,894)	5,433	16,894
– Personal loans and advances	2,926	(1,899)	1,027	1,354
Financial investments				
– Financial investments measured at AC	11,680	(8,614)	3,066	6,682
– Financial investments measured at FVOCI	63	–	63	–
Total	31,996	(22,407)	9,589	24,930

	31 December 2020			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	16,338	(9,468)	6,870	12,971
– Personal loans and advances	2,989	(1,838)	1,151	1,537
Financial investments				
– Financial investments measured at AC	12,478	(9,030)	3,448	6,251
– Financial investments measured at FVOCI	31	–	31	–
Total	31,836	(20,336)	11,500	20,759

The fair value of the above collateral is determined by the Group on the basis of the latest available external evaluation value according to the collateral disposal experience and market conditions.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk

Market risk refers to the risk of losses of on-balance sheet and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. The Group's exposures to market risk arise from the trading and non-trading businesses.

The Group's market risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, risk management department, financial market department, FinTech department, audit department, other departments, as well as branches, subbranches and subsidiaries. Senior management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite, as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Group can effectively identify, measure, monitor and control a series of market risks assumed by various businesses.

The market risk measurement methods adopted by the Group include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Group to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Group has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Group has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be assumed by the Group.

The Group updates its market risk appetite and limit management system on a regular basis, further improves the market risk management systems and market risk measurement systems. The Group conducts market risk measurement, monitoring and routine management by using the independent market risk management system. The Group performs daily valuation of trading book positions, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gains of the banking book arising from adverse changes in interest rate levels and term structure, mainly including gap risk, benchmark risk and optional risk.

The Group's interest rate risk management system of banking book consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), financial market department, FinTech department, audit department and other operation and management departments at the head office, as well as branches, sub-branches and subsidiaries. Senior management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Group measures and evaluates the interest rate risk of banking book mainly through repricing gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Group pays close attention to external environment and internal situation of interest rate risk of banking book and adjusts the structure of assets and liabilities flexibly. At the balance sheet date, the interest rate risk of banking book of the Group is within the target limit and the risk is under control as a whole.

Due to fluctuations in market interest rates, the Group's interest margin may increase, or may decrease or even incur losses due to unexpected changes. The Group operates its business in accordance with the deposit and loan interest rate policies of the PBOC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

The following tables indicate the financial assets and financial liabilities of the Group at the balance sheet date by the expected next repricing date or by maturity date, whichever is earlier.

	At 30 June 2021					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	559	133,495	-	-	-	134,054
Deposits with banks and other financial institutions	21	35,196	-	-	-	35,217
Placements with banks and other financial institutions	1	44,270	-	-	-	44,271
Derivative financial assets	12,833	-	-	-	-	12,833
Financial assets purchased under resale agreements	4	31,545	-	-	-	31,549
Loans and advances to customers	3,435	248,005	529,500	300,267	156,876	1,238,083
Financial investments						
- measured at FVTPL	83,314	3,412	20,670	36,197	8,264	151,857
- measured at AC	6,245	28,757	69,886	199,893	48,951	353,732
- measured at FVOCI	1,834	4,311	5,692	43,763	14,989	70,589
Other financial assets	1,909	5,664	10,147	17,401	1,097	36,218
Total financial assets	110,155	534,655	635,895	597,521	230,177	2,108,403
Financial liabilities						
Due to the central bank	(682)	(53,764)	(5,211)	-	-	(59,657)
Deposits from banks and other financial institutions	(1,347)	(70,630)	(86,823)	(6,000)	-	(164,800)
Placements from banks and other financial institutions	(294)	(23,412)	(17,895)	(190)	-	(41,791)
Financial liabilities at fair value through profit or loss	(12,710)	-	-	-	(1,318)	(14,028)
Derivative financial liabilities	(12,508)	-	-	-	-	(12,508)
Financial assets sold under repurchase agreements	(2)	(34,856)	-	-	-	(34,858)
Customer deposits	(16,328)	(737,417)	(229,638)	(382,769)	(1,135)	(1,367,287)
Lease liabilities	-	(121)	(426)	(1,926)	(524)	(2,997)
Debt securities issued	(1,332)	(112,060)	(120,287)	(33,230)	(25,000)	(291,909)
Other financial liabilities	(7,957)	-	-	-	-	(7,957)
Total financial liabilities	(53,160)	(1,032,260)	(460,280)	(424,115)	(27,977)	(1,997,792)
Interest rate exposure	56,995	(497,605)	175,615	173,406	202,200	110,611

