



Building a First-class Wealth Management Bank

Stock Code: 6818



2021 中期報告

INTERIM REPORT



中國光大銀行股份有限公司

China Everbright Bank Company Limited

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



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Important Notice and Definitions

I. IMPORTANT NOTICE

- i. The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this Report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this Report.
- ii. The 30th Meeting of the Eighth Session of the Board of Directors of the Bank was convened in Beijing on 30 August 2021, at which the *2021 Interim Report* of the Bank was considered and approved. 13 out of 13 Directors attended the meeting in person. Director Liu Chong was authorized in writing by Director Yao Wei, who was unable to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his behalf. 6 Supervisors were present at the meeting as non-voting attendees.
- iii. The financial statements of the Bank for the first half of 2021 were prepared in accordance with the PRC Generally Accepted Accounting Principles (“PRC GAAP”) and the International Financial Reporting Standards (“IFRS”) and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively.
- iv. Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Fu Wanjun, President, and Mr. Sun Xinhong, General Manager of Finance and Accounting Department, hereby warrant the authenticity, accuracy and completeness of the financial report in this Report. President Fu Wanjun is in charge of finance.
- v. Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.
- vi. The Bank did not implement any profit distribution or capitalization of capital reserves for the first half of 2021.
- vii. Forward-looking statements such as future plans of the Bank mentioned in this Report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.
- viii. The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to “Management Discussion and Analysis” for details.
- ix. In this Report, “the Bank”, “whole Bank” and “China Everbright Bank” all refer to China Everbright Bank Company Limited, and “the Group” refers to China Everbright Bank Company Limited and its subsidiaries.

II. DEFINITIONS

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

Ministry of Finance	:	Ministry of Finance of the People’s Republic of China
Central Bank	:	The People’s Bank of China
CBIRC	:	China Banking and Insurance Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CHI	:	Central Huijin Investment Ltd.
China Everbright Group	:	China Everbright Group Ltd.
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited
EY Hua Ming	:	Ernst & Young Hua Ming (LLP)
EY	:	Ernst & Young

Company Profile

I. NAME OF THE BANK

Registered Chinese Company Name: 中國光大銀行股份有限公司 (Abbreviation: 中國光大銀行 or 光大銀行)
 Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED (Abbreviation: CEB BANK)

II. RELEVANT PERSONS

Legal Representative: Li Xiaopeng
 Authorized Representatives: Fu Wanjun, Li Jiayan
 Secretary to the Board of Directors and Company Secretary: Li Jiayan
 Securities Affairs Representative: Li Jiayan
 Assistant to Company Secretary: Lee Mei Yi

III. CONTACTS

Contact Address: China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing
 Postal Code: 100033
 Tel.: 86-10-63636363
 Facsimile: 86-10-63636713
 E-mail: IR@cebbank.com
 Investor Hotline: 86-10-63636388
 Customer Service/Complaint Hotline: 95595

IV. CORPORATE INFORMATION

Registered and Office Address: China Everbright Center, No. 25 and No. 25 A Taipingqiao Avenue, Xicheng District, Beijing
 The Bank's Website: www.cebbank.com
 Uniform Social Credit Code: 91110000100011743X
 Code of Financial Authority: B0007H111000001
 Scope of Business: Taking deposits from the public; granting short-term, medium-term and long-term loans; handling domestic and overseas settlement; handling bill acceptance and discount; issuing financial bonds; issuing, honoring and underwriting government bonds as an agent; trading of government bonds and financial bonds; interbank borrowing and lending; trading and agency trading of foreign exchange; bank card business; providing L/C services and guarantee; agency collection and payment and insurance services; safe deposit box services; other businesses approved by CBIRC.

V. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

CEB Hong Kong Branch: 23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong

VI. WEBSITES AND NEWSPAPERS DESIGNATED FOR INFORMATION DISCLOSURE

Websites Designated for Publication of A Share Interim Report:
 SSE's Website: www.sse.com.cn
 The Bank's Website: www.cebbank.com
 Newspaper: *China Securities Journal*, *Shanghai Securities News*, *Securities Times*, *Securities Daily*
 Websites Designated for Publication of H Share Interim Report:
 HKEX's Website: www.hkex.com.hk
 The Bank's Website: www.cebbank.com
 Copies of Interim Report are available at: Office of Board of Directors of the Bank, Shanghai Stock Exchange

Company Profile

VII. STOCK EXCHANGES FOR LISTING OF SHARES

A Shares: Shanghai Stock Exchange (SSE)

Abbreviated Name of Ordinary Shares: Everbright Bank; Code: 601818

Abbreviated Name of Preference Shares: Everbright P1; Everbright P2, Everbright P3; Code: 360013, 360022, 360034 (SSE Comprehensive Business Platform)

Abbreviated Name of Bond: Everbright Convertible Bonds; Code: 113011

H Shares: Hong Kong Exchanges and Clearing Limited (HKEX)

Abbreviated Name: CEB Bank; Code: 6818

VIII. AUDITORS DURING THE REPORTING PERIOD

Domestic Auditor: Ernst & Young Hua Ming LLP

Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing

Certified Public Accountants for Signature: Xu Xuming, Hong Xiaodong

Overseas Auditor: Ernst & Young

Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

Certified Public Accountant for Signature: Choi Kam Cheong, Geoffrey

IX. LEGAL ADVISORS TO THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD

A Share Legal Advisor: Jun He Law Offices

H Share Legal Advisor: Clifford Chance LLP

X. SECURITIES DEPOSITORY

A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited

Office Address: 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai

H Share Registrar: Computershare Hong Kong Investor Services Limited

Office Address: Rooms 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong

Summary of Accounting Data and Financial Indicators

I. KEY FINANCIAL DATA AND INDICATORS

Item	January-June 2021	January-June 2020	Change (%)	January-June 2019
Operating performance (RMB million)				
Net interest income	55,897	54,666	2.25	49,183
Net fee and commission income	15,005	14,133	6.17	12,749
Operating income	77,151	72,157	6.92	66,224
Operating expenses	(21,245)	(19,446)	9.25	(18,363)
Impairment losses on assets	(28,713)	(30,673)	(6.39)	(23,379)
Profit before tax	27,186	22,038	23.36	24,482
Net profit	22,506	18,421	22.18	20,484
Net profit attributable to shareholders of the Bank	22,436	18,363	22.18	20,444
Per share (in RMB)				
Basic earnings per share ¹	0.37	0.31	19.35	0.37
Diluted earnings per share ²	0.33	0.28	17.86	0.33
Item	30 June 2021	31 December 2020	Change (%)	31 December 2019
Net assets per share attributable to ordinary shareholders of the Bank ³	6.62	6.45	2.64	6.10
Scale indicators (RMB million)				
Total assets	5,772,796	5,368,110	7.54	4,733,431
Total loans and advances to customers	3,238,622	3,009,482	7.61	2,712,204
Provision for impairment of loans ⁴	80,227	75,533	6.21	76,228
Total liabilities	5,308,658	4,913,112	8.05	4,347,377
Deposits from customers	3,692,419	3,480,667	6.08	3,017,888
Total equity	464,138	454,998	2.01	386,054
Total equity attributable to shareholders of the Bank	462,539	453,449	2.00	384,982
Share capital	54,032	54,032	–	52,489
Item	January-June 2021	January-June 2020	Change	January-June 2019
Profitability indicators (%)				
Return on average total assets ⁵	0.81	0.73	+0.08 percentage point	0.91
Return on weighted average equity ⁵	11.06	10.05	+1.01 percentage points	12.90
Net interest spread	2.11	2.20	-0.09 percentage point	2.15
Net interest margin	2.20	2.30	-0.10 percentage point	2.28
Proportion of fee and commission income in operating income	19.45	19.59	-0.14 percentage point	19.25
Cost-to-income ratio	26.47	25.91	+0.56 percentage point	26.68
Item	30 June 2021	31 December 2020	Change	31 December 2019
Asset quality indicators (%)				
Non-performing loan ratio	1.36	1.38	-0.02 percentage point	1.56
Provision coverage ratio ⁶	184.06	182.71	+1.35 percentage points	181.62
Provision-to-loan ratio ⁷	2.51	2.53	-0.02 percentage point	2.83

Summary of Accounting Data and Financial Indicators

Notes:

1. Basic earnings per share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank = net profit attributable to shareholders of the Bank – dividends of the preference shares distributed during the period – interest of non-fixed-term capital bonds issued in the period.

The Bank distributed dividends of RMB2,570 million (before tax) on the preference shares in the first half of 2021.

2. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).
3. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instruments – non-fixed capital bonds of other equity instruments)/total number of ordinary shares at the end of the period.
4. It only includes provision for impairment of loans measured at amortized cost.
5. Both return on average total assets and return on weighted average equity are annualized. Return on weighted average equity = net profit attributable to ordinary shareholders of the Bank/weighted average equity attributable to ordinary shareholders of the Bank.
6. Provision coverage ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/balance of non-performing loans (NPLs).
7. Provision-to-loan ratio = (provision for impairment of loans measured at amortized cost + provision for impairment of loans at fair value through other comprehensive income)/total loans and advances to customers.

The above figures with notes 1, 2, 3 and 5 were calculated according to the *Compilation Rules for Information Disclosure by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Return on Equity and Earnings per Share* (2010 Revision) issued by CSRC.

II. SUPPLEMENTARY FINANCIAL INDICATORS

Unit: %

Item	Standard value	30 June 2021	31 December 2020	31 December 2019
Liquidity ratio ^{Note}				
RMB	≥25	65.86	66.07	72.63
Foreign currency	≥25	131.76	127.90	93.29
Loan exposure to largest single customer ratio	≤10	2.28	2.08	1.86
Loan exposure to top ten customers ratio	≤50	9.17	8.77	10.91

Note: Liquidity ratio indicators were calculated on non-consolidation basis.

III. CAPITAL COMPOSITION AND CHANGES

The capital adequacy ratio (CAR) indicators calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (Decree No.1 of CBRC in 2012) are as follows:

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Consolidated ¹	Non-consolidated	Consolidated ¹	Non-consolidated
Net capital ²	543,772	518,952	533,530	510,723
Common equity tier-1 capital	358,828	351,459	349,479	343,403
Common equity tier-1 capital deductions	(3,483)	(16,429)	(3,457)	(16,407)
Net common equity tier-1 capital ²	355,345	335,030	346,022	326,996
Additional tier-1 capital	105,057	104,899	105,023	104,899
Additional tier-1 capital deductions	–	–	–	–
Net tier-1 capital ²	460,402	439,929	451,045	431,895
Tier-2 capital	83,370	79,023	82,485	78,828
Tier-2 capital deductions	–	–	–	–
Credit risk-weighted assets	3,749,474	3,628,872	3,557,272	3,443,491
Market risk-weighted assets	52,453	51,494	39,705	38,193
Operational risk-weighted assets	240,503	235,050	240,512	235,050
Total risk-weighted assets	4,042,430	3,915,416	3,837,489	3,716,734
Common equity tier-1 CAR	8.79	8.56	9.02	8.80
Tier-1 CAR	11.39	11.24	11.75	11.62
CAR	13.45	13.25	13.90	13.74

Notes:

- All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Capital Rules for Commercial Banks (Provisional)*, shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Everbright Wealth Management Co., Ltd., Beijing Sunshine Consumer Finance Co., Ltd., CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A., Shaoshan Everbright Rural Bank Co., Ltd., Jiangsu Huai'an Everbright Rural Bank Co., Ltd., and Jiangxi Ruijin Everbright Rural Bank Co., Ltd.
- Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

IV. LEVERAGE RATIO

The leverage ratio indicators calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (Decree No.1 of CBRC in 2015) are as follows:

Unit: RMB million, %

Item	30 June 2021	31 March 2021	31 December 2020	30 September 2020
Leverage ratio	6.85	7.03	7.03	6.89
Net tier-1 capital	460,402	460,669	451,045	437,111
Adjusted balance of on- and off-balance-sheet assets	6,719,012	6,556,825	6,416,774	6,339,937

Please refer to “Unaudited Supplementary Financial Information” for more details on leverage ratio.

Summary of Accounting Data and Financial Indicators

V. LIQUIDITY COVERAGE RATIO

The liquidity coverage ratio indicators calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks* (Decree No.3 of CBIRC in 2018) are as follows:

Unit: RMB million, %

Item	30 June 2021	31 March 2021	31 December 2020	30 September 2020
Liquidity coverage ratio	144.97	130.24	150.47	134.70
High quality liquid assets	789,952	736,236	704,706	761,440
Net cash outflow in the next 30 days	544,893	565,308	468,333	565,283

VI. NET STABLE FUNDING RATIO

The net stable funding ratios calculated in accordance with the *Measures for the Information Disclosure Regarding Net Stable Funding Ratios of Commercial Banks* (CBIRC [2019] No.11) are as follows:

Unit: RMB million, %

Item	30 June 2021	31 March 2021	31 December 2020	30 September 2020
Net stable funding ratio	104.90	104.16	107.29	107.08
Available stable funding	3,207,969	3,151,796	3,111,968	3,025,959
Required stable funding	3,058,248	3,025,821	2,900,616	2,825,925

Please refer to “Unaudited Supplementary Financial Information” for more details on net stable funding ratio.

Management Discussion and Analysis

I. REVIEW OF MAIN WORK

i. Supporting the real economy, fulfilling its mission as a central state-owned enterprise and undertaking its social responsibilities

The Bank went all out to support inclusive finance and achieved the regulatory target of “Two Increases and Two Controls” as planned. It vigorously developed green finance and facilitated green and low-carbon transformation. To be specific, the growth rate of green loans was 1 percentage point higher than that of the Bank’s total loans, and the growth rate of loans to the clean energy industry was 11 percentage points higher than that of the Bank’s total loans. It provided better services for manufacturing enterprises, implementing a whitelist policy for key manufacturing customers and expanding the authorization of loan pricing. It also actively assisted in the development of private enterprises, with both quality and efficiency of private enterprise services further improving. Due to its extensive promotion of the convenient services for people’s livelihood, the Bank’s “Cloud Fee Payment” platform provided customers with over 11,000 service items, with the focuses on social security, non-tax revenue, fee payment, capital supervision and other application scenarios. Besides, the “Mass Craftsmen Card” was promoted to provide wage guarantees for migrant workers.

ii. Pushing forward its “Leap Development Plan”, coordinating scale and profit growth and realizing improvement in both quality and scale

All business indicators of the Bank maintained a sound momentum. Specifically, assets grew steadily with decreasing deposit cost; financial indicators were stable and improved, where operating income and net profit grew well, and the return on weighted average equity increased by 1.01 percentage points year on year; overseas institutions showed a good prospect continuously, with the establishment of Macao Branch and other overseas institutions progressing in an orderly manner; the market image continued to improve, and the brand value kept increasing. The Bank ranked 32nd in Top 1,000 World Banks by *The Banker*, a U.K magazine, up 3 places over the previous year and up 17 places over the past four years cumulatively.

iii. Advancing wealth management services with its own features and accelerating the development of key businesses

The Bank put more emphasis on the guiding role of wealth management. Its retail banking businesses realized a leapfrogging development with AUM exceeding RMB2 trillion and the operating income accounting for 41.46% of the Bank’s total. The number of wealth management customers exceeded 1 million for the first time, and that of CEB Mobile Banking, “Sunshine Life” and “Cloud Fee Payment” App users reached 155 million in total. The corporate banking businesses achieved record-breaking growth, with corporate deposits standing at a historic high, while corporate deposits and loans ranked among the best in both amount and growth rate among peers. New driving engines were formed through intra-Everbright coordination, including “Enjoy Sunshine”-branded CEB health and elderly care and other featured elderly care financial services and “Everbright Supermarket” opening more outlets successfully.

iv. Utilizing fintech innovations to empower traditional businesses and improve efficiency

The Bank continued to deepen the digital transformation of retail banking. As a result, the substitution rate of retail electronic transaction channels was 98.83%, customer satisfaction rate of remote services reached 99.52%, and monthly active customers of mobile banking increased by 32.48% year on year; the special mobile banking version for private banking customers was launched as an online operation system to improve the AUM of long tail customers; more technologies were applied to corporate banking businesses and hit digital products, making the substitution rate of corporate electronic transaction channels climb to 93.94%; Corporate Mobile Banking V1.0 was launched, enriching its strategic scope of mobile finance; Everbright Dual Chain (Blockchain-powered supply chain finance), also called “Guang Xin Tong”, was among the first to be integrated into PBOC’s fintech innovation management service platform, and Logistics Express (Wu Liu Tong) won the gold prize of “Special Innovation Award” in China Financial Digital Technology Innovation Competition.

Management Discussion and Analysis

v. Conducting comprehensive risk management and enhancing bottom-line thinking to ensure the security of the Bank

The asset quality maintained a good momentum of steady growth, and the risk resistance capabilities were intensified, with decreasing non-performing loan ratio, ratio of special mention loans and ratio of overdue loans and increasing provision coverage ratio. The Bank improved risk control system and mechanism, and further strengthened unified credit management. In particular, it established a penetrating risk monitoring mechanism for large-value credit customers to prevent the concentration risk of large-value credits, and strictly controlled businesses that were included in local governments' hidden debts. The Bank also deepened research on key industries and equipped itself with a team managing risk policies across the Bank. Additionally, it formulated and fully implemented the work plan of "peaking carbon emissions and achieving carbon neutrality", and integrated green finance requirements into the whole process of investment and financing management.

II. DEVELOPMENT STRATEGY OF THE BANK

During the reporting period, the Bank laid down the *Rolling Strategic Plan for 2021-2025*, according to which, the "Leap Development Plan" will be implemented for the next two years in order to consolidate the feature of the Bank as a wealth management bank and further the development of the Bank's operations. First, the Bank aims to achieve leap development in profitability. The Bank will strengthen the concept of capital constraint, optimize business structure, and improve risk management and pricing capability, to promote endogenous growth of capital. Second, the Bank aims to achieve leap development in business scale. The Bank will adhere to high-quality development by introducing innovative products and optimizing services, consolidate corporate banking businesses, accelerate retail banking transformation, and give play to its advantages in financial market business, thereby expanding the Bank's market share. Third, the Bank aims to achieve leap development in featured wealth management business. The Bank will devote greater efforts in channel operation, customer operation, product marketing and process management, strengthen wealth integration and organization ability for corporate customers, improve wealth preservation and appreciation ability for retail customers, and promote the building of wealth management V3.0. Fourth, the Bank aims to achieve leap development in customer base. The Bank will enlarge the size of corporate customers by building platforms, expanding channels and strengthening coordination. It will enrich financial service scenarios through public-private business linkage, "debit card+credit card" linkage, collaborative migration and cross-selling, to explore the potential of the retail customer base. Fifth, the Bank aims to achieve leap development in risk management and control. The Bank will optimize the five systems of strategic management and control, business management, incentives and constraints, sci-tech innovation and corporate culture, so as to boost governance capacity, enhance overall management of asset quality, and strictly forestall various risks.

III. BUILDING OF A WEALTH MANAGEMENT BANK

i. Wealth management transformation achieved progress

As at the end of the reporting period, the operating income of retail banking reached RMB31,985 million, accounting for 41.46% of the Bank's total operating income. The Bank had 131 million retail customers, including more than 1 million wealth management customers, up 5.33% from the end of the previous year. The number of private banking customers reached 46,000, an increase of 14.61% from the end of the previous year. The customer base had a better quality. The assets under management (AUM) of retail customers of the Bank reached RMB2.02 trillion, up 5.34% from the end of the previous year. The Bank's fee-based income of green business was RMB5,786 million, up 12.60% year on year.

ii. Hit wealth management products gained competitive edges

The Cloud Fee Payment platform maintained its leading edge as China's largest open-ended platform for fee payment, covering 11,209 fee payment items, up 11.64% from the end of the previous year. The "Colorful Sunshine" net-asset-value (NAV) product system was increasingly diversified with the product scale totaling RMB663.92 billion and accounting for 75.69% of the total. The "Sunshine E-financing chain" had an accumulative transaction volume of RMB47,939 million, serving 414 core enterprises and facilitating the financing of 2,633 suppliers. The "Forfeiting Blockchain" had a transaction volume of nearly RMB230 billion. The Bank became the occupational annuity custodian in 33 provinces and autonomous regions in China, the only joint-stock commercial bank bidder awarded contracts for all these projects. The "Auto Full Pass" product served 3,861 auto dealers. The "Sunshine Exchange Gain" product registered over RMB35 billion in agency derivatives trading.

iii. Development driven by Wealth E-SBU made prominent results

The Bank further implemented the wealth E-SBU coordination strategy by strengthening top-level design, increasing assessment and evaluation efforts, accelerating building an ecosphere that integrates personal customers, corporate customers and cloud life business, carrying out the "Chief Agreement Director" mechanism for strategic customers and stepping up the construction of regional coordination centers. As at the end of the reporting period, the total value of collaborative business stood at RMB1.62 trillion, up 1.89% year on year. The coordination operating income reached RMB5.68 billion, up 16.39% year on year. The coordination fee-based income totaled RMB1.83 billion, up 21.19% year on year.

IV. ANALYSIS ON CORE COMPETITIVENESS OF THE BANK

First, the Bank has distinguished background of shareholders engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licenses. China Everbright Group is a large financial holding group directly under the administration of the central government, and also one of the Fortune Global 500 companies. Its business scope encompasses financial services and non-financial industries including environmental protection, tourism, health and high-tech. Relying on the platform of China Everbright Group, which has a global presence with its main business covering both Chinese mainland to Hong Kong SAR, the Bank could provide a full package of financial services and promote the coordinated development of finance and industry.

Second, the Bank has advantages in its unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine, Innovating Life", the Bank has stepped up its efforts to build the "Sunshine" brand series and develop hit products, leveraging on modern technologies and digital means. There is an array of products with distinctive features including Sunshine Supply Chain, Cloud Fee Payment, Sunshine E-Grain Loan, Sunshine Annuity, Sunshine Exchange Gain and "Colorful Sunshine" wealth management products. "Sunshine" series products have enjoyed high market recognition and become a brand with competitive edges.

Third, the Bank has an outstanding innovative gene. The Bank was established in the trends of competitive financial market in China, and grew stronger through exploration and innovation. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform, Cloud Fee Payment, endeavored to build Wealth E-SBU, and achieved remarkable innovation results. The Bank has cultivated a favorable fintech innovation environment and put in place the "123+N" digital Everbright development system, namely a combination of one smart brain, two technological platforms, three service capabilities and N digital hit products, demonstrating advantages in tech empowerment.

Management Discussion and Analysis

Fourth, the Bank possesses comparative competitive advantages in wealth management business. The Bank has devoted itself to building a first-class wealth management bank. Its investment banking business as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system by opening its platforms, which has developed into an industry-leading business model. Its transaction banking business has vigorously promoted tech empowerment to expand and strengthen online businesses, with strong capabilities in product innovation and comprehensive financial services. In addition, the Bank keeps improving its capabilities for value creation and high-quality development in retail banking business, which makes significant contributions to the stable and sustainable development of the Bank.

Fifth, the Bank operates in a prudent and sound manner. The Bank has always upheld the prudent risk management philosophy, adhered to stable business development strategies and taken compliant operating measures. The comprehensive risk management methods and techniques are increasingly diversified to ensure effective control of asset quality. The management system is continuously improved to make risk management more proactive, forward-looking and predictable.

Sixth, the Bank has strong talent support. In recent years, being strategy-focused and market-oriented, the Bank has selected and promoted capable and suitable talents to invigorate human resources. Therefore, all CEB staff are pulled together with an enterprising spirit, and a powerful momentum to achieve a new high has been formed, which provides support in human resources for building the Bank into a first-class wealth management bank.

V. OVERALL OPERATIONS OF THE BANK

i. Business scale realized steady growth, and liability cost was reduced.

As at the end of the reporting period, total assets of the Group posted RMB5,772,796 million, representing an increase of RMB404,686 million or 7.54% as compared with the end of the previous year. Total loans and advances to customers stood at RMB3,238,622 million, representing an increase of RMB229,140 million or 7.61% as compared with the end of the previous year. The balance of deposits reached RMB3,692,419 million, representing an increase of RMB211,752 million or 6.08% as compared with the end of the previous year.

During the reporting period, the Group optimized liability structure and strengthened cost control. As a result, the average cost ratio of interest-bearing liabilities was 2.34%, down 14 BPs year on year. Both quality and scale of liabilities were improved, effectively increasing the scale and reducing the costs of asset investment to better serve the real economy.

ii. Operating income continued to increase, and profitability improved significantly.

The Group earnestly implemented the decisions on reasonable fee deductions and interest concessions in the banking industry made by the CPC Central Committee and the State Council. Fully performing its social responsibilities as a state-owned financial institution, the Group offered a series of preferential policies including lowering interest rates, reducing or exempting fees, and postponing repayment of loan principal and interest. During the reporting period, operating income of the Group registered RMB77,151 million, a year-on-year increase of 6.92%. Specifically, net interest income posted RMB55,897 million, up 2.25% year on year; net fee and commission income registered RMB15,005 million, up 6.17% year on year; net profit reached RMB22,506 million, up 22.18% year on year, indicating a significant growth of profitability; return on average total assets was 0.81%, up 0.08 percentage point year on year; return on weighted average equity was 11.06%, up 1.01 percentage points year on year.

iii. Asset quality continued to consolidate, and risk indicators improved.

As at the end of the reporting period, the balance of the Group's non-performing loans (NPLs) amounted to RMB44,128 million, an increase of RMB2,462 million as compared with the end of the previous year. The NPL ratio reported 1.36%, down 0.02 percentage point as compared with the end of the previous year. The ratio of special mention loans was 1.90%, a decrease of 0.25 percentage point as compared with the end of the previous year. The ratio of overdue loans stood at 2.05%, a decrease of 0.10 percentage point as compared with the end of the previous year. Provision coverage ratio reached 184.06%, up 1.35 percentage points over the end of the previous year.

iv. Capital strength was enhanced, continuously meeting regulatory requirements.

As at the end of the reporting period, the Group's net capital registered RMB543,772 million, an increase of RMB10,242 million or 1.92% as compared with the end of the previous year. The CAR, tier-1 CAR and common equity tier-1 CAR was 13.45%, 11.39% and 8.79% respectively, all of which met the regulatory requirements.

VI. INCOME STATEMENT ANALYSIS

i. Changes in items of income statement

Unit: RMB million

Item	January-June 2021	January-June 2020	Change
Net interest income	55,897	54,666	1,231
Net fee and commission income	15,005	14,133	872
Net trading gains	1,230	57	1,173
Dividend income	1	1	–
Net gains arising from investment securities	4,317	2,754	1,563
Gains on derecognition of financial assets measured at amortized cost	85	25	60
Net foreign exchange gains	82	71	11
Other net operating gains	534	450	84
Operating expenses	21,245	19,446	1,799
Impairment losses on credit	28,734	30,526	(1,792)
Impairment losses on other assets	(21)	147	(168)
Losses on investments of joint ventures	7	–	N/A
Profit before tax	27,186	22,038	5,148
Income tax	4,680	3,617	1,063
Net profit	22,506	18,421	4,085
Net profit attributable to equity shareholders of the Bank	22,436	18,363	4,073

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB77,151 million, a year-on-year increase of RMB4,994 million or 6.92%. Net interest income accounted for 72.45%, down 3.31 percentage points year on year. Net fee and commission income accounted for 19.45%, down 0.14 percentage point year on year.

Unit: %

Item	January-June 2021	January-June 2020
Net interest income	72.45	75.76
Net fee and commission income	19.45	19.59
Other income	8.10	4.65
Total operating income	100.00	100.00

Management Discussion and Analysis

iii. Net interest income

During the reporting period, the Group realized net interest income of RMB55,897 million, a year-on-year increase of RMB1,231 million or 2.25%.

The Group's net interest spread reported 2.11%, a year-on-year decrease of 9 BPs. Its net interest margin was 2.20%, down 10 BPs year on year, mainly due to the increasing scale of interest-earning assets.

Unit: RMB million, %

Item	January-June 2021			January-June 2020		
	Average balance	Interest income/expense	Average yield/cost ratio	Average balance	Interest income/expense	Average yield/cost ratio
Interest-earning assets						
Loans and advances to customers	3,142,722	80,434	5.16	2,846,390	78,164	5.52
Finance lease receivables	106,783	3,094	5.84	90,851	2,714	6.01
Investments	1,400,472	26,166	3.77	1,279,267	26,047	4.09
Deposits with the central bank	332,802	2,439	1.48	360,973	2,570	1.43
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	140,385	952	1.37	199,045	1,625	1.64
Total interest-earning assets	5,123,164	113,085	4.45	4,776,526	111,120	4.68
Interest income		113,085			111,120	
Interest-bearing liabilities						
Deposits from customers	3,471,328	37,947	2.20	3,344,949	39,368	2.37
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	922,904	11,416	2.49	861,213	11,166	2.61
Debt securities issued	534,323	7,825	2.95	363,860	5,920	3.27
Total interest-bearing liabilities	4,928,555	57,188	2.34	4,570,022	56,454	2.48
Interest expenses		57,188			56,454	
Net interest income		55,897			54,666	
Net interest spread¹			2.11			2.20
Net interest margin²			2.20			2.30

Notes:

1. Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
2. Net interest margin is the net interest income divided by the average balance of total interest-earning assets.

The following table sets forth the changes in interest income and interest expenses of the Group due to changes in business scale and interest rate:

Unit: RMB million

Item	Scale factor	Interest rate factor	Change in interest
Loans and advances to customers	8,137	(5,867)	2,270
Finance lease receivables	476	(96)	380
Investments	2,468	(2,349)	119
Deposits with the central bank	(201)	70	(131)
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	(479)	(194)	(673)
Changes in interest income	10,401	(8,436)	1,965
Deposits from customers	1,487	(2,908)	(1,421)
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	800	(550)	250
Debt securities issued	2,773	(868)	1,905
Changes in interest expenses	5,060	(4,326)	734
Changes in net interest income	5,341	(4,110)	1,231

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB113,085 million, a year-on-year increase of RMB1,965 million or 1.77%. Such increase was mainly attributed to the growing interest income from loans and advances to customers.

1. Interest income from loans and advances to customers

During the reporting period, the Group's interest income from loans and advances to customers amounted to RMB80,434 million, a year-on-year increase of RMB2,270 million or 2.90%. Such increase was mainly due to the expanding loan scale.

Unit: RMB million, %

Item	January-June 2021			January-June 2020		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,744,410	38,051	4.40	1,602,063	38,801	4.87
Personal loans	1,325,916	41,335	6.29	1,161,770	38,142	6.60
Discounted bills	72,396	1,048	2.92	82,557	1,221	2.97
Loans and advances to customers	3,142,722	80,434	5.16	2,846,390	78,164	5.52

Management Discussion and Analysis

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB26,166 million, a year-on-year increase of RMB119 million or 0.46%. Such increase was mainly due to the expanding investment scale.

3. Interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB952 million, a year-on-year decrease of RMB673 million or 41.42%. The drop was mainly attributed to the decrease of both the scale and yield of the above-mentioned assets.

v. Interest expenses

During the reporting period, the Group's interest expenses amounted to RMB57,188 million, representing a year-on-year increase of RMB734 million or 1.30%. Such increase was mainly due to the growing interest expenses arising from debt securities issued.

1. Interest expenses on deposits from customers

During the reporting period, the Group's interest expenses on deposits from customers amounted to RMB37,947 million, a year-on-year decrease of RMB1,421 million or 3.61%. Such decrease was mainly due to the decreased interest rate of deposits from customers.

Unit: RMB million, %

Item	January-June 2021			January-June 2020		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
Corporate deposits	2,668,602	28,206	2.13	2,572,314	29,166	2.28
Demand deposits	860,012	3,693	0.87	813,070	3,194	0.79
Time deposits	1,808,590	24,513	2.73	1,759,244	25,972	2.97
Personal deposits	802,726	9,741	2.45	772,635	10,202	2.66
Demand deposits	238,370	1,046	0.88	226,016	451	0.40
Time deposits	564,356	8,695	3.11	546,619	9,751	3.59
Total deposits from customers	3,471,328	37,947	2.20	3,344,949	39,368	2.37

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

During the reporting period, the Group's interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB11,416 million, representing an increase of RMB250 million or 2.24% year on year. Such increase was mainly due to the expanding scale.