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

	At 31 December 2020					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	567	136,874	-	-	-	137,441
Deposits with banks and other financial institutions	40	38,787	-	-	-	38,827
Placements with banks and other financial institutions	49	3,497	2,091	-	-	5,637
Derivative financial assets	23,434	-	-	-	-	23,434
Financial assets purchased under resale agreements	3	57,064	-	-	-	57,067
Loans and advances to customers	3,588	205,638	549,090	267,121	140,438	1,165,875
Financial investments						
- measured at FVTPL	85,476	2,828	7,743	25,211	8,011	129,269
- measured at AC	6,002	13,609	65,887	207,233	43,378	336,109
- measured at FVOCI	1,978	1,130	5,203	43,158	11,538	63,007
Other financial assets	2,864	3,402	7,867	17,601	1,517	33,251
Total financial assets	124,001	462,829	637,881	560,324	204,882	1,989,917
Financial liabilities						
Due to the central bank	(1,103)	(41,475)	(42,190)	-	-	(84,768)
Deposits from banks and other financial institutions	(1,204)	(77,332)	(65,237)	(4,500)	-	(148,273)
Placements from banks and other financial institutions	(198)	(29,228)	(18,917)	(200)	-	(48,543)
Financial liabilities at fair value through profit or loss	(9,231)	-	-	-	-	(9,231)
Derivative financial liabilities	(23,478)	-	-	-	-	(23,478)
Financial assets sold under repurchase agreements	(0)	(900)	-	-	-	(900)
Customer deposits	(16,394)	(701,390)	(189,355)	(428,497)	-	(1,335,636)
Lease liabilities	-	(196)	(487)	(1,918)	(380)	(2,981)
Debt securities issued	(1,615)	(83,156)	(96,911)	(30,000)	(25,000)	(236,682)
Other financial liabilities	(7,615)	-	-	-	-	(7,615)
Total financial liabilities	(60,838)	(933,677)	(413,097)	(465,115)	(25,380)	(1,898,107)
Interest rate exposure	63,163	(470,848)	224,784	95,209	179,502	91,810

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

The Group measures the potential effect of change in interest rates on the Group's net interest income and other comprehensive income by the sensitivity analysis method. The following table sets forth the effect on the Group's net interest income and other comprehensive income from possible and reasonable interest rate fluctuations with all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the year and whose interest rate are expected to be repriced within one year. The effect on other comprehensive income refers to the effect of certain interest rate changes on the fair value change generated by debt investments measured at FVOCI that are held at the end of the year.

	30 June 2021		31 December 2020	
	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase
Change in interest rate				
Increase by 100 basis points	(2,772)	(1,919)	(2,458)	(1,925)
Decrease by 100 basis points	2,772	2,571	2,458	2,717

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining commercial conditions and financial parameters:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) all assets and liabilities that are repriced or due within one year are assumed to be repriced or due at the beginning of the respective periods;
- (iii) same fluctuations in interest rates of different interest-bearing assets and interest-bearing liabilities are the same;
- (iv) yield curves move in parallel with change in interest rates;
- (v) there are no other changes in the assets or liabilities portfolio;
- (vi) no consideration of impact on market price, customer behavior and off-balance sheet business resulting from interest rate changes; and
- (vii) no consideration of actions taken by the Group in response to interest rate changes.

Therefore, the actual results on net interest income and other comprehensive income due to changes in interest rates may differ from the analysis above.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk

The Group's business is mainly operated in China and settled in RMB. The tables below show the Group's exposure to currency risk at the balance sheet date with the book values of various financial assets and liabilities converted into RMB.