3. Interest expenses on debt securities issued

During the reporting period, the Group's interest expenses on debt securities issued totaled RMB7,825 million, a year-on-year increase of RMB1,905 million or 32.18%. Such increase was mainly due to the increase of the scale of debt securities issued.

vi. Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB15,005 million, a year-on-year increase of RMB872 million or 6.17%. Such rise was mainly due to the increase in wealth management service fees, which grew by RMB498 million or 34.04% year on year.

Item	Unit: RMB million	
	January-June 2021	January-June 2020
Fee and commission income	16,322	15,377
Underwriting and advisory fees	801	907
Bank card service fees	6,583	6,253
Settlement and clearing fees	1,326	1,291
Wealth management service fees	1,961	1,463
Acceptance and guarantee fees	924	985
Agency services fees	2,177	2,144
Custody and other fiduciary business fees	1,065	958
Others	1,485	1,376
Fee and commission expenses	(1,317)	(1,244)
Net fee and commission income	15,005	14,133

vii. Other income

During the reporting period, the Group's other income stood at RMB6,249 million, representing a year-on-year increase of RMB2,891 million. The increase was mainly due to the increase of net gains arising from investment securities.

Item	Unit: RMB million	
	January-June 2021	January-June 2020
Net trading gains	1,230	57
Dividend income	1	1
Net gains arising from investment securities	4,317	2,754
Gains on derecognition of financial assets measured at amortized cost	85	25
Net foreign exchange gains	82	71
Other operating income	534	450
Total other income	6,249	3,358

Management Discussion and Analysis

viii. Operating expenses

During the reporting period, the Group incurred operating expenses of RMB21,245 million, an increase of RMB1,799 million or 9.25% year on year. Cost-to-income ratio stood at 26.47%, up 0.56 percentage point year on year.

Unit: RMB million

Item	January-June 2021	January-June 2020
Staff costs	12,318	11,294
Premises and equipment expenses	3,271	2,978
Tax and surcharges	821	752
Others	4,835	4,422
Total operating expenses	21,245	19,446

ix. Impairment losses on assets

During the reporting period, the Group pursued an objective and prudent provisioning policy, continued to consolidate the provision foundation and increased risk resistance capabilities. It sustained impairment losses on assets totaling RMB28,713 million, representing a year-on-year decrease of RMB1,960 million or 6.39%.

Unit: RMB million

Item	January-June 2021	January-June 2020
Impairment losses on loans and advances to customers	26,847	29,275
Loans and advances to customers measured at amortized cost	26,446	29,189
Loans and advances to customers at fair value through other comprehensive income	401	86
Impairment losses on debt instruments at fair value through other comprehensive income	24	(344)
Impairment losses on financial investments measured at amortized cost	758	413
Impairment losses on finance lease receivables	322	622
Others	762	707
Total impairment losses on assets	28,713	30,673

x. Income tax

During the reporting period, the Group incurred an income tax of RMB4,680 million, an increase of RMB1,063 million or 29.39% year on year, mainly due to the increase in profit before tax.

VII. BALANCE SHEET ANALYSIS

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB5,772,796 million, an increase of RMB404,686 million or 7.54% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	3,238,622		3,009,482	
Loan accrued interest	9,030		8,486	
Provision for impairment on loans ^{Note}	(80,227)		(75,533)	
Net loans and advances to customers	3,167,425	54.87	2,942,435	54.81
Finance lease receivables	110,934	1.92	100,788	1.88
Deposits with banks and other financial institutions	33,878	0.59	46,059	0.86
Cash and deposits with the central bank	377,531	6.54	360,287	6.71
Investment in securities and other financial assets	1,792,673	31.05	1,695,679	31.59
Precious metals	6,485	0.11	9,353	0.17
Placements with banks and other financial institutions, and financial assets held under resale agreements	167,669	2.90	112,882	2.10
Long-term equity investment	343	0.01	257	0.00
Fixed assets	23,441	0.41	23,301	0.43
Right-of-use assets	10,951	0.19	11,137	0.21
Goodwill	1,281	0.02	1,281	0.03
Deferred tax assets	21,529	0.37	19,587	0.37
Other assets	58,656	1.02	45,064	0.84
Total assets	5,772,796	100.00	5,368,110	100.00

Note: It only includes provision for impairment on loans measured at amortized cost.

1. Loans and advances to customers

As at the end of the reporting period, the Group's total loans and advances to customers were RMB3,238,622 million, an increase of RMB229,140 million or 7.61% as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 54.87%, an increase of 0.06 percentage point as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,795,370	55.44	1,657,277	55.07
Personal loans	1,362,888	42.08	1,283,280	42.64
Discounted bills	80,364	2.48	68,925	2.29
Total loans and advances to customers	3,238,622	100.00	3,009,482	100.00

Management Discussion and Analysis

2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investments in securities and other financial assets totaled RMB1,792,673 million, an increase of RMB96,994 million as compared with the end of the previous year, accounting for 31.05% of total assets, down 0.54 percentage point as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	364,835	20.35	304,908	17.98
Derivative financial assets	17,188	0.96	25,264	1.49
Debt instruments at fair value through other comprehensive income	278,779	15.55	222,807	13.14
Financial investments measured at amortized cost	1,130,744	63.08	1,141,825	67.34
Equity instruments at fair value through other comprehensive income	1,127	0.06	875	0.05
Total investment in securities and other financial assets	1,792,673	100.00	1,695,679	100.00

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB545,669 million, up RMB70,241 million or 14.77% over the end of the previous year. Of these, the financial bonds measured at amortized cost occupied a proportion of 72.68% in the total.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	44,812	8.21	30,562	6.43
Financial investments measured at amortized cost	396,588	72.68	356,838	75.05
Debt instruments at fair value through other comprehensive income	104,269	19.11	88,028	18.52
Total financial bonds held	545,669	100.00	475,428	100.00

4. Top 10 financial bonds held in nominal value

Unit: RMB million, %

Name of bond	Nominal value	Annual interest rate	Maturity date	Allowance for impairment losses
Bond 1	18,110	4.04	2027-04-10	—
Bond 2	15,900	4.98	2025-01-12	—
Bond 3	15,520	3.05	2026-08-25	—
Bond 4	13,330	4.39	2027-09-08	—
Bond 5	13,170	4.24	2027-08-24	—
Bond 6	12,480	3.86	2029-05-20	—
Bond 7	11,900	3.18	2026-04-05	—
Bond 8	11,550	4.73	2025-04-02	—
Bond 9	11,500	3.74	2025-09-10	—
Bond 10	10,220	4.65	2028-05-11	—

5. Goodwill

The cost of the Group's goodwill stood at RMB6,019 million. As at the end of the reporting period, the allowance for impairment losses on goodwill reported RMB4,738 million, and the book value of goodwill registered RMB1,281 million, the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing, mortgage or pledge of the Bank's principal assets.

ii. Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB5,308,658 million, an increase of RMB395,546 million or 8.05% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Due to the central bank	229,545	4.32	241,110	4.91
Deposits from customers	3,692,419	69.55	3,480,667	70.84
Deposits from banks and other financial institutions	466,337	8.78	469,345	9.55
Placement from banks and other financial institutions and financial assets sold under repurchase agreements	185,512	3.49	176,061	3.58
Financial liabilities at fair value through profit or loss	172	0.01	4	0.00
Derivative financial liabilities	16,645	0.31	25,778	0.52
Accrued staff costs	15,633	0.29	15,169	0.31
Taxes payable	6,546	0.12	8,772	0.18
Lease liabilities	10,597	0.20	10,762	0.22
Debt securities issued	627,063	11.82	440,870	8.98
Other liabilities	58,189	1.11	44,574	0.91
Total liabilities	5,308,658	100.00	4,913,112	100.00

Management Discussion and Analysis

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB3,692,419 million, representing an increase of RMB211,752 million or 6.08%, as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Corporate deposits	2,803,316	75.93	2,628,797	75.53
Demand deposits	946,004	25.62	850,381	24.43
Time deposits	1,857,312	50.31	1,778,416	51.10
Personal deposits	841,144	22.78	805,243	23.13
Demand deposits	255,870	6.93	278,518	8.00
Time deposits	585,274	15.85	526,725	15.13
Other deposits	2,629	0.07	3,182	0.09
Accrued interest	45,330	1.22	43,445	1.25
Total deposits from customers	3,692,419	100.00	3,480,667	100.00

iii. Equity of shareholders

As at the end of the reporting period, the Group's equity attributable to shareholders of the Bank amounted to RMB462,539 million, representing a net increase of RMB9,090 million as compared with the end of the previous year. The increase was mainly due to the increase in profit realized in the current period.

Unit: RMB million

Item	30 June 2021	31 December 2020
Share capital	54,032	54,032
Other equity instruments	109,062	109,062
Capital reserve	58,434	58,434
Other comprehensive income	1,964	1,393
Surplus reserve	26,245	26,245
General risk reserve	67,800	67,702
Retained earnings	145,002	136,581
Total equity attributable to shareholders of the Bank	462,539	453,449
Non-controlling interests	1,599	1,549
Total equity	464,138	454,998

iv. Off-balance-sheet items

The Group's off-balance-sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB1,405,138 million, a decrease of RMB71,408 million as compared with the end of the previous year.

Unit: RMB million

Item	30 June 2021	31 December 2020
Loan and credit card commitments	359,877	351,996
Bank's acceptance bills	690,881	769,458
Letters of guarantee	127,429	130,425
Letters of credit	226,766	224,482
Guarantees	185	185
Total credit commitments	1,405,138	1,476,546

VIII. CASH FLOW ANALYSIS

The Group's net cash outflows from operating activities amounted to RMB143,209 million. Specifically, cash inflows generated from operating activities reported RMB34,703 million, cash outflows arising from changes in operating assets stood at RMB382,121 million, and cash inflows arising from changes in operating liabilities totaled RMB204,209 million.

The Group's net cash outflows from investing activities amounted to RMB38,814 million, of which cash inflows generated from disposal and redemption of investments reported RMB384,825 million and cash outflows arising from acquisition of investments amounted to RMB452,120 million.

The Group's net cash inflows from financing activities were RMB174,221 million, of which cash inflows received from issuance of debt securities registered RMB298,213 million.

IX. ANALYSIS OF LOAN QUALITY

i. Distribution of loans by industry

Unit: RMB million, %

Industry	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Manufacturing	322,660	17.97	313,427	18.91
Water, environment and public utility management	323,322	18.01	294,595	17.78
Real estate	225,155	12.54	224,450	13.54
Leasing and commercial services	208,877	11.63	189,785	11.46
Finance	142,305	7.93	97,132	5.86
Wholesale and retail trade	133,416	7.43	127,522	7.69
Construction	123,809	6.90	107,987	6.52
Transportation, storage and postal service	88,689	4.94	88,535	5.34
Agriculture, forestry, animal husbandry and fishery	56,747	3.16	54,100	3.26
Production and supply of power, gas and water	52,338	2.92	45,532	2.75
Others ^{Note}	118,052	6.57	114,212	6.89
Subtotal of corporate loans	1,795,370	100.00	1,657,277	100.00
Personal loans	1,362,888		1,283,280	
Discounted bills	80,364		68,925	
Total loans and advances to customers	3,238,622		3,009,482	

Note: "Others" includes mining; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education.

Management Discussion and Analysis

ii. Distribution of loans by region

Unit: RMB million, %

Region	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	716,420	22.12	652,565	21.69
Central China	576,865	17.81	532,348	17.69
Pearl River Delta	438,156	13.53	396,086	13.16
Bohai Rim	425,554	13.14	387,332	12.87
Western China	410,051	12.66	373,595	12.41
Northeastern China	116,814	3.61	117,580	3.91
Head Office	450,124	13.90	451,157	14.99
Overseas	104,638	3.23	98,819	3.28
Total loans and advances to customers	3,238,622	100.00	3,009,482	100.00

iii. Types of loans by collateral and their proportions

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Unsecured loans	1,028,725	31.76	941,130	31.27
Guaranteed loans	751,722	23.21	710,746	23.62
Mortgage loans	1,096,803	33.87	1,017,960	33.83
Pledged loans	361,372	11.16	339,646	11.28
Total loans and advances to customers	3,238,622	100.00	3,009,482	100.00

iv. Top ten loan customers

Unit: RMB million, %

Name	Industry	Balance of principal of loans and advances as at 30 June 2021	Proportion of loans and advances in total principal	Proportion in net capital ¹
Borrower 1	Manufacturing	12,330	0.38	2.28
Borrower 2 ²	Leasing and commercial services	5,500	0.17	1.01
Borrower 3	Leasing and commercial services	5,000	0.15	0.92
Borrower 4	Manufacturing	4,833	0.15	0.89
Borrower 5	Mining	4,100	0.13	0.75
Borrower 6	Manufacturing	3,940	0.12	0.72
Borrower 7	Information transmission, computer services and software	3,773	0.12	0.69
Borrower 8 ²	Leasing and commercial services	3,600	0.11	0.66
Borrower 9	Manufacturing	3,406	0.11	0.63
Borrower 10	Water, environment and public utility management	3,367	0.10	0.62
Total		49,849	1.54	9.17

Notes:

1. The proportion of the balance of loans in net capital is calculated according to the requirements of the CBIRC.
2. Borrowers 2 and 8 are related parties of the Bank and have conducted related party transactions with the Bank.

v. Five-category loan classification

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Pass	3,132,972	96.74	2,903,043	96.47
Special mention	61,522	1.90	64,773	2.15
Substandard	29,169	0.90	19,795	0.66
Doubtful	9,254	0.28	11,604	0.38
Loss	5,705	0.18	10,267	0.34
Total loans and advances to customers	3,238,622	100.00	3,009,482	100.00
Performing loans	3,194,494	98.64	2,967,816	98.62
Non-performing loans	44,128	1.36	41,666	1.38

vi. Loan migration ratio

Unit: %

Item	30 June 2021	31 December 2020	Change
Migration ratio of pass loans	0.88	3.35	-2.47 percentage points
Migration ratio of special mention loans	32.18	43.43	-11.25 percentage points
Migration ratio of substandard loans	40.25	83.11	-42.86 percentage points
Migration ratio of doubtful loans	49.62	67.65	-18.03 percentage points

vii. Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Proportion of loans and advances in total principal	Balance	Proportion of loans and advances in total principal
Restructured loans and advances to customers	6,981	0.22	7,659	0.25
Restructured loans and advances to customers overdue for more than 90 days	112	0.00	245	0.01

2. Overdue loans

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Overdue for less than 3 months	28,501	43.00	31,349	48.53
Overdue for between 3 months and 1 year	27,331	41.23	21,773	33.71
Overdue for between 1 year and 3 years	9,232	13.93	9,475	14.67
Overdue for more than 3 years	1,217	1.84	1,999	3.09
Total principal of overdue loans	66,281	100.00	64,596	100.00

Management Discussion and Analysis

viii. NPLs by business type

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Corporate loans	29,780	67.49	26,354	63.25
Personal loans	14,348	32.51	15,312	36.75
Discounted bills	—	—	—	—
Total NPLs	44,128	100.00	41,666	100.00

ix. Distribution of NPLs by region

Unit: RMB million, %

Region	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Pearl River Delta	9,048	20.50	4,699	11.28
Northeastern China	8,702	19.72	7,396	17.75
Bohai Rim	5,464	12.38	6,160	14.78
Yangtze River Delta	5,196	11.78	5,383	12.92
Central China	4,101	9.29	5,225	12.54
Western China	3,423	7.76	3,365	8.08
Head Office	8,186	18.55	9,430	22.63
Overseas	8	0.02	8	0.02
Total NPLs	44,128	100.00	41,666	100.00

x. Distribution of NPLs by industry

Unit: RMB million, %

Industry	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Manufacturing	15,011	34.02	13,608	32.66
Wholesale and retail trade	3,564	8.08	3,897	9.35
Transportation, storage and postal service	2,669	6.05	377	0.90
Leasing and commercial services	2,101	4.76	1,554	3.73
Accommodation and catering	1,553	3.52	1,724	4.14
Real estate	1,366	3.10	1,629	3.91
Construction	880	1.99	1,039	2.49
Production and supply of power, gas and water	496	1.12	561	1.35
Mining	292	0.66	864	2.07
Information transmission, computer services and software	181	0.41	133	0.32
Others ^{Note}	1,667	3.78	968	2.33
Subtotal of corporate loans	29,780	67.49	26,354	63.25
Personal loans	14,348	32.51	15,312	36.75
Discounted bills	—	—	—	—
Total NPLs	44,128	100.00	41,666	100.00

Note: "Others" includes health, social security and social welfare; scientific research, technical services and geological prospecting; finance; public administration and social organization; water, environment and public utility management; agriculture, forestry, animal husbandry and fishery; education.

xi. Distribution of NPLs by collateral type

Unit: RMB million, %

Type	30 June 2021		31 December 2020	
	Balance	Percentage	Balance	Percentage
Unsecured loans	13,710	31.07	15,140	36.34
Guaranteed loans	10,457	23.70	10,425	25.01
Mortgage loans	17,860	40.47	14,852	35.65
Pledged loans	2,101	4.76	1,249	3.00
Total NPLs	44,128	100.00	41,666	100.00

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	30 June 2021	31 December 2020
Reposessed assets	529	581
Land, buildings and structures	529	581
Provision for impairment	(165)	(191)
Net value of reposessed assets	364	390

xiii. Provision for loan impairment losses and write-off

After conducting credit risk test on financial instruments on the balance sheet date, the Group made provision for the estimated credit loss for loans of varied risk levels according to their potential risk based on the expected credit loss model and such quantitative risk parameters as PD (probability of default) and LGD (loss given default) of customers. The provision for impairment losses was recognized through profit or loss for the current period.

Unit: RMB million

Item	As at 30 June 2021	As at 31 December 2020
Balance at the beginning of the period ¹	75,533	76,228
Charge for the period ²	26,446	53,197
Recoveries due to written-off loans and advances	3,241	3,202
Unwinding of discount ³	(397)	(767)
Write-offs and disposal during the period	(24,590)	(56,323)
Others	(6)	(4)
Balance at the end of the period ¹	80,227	75,533

Notes:

1. It excludes provision for impairment of discounted bills and domestic forfaiting at fair value through other comprehensive income.
2. It includes provision for impairment of loans made due to change of stage and change in cash flow resulting in loan contract being not derecognized.
3. It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

X. CAR ANALYSIS

Please refer to “Summary of Accounting Data and Financial Indicators” for details.

Management Discussion and Analysis

XI. SEGMENT PERFORMANCE

i. Performance by regional segment

Unit: RMB million

Region	January-June 2021		January-June 2020	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	14,774	7,914	13,664	5,051
Bohai Rim	13,564	5,748	11,176	4,265
Central China	13,295	6,716	12,401	3,748
Pearl River Delta	10,467	1,999	9,515	1,943
Western China	9,639	3,681	8,527	1,679
Northeastern China	3,105	(993)	3,200	(1,206)
Head Office	10,980	1,211	12,293	5,625
Overseas	1,327	910	1,381	933
Total	77,151	27,186	72,157	22,038

ii. Performance by business segment

Unit: RMB million

Type	January-June 2021		January-June 2020	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking business	31,151	8,925	30,488	9,760
Retail banking business	31,985	6,293	29,283	1,123
Financial market business	13,974	11,980	12,354	11,181
Other business	41	(12)	32	(26)
Total	77,151	27,186	72,157	22,038

Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for details of performance by business segment.

XII. OTHERS

i. Changes in major financial indicators and reasons

Unit: RMB million, %

Item	30 June 2021	31 December 2020	Increase/ (Decrease)	Major reasons for change
Precious metals	6,485	9,353	-30.66	Decrease in precious metal assets
Derivative financial assets	17,188	25,264	-31.97	Decrease in foreign exchange derivative financial assets
Financial assets held under resale agreements	96,928	43,592	122.35	Increase in securities held under resale agreements
Other assets	58,656	45,064	30.16	Increase in settlement amount
Derivative financial liabilities	16,645	25,778	-35.43	Decrease in the valuation of derivative financial liabilities
Debt securities issued	627,063	440,870	42.23	Increase in debt securities issued
Other liabilities	58,189	44,574	30.54	Increase in other liabilities
Other comprehensive income	1,964	1,393	40.99	Increase in fair value revaluation on securities assets at fair value through other comprehensive income

Item	January-June 2021	January-June 2020	Increase/ (Decrease)	Major reasons for change
Net trading gains	1,230	57	2,057.89	Increase in net trading gains
Net gains on investment securities	4,317	2,754	56.75	Increase in net gains on investment securities

ii. Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue or outstanding debts.

iii. Provisioning for interest receivables and allowance for related bad debts

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance-sheet interest receivable ^{Note}	36,064	110,649	109,945	36,768

Note: It includes accrued interest and interest receivable that has not been collected.

Management Discussion and Analysis

2. Provisioning of allowance for bad debts of interest receivable

Unit: RMB million

Item	30 June 2021	31 December 2020	Increase/ (Decrease)
Balance of allowance for bad debts of interest receivable	3	3	–

iv. Other receivables and provisioning of allowance for bad debts related

1. Change in other receivables

Unit: RMB million

Item	30 June 2021	31 December 2020	Increase/ (Decrease)
Other receivables	44,141	31,597	12,544

2. Provisioning of allowance for bad debts of other receivables

Unit: RMB million

Item	30 June 2021	31 December 2020	Increase/ (Decrease)
Balance of allowance for bad debts of other receivables	706	694	12

XIII. PERFORMANCE OF BUSINESS SEGMENTS

i. Corporate banking

Aiming at value creation, the corporate banking of the Bank focused on the transformation towards the “integration of investment banking and commercial banking”, and deepened the marketing pattern that was tiered, centralized and professionalized to build a customer system with characteristics of a wealth management bank. The Bank also proactively served the national strategy to fuel the growth of the real economy by supporting the manufacturing sector and private enterprises, granting more green loans, and fulfilling its phased target of “Two Increases and Two Controls” in inclusive finance. Besides, technology empowerment, product innovation and specialized service capabilities were enhanced to increase the value of corporate banking. During the reporting period, the Bank’s corporate banking registered an operating income of RMB31,151 million, an increase of RMB663 million or 2.17% compared with the prior year, accounting for 40.38% of the Bank’s total operating income. The number of corporate customers reached 831,500, an increase of 48,600 or 6.21% over the end of the previous year, among which the number of active corporate customers reached 367,500, up 42,400 or 13.04% over the end of the previous year.

1. Corporate deposits and loans

The Bank continued to increase credit support for such key areas of the real economy as green credit, manufacturing industry and technological innovation, and cut corporate financing costs, resulting in steadily upward loan size and downward loan rates. In addition, with the development orientation of “improvement in both quality and scale”, the Bank made efforts to change the way of deposit growth, took multiple measures to diversify the sources of deposits, and promoted the high-quality development of corporate deposits. Besides, it upgraded the system in terms of “online process, digital business, intelligent marketing and automated management”, and strengthened risk prevention, with its corporate asset quality maintaining stable performance with good momentum. As at the end of the reporting period, the balance of corporate deposits (including the corporate business-related portion in other deposits) amounted to RMB2,805,748 million, representing an increase of RMB174,019 million or 6.61% over the end of the previous year. Among the above, core corporate deposits increased by RMB153,404 million or 6.91% over the end of the previous year; the balance of corporate loans was RMB1,795,370 million, an increase of RMB138,093 million or 8.33% over the end of the previous year.

2. Inclusive finance

The Bank took an active part in serving the real economy and small and micro enterprises, built a multi-level service platform featuring “finance + channel + scenario”, and developed more eco-chain projects. The Bank made sure that poverty elimination become an integral part of rural revitalization, and increased the loans granted in agriculture-related, inclusive agriculture-related fields and targeted poverty alleviation. Furthermore, it strengthened technological empowerment, enriched online products, and improved the availability and coverage of products. The system building was promoted while both management efficiency and capability were strengthened to facilitate the steady growth of inclusive finance. As at the end of the reporting period, the Bank achieved the phased targets according to the regulatory requirements of “Two Increases and Two Controls”. Under the latest regulations, the balance of inclusive finance loans subject to a deduction of discount stood at RMB220,550 million, up RMB33,530 million or 17.93% from the end of the previous year; the number of customers was 381,100, an increase of 7,890 from the end of the previous year; the weighted average interest rate of new loans fell by 40 BPs on a yearly basis to 4.86%, and the NPL ratio was 0.70%.

3. Investment banking

In line with the philosophy of “combining commercial banking, investment banking and wealth management”, the Bank integrated resources from the perspective of broader investment banking based on a customer-oriented approach to support the real economy with bond underwriting, M&A financing, asset-based securitization and other businesses and products. It actively developed new products and successfully launched series of bond projects such as equity contribution-based notes, carbon neutrality bonds, rural revitalization bonds, panda bonds, and project revenue notes in the first half of the year. In addition, the Bank strengthened system building by promoting the development and launch of the investment banking management system, asset-based securitization system of non-performing online loans, securitization system of personal residential mortgage loans, and securitization system of personal business loans and consumer loans. During the reporting period, the Bank led the underwriting of RMB276,594 million of non-financial corporate debt financing instruments, the fifth largest in the market, up one place from the same period last year. It issued RMB11,076 million of securitization projects.

Management Discussion and Analysis

Column 1: Focusing on capacity building and promoting the transformation of investment banking services

Highlighting the positioning of high-quality, innovative and integrated services, the Bank vigorously improved its capabilities in customer base building, product services, E-SBU collaboration and risk management of investment banking, strove to provide one-stop integrated financial solutions covering customers' full life cycle, and created differentiated competitive advantages to raise the strategic vision of "building a first-class wealth management bank" to a new height.

I. Customer base building

First, with precise positioning, the Bank promoted marketing relying on active customers and the bank-wide strategic customer system. Second, the Bank took the lead in applying tiered policies, classified management, and H.O.-branch collaboration to continuously expand the investment banking customer base. Third, it integrated credit, investment and retail resources to actively develop customers and maximize the comprehensive operation efficiency. Fourth, relying on the Bank's long-established advantages in the financial market, it expanded its investment banking FI customer base and strengthened mutually beneficial cooperation within the industry.

II. Product services

In response to the supply-side structural reform in the financial sector and the increased proportion of direct financing, the Bank continued to further the building of a "mega investment banking" product service system, and accelerated business and product innovation with bond underwriting, M&A financing, asset-based securitization and other businesses and products as its core. Focusing on national development strategies, the Bank actively promoted investment banking products to support the development of key areas related to green development, "peaking carbon emissions and achieving carbon neutrality", rural revitalization, reform of state-owned enterprises, etc. During the reporting period, the Bank underwrote and issued green bonds (including carbon-neutrality bonds), rural revitalization bonds, equity contribution-based notes, etc.

III. E-SBU collaboration

Making full use of E-SBU collaboration mechanism based on the needs of customers and leveraging on China Everbright Group's advantages in its full range of financial licenses with the emphasis on the main investment and financing products in the banking, securities, insurance, trust and leasing markets, the Bank enhanced the linkage with, shared resources with and achieved mutual benefit with CEG subsidiaries and overseas branches. It provided customers with comprehensive financial services covering all markets and products featuring "creditor's rights + equity" with "standard + non-standard assets" from "domestic + overseas institutions".

IV. Risk management

The Bank further strengthened in-depth research and forward-looking analysis on macro economy, direct financing market, industries and entities, and established a risk control system featuring "one list, three lines of defense and limit control". It also boosted technology empowerment, strengthened the whole-process risk compliance management and key point control of business system, made internal and external information acquisition more timely, accurate and complete, and improved the capability of automatic data analysis.

4. Transaction banking

Following the trend of fintech evolution and relying on technology empowerment, the Bank took advantage of online products to meet the business needs of core enterprises and their upstream and downstream customers, and promote the development of supply chain finance business. In addition, the Bank enriched the cash management product toolkits, promoted payment and settlement transactions, and enhanced the bank-enterprise cooperation. By continuously releasing the growth potential of the “Sunshine Wages”, a financial solution that helps ensure rural migrant workers’ wage payments, it continued to improve social efficiency, and increased financial support for people’s livelihood. Besides, it put in place financial service policies to keep foreign trade and foreign investment stable, strengthened the coordinated development of Free Trade Zone (Port), facilitated the online process of foreign currency and cross-border transaction, and actively participated in the new development pattern featuring “dual circulation”. As at the end of the reporting period, the overall balance of the on- and off-balance-sheet trade finance increased by 9.79% over the end of last year.

ii. Retail banking

Focusing on building digital retail banking, the Bank promoted the model of retail customer acquisition and tiered operation, which increased the total number and improved the quality of retail customers. It also intensified efforts in the structural adjustment on the liability side based on the orientation of “improvement in both quality and scale”, resulting in the scale increase, structure optimization and cost reduction of retail deposits. While deepening the transformation of wealth management, the Bank increased the value of retail channels and facilitated the formation of Wealth E-SBU for individual customers, with more distinctive advantages in wealth management. Following the principle of “enhancing the quality and efficiency” on the asset side, the Bank advanced the transformation of retail loan business and created hit Sunshine retail loans, and continuously improved the asset quality. During the reporting period, operating income from retail banking business stood at RMB31,985 million, up RMB2,702 million or 9.23% from the same period of last year, accounting for 41.46% of the total operating income of the Bank. Specifically, net interest income from retail banking was RMB22,197 million, up 9.17% from the same period of last year, accounting for 39.71% of the total net interest income of the Bank. Net non-interest income from retail banking reached RMB9,788 million, up 9.36% from the same period of previous year, accounting for 46.05% of the total net non-interest income of the Bank.

1. Retail customers and AUM

The Bank vigorously built a new “1+2+C” data-based infrastructure for retail finance, with one smart brain for retail finance to deepen and penetrate into two intelligent marketing patterns of bulk precision marketing and real-time journey marketing, and open up multiple channels to expand the base of new customers and tap the value of existing customers. It strengthened the coordinated operation of online and offline businesses to form an operation system that was tiered, centralized and professionalized. As at the end of the reporting period, the Bank had 130,754,900 retail customers (including holders of credit and debit cards). The number of medium and high-end customers who hold at least RMB500,000 of daily average assets per month grew by 5.70% from the end of the previous year, including more than 1 million of wealth management customers with corresponding AUM exceeding RMB1 trillion, indicating further improvement in customer quality. There were 155,482,100 users of CEB Mobile Banking, “Sunshine Life” and “Cloud Fee Payment” in total, up 63.90% year on year. Among them, the number of monthly active users (MAU) was 36,146,400, up 54.63% year on year. The balance of retail AUM totaled RMB2,020,073 million, climbing up to the new level of over RMB2 trillion, up 5.34% from the end of the previous year.

Management Discussion and Analysis

2. Retail deposit business

Adhering to the “improvement in both quality and scale” philosophy, the Bank strengthened customer-oriented integrated operations, optimized the structure and promoted the growth of deposits. The Bank gave full play to the role of projects in acquiring customers in batch through expanding channels and scenarios including social security and people’s livelihood, health and medical care, business district management, community property, transportation, culture and education, tourism, consumer payment and internet innovation platform. Furthermore, it continued developing its batch payroll agency business by improving “Payroll Manager”, a payroll-based integrated financial service platform. Adhering to differentiated product marketing strategies, it conducted digital precision marketing, and strengthened capabilities in scenario-based customer connection, customer group management and digital operation to increase customers’ comprehensive contribution. As at the end of the reporting period, the balance of retail deposits (including the portion of retail deposits in other deposits) of the Bank amounted to RMB841,341 million, representing an increase of RMB35,848 million or 4.45% over the end of the previous year.