	At 30 June 2021				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	131,028	2,928	85	13	134,054
Deposits with banks and other financial institutions	24,979	7,782	254	2,202	35,217
Placement with banks and other financial institutions	–	44,232	–	39	44,271
Derivative financial assets	12,325	473	34	1	12,833
Financial assets purchased under resale agreements	31,549	–	–	–	31,549
Loans and advances to customers	1,202,055	29,731	4,389	1,908	1,238,083
Financial investments					
– measured at FVTPL	132,226	19,631	–	–	151,857
– measured at AC	353,133	599	–	–	353,732
– measured at FVOCI	58,591	9,213	2,412	373	70,589
Other financial assets	35,807	410	–	1	36,218
Total financial assets	1,981,693	114,999	7,174	4,537	2,108,403
Financial liabilities					
Due to the central bank	(59,657)	–	–	–	(59,657)
Deposits from banks and other financial institutions	(154,600)	(9,712)	(487)	(1)	(164,800)
Placements from banks and other financial institutions	(32,114)	(9,481)	(196)	–	(41,791)
Financial liabilities at fair value through profit or loss	(14,028)	–	–	–	(14,028)
Derivative financial liabilities	(11,950)	(520)	(37)	(1)	(12,508)
Financial assets sold under repurchase agreements	(34,858)	–	–	–	(34,858)
Customer deposits	(1,339,088)	(24,527)	(604)	(3,068)	(1,367,287)
Lease liabilities	(2,926)	–	(71)	–	(2,997)
Debt securities issued	(286,676)	(5,233)	–	–	(291,909)
Other financial liabilities	(7,720)	(221)	(15)	(1)	(7,957)
Total financial liabilities	(1,943,617)	(49,694)	(1,410)	(3,071)	(1,997,792)
Net amount	38,076	65,305	5,764	1,466	110,611
Credit commitments and financial guarantee	657,418	24,184	227	3,834	685,663

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk (Continued)

	At 31 December 2020				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	134,673	2,756	7	5	137,441
Deposits with banks and other financial institutions	25,148	12,826	82	771	38,827
Placement with banks and other financial institutions	2,880	2,757	–	–	5,637
Derivative financial assets	23,007	423	3	1	23,434
Financial assets purchased under resale agreements	57,067	–	–	–	57,067
Loans and advances to customers	1,140,539	20,283	3,186	1,867	1,165,875
Financial investments					
– measured at FVTPL	111,201	18,068	–	–	129,269
– measured at AC	336,109	–	–	–	336,109
– measured at FVOCI	50,302	9,599	2,976	130	63,007
Other financial assets	33,079	172	–	–	33,251
Total financial assets	1,914,005	66,884	6,254	2,774	1,989,917
Financial liabilities					
Due to the central bank	(84,768)	–	–	–	(84,768)
Deposits from banks and other financial institutions	(143,827)	(4,122)	(324)	–	(148,273)
Placements from banks and other financial institutions	(37,622)	(10,528)	(393)	–	(48,543)
Financial liabilities at fair value through profit or loss	(9,231)	–	–	–	(9,231)
Derivative financial liabilities	(23,112)	(343)	(22)	(1)	(23,478)
Financial assets sold under repurchase agreements	(900)	–	–	–	(900)
Customer deposits	(1,309,005)	(24,763)	(412)	(1,456)	(1,335,636)
Lease liabilities	(2,899)	–	(82)	–	(2,981)
Debt securities issued	(236,290)	(392)	–	–	(236,682)
Other financial liabilities	(7,460)	(141)	(14)	–	(7,615)
Total financial liabilities	(1,855,114)	(40,289)	(1,247)	(1,457)	(1,898,107)
Net amount	58,891	26,595	5,007	1,317	91,810
Credit commitments and financial guarantee	652,531	26,365	169	3,399	682,464

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk *(Continued)*

The Group measures the potential effect of changes in foreign exchange rates on the Group's net profit and equity by the sensitivity analysis method. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with other variables held constant.