3. Wealth management

The Bank actively fostered new drivers of wealth management, promoted the transformation of wealth management, built a specialized wealth manager team, and created standardized service models around core scenarios, which continuously increased the scale of wealth management business. It actively implemented the new rules on asset management, and expedited the transformation of personal wealth management. As at the end of the reporting period, the size of transformative wealth management products grew by 28.73% over the end of the previous year. The Bank energetically promoted the development of Wealth E-SBU for individual customers, focusing on five scenarios of “Charming Travel”, “Health and Elderly Care”, “One-stop Wealth Management Services”, “Private Banking & Investment Banking +” and “Benefit Cloud Life”, stepped up customer migration, cross selling, product innovation and integrated services based on the coordination advantages of China Everbright Group, and provided individuals with a full package of financial solutions. During the reporting period, net fee income from personal wealth management stood at RMB4,415 million, up 15.42% year on year. Specifically, income from agency funds and trust grew by 42.40% and 17.04% year on year, respectively.

4. Private banking

Focusing on tiered operation and value exploration of high-net-worth customers, the Bank formed a development model and path for private banking with Everbright characteristics by creating “E-SBU Collaborative Ecosystem” and “Open Wealth Management Platform Ecosystem” around one core capability – “customer base marketing” to facilitate “team innovation”, “technology innovation” and “product innovation”. With an endeavor to accelerate the net value-based transformation of agency products, the Bank realized a year-on-year increase of 147.29% to RMB103,403 million in agency sales of mutual funds, and a year-on-year increase of 36.15% to RMB2,059 million in agency installment premium. Meanwhile, the Bank optimized agency private equity structure, with the scale of private multi-strategy net worth products reaching RMB12,522 million, up 403.09% year on year. What’s more, it strengthened its vertical management by optimizing private banking organization system consisting of three levels including the Head Office, branches and sub-branches, built up a private banking team with wealth management managers and investment consultants at the core, and advanced a new team working model that is systematic, professional and standardized. In addition, the Bank built “I-MAC Intelligent Cube” of private banking, launched a special version for private banking on CEB Mobile Banking, intelligent video and audio recording system and “Wealth AI+”, the online one-stop private equity platform. Moreover, the Bank was in full collaboration with China Everbright Group in banking, securities, trust, insurance and fund businesses, and made solid efforts in scenario-based marketing and customer migration, thus further enhancing its comprehensive service capabilities. As at the end of the reporting period, the Bank owned 45,971 private banking customers, an increase of 5,859 or 14.61% over the end of last year. The customer increment was 1.32 times that of the same period last year. The AUM amounted to RMB463,340 million, representing an increase of RMB36,517 million or 8.56% year on year.

Column 2: Wealth transformation and private banking business delivering results

Further focusing on high-net-worth customer operation and value exploration, the Bank continued to expand its business scale and enhance professional services, and kept enriching its product and service system, maintaining sound growth in its private banking business.

I. Building the DSC working model to improve customer base management capability

The Bank built a customer base management system based on the DSC working model, featuring “Data + Scenario + Companion”. It strengthened the building of a middle desk for data processing, through which customer observation, portrait, identification and positioning can be realized. It can dive deep into the social, financial and daily life scenarios of its private banking customers, break down the barriers between the transaction and non-transaction scenarios, financial and non-financial boundaries, online and offline integration services, and reshape and co-build customer service scenarios across the ecosystem, to embed data in scenarios and make scenarios network-empowered. Besides that, switching from the perspective of internal operation to that of customer experience, the Bank enhanced its all-channel collaborative service capability of combining mobile banking, remote investment consultancy and private banking center, and realized seamless service connection and full journey companion among various channels through customer experience reshaping.

II. Balanced development of mutual funds, private equity and insurance to improve product management capabilities

The Bank actively built the ecosystem of wealth management business by creating a retail agency business product system for customers in mutual funds, private equity and insurance. Among them, the Bank fully cooperated with top fund companies and outstanding fund managers under the new “Top Flow” initiative, realizing an over doubled year-on-year growth with the holding scale of mutual funds exceeding RMB100 billion. Agency installment premium increased significantly with a growth rate at the forefront of the industry. In terms of agency private equity, the Bank continued to secure the advantages of traditional fixed income products and increased the number of medium and high-risk net-worth products, achieving an important breakthrough in the transformation of net-worth products.

III. Accelerating the data-based development of private banking and fintech innovation

The Bank launched a private banking version of CEB Mobile Banking, and created a new model of online and offline integration service of “mobile banking + remote video investment consultancy + private banking center”, of which remote video investment consultancy service was the first of its kind in the industry. The Bank was also the first to launch the industry-leading “Wealth AI+” online platform that could cover the “last kilometer” of online trading of all private fund products by means of the Digital Human and natural language processing technologies. In addition, it improved the visual management platform for private banking team and launched “Sunshine Consultant”, a wealth manager WeChat mini-program, which could synchronously search for the agency product data in the whole market and assist in the sales of agency products. Besides, it launched the “Bugle Initiative” (marketing accounts, wealth management accounts and link accounts) and enhanced the penetrating companionship to consumers and business wealth managers based on content delivery, channel and scenario operation, to channel more traffic in public domain to private domain.

IV. Deepening E-SBU collaborative ecosystem to establish an open wealth management ecosystem

The Bank deepened the full coordination of banking, securities, trust, insurance and funds centered on the Wealth E-SBU construction, in which the sales of agency installment premium for Sun Life Everbright Life Insurance Co. Ltd. accounted for 62% of the Bank’s banking and insurance channel sales. It promoted the connectivity of five elements including China Everbright Group’s high-net-worth customers, products, services, systems and teams, launched the One ID project, and jointly conducted marketing activities for banking-securities and banking-trust high-net-worth customers between the Head Office and branches, attracting more than 2,000 customers. Besides that, it also formed a wealth ecosystem with product business partners such as funds, insurance, securities brokerages and private equity companies, and scenario business partners in cultural, sporting, medical, family scenarios, etc., and upgraded the partnership from product and service empowerment to ecosystem empowerment to establish an open-ended wealth management ecosystem platform.

Management Discussion and Analysis

5. Retail credit

The Bank actively fulfilled its social responsibility and fully supported the development of micro and small enterprises and the real economy. It focused on retail inclusive loan business, and strictly implemented the real estate macro-regulation policy of the government. In addition, closely following national strategic plans, the Bank integrated itself into the national “dual circulation” development pattern, and aimed to build a diversified product system in an online, intensive, intelligent, standardized and agile manner to continuously improve the management capacity and risk control over retail credit. The construction of a new-generation retail credit platform was launched to provide system and technological support for retail credit business. Moreover, CEB Head Office established Retail Credit Department to standardize organizational structure, and promote the completion of the half-year phased targets of various indicators. As at the end of the reporting period, the balance of personal loans (excluding credit card business) amounted to RMB920,604 million, representing an increase of 9.94% from the end of the previous year.

6. Credit card business

The Bank was committed to facilitating the refined and intelligent customer operation with data-based development, enhancing value creation capabilities and highlighting wealth management features. Delving deeply into consumption scenarios, the Bank diversified and digitalized the customer acquisition system to further optimize its customer structure. It pushed forward the development of hit products. Specifically, it issued the TikTok Card and Filial Piety Card and acquired over 1.3 million customers. In pursuit of intelligent customer management based on customer segmentation and stratification, it upgraded the “Saving RMB10 for Life” campaign and launched new products such as “Safe Swipes”. In addition to improving the specialized operation of installment, the Bank also launched “Full-amount Installment” product to explore the installment business model under a “manufacturer-platform-bank” scenario. The Bank created private domain traffic on the Sunshine Life App by launching and optimizing more than 100 functions such as fee payment, real-time cashback for online consumption up to a certain standard, capturing 13,404,800 monthly active users and ranking among the top three in credit card Apps. Leveraging on the advantage of Tourism E-SBU coordination, it launched a new season of “Charming China” series tourism festival, generating nearly RMB200 billion of trading volume. What’s more, adhering to the technology empowerment, it launched the project of new-generation comprehensive business management system, built a data-driven middle desk, expanded intelligent outbound scenarios, and sped up the digitization of total operational factors. Furthermore, the Bank enhanced risk control capabilities, deepened active management of existing customers, expedited the disposal of existing risks, and strengthened consumer rights and interests protection. During the reporting period, about 3.4998 million new credit cards were issued by the Bank, with a total transaction volume of RMB1,345,331 million, up 1.65% year on year. The overdraft balance at the end of the reporting period (excluding the payment adjustment to transitional account) amounted to RMB441,333 million. The Bank generated an income of RMB22,521 million during the reporting period.

7. Digital banking

The Bank continued to advance the digital banking building, and improved the core platform of wealth management to accelerate the bank-wide digital transformation. As at the end of the reporting period, 98.76% of counter transactions were handled through electronic channels. In particular, CEB Mobile Banking attracted 13,641,800 monthly active users, up 32.48% year on year. Corporate online banking attracted about 816,100 customers, up 16.84% year on year. The balance of “Sunshine Digital Loan” reached RMB114,634 million, up 7.29% over the end of the previous year and the transaction amount of Cloud Payment reached RMB5.67 trillion, a year-on-year growth of 6.98%.

8. Cloud Fee Payment

With a vision of building the Cloud Fee Payment platform into China's leading open-ended and convenient fee payment platform, the Bank kept extending access to fee payment items, enhanced the capabilities to offer convenient financial services, and focused on extending individual fee payment services from provinces to cities and counties. The Bank further stepped up efforts to expand platform cooperation with other banks, large internet platforms and government institutions to broaden service channels. Moreover, it strengthened user traffic management of self-operated business, accelerated the establishment of in-house channels for Cloud Fee Payment, and completed the upgrade of Cloud Fee Payment App Version 3.0. The Bank also completed the trademark registration of "Everbright Cloud Fee Payment" to protect brand equity and promote brand communication. As at the end of the reporting period, the platform offered 11,209 fee payment service items in total, an increase of 1,169 or 11.64% over the end of last year. The platform was exported to other 633 platforms, an increase of 58 platforms or 10.09% over the end of last year. The total number of directly-linked users of Cloud Fee Payment was 68.1837 million, marking an increase of 17.8639 million or 35.50% over the end of last year. The number of monthly directly-linked active users reached 9.0998 million. The platform served 773 million fee payment users for the past three years, with 351 million active users in the first half year, up 23.16% year on year. It processed 935 million transactions, up 13.89% on a year-on-year basis, with total payments reaching RMB196,521 million. Furthermore, net income from fee-based business stood at RMB292 million, up 35.02% year on year.

iii. Financial market business

Focusing on value creation, the Bank continued to improve the structure of financial market business and consolidate the abilities of operation, investment and trading to improve the quality and performance in serving the real economy. It created different shelves of products based on the Sunshine series brand, and issued multiple featured wealth management products to diversify the "Colorful Sunshine" product spectrum in an all-around way. An enhanced endeavor to strengthen the marketing of its custody business increased both custody scale and income, thus ensuring safe and smooth operation of the financial market business. During the reporting period, the Bank's financial market business registered an operating income of RMB13,974 million, representing an increase of RMB1,620 million or 13.11% year on year, accounting for 18.11% of the Bank's total operating income.

1. Treasury business

In line with the regulatory requirements, the Bank constantly optimized its balance sheet, improved capital operation efficiency and ensured liquidity safety. It seized market opportunities to increase returns by improving the investment and trading of proprietary bonds. It also boosted portfolio income by expanding investment in bonds and purchasing more treasury bonds, local government bonds, policy financial bonds and high-grade credit bonds. In addition, the Bank actively explored the market of interest rate and exchange rate derivatives and increased the proportion of income from trading and franchise business. The H.O.-branch coordination was also strengthened to actively facilitate the development of the real economy. As at the end of the reporting period, the balance of bonds in proprietary account amounted to RMB990,324 million, accounting for 17.16% of the Bank's total assets, 49.32% of which were treasury bonds and local government bonds.

2. Interbank business

The Bank stringently implemented regulatory requirements, strengthened the management of specialized interbank business, and maintained an appropriate scale of interbank business to ensure compliance and prudence in operation. It closely followed national strategies and focused on wealth management and value creation, and supported the development of the real economy. In addition, the Bank conducted market research and analysis to ride on market trends and optimized asset structure. It continued to pay attention to liquidity safety and fulfilled the function of bank-wide liquidity management. Adhering to the bottom line of risk management, the Bank kept business risks under strict control, stepped up early warning and monitoring of credit risks, and maintained asset quality stability. Moreover, the Bank conducted coordinated interbank customer management, strengthened customer base and expanded business cooperation. As at the end of the reporting period, the balance of interbank deposits stood at RMB466,337 million.

Management Discussion and Analysis

3. Asset management business

The Bank took multi-strategy hybrid products as main body, regarded cash management products and equity and alternative investment products as two wings, and took into account the general trend of wealth management and asset management integration to successfully devise the “Colorful Sunshine” product spectrum. Its multi-assets, multi-strategy and 24/7 investment platform could continuously improve both its major asset allocation capability and investment research capability. What’s more, the Bank encouraged its wealth management subsidiary to introduce overseas strategic investors who possess resources and advanced industry experience to improve its investment management capability and core competitiveness in an all-around way. Adhering to its fundamental business while promoting transformation and innovation, it strengthened its own capabilities to serve customers in terms of channels, investment, risk control, technological operation, institutional mechanism, etc. As at the end of the reporting period, the Bank’s non-principal-guaranteed wealth management products had a balance of RMB877,140 million, an increase of RMB40,867 million or 4.89% over the previous year end. Among which, the balance of NAV wealth management products stood at RMB663,920 million, up 31.85% over the previous year and accounting for 75.69% of the total. All products under the “Sunshine Wealth Management” brand were duly honored at maturity.

4. Asset custody business

The Bank scaled up efforts in marketing, and achieved remarkable increase in income from securities investment fund custody, insurance asset custody and occupational annuity custody. It won all the 33 custodian bids for occupational annuity program consecutively, demonstrating the outstanding performance of the “Sunshine Occupational Annuity” brand. The development of China Everbright Group’s E-SBUs achieved prominent results with an enlarged business scale, resulting in more than RMB100 billion of asset under bank-insurance linkage custody. The Bank promoted the application of technology and optimized the “E-custody” system to improve custody product system and business system. Moreover, the Bank took solid measures to forestall risks, urged regular business monitoring, transparent information disclosure and standardized business operation to further enhance its risk control and management. As at the end of the reporting period, the Bank’s income after tax from custody business amounted to RMB888 million, and RMB6,671,808 million of assets were under the Bank’s custody.

XIV. BUSINESS INNOVATION

Giving full play to the advantages of the special funds mechanism for fintech innovation, the Bank expanded its open and innovative ecosphere by actively cooperating with key universities and external innovation institutions. A total of 70 innovative projects were initiated, among which 20 had yielded phased economic benefits.

The Bank’s innovative product Logistics Express (Wu Liu Tong) won the gold prize of Special Innovation Award in China Financial Digital Technology Innovation Competition. The amount of total transactions in the first half of the year exceeded RMB40 billion, increased nearly two times year on year, with 23 partner merchants and over 6 million online membership customers. Based on blockchain technology, the Everbright Dual Chain (Blockchain-powered supply chain finance) offered efficient financing plans for SMEs and had been officially integrated into PBOC’s Supervisory Sandbox of fintech innovation. Moreover, the Bank improved sign language video services in Mobile Banking for hearing-impaired people. Meanwhile, it also opened a direct service hotline for users aged over 65 years old, serving more than 210,000 person-times of elderly users, with the highest daily count peaking at 1,853. Besides, the Wonderful E-Shopping platform supported rural revitalization by establishing sales promotion halls, organizing innovative livestream sales and solving supply chain financing problems via a combination of e-commerce and financing. The e-commerce platform helped 85 counties (former national-level poverty-stricken counties) in 18 provinces get rid of poverty and also assisted more than 100 rural enterprises in selling over 1.4 million poverty alleviation products, with total sales exceeding RMB100 million.

XV. INFORMATION TECHNOLOGY

The Bank continued building the “123+N” digital banking development system. The “one smart brain” reshaped the Bank’s intelligent service, developed 673 algorithm models and 1,819 customer labels. It realized the cross application of multi-modal bio-metrics identification, covering 280 scenarios. “Two technological platforms” accelerated the innovation and application of technologies as well as the automatic and controllable operation of the cloud computing platform, with 88.92% of the whole bank’s application systems uploaded onto the cloud. The total amount of data on the big data platforms stood at 5.53 PB, an increase of 52.34% over the end of the previous year. “Three service capabilities” focused on mobilized, open-ended and ecosphere-centered development, launched new models and channels of online services, and built a digitalized ecological service system with Everbright features. “N (numerous) digital hit products” including Cloud Fee Payment, Cloud Payment, Sunshine Digital Loan, Logistics Express (Wu Liu Tong), Overseas Finance Cloud and Sunshine Financing E-chain enjoyed a good reputation in the market and realized fast expansion by means of fintech.