	Sensitivity of net profit and equity	
	30 June 2021 Increase/ (Decrease)	31 December 2020 Increase/ (Decrease)
Change in USD exchange rate		
Appreciation against RMB by 100 bps	490	199
Depreciation against RMB by 100 bps	(490)	(199)
Change in HKD exchange rate		
Appreciation against RMB by 100 bps	43	38
Depreciation against RMB by 100 bps	(43)	(38)

The sensitivity analysis is based on the following assumptions:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) the foreign exchange rate sensitivity is the gains or losses recognized as a result of a 100-basis point fluctuation in the absolute value of foreign exchange rates against the closing price (middle price) of RMB at the balance sheet date;
- (iii) the fluctuation of exchange rates by 100 basis points at the balance sheet date is based on the assumption of exchange rates movement over the next 12 months;
- (iv) when calculating the foreign exchange exposure, spot and forward from foreign exchange exposure and swaps are included;
- (v) other variables (including interest rates) remain unchanged;

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk (Continued)

- (vi) no consideration of impact on customers' behavior and market price resulting from exchange rate changes; and
- (vii) the assets and liabilities have a static exchange rate risk structure and no consideration is given to the measures that the Group may take to eliminate the adverse impact of foreign exchange exposure on net profit and equity.

Therefore, the actual results of net profit and equity due to changes in foreign currency exchange rates may differ from the analysis above.

3 Liquidity Risk

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial situation, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The Group's liquidity risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), financial market department, FinTech department, audit department, other operation and management departments of the head office, as well as branches, subbranches and subsidiaries. Senior management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

The Group manages the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Group can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting the asset and liability management strategies in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the construction of diversified of financing channels and actively expanding financing channels while maintaining good relationships with major financing counterparties; strengthening the early-warning monitoring and management of liquidity, optimizing the emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak points in respect of the Group's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and size and structure of high quality liquid assets if necessary, and modifying the liquidity risk management measures in a timely manner to improve liquidity risk management mechanism.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non-derivative financial assets and financial liabilities

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

	At 30 June 2021					
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	Total
Financial assets						
Cash and balances with the central bank	-	134,054	-	-	-	134,054
Deposits with banks and other financial institutions	-	24,052	11,184	-	-	35,236
Placements with banks and other financial institutions	-	0	44,271	-	-	44,271
Financial assets purchased under resale agreements	-	5	31,553	-	-	31,558
Loans and advances to customers	8,333	-	261,286	557,239	346,424	1,364,277
Financial investments						
- measured at FVTPL	-	83,314	3,900	32,862	28,193	159,104
- measured at AC	1,560	-	31,076	80,262	221,788	391,444
- measured at FVOCI	-	1,234	4,660	7,162	47,969	77,564
Other financial assets	1,398	1,909	4,350	11,100	19,668	39,967
Total financial assets	11,291	244,568	392,280	688,625	664,042	2,277,475

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	At 30 June 2021					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities	-	(682)	(53,795)	(5,250)	-	(59,727)
Due to the central bank	-	-	-	-	-	-
Deposits from banks and other financial institutions	-	(22,052)	(50,085)	(88,423)	(6,309)	(166,869)
Placements from banks and other financial institutions	-	(294)	(23,461)	(18,314)	(198)	(42,267)
Financial liabilities at fair value through profit or loss	-	(76)	(6,955)	(7,018)	-	(14,049)
Financial assets sold under repurchase agreements	-	(2)	(34,856)	-	-	(34,858)
Customer deposits	-	(708,359)	(76,976)	(233,173)	(383,286)	(1,402,960)
Lease liabilities	-	-	(68)	(511)	(2,033)	(3,174)
Debt securities issued	-	-	(113,602)	(123,876)	(37,742)	(302,740)
Other financial liabilities	-	(6,906)	(453)	(598)	-	(7,957)
Total financial liabilities	-	(738,371)	(360,251)	(477,163)	(429,568)	(2,034,601)
Net amount	11,291	(493,803)	32,029	211,462	234,474	242,874

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	At 31 December 2020						
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Financial assets							
Cash and balances with the central bank	-	137,441	-	-	-	-	137,441
Deposits with banks and other financial institutions	-	30,535	8,338	-	-	-	38,873
Placements with banks and other financial institutions	-	51	3,540	2,145	-	-	5,736
Financial assets purchased under resale agreements	-	-	57,067	-	-	-	57,067
Loans and advances to customers	13,194	-	216,632	573,765	305,712	167,302	1,276,605
Financial investments							
- measured at FVTPL	-	85,476	3,054	9,348	29,029	7,847	134,754
- measured at AC	5,221	-	12,012	82,328	232,327	50,421	382,309
- measured at FVOCI	32	994	1,383	6,163	47,768	13,531	69,871
Other financial assets	256	2,864	3,218	9,012	19,690	1,813	36,853
Total financial assets	18,703	257,361	305,244	682,761	634,526	240,914	2,139,509

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	At 31 December 2020					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities						
Due to the central bank	-	-	(42,104)	(42,778)	-	(84,882)
Deposits from banks and other financial institutions	-	(33,462)	(44,976)	(67,360)	(4,806)	(150,604)
Placements from banks and other financial institutions	-	-	(29,444)	(19,870)	(217)	(49,531)
Financial liabilities at fair value through profit or loss	-	(61)	(1,483)	(7,710)	-	(9,254)
Financial assets sold under repurchase agreements	-	-	(900)	-	-	(900)
Customer deposits	-	(610,929)	(122,612)	(182,104)	(463,308)	(1,378,953)
Lease liabilities	-	-	(194)	(419)	(1,925)	(3,153)
Debt securities issued	-	-	(84,615)	(100,256)	(35,831)	(248,222)
Other financial liabilities	-	(6,641)	(344)	(630)	-	(7,615)
Total financial liabilities	-	(651,093)	(326,672)	(421,127)	(506,087)	(28,135)
Net amount	18,703	(393,732)	(21,428)	261,634	128,439	206,395

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

The Group's derivatives settled on a net basis mainly include interest rate derivatives. The table below analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a net basis by remaining contractual maturities from the balance sheet date to the contractual maturity date.

	At 30 June 2021					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
(Outflow)/inflow	(159)	(489)	337	56	0	(255)

	At 31 December 2020					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Outflow	(2)	(1)	(32)	(63)	(0)	(98)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments (Continued)

The Group's derivative settled on a gross basis mainly include foreign exchange derivatives. The following table analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a gross basis by remaining contractual maturities from the balance sheet date to the contractual maturity date:

	At 30 June 2021					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Outflow	(94,846)	(54,213)	(89,519)	(6,370)	(12)	(244,960)
Inflow	94,919	54,388	89,732	6,420	9	245,468
Total	73	175	213	50	(3)	508

	At 31 December 2020					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Outflow	(103,334)	(187,996)	(306,689)	(2,601)	0	(600,620)
Inflow	102,682	188,354	306,763	2,660	0	600,459
Total	(652)	358	74	59	0	(161)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(3) Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items include bank acceptances, letters of credit, letters of guarantee, loan commitments, undrawn credit card limit, block chain receivables confirmation and other financial guarantee contracts. The table below shows the liquidity analysis of the Group's off-balance sheet items.

	At 30 June 2021			Total
	Within 1 year	After 1 year but within 5 years	After 5 years	
Bank acceptances	322,600	–	–	322,600
Letters of credit issued	117,035	47	–	117,082
Letters of guarantee issued	19,004	3,737	14	22,755
Undrawn credit card facility	14,668	–	–	14,668
Corporate loan commitments	1,490	168	–	1,658
Block chain receivables confirmation and other financial guarantee contracts	198,423	8,477	–	206,900
Total	673,220	12,429	14	685,663

	At 31 December 2020			Total
	Within 1 year	After 1 year but within 5 years	After 5 years	
Bank acceptances	348,075	–	–	348,075
Letters of credit issued	104,442	38	–	104,480
Letters of guarantee issued	20,522	3,806	15	24,343
Undrawn credit card facility	14,537	–	–	14,537
Corporate loan commitments	520	133	–	653
Block chain receivables confirmation and other financial guarantee contracts	186,323	4,053	–	190,376
Total	674,419	8,030	15	682,464

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XI CAPITAL MANAGEMENT

The core of the Group's capital management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management. The Group prudently determines the objective of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives.