Taking information technology as the core driver of business development, the Bank stepped up efforts in technology investment and talent team building. As at the end of the reporting period, the Bank invested RMB1,704 million in technological development, accounting for 2.21% of the operating income. The number of IT personnel across the Bank was 1,943, accounting for 4.26% of the staff in the Bank.

The Bank’s technology programs yielded remarkable results. The “Smart Financial Brain” won the Glory Award of China Financial Digital Technology Innovation Competition in 2021, and the Cloud Management Platform was selected as the “2020 Excellent Case of Cloud Management Platform (CMP)” by the Cloud Computing Standards and Open-Source Promotion Committee. The “Scout” project was granted an invention patent, computer software copyright certificates were granted to the Bank’s 20 systems such as the Evercloud Operation Management Central System and the True/False SMS Anti-fraud System, and the *White Paper on Commercial Bank Data Asset Valuation* was the first of its kind developed to build the data asset valuation system of the banking industry.

During the reporting period, IT systems of the Bank remained stable and no material security incident occurred.

XVI. INVESTMENT ANALYSIS

i. Long-term equity investments

As at the end of the reporting period, the balance of the Bank’s long-term equity investments amounted to RMB12,983 million.

Management Discussion and Analysis

ii. Material equity investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principal business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	468,000	531,000	90	83,692	Hubei Port Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Everbright Wealth Management Co., Ltd.	Wealth management	500,000	-	100	69,068	Nil
Beijing Sunshine Consumer Finance Co., Ltd.	Personal consumer finance	60,000	60,000	60	-4,252	China CYTS Tours Holding Co., Ltd., O-Bank Co., Ltd.
CEB International Investment Corporation Limited	Investment banking	HKD2.6 billion	-	100	HKD-103.13 million	Nil
China Everbright Bank (Europe) S.A.	Full-licensed banking business	EUR20 million	-	100	EUR-1.11 million	Nil
Shaoshan Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	360	Sany Group Co., Ltd., Guangzhou Baoli Hetai Financial Holding Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan Urban Construction Investment Co., Limited
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Commercial banking	7,000	7,000	70	361	Jiangsu East Goldfox Fashion Co., Ltd., Huai'an Hongyun Municipal Co., Ltd., Nanjing Mengdu Tobacco Packaging Co., Ltd., Huai'an Honghuai Agricultural Industry Development Co., Ltd.
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Commercial banking	10,500	10,500	70	391	Ruijin Cultural Tourism Development and Investment Co. Ltd., Ruijin Hongdu Aquatic Product Food Co. Ltd., Ruijin Lvexuan Forestry Co., Ltd., Ruijin Tiancheng Agricultural Products Co., Ltd.
China UnionPay Co., Ltd.	Bank card clearing	9,750	7,500	2.56	836,100	Other commercial banks, etc.
National Financing Guarantee Fund Co., Ltd.	Re-guarantee	100,000	-	1.51	-	20 shareholders including Ministry of Finance, China Development Bank, Industrial and Commercial Bank of China, China Merchants Bank, China Life Insurance Company Ltd., etc.

Notes:

- All the above-mentioned major equity investments were made with unquoted equity.
- All the above-mentioned major equity investments were long-term investments.
- All the above-mentioned equity investments were not subject to any litigation.

iii. The Bank had no material non-equity investment and conducted bond investment in the ordinary course of its business. Please refer to the afore-mentioned for details.

iv. Financial assets designated at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for details.

VII. DURING THE REPORTING PERIOD, THERE WAS NO MATERIAL DISPOSAL OF EQUITY INTEREST OF THE BANK.

VIII. MAJOR COMPANIES IN WHICH THE BANK HELD EQUITY

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company engages in financial leasing business. It was registered in Wuhan City, Hubei Province with a registered capital of RMB5.9 billion. During the reporting period, the company mainly focused its financial leasing business on fields related to national economy and people’s well-being, such as public utilities, infrastructure construction and urbanization as well as national strategic emerging industries such as new materials, new energy and high-end manufacturing. By now, it has formed brand advantages in aviation and vehicle equipment, and is expanding its business to wind power, forming a nationwide business network. As at the end of the reporting period, its total assets and net assets were RMB128,648 million and RMB10,959 million, respectively. It realized a net profit of RMB837 million for the reporting period.

ii. Everbright Wealth Management Co., Ltd.

Founded in September 2019, the company specializes in asset management related businesses such as the issuance of publicly-offered wealth management products, the issuance of private equity wealth management products, wealth management advisory and consultation. It was registered in Qingdao City, Shandong Province with a registered capital of RMB5 billion. As at the end of the reporting period, its total assets and net assets were RMB6,681 million and RMB6,329 million, respectively. It realized a net profit of RMB691 million for the reporting period.

During the reporting period, through diversified products and professional abilities of assets allocation, the company continuously enriched product shelves, issued themed wealth management products such as Sunshine Gold Profit Daily, Sunshine Orange Quantitative Hedge and Sunshine Orange All-star FOF, launched the first Sunshine Blue private equity product and participated in publicly-traded REITs investment. The Bank fully participated in six of the first nine publicly-traded REITs as a strategic investor, and provided comprehensive asset appreciation services for investors. As at the end of the reporting period, the company managed RMB877,140 million worth of assets entrusted by customers.

iii. Beijing Sunshine Consumer Finance Co., Ltd.

Founded in August 2020, the company specializes in business related to personal consumer loans. It was incorporated in Beijing with a registered capital of RMB1 billion. During the reporting period, the company actively promoted the building of self-owned scenarios and improved its independent risk control capability. As at the end of the reporting period, its total assets and net assets were RMB10,722 million and RMB862 million, respectively. It realized a negative net profit of RMB42.52 million for the reporting period.

Management Discussion and Analysis

iv. CEB International Investment Corporation Limited

Registered with a capital of HKD2.6 billion in Hong Kong in June 2015, the company has obtained the licenses for securities trading, securities consultation, financial consultation and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsorship and underwriting, public offering and placement of new shares by listed companies, and enterprise refinancing. As at the end of the reporting period, its total assets and net assets were HKD12,370 million and HKD2,392 million, respectively. It realized a negative net profit of HKD103 million for the reporting period.

v. China Everbright Bank (Europe) S.A.

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it mainly engages in deposit taking, loan granting, bill and bond issuance and any other businesses that can be conducted by credit institutions according to laws in Luxembourg. During the reporting period, it focused its efforts on developing cross-border business. As at the end of the reporting period, its total assets and net assets were EUR22.59 million and EUR12.38 million, respectively. It realized a negative net profit of EUR1.11 million for the reporting period.

vi. Shaoshan Everbright Rural Bank Co., Ltd.

Founded in September 2009, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Shaoshan City, Hunan Province, with a registered capital of RMB150 million. During the reporting period, focusing on serving rural residents, agriculture and rural areas as well as the local area, it developed businesses for small and micro enterprises and helped boost the growth of county economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets and net assets were RMB824 million and RMB225 million, respectively. It realized a net profit of RMB3.60 million for the reporting period.

vii. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

Incorporated in February 2013, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Huai'an City, Jiangsu Province, with a registered capital of RMB100 million. During the reporting period, it continued to serve rural residents, agriculture and rural areas, expanded businesses for small and micro enterprises, and achieved steady growth. As at the end of the reporting period, its total assets and net assets were RMB1,164 million and RMB140 million, respectively. It realized a net profit of RMB3.61 million for the reporting period.

viii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

Incorporated in November 2018, the rural bank engages in commercial banking services including deposit-taking and lending. It was registered in Ruijin City, Jiangxi Province, with a registered capital of RMB150 million. During the reporting period, it explored services for rural residents, agriculture and rural areas, and developed businesses for medium, small and micro enterprises. As at the end of the reporting period, its total assets and net assets were RMB756 million and RMB164 million, respectively. It realized a net profit of RMB3.91 million for the reporting period.

XIX. STRUCTURED ENTITIES CONTROLLED BY THE BANK

The structured products controlled by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for further details.

XX. RISK MANAGEMENT

i. Credit risk management

The Bank further strengthened unified credit management, improved system development, optimized management and control procedures, enhanced data governance, and initiated the enhancement consulting program on unified credit management. It also intensified the corporate governance of its subsidiaries, improved consolidated balance sheet management, and established a mechanism for both reporting material risk events and monitoring asset quality. Furthermore, the Bank applied big data, artificial intelligence, blockchain and other fintech means to transform traditional risk control technologies so as to improve the digitalized and intelligent level of risk management.

Grounding its efforts in serving the new development pattern and boosting domestic demand, the Bank bolstered business in strategic emerging industries, advanced manufacturing industries and modern service industries and granted more medium and long-term loans as well as loans to private enterprises. It made due contributions to realizing the goal of “peaking carbon emissions and realizing carbon neutrality” by formulating marketing guidelines for green finance, energy conservation and environmental protection, and increasing investment in green finance. Moreover, the Bank fully supported inclusive finance, and further extended the policies of deferring the principal repayment of inclusive loans to small and micro enterprises and supporting unsecured loans. It also implemented the rural revitalization strategy, and allocated more credit resources to small and micro businesses, rural residents, agriculture and rural areas, increasing the proportion of first loans to small and micro businesses and the proportion of medium and long-term loans in the total.

The Bank classified assets in an accurate manner so as to disclose risk conditions dynamically and objectively. It pursued a prudent and sound provision policy, performing impairment test and provisioning strictly in line with the new accounting standards for financial instruments. Besides, the Bank improved the whole-process asset quality management mechanism, strengthened portfolio monitoring and penetration risk monitoring for large-value credit customers, and stepped up risk prevention in key areas. It also intensified the disposal of existing non-performing loans, and broadened disposal channels.

Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for further details of credit risk management.

Management Discussion and Analysis

ii. Liquidity risk management

The Bank held a prudent and sound attitude towards liquidity risk management and adopted a proactive liquidity management strategy, in a bid to maintain liquidity at a sound and adequate level and stick to the liquidity safety bottom line. Keeping a close eye on the changes in macroeconomic and market situations, the Bank made forward-looking overall planning and properly addressed various uncertain and unstable factors. It strengthened stress testing, strictly controlled risk limits, reserved premium liquid assets, and expanded diversified liability channels. Besides, the Bank further improved its consolidated management governance system, and enhanced the risk resistance capacity of the Group.

Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for further details of liquidity risk management.

iii. Market risk management

The Bank continued to improve its market risk management system, and put all consolidated businesses and products that are associated with market risks under limit control. It closely followed the fluctuations of both domestic and foreign markets, stepped up efforts to predict and analyze interest rate and exchange rate risks, and prevented extreme market risks that may be caused by emergencies. Meanwhile, the Bank strengthened the management of derivative market risk and counterparty risk, carried out regular market risk stress tests, and improved stress test procedures and result application mechanism. It also pressed ahead with the improvement of capital measurement and management capabilities for market risks.

Please refer to the “Notes to the Unaudited Condensed Consolidated Financial Statements” for further details of market risk management.

iv. Large exposure management

The Bank strictly implemented regulatory requirements, formulated management rules for large exposures, and established an organizational structure and management system for large exposures management. Besides, it promoted the development of relevant IT systems, measured and dynamically monitored changes in large exposures, and thus effectively controlled customer concentration risk. As at the end of the reporting period, all limit indicators for the Bank’s large exposures were controlled within the regulatory scope.

v. Country risk management

The Bank incorporated country risk management into its comprehensive risk management system. It imposed strict management on country and region access, set and monitored country risk limit, made impairment allowances for country risk in businesses, conducted risk stress tests, and developed systems to improve the digitization level of country risk management. It also regularly reported the Bank's country risk management to the senior management and regulators. As at the end of the reporting period, the Bank's assets involved in country risk exposures were small in amount and within the limit.

vi. Operational risk management

The Bank further strengthened the operational risk management, and continued its efforts in risk prevention and control, disposal and rectification. It improved the system for key risk indicators, and intensified risk monitoring. By means of collecting risk event cases, the Bank improved warning notification and education training on common risks in key areas. It also strengthened tracking, supervision and guidance, listed problems and relevant accountability issues, and identified and addressed existing problems. Furthermore, the Bank advanced consulting management programs, improved operational risk management, and refined the capital measurement system.

Please refer to “Notes to the Unaudited Condensed Consolidated Financial Statements” for further details of operational risk management.

vii. Compliance risk management

Adhering to the “policy-first” principle, the Bank organized centralized review of its rules and policies on a regular basis, continuously improving the management system for rules and policies. It focused on the key areas highlighted by regulators, improved routine supervision and inspections, and thus built a long-term compliance mechanism. It also continued to follow changes in external laws and regulations, and strengthened the building of a library for internal and external rules and policies. Meanwhile, the Bank actively optimized the authorization management system, and enhanced its efforts in promoting differentiated authorization and dynamic adjustment. It also persisted in pilot inspections and investigations into abnormal transactions of employees to magnify the deterrence effect to prevent case occurrence. In addition, the Bank enhanced the supervision and handling of criminal cases and litigation, thereby strengthening the management and control of the whole process.

Management Discussion and Analysis

viii. Reputational risk management

In accordance with the latest requirements of the *Measures for the Reputational Risk Management of Banking and Insurance Institutions (Provisional)* (CBIRC [2021] No.4) issued by CBIRC, the Bank revised all rules related to reputational risk management, and incorporated reputational risk management into its comprehensive risk management system, thus covering all business lines, branches and subsidiaries, all departments, positions, personnel and products, as well as the entire management process ranging from decision-making, implementation to supervision. The Bank upheld the “prevention-first” concept in reputational risk management, and established a science-based, reasonable, timely and efficient mechanism for risk prevention, response and handling, in order to ensure rapid response, coordinated management and efficient handling of reputational risk events, to repair affected reputation and social image as soon as possible. In addition, the Bank not only conducted emergency drills and management training for reputational risk in a timely manner, but also organized investigation and troubleshooting for hidden risk, continuously improving its reputational risk management and team capabilities.

During the reporting period, the Bank did not incur any material reputational risk event that could seriously endanger the reputation of the Bank.

ix. Anti-money laundering risk (AML) management

The Bank incorporated money-laundering risk management into its overall strategic plan, improved the AML risk assessment mechanism, and continued to step up AML efforts. It promoted AML data examination, improved data quality at its source, and strengthened the effectiveness of AML monitoring and reporting. Through organizing work competitions, the Bank enriched the AML training contents, to enhance employees’ AML awareness. It intensified the management of high-risk customers, and launched investigations into illegal transactions on virtual currencies. In addition, the Bank further improved AML risk management for cross-border businesses to prevent the risks of money-laundering, terrorist financing and illegal cross-border capital flows, and intensified efforts in the AML management of overseas institutions.

x. Credit policies for key fields

The Bank implemented the ecological civilization construction strategy, and intensified its support for green finance pursuant to the goals of peaking carbon emissions and achieving carbon neutrality. It vigorously supported industries in the fields of clean energy, energy saving and environmental protection, promoted the green upgrading and transformation of traditional industries, and advanced the innovation of green technologies. In addition, the Bank explored and refined green financing models, and boosted the innovation of green financial products and models. It also strictly implemented the “one-vote veto system for green credit”, and controlled the credit granted to high-energy-consuming enterprises.

In the real estate sector, the Bank adhered to the overall principle of “housing is for living in, not for speculation”, and strictly implemented the regulatory requirements for managing the concentration level of real estate businesses. In addition to the list-based management of real estate developers, the Bank implemented city-specific differentiated credit policies. Following the principle of “selecting the top best”, the Bank strictly reviewed both the availability of project capital and compliance documents. Meanwhile, the Bank strengthened the monitoring of loan usages and the tracking of project sales, and intensified the closed-loop management of funds.

XXI. OUTLOOK OF THE BANK

i Progress in business plan implementation

Committed to the general principle of pursuing progress while ensuring stability, and upholding strategy-oriented and innovation-driven development, the Bank highlighted the characteristics of wealth management and fintech. During the first half of the year, it achieved good operating performance with main financial indicators all meeting budget targets.

ii Possible risks and countermeasures

In 2021, internationally speaking, the pandemic has continued to evolve and the external environment has become more complex and severe. From the domestic perspective, China has entered the stage of high-quality development with robust resilience and overall stable social situation. At the same time, there exist problems such as unbalanced and inadequate development, unsound foundation for economic recovery, and various non-negligible derivative risks. Meanwhile, as interest rate liberalization continued to deepen and the transition period for the new rules on asset management entered into the final year, there has occurred not only fiercer competitions in the banking industry, but also more difficulties in managing assets and liabilities with continuous pressure of capital replenishment.

Committed to developing itself into a first-class wealth management bank, the Bank will follow decisions and plans made by the central government and fulfill its duties and missions as a central state-owned enterprise. Moreover, as it enters a new stage, it will implement the “Leap Development Plan” in an all-round manner. It will focus more on innovation and leverage on the role of technology in development. Furthermore, the Bank will press ahead with customer services to safeguard the rights and interests of consumers and make a new leap toward high-quality development.

Environmental and Social Responsibility

I. GREEN FINANCE POLICY

In 2021, the Bank aligned with national strategies, put into practice the green development philosophy on all fronts, and actively promoted green finance work relying on China Everbright Group's advantages in industry-finance integration. It gradually optimized organizational structure and institutional mechanisms, and increased resource allocation for green development and low-carbon transformation. The Bank also upgraded green finance product system and service models, proactively participated in the investment and underwriting of green bonds, and facilitated green bond issuance in an orderly manner. Furthermore, it firmly supported the development of green economy, low-carbon economy and circular economy in a bid to realize the goals of "peaking carbon emissions and achieving carbon neutrality". As at the end of the reporting period, the growth rates of both green loans and clean energy loans were the higher than the average of all loans of the Bank.

II. PAIRED-UP ASSISTANCE TO DESIGNATED AREAS AND RURAL REVITALIZATION

During the reporting period, the Bank carried out paired-up assistance in an orderly manner to consolidate the achievements of poverty alleviation and promote rural revitalization on all fronts. It formulated the *2021 Paired-up Assistance Work Plan*, and pinpointed its directions and objectives from the aspects of giving full play to the leadership of Party building, completing fund donations to designated counties, increasing rural revitalization loans, expanding the depth and breadth of poverty alleviation through consumption, implementing featured assistance projects, and offering e-commerce training.

As at the end of the reporting period, the Bank leveraged on its "Wonderful E-Shopping" platform to help 85 counties (former national-level poverty-stricken counties) in 18 provinces get rid of poverty. The e-commerce platform helped more than 100 rural enterprises sell 1.4679 million items of over 400 kinds of poverty alleviation products, with total sales reaching RMB101.6236 million. Moreover, the Bank continuously provided financial credit to public institutions and enterprises that created job opportunities and increased income for people who had been lifted out of poverty. The balance of targeted poverty alleviation loans stood at RMB30,403 million, an increase of RMB5,589 million over the end of the previous year, meeting the regulatory requirements that the balance of targeted poverty alleviation loans should continue to grow. Besides, its completion rate of credit plan was 558%.

In July 2021, unprecedented torrential rains hit Henan Province. By combining its service resources and featured advantages, the Bank acted swiftly to formulate 12 measures to facilitate flood control, disaster relief and post-disaster reconstruction, giving all out to support flood prevention, emergency rescue and disaster relief work.

III. CONSUMER RIGHTS & INTERESTS PROTECTION (CONSUMER PROTECTION)

During the reporting period, the Bank further improved its institutional system by reviewing and revising its consumer rights and interests protection working system according to the latest regulatory requirements so as to consolidate management foundation. The consumer protection review system was developed and promoted to realize digital transformation. Besides, the Bank continued to promote the brand building of "Sunshine Consumer Protection", carried out the financial publicity activities of "Sunshine Consumer Protection Health Run" nationwide to advocate the new philosophy of financial consumer protection of "safeguarding wealth towards a healthy life". Moreover, the Bank enriched the contents of "Sunshine Partner" program by upgrading its "Senior-friendly Services" to offer better service experiences to more customer groups. It also strengthened staff training to improve their awareness of consumer protection and capacity of performing duties through online quizzes on consumer protection, on-site training and other forms. Furthermore, the Bank also standardized complaint management to ensure smooth channels for handling complaints, streamline related services procedures and improve efficiency in order to enhance customer satisfaction.

IV. ENVIRONMENTAL INFORMATION

The Bank made vigorous efforts to develop green finance, supported the development of energy-saving and eco-friendly industries, engaged in green operation and undertook environment-friendly public welfare activities. The Bank was not on the list of key pollutant discharging enterprises announced by the national environmental protection authority, and was not imposed any administrative penalties due to environment-related issues.

Significant Events

I. IMPORTANT UNDERTAKINGS AND PERFORMANCE OF UNDERTAKINGS GIVEN BY THE BANK AND THE BANK'S DE FACTO CONTROLLER, CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES

During the reporting period, the Bank, its de facto controller and controlling shareholder did not make any new important undertakings. As at the end of the reporting period, all the continuing commitments made by the Bank, its de facto controller and controlling shareholder were properly fulfilled. Please refer to the *2020 Annual Report* of the Bank for more details.

II. USE OF CAPITAL BY THE CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES FOR NON-OPERATING PURPOSES

During the reporting period, there was no non-operational capital occupation by the controlling shareholder and other related parties of the Bank.

III. MATTERS CONCERNING BANKRUPTCY OR REORGANIZATION

During the reporting period, no bankruptcy or reorganization took place at the Bank.

IV. MATERIAL LITIGATION AND ARBITRATION MATTERS

The Bank was involved in some litigation and arbitration cases during its regular course of business, most of which were initiated by the Bank for the purpose of collecting non-performing loans. During the reporting period, the Bank was not involved in any material litigation or arbitration cases. As at the end of the reporting period, the Bank was involved in 647 sued litigation and arbitration cases pending final judgment, which involved RMB1 billion. The above litigation and arbitration cases will not have any significant adverse impact on the financial position or operating performance of the Bank.

V. PENALTY IMPOSED ON THE BANK AND ITS CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- i. During the reporting period, the Bank was not investigated for suspected crimes according to law, and none of its controlling shareholder, de facto controller, Directors, Supervisors and Senior Management was suspected of committing crimes or was subject to any compulsory measures according to law.
- ii. During the reporting period, the Bank and its controlling shareholder, de facto controller, Directors, Supervisors or Senior Management were not subject to any criminal punishment, investigation by CSRC for suspected violation of laws and regulations, administrative penalty by CSRC, or material administrative penalty by other competent authorities.
- iii. During the reporting period, none of the Bank's controlling shareholder, de facto controller, Directors, Supervisors or Senior Management was detained by the disciplinary inspection and supervision authorities for suspected serious disciplinary violations or duty-related crimes.
- iv. During the reporting period, none of the Bank's Directors, Supervisors or Senior Management was subject to any compulsory measures by other competent authorities for suspected violation of laws and regulations.
- v. During the reporting period, the Bank and its controlling shareholder, de facto controller, Directors, Supervisors or Senior Management were not subject to any administrative and regulatory measures by CSRC, or disciplinary action by any stock exchange.

Significant Events

VI. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, the Bank, its controlling shareholder and de facto controller did not fail to comply with the obligations specified in effective court documents or repay significant matured debts.

VII. PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

VIII. CHANGES IN ACCOUNTING POLICIES

During the reporting period, there was no change in accounting policies of the Bank.

IX. MATTERS CONCERNING CONNECTED TRANSACTIONS OF THE BANK UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON HKEX (HEREINAFTER REFERRED TO AS THE HONG KONG LISTING RULES)

In accordance with the *Hong Kong Listing Rules*, the transactions between the Bank and its connected persons (as defined in the *Hong Kong Listing Rules*) constitute connected transactions of the Bank. The Bank has monitored and managed these connected transactions in accordance with the *Hong Kong Listing Rules*. Connected transactions occurring or existing during the reporting period are as follows:

i. Non-exempt connected transactions

1. Approval of transaction limit of non-performing assets acquisition for connected legal person Everbright Jin'ou Assets Management Co., Ltd. ("Everbright Jin'ou")

On 20 June 2019, the Bank agreed to approve a cumulative non-performing asset acquisition limit of RMB4 billion for Everbright Jin'ou with a single transaction limit of RMB2 billion. The limit is valid for three years starting from 20 June 2019, with an annual limit of RMB4 billion. Everbright Jin'ou is a legal person directly controlled by China Everbright Group, the controlling shareholder of the Bank, and is a connected person of the Bank.

2. Approval of bond underwriting limit for connected legal person China Everbright Group

On 6 September 2019, the Bank entered into an agreement with China Everbright Group, pursuant to which, the Bank agreed to provide bond underwriting service to China Everbright Group. The Bank approved the bond underwriting limit of RMB5 billion for China Everbright Group. The underwriting limit is based on the balance management system and is valid for two years with an annual balance cap of RMB5 billion. The annual cap of the underwriting fee is RMB90 million. The issuance factors such as the current underwriting coupon rate under the business will be applied in accordance with the current underwriting approval process in the type of credit. China Everbright Group is the controlling shareholder of the Bank and constitutes a connected person of the Bank.

3. Signing of a framework agreement on technology service with connected legal person Everbright Technology Co., Ltd. ("Everbright Technology")

On 24 December 2020, the Bank entered into an agreement with Everbright Technology, pursuant to which, Everbright Technology agreed to provide technology services for the Bank, which is valid from 1 January 2021 to 31 December 2023 (both dates inclusive). The annual caps for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 are RMB400 million, RMB500 million and RMB600 million respectively. Everbright Technology is a wholly-owned subsidiary of China Everbright Group, the Bank's controlling shareholder, and constitutes a connected person of the Bank.

4. Signing of aircraft sale and purchase agreements with connected legal person China Aircraft Leasing Group Holdings Limited (“CALC”)

On 9 April 2021, Everbright Financial Leasing Co., Ltd. (“Everbright Financial Leasing”) as the Purchaser (through its two wholly-owned special purpose vehicles) entered into aircraft sale and purchase agreements with CALC as the Vendor (through its two wholly-owned special purpose vehicles), pursuant to which CALC transferred the ownership of two Airbus A320 aircraft together with the rights and obligations under the leasing agreements to Everbright Financial Leasing, and Everbright Financial Leasing agreed to purchase the two Airbus A320 aircraft together with the rights and obligations under the leasing agreements. The respective consideration of the aircraft will be paid with self-owned funds of the Purchaser upon completion of each of the aircraft sale and purchase agreements. The market appraise value of the aircraft is made by an independent appraiser and is approximately USD102.4 million (equivalent to approximately HKD799 million). The Bank has applied to the HKEX for, and the HKEX has granted, exemption from strict compliance with (i) the Rules 14.58(4) and 14.58(7) of the *Hong Kong Listing Rules* regarding the disclosure of the transaction consideration and the net profit attributable to the assets; (ii) the Rule 14.58(6) of the *Hong Kong Listing Rules* regarding the net book value of the Subject of Transfer; and (iii) the Rule 14A.68(5) of the *Hong Kong Listing Rules* regarding the original cost of the Vendor’s initial purchase of the Subject of Transfer. CALC is a legal person indirectly controlled by China Everbright Group, the controlling shareholder of the Bank, so CALC is a connected party of the Bank.

ii. Exemptible connected transactions

During the reporting period, a series of connected transactions were carried out between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the *Hong Kong Listing Rules*, such connected transactions were exempted from relevant reporting, annual review, announcement and independent shareholders’ approval requirements.

X. MATERIAL CONTRACTS AND THEIR PERFORMANCE

i. Significant events of material custody, contracting or leasing assets of other companies by the Bank, or other companies’ material custody, contracting or leasing assets of the Bank

Except for routine business, during the reporting period, there was no significant matter in relation to any material arrangement for custody, contracting and leasing of assets by or to the Bank.

ii. Significant guarantee

During the reporting period, the Bank did not enter into any material guarantee that needed to be disclosed save for the financial guarantees within the business scope as approved by the regulatory authorities. The Bank did not enter into any guarantee contract in violation of laws, administrative regulations or the resolution procedures for external guarantee stipulated by CSRC.

iii. Other material contracts

During the reporting period, the Bank had no other material contract, and all contracts regarding operations of ordinary business were duly performed.

XI. OTHER SIGNIFICANT EVENTS

i. Progress in the issuance of tier-two capital bonds

On 29 June 2021, the 2020 Annual General Meeting of the Bank reviewed and approved the *Proposal on Issuance of Tier-two Capital Bonds*, and planned to issue tier-two capital bonds of no more than RMB60 billion or equivalent in foreign currencies. As at the end of the reporting period, this matter was in progress.

Significant Events

ii. Progress in establishment of CEB Macao Branch

On 12 November 2020, the Bank's application for establishing CEB Macao Branch was approved by CBIRC. As at the end of the reporting period, the preparation was in progress.

iii. Completion of the profit distribution for 2020

At the 2020 Annual General Meeting held on 29 June 2021, the Bank considered and approved the profit distribution plan for 2020, and distributed cash dividends to all ordinary shareholders at RMB2.10 (before tax) per 10 shares. As at the disclosure date of this report, all the cash dividends totaling RMB11,347 million had been distributed.

XII. SIGNIFICANT EVENTS OF SUBSIDIARIES

i. Everbright Financial Leasing Co., Ltd.

In May 2021, the company distributed cash dividends of RMB200 million to all shareholders. During the reporting period, Hubei Port Group Co., Ltd. merged Wuhan New Harbor Construction and Investment Development Group Co., Ltd., a previous shareholder of the company, and took the shares held by the latter. The number of shares held and the shareholding percentage did not change. The company purchased the aircraft asset package of its related legal person CALC at a total price of about HKD799 million. The company did not involve in any material litigation or arbitration, acquisition and disposal of major assets, material contract, judicial or administrative investigation or administrative penalty.

ii. Everbright Wealth Management Co., Ltd.

In June 2021, the company distributed cash dividends of RMB226 million to its shareholders. During the reporting period, the company's introduction of strategic investors was underway; the company invested in the ABS products of its related legal person Everbright Financial Holding Asset Management Co., Ltd., with a transaction amount of RMB10 billion, and granted a credit line of RMB3 billion to the over-the-counter options of its related legal person Everbright Photonics Investment Management Co., Ltd., and approved a wealth management interbank loan limit of RMB20 billion for the related legal person China Cinda Asset Management Co., Ltd. During the reporting period, the company did not get involved in any material litigation or arbitration, acquisition and disposal of major assets, material contract, judicial or administrative investigation or administrative penalty.

iii. Beijing Sunshine Consumer Finance Co., Ltd.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

iv. CEB International Investment Corporation Limited

During the reporting period, the company planned to invest up to RMB50 million in purchasing shares of its related legal person Everbright Cloud Fee Payment Technology Co., Ltd. It neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material contract, judicial or administrative investigation or administrative penalty.

v. China Everbright Bank (Europe) S.A.

During the reporting period, the company neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

vi. Shaoshan Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

vii. Jiangsu Huai'an Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank's former shareholder Jiangsu Taihua Pharmacy Co., Ltd. transferred all the shares it held in the rural bank to Huai'an Honghuai Agricultural Industry Development Co. Ltd., and the number of shares held and shareholding percentage did not change. The rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

viii. Jiangxi Ruijin Everbright Rural Bank Co., Ltd.

During the reporting period, the rural bank neither made profit distribution nor got involved in any material litigation or arbitration, acquisition and disposal of major assets, material related party transaction, material contract, judicial or administrative investigation or administrative penalty.

XIII. REVIEW OF INTERIM RESULTS

EY, as the external auditor, reviewed the Bank's interim financial statements, which were prepared according to the International Accounting Standards and the disclosure requirements prescribed in the *Hong Kong Listing Rules*. The Board of Directors of the Bank and its Audit Committee reviewed and approved the interim results and financial statements of the Bank for the six months ended 30 June 2021.