The Group's business has maintained stable growth in recent years and the assets have become increasingly capital intensive. In order to ensure that the capital adequacy ratio meets the regulatory requirements and to maximize the returns to shareholders with the risks under control, the Group has actively expanded the capital replenishment channels from external sources, while continuing to improve the self-generating function in operations, so as to replenish capital from internal sources.

Since 1 January 2013, the Group has calculated and disclosed capital adequacy ratio in accordance with the *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* issued by the former CBRC on 7 June 2012 and other relevant regulations.

Core tier 1 capital includes paid-in capital, capital reserve, surplus reserve, generic risk reserve, retained earnings, and the portion of non-controlling shareholders' capital that may be included in core tier 1 capital. Other tier 1 capital includes other tier 1 capital instruments and their premiums, and the portion of non-controlling shareholders' capital that may be included in other tier 1 capital. Tier 2 capital includes tier 2 capital instruments and their premium, and the portion of excessive allowance for loan losses that may be included, and the portion of non-controlling shareholders' capital that may be included in tier 2 capital.

The Group calculates the capital adequacy ratio in accordance with *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* and relevant requirements is listed as below:

	30 June 2021	31 December 2020
Net core tier 1 capital	116,103	116,378
Net tier 1 capital	131,244	131,503
Net capital	172,397	171,988
Risk-weighted assets	1,387,849	1,330,565
Core tier 1 capital adequacy ratio	8.37%	8.75%
Tier 1 capital adequacy ratio	9.46%	9.88%
Capital adequacy ratio	12.42%	12.93%

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS

1 Fair values of financial assets and liabilities

(1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at balance sheet date on a recurring basis. The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level 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: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities; and

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

The tables below analyzes financial instruments, measured at fair value at the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	30 June 2021			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	–	12,833	–	12,833
Loans and advances to customers	–	212,448	–	212,448
Financial investments				
– measured at FVTPL	10,456	138,185	3,216	151,857
– measured at FVOCI	–	69,355	1,234	70,589
Total assets measured at fair value on a recurring basis	10,456	432,821	4,450	447,727
Financial liabilities at fair value through profit or loss	–	(14,028)	–	(14,028)
Derivative financial liabilities	–	(12,508)	–	(12,508)
Total liabilities measured at fair value on a recurring basis	–	(26,536)	–	(26,536)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(1) Fair value hierarchy *(Continued)*

	31 December 2020			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	-	23,434	-	23,434
Loans and advances to customers	-	200,640	-	200,640
Financial investments				
– measured at FVTPL	14,687	110,818	3,764	129,269
– measured at FVOCI	-	62,013	994	63,007
Total assets measured at fair value on a recurring basis	14,687	396,905	4,758	416,350
Financial liabilities at fair value through profit or loss	-	(9,231)	-	(9,231)
Derivative financial liabilities	-	(23,478)	-	(23,478)
Total liabilities measured at fair value on a recurring basis	-	(32,709)	-	(32,709)

(2) Level 1 fair value measurement

For financial instruments with unadjusted quoted prices in active markets that are observable for identical assets or liabilities, the Group takes the unadjusted quoted price as fair value. The financial instruments defined as level 1 by the Group mainly include open-end funds.

(3) Level 2 fair value measurement

If the main parameters used in the valuation are observable and available from the active open market, the relevant financial instruments are defined as level 2 fair value measurement. The Group's level 2 financial instruments mainly include bond investment, bill discounted, trade finance, foreign exchange forwards and swaps, interest rate swaps, foreign exchange options, and precious metal contracts.

For the fair value of RMB bonds, the Group adopts the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Co., Ltd. according to the bond market. For the fair value of foreign currency bonds, the Group adopts Bloomberg results. For bill discounted and trade finance, the Group adopts discounted cash flow model for valuation. Based on SHIBOR, the Group constructs the interest rate curve by adjusting the credit spread based on credit and liquidity risk.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(3) Level 2 fair value measurement *(Continued)*

For non-derivative financial instruments and some derivative financial instruments including interest rate swaps, foreign exchange forwards etc. that could not be quoted from the active market, the Group adopts discounted cash flow analysis. The main parameters used include the recent transaction price, relevant yield curve, exchange rate and counterparty risk. For the valuation of option derivatives, the Group adopts Black-Scholes model with main parameters of relevant yield curve, exchange rate, volatility, and counterparty risk.

During the reporting period, there were no changes in the valuation techniques used in the Group's recurring Level 2 fair value measurement as described above.

(4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value.

Financial instruments of level 3 fair value adopt discounted cash flow model. Based on the interest rate curve issued by China Central Depository & Clearing Co., Ltd., the Group constructs an interest rate curve by adjusting the credit spreads in accordance with credit risk. The valuation model of level 3 fair value mentioned above involves both observable and unobservable parameters. Observable parameters include the application of market interest rates. Unobservable parameters include credit spreads. Quantitative information of level 3 fair value measurement is as follows:

	Fair value at 30 June 2021	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	945	Discounted cash flow method	Risk-adjusted discount rate
– Trust schemes and asset management plans	63	Net assets analysis	Net assets
– Bonds and asset-backed securities	739	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	1,469	Net assets analysis	Net assets
Financial investments measured at FVOCI			
– Equity investments	1,234	Net assets analysis	Net assets

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement *(Continued)*

	Fair value at 31 December 2020	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	895	Discounted cash flow method	Risk-adjusted discount rate
– Bonds and asset-backed securities	1,394	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	1,475	Net assets analysis	Net assets
Financial investments measured at FVOCI			
– Equity investments	994	Net assets analysis	Net assets

At the balance sheet date, replacing the original unobservable assumptions with other reasonable unobservable assumptions has no significant impact on the measurement results of fair value. The above assumptions and methods provide a unified basis for the calculation of the fair value of the Group's assets and liabilities. However, due to the different methods and assumptions that may be used by other institutions, the fair values disclosed by different financial institutions may not be completely comparable. Reconciliation of the opening and closing balance for assets of level 3 fair value on a recurring basis is as follows:

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Total
At 1 January 2021	3,764	994	4,758
Total gains recognized in profit or loss	12	–	12
Total gains recognized in other comprehensive income	–	(10)	(10)
Purchase	130	250	380
Disposals and settlements	(690)	–	(690)
At 30 June 2021	3,216	1,234	4,450

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement (Continued)

	Financial investments measured at	Financial investments measured at	Total
	FVTPL	FVOCI	
At 1 January 2020	3,562	690	4,252
Total gains recognized in profit or loss	164	2	166
Total gains recognized in other comprehensive income	–	54	54
Purchase	1,151	250	1,401
Disposals and settlements	(1,113)	(2)	(1,115)
At 31 December 2020	3,764	994	4,758

2 Transfers between items measured at different levels of fair value

During the reporting period, there were no transfers, between Level 1, Level 2 and Level 3, of the Group's above assets and liabilities which are measured at fair value.

3 Change in valuation techniques and the rationale

During the reporting period, there were no changes in the valuation techniques adopted by the Group for fair value measurement.