XIV. PUBLICATION OF INTERIM REPORT

The Interim Report, in Chinese and English, prepared by the Bank in accordance with the International Accounting Standards and the *Hong Kong Listing Rules*, are available at the websites of HKEX and the Bank. In the event of any discrepancy between the two versions, the Chinese version shall prevail.

Changes in Ordinary Share Capital and Shareholders

I. CHANGES IN SHARES

Unit: share, %

	31 December 2020		Changes during the reporting period Conversion of convertible bonds	30 June 2021	
	Number	Percentage		Number	Percentage
I. Shares subject to restrictions on sales	5,810,000,000	10.75	–	5,810,000,000	10.75
Shares held by state-owned legal persons	5,810,000,000	10.75	–	5,810,000,000	10.75
II. Shares not subject to restrictions on sales	48,221,908,979	89.25	5,841	48,221,914,820	89.25
1. RMB-denominated ordinary shares	41,353,173,479	76.54	5,841	41,353,179,320	76.54
2. Overseas listed foreign shares	6,868,735,500	12.71	–	6,868,735,500	12.71
III. Total shares	54,031,908,979	100.00	5,841	54,031,914,820	100.00

II. NUMBER OF SHAREHOLDERS

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	223,640	860

III. CONFIRMATION OF THE BANK'S COMPLIANCE WITH THE REQUIREMENT OF SUFFICIENCY OF PUBLIC FLOAT UNDER THE HONG KONG LISTING RULES

Based on the publicly available information and to the knowledge of the Directors, as at 30 June 2021, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by HKEX upon the IPO of the Bank.

IV. SHAREHOLDING OF TOP TEN SHAREHOLDERS

Unit: share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/ marked/frozen
China Everbright Group Ltd.	State-owned legal person	-	A shares	23,359,409,561	43.23	-
Hong Kong Securities Clearing Company Nominees Limited including Overseas Chinese Town Holdings Company	Overseas legal person	47,000	H shares	11,063,853,380	20.48	Unknown
Ocean Fortune Investment Limited	State-owned legal person	-	H shares	4,200,000,000	7.77	-
China Life Reinsurance Company Ltd.	Overseas legal person	-	H shares	1,605,286,000	2.97	-
China Everbright Limited	State-owned legal person	-	H shares	1,530,397,000	2.83	-
China Securities Finance Corporation Limited	Overseas legal person	-	A shares	1,572,735,868	2.91	-
China Reinsurance (Group) Corporation	State-owned legal person	-560,838,600	A shares	989,377,094	1.83	-
Shenergy (Group) Co., Ltd.	State-owned legal person	-	A shares	413,094,619	0.76	-
COSCO Shipping (Shanghai) Investment Management Co., Ltd.	State-owned legal person	-	H shares	376,393,000	0.70	-
Central Huijin Asset Management Ltd.	State-owned legal person	-12,760,000	A shares	753,242,403	1.39	-
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	-	A shares	723,999,875	1.34	-
Hong Kong Securities Clearing Company Ltd.	State-owned legal person	-	A shares	629,693,300	1.17	-
	Overseas legal person	-	A shares	626,063,556	1.16	-
	Overseas legal person	-107,762,384	A shares	615,315,440	1.14	-

Notes:

- As at the end of the reporting period, 1,610 million H shares held by China Everbright Group and 4,200 million H shares held by Overseas Chinese Town Holdings Company were subject to restrictions on sales. Besides them, all other ordinary shares were not subject to restrictions on sales.
- The Bank was aware that as at the end of the reporting period, Hong Kong Securities Clearing Company Nominees Limited is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Ltd. China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group. China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation. COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited. Save for the above, the Bank was not aware of any related party relationship or concerted actions among the above shareholders.
- The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 11,063,853,380 H shares as at the end of the reporting period. Among them, 4,200,000,000, 1,605,286,000, 1,530,397,000, 376,393,000 and 172,965,000 H shares of the Bank were held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Reinsurance (Group) Corporation and China Everbright Group respectively. The number of remaining H shares of the Bank held under it was 3,178,812,380 H shares.
- During the reporting period, Shenergy (Group) Co., Ltd. temporarily lent part of the shares of the Bank it held due to its sub-financing business.
- As at the end of reporting period, as the nominee holder, Hong Kong Securities Clearing Company Ltd. held, designated by and on behalf of others, 615,315,440 A shares of the Bank in total, including the shares under Shanghai Stock Connect held by Hong Kong and overseas investors.
- There is no special account for repurchase and thus no difference in voting rights.

Changes in Ordinary Share Capital and Shareholders

V. DATE OF TRADING FOR SHARES SUBJECT TO RESTRICTIONS ON SALES

Unit: Share

Date	Number of shares available for listing and trading upon the expiration of restrictions on sales	Remaining shares subject to restrictions on sales	Remaining shares not subject to restrictions on sales
22 December 2022	5,810,000,000	5,810,000,000	48,221,914,820

VI. SHAREHOLDING OF TOP TEN HOLDERS OF SHARES SUBJECT TO RESTRICTIONS ON SALES AND SPECIFIC TERMS OF RESTRICTIONS

Unit: Share

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales	Date for trading	Number of shares newly available for listing and trading	Specific terms of restrictions
Overseas Chinese Town Holdings Company	4,200,000,000	2022-12-22	–	H-share lock-up period
China Everbright Group Ltd.	1,610,000,000	2022-12-22	–	H-share lock-up period

VII. SUBSTANTIAL SHAREHOLDERS

i. Controlling shareholder

China Everbright Group directly held 46.53% shares of the Bank. As the Bank's controlling shareholder, the company's controlling shareholder is CHI, with the shareholding percentage up to 63.16%. There is no pledging, marking or freezing occurred in the company's equity.

ii. Other Substantial Shareholders Holding Shares of More Than 5% of the Bank

Overseas Chinese Town Holdings Company directly holds 7.77% shares of the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is the State-owned Assets Supervision and Administration Commission of the State Council of China, with the shareholding percentage up to 100%. There is no pledging, marking or freezing occurred in the company's equity.

iii. Other Substantial Shareholders under Regulatory Standards

In accordance with the *Interim Measures for Equity Management of Commercial Banks* (Decree No.1 of CBRC in 2018), substantial shareholders of the Bank also include:

1. China COSCO Shipping Corporation Limited indirectly holds 4.31% shares of the Bank through its subsidiaries, COSCO Shipping (Shanghai) Investment Management Co., Ltd. and Ocean Fortune Investment Limited, and dispatches directors to the Bank. Therefore, China COSCO Shipping Corporation Limited is a substantial shareholder of the Bank. There is no pledging, marking or freezing occurred in the company's equity.
2. China Reinsurance (Group) Corporation, directly and indirectly holds 4.29% of the Bank's shares, is a substantial shareholder of the Bank and dispatches directors to the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%. There is no pledging, marking or freezing occurred in the company's equity.

3. China Everbright Limited directly holds 2.91% of the Bank's shares and dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. There is no pledging, marking or freezing occurred in the company's equity.
4. Shenergy (Group) Co., Ltd. directly holds 1.39% of the Bank's shares and dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission. There is no pledging, marking or freezing occurred in the company's equity.

iv. Related Party Transactions with the Substantial Shareholders

In accordance with the *Interim Measures for Equity Management of Commercial Banks*, the Bank has treated about 2,400 enterprises including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries as the Bank's related parties. During the reporting period, the Bank incurred 46 related party transactions with 40 related parties, involving a total amount of RMB107,619 million. The above related party transactions have been reported to the Board of Directors and its Related Party Transactions Control Committee for approval or filing purpose in accordance with related procedures.

VIII. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2021, as far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the *Securities and Futures Ordinance of Hong Kong* ("HKSF") or which were required to be notified to the Bank:

Name of shareholder	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of relevant shares in issue (%) ^{4,5}	Percentage of the total issued shares (%) ^{4,5}
China COSCO Shipping Corporation Limited ¹	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
China Shipping (Group) Company ¹	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
COSCO Shipping Financial Holdings Co., Limited ¹	H shares	Interest of controlled corporation	Long	1,605,286,000	12.66	2.97
Ocean Fortune Investment Limited ¹	H shares	Beneficial owner	Long	1,605,286,000	12.66	2.97
Central Huijin Investment Ltd. ²	H shares	Interest of controlled corporation	Long	3,773,385,000	29.76	6.98
China Everbright Group Ltd. ²	H shares	Beneficial owner/ Interest of controlled corporation	Long	1,866,595,000	14.72	3.45
China Reinsurance (Group) Corporation ²	H shares	Beneficial owner/ Interest of controlled corporation	Long	1,906,790,000	15.04	3.53
China Life Reinsurance Company Ltd. ²	H shares	Beneficial owner	Long	1,530,397,000	12.07	2.83
Overseas Chinese Town Holdings Company	H shares	Beneficial owner	Long	4,200,000,000	33.13	7.77
China Everbright Group Ltd. ³	A shares	Beneficial owner/ Interest of controlled corporation	Long	25,922,412,492	62.69	47.98
Central Huijin Investment Ltd. ³	A shares	Interest of controlled corporation	Long	26,965,200,411	65.21	49.91

Changes in Ordinary Share Capital and Shareholders

Notes:

1. Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO Shipping Financial Holdings Co., Limited, which is wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the *HKSF*O, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited are all deemed to have interests in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.
2. China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. China Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 83,630,000 H shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI. China Everbright Holdings Company Limited is wholly-owned by China Everbright Group, while 63.16% of the issued share capital of China Everbright Group is held by CHI. In accordance with the *HKSF*O, China Reinsurance (Group) Corporation is deemed to have interests in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group is deemed to have interests in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to have interests in a total of 3,773,385,000 H shares of the Bank indirectly.
3. China Everbright Group directly holds a long position in 24,133,120,466 A shares of the Bank, and is deemed to indirectly hold a long position in a total of 1,789,292,026 A shares of the Bank through its subsidiaries as follows:
 - (1) China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.
 - (2) Meiguang Enyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.
 - (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.
 - (4) Everbright Financial Holding Asset Management Co., Ltd. directly holds a long position of 60,399,900 A shares of the Bank.

Therefore, China Everbright Group directly and indirectly holds a long position of 25,922,412,492 A shares of the Bank in total.

China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 63.16% of the issued share capital of China Everbright Group are held by CHI respectively. In accordance with the *HKSF*O, CHI is deemed to hold a long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., a long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and a long position in 25,922,412,492 A shares held by China Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,965,200,411 A shares of the Bank in total.

4. As at 30 June 2021, the total issued share capital of the Bank was 54,031,914,820 shares, including 41,353,179,320 A shares and 12,678,735,500 H shares.
5. The percentage of shareholdings is rounded to two decimal places.
6. The data disclosed above is based on the information provided on the website of HKEX and the information obtained by the Bank as at the end of the reporting period.

Save as disclosed above, as at 30 June 2021, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the *HKSF*O, or which were recorded in the register required to be kept by the Bank under Section 336 of the *HKSF*O.

IX. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2021, as far as the directors and supervisors of the Bank were aware, none of the directors, supervisors nor the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Divisions 7 and 8 of Part XV of the *HKSFO*) which were required to be recorded in the register required to be kept and notified to the Bank and HKEX under Section 352 of the *HKSFO*, or which were required to be notified to the Bank and HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* (“*Model Code*”) set out in Appendix 10 to the *Hong Kong Listing Rules*, nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Share Capital and Shareholders

I. ISSUANCE AND LISTING OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank had not issued or listed preference shares, and all existing preference shares were traded on the SSE Comprehensive Business Platform.

II. TOTAL NUMBER OF PREFERENCE SHAREHOLDERS AND SHAREHOLDINGS OF TOP TEN PREFERENCE SHAREHOLDERS

i. Everbright P1 (Code 360013)

Unit: Share, %

Number of shareholders as at the end of the reporting period							19
Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen	
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	37,750,000	18.88	Domestic preference shares	–	
China International Capital Corporation Limited	Others	8,740,000	27,740,000	13.87	Domestic preference shares	–	
Hwabao Trust Co., Ltd.	Others	15,330,000	16,300,000	8.15	Domestic preference shares	–	
TruValue Asset Management Co., Ltd.	Others	–	15,510,000	7.76	Domestic preference shares	–	
BOCOM Schroders Asset Management Co., Ltd.	Others	7,300,000	15,500,000	7.75	Domestic preference shares	–	
BOC International (China) Co., Ltd.	Others	–	15,500,000	7.75	Domestic preference shares	–	
CCB Trust Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–	
Ping An Property & Casualty Insurance Company of China Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–	
Ping An Life Insurance Company of China, Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–	
Bosera Asset Management Co., Limited	Others	–	7,750,000	3.88	Domestic preference shares	–	
Guangdong Finance Trust Co., Ltd.	Others	–	7,750,000	3.88	Domestic preference shares	–	
AXA SPDB Investment Managers Co., Ltd.	Others	–	7,750,000	3.88	Domestic preference shares	–	

Note: Bank of Communications Schroder Fund Management Co., Ltd. and BOCOM Schroders Asset Management Co., Ltd. are related parties. Ping An Property & Casualty Insurance Company of China, Ltd. and Ping An Life Insurance Company of China, Ltd. are related parties. Save for the above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference shares and the top ten holders of ordinary shares.

ii. Everbright P2 (Code 360022)

Unit: Share, %

Number of shareholders as at the end of the reporting period							21
Name of shareholder	Nature of shareholder	Changes in Shareholding During the Reporting period		Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen
AXA SPDB Investment Managers Co., Ltd.	Others	-		16,470,000	16.47	Domestic preference shares	-
AEGON-Industrial Capital Management (Shanghai) Co., Ltd.	Others	-		12,190,000	12.19	Domestic preference shares	-
China Everbright Group Ltd.	State-owned legal person	-		10,000,000	10.00	Domestic preference shares	-
China International Capital Corporation Limited	Others	9,480,000		9,480,000	9.48	Domestic preference shares	-
China Life Insurance Company Limited	Others	-		8,180,000	8.18	Domestic preference shares	-
Postal Savings Bank of China Co., Ltd.	Others	-		7,200,000	7.20	Domestic preference shares	-
Bank of Communications Schroder Fund Management Co., Ltd.	Others	-		6,540,000	6.54	Domestic preference shares	-
BOCOM Schroders Asset Management Co., Ltd.	Others	6,540,000		6,540,000	6.54	Domestic preference shares	-
Bosera Asset Management Co., Limited	Others	-		3,910,000	3.91	Domestic preference shares	-
BOC International (China) Co., Ltd.	Others	-2,610,000		3,270,000	3.27	Domestic preference shares	-
TruValue Asset Management Co., Ltd.	Others	3,270,000		3,270,000	3.27	Domestic preference shares	-
Bank of Hangzhou Co., Ltd.	Others	-		3,270,000	3.27	Domestic preference shares	-

Note: China Everbright Group Ltd. is one of the top ten ordinary shareholders of the Bank. Bank of Communications Schroder Fund Management Co., Ltd. and BOCOM Schroders Asset Management Co., Ltd. are related parties. Save for the above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference shares, as well as between the above preference shareholders and the top ten holders of ordinary shares.

Changes in Preference Share Capital and Shareholders

iii. Everbright P3 (Code 360034)

Unit: Share, %

Number of shareholders as at the end of the reporting period							23
Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen	
Ping An Life Insurance Company of China, Ltd.	Others	–	84,110,000	24.04	Domestic preference shares	–	
China Life Insurance Company Limited	Others	–	47,720,000	13.63	Domestic preference shares	–	
CCB Trust Co., Ltd.	Others	–	31,810,000	9.09	Domestic preference shares	–	
BOCOM Schroder Fund Management Co., Ltd.	Others	–	27,270,000	7.79	Domestic preference shares	–	
New China Life Insurance Company Limited	Others	–	27,270,000	7.79	Domestic preference shares	–	
Ping An Property & Casualty Insurance Company of China, Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–	
CITIC-Prudential Life Insurance Company Limited	Others	–	15,000,000	4.28	Domestic preference shares	–	
Postal Savings Bank of China Co., Ltd.	Others	–	13,630,000	3.89	Domestic preference shares	–	
China International Capital Corporation Limited	Others	9,090,000	13,630,000	3.89	Domestic preference shares	–	
Bank of Beijing Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–	
Guotai Junan Securities Asset Management Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–	
China Resources SZITIC Trust Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–	
Taiping Life