4 Financial assets and liabilities not measured at fair value

All financial instruments of the Group are carried at amounts not materially different from their fair value at the balance sheet date except as follows:

	30 June 2021			Fair Value	Carrying amount
	Level 1	Level 2	Level 3		
Financial assets					
Financial investments measured at AC	–	210,323	142,779	353,102	353,732
Financial liabilities					
Debt securities issued	–	292,304	–	292,304	291,909

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

4 Financial assets and liabilities not measured at fair value *(Continued)*

	31 December 2020			Fair Value	Carrying amount
	Level 1	Level 2	Level 3		
Financial assets					
Financial investments measured at AC	–	192,617	143,486	336,103	336,109
Financial liabilities					
Debt securities issued	–	234,439	–	234,439	236,682

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

The fair value of financial investments measured at AC and debt securities issued are quoted in the valuation system of relevant registration and settlement institutions that employs observable inputs that reflect the market in the formation of quotations. For those quotations not available in relevant institutions, the fair value shall be estimated by discounted cash flow method.

XIII SUBSEQUENT EVENTS

1 Issuance of financial bond of subsidiary of the Bank

On 22 July 2021, financial bond of RMB1.5 billion was issued by Zheyin Financial Leasing at National Inter-bank Bond Market, with a maturity of 3 years and a fixed coupon rate of 3.48%.

XIV COMPARATIVE FIGURES

For the purpose of the presentation of these financial statements, the Group has reclassified individual comparative figures. Furthermore, the Group reclassified the income of credit cards installment from fee and commission income to interest income and restated the comparative figures for the six months ended 30 June 2020.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

I ILLUSTRATION OF DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRSs AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

There are no differences between the profit attributable to equity holders of the Bank under IFRSs and PRC GAAP for the six months ended 30 June 2021 (for the six months ended 30 June 2020: no differences). There are no differences between the equity attributable to equity holders of the Bank under IFRSs and PRC GAAP at 30 June 2021 (31 December 2020: no differences).

II LIQUIDITY COVERAGE RATIO

	30 June 2021	31 December 2020
Liquidity Coverage Ratio	114.63%	111.49%

The liquidity coverage ratio is calculated in accordance with the relevant requirements of the CBIRC.

III INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. International claims are local claims in foreign currencies and cross-border claims.

International claims include balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

III INTERNATIONAL CLAIMS *(Continued)*

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Bank	Official sector	Non-bank private sector	Total
At 30 June 2021				
Local claims in foreign currencies	5,413	6,328	33,072	44,813
Asia Pacific excluding Mainland China	39,186	219	23,498	62,903
– of which attributed to Hong Kong	13,464	219	23,172	36,855
Europe	1,666	–	2,241	3,907
North America	5,674	1,082	749	7,505
Oceania	6,646	–	–	6,646
Total	58,585	7,629	59,560	125,774

	Bank	Official sector	Non-bank private sector	Total
At 31 December 2020				
Local claims in foreign currencies	8,255	3,255	23,660	35,170
Asia Pacific excluding Mainland China	9,409	226	18,804	28,439
– of which attributed to Hong Kong	7,661	226	18,804	26,691
Europe	307	–	–	307
North America	7,500	719	3,104	11,323
Oceania	130	–	–	130
Total	25,601	4,200	45,568	75,369

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

IV CURRENCY CONCENTRATIONS

	RMB Equivalent			Total
	USD	HKD	Others	
At 30 June 2021				
Spot assets	114,999	7,174	4,536	126,709
Spot liabilities	(49,694)	(1,410)	(3,070)	(54,174)
Forward purchases	347,924	323	18,814	367,061
Forward sales	(413,363)	(216)	(22,548)	(436,127)
Net options position	(7,174)	–	(4,205)	(11,379)
Net (short)/long position	(7,308)	5,871	(6,473)	(7,910)

	RMB Equivalent			Total
	USD	HKD	Others	
At 31 December 2020				
Spot assets	66,884	6,254	2,774	75,912
Spot liabilities	(40,289)	(1,247)	(1,457)	(42,993)
Forward purchases	304,109	1,111	17,487	322,707
Forward sales	(318,334)	–	(14,705)	(333,039)
Net options position	(4,859)	–	45	(4,814)
Net long position	7,511	6,118	4,144	17,773

V NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business conducted in Mainland China. At 30 June 2021, the Group's non-bank exposures are substantially arising from businesses with Mainland China corporates and individuals.

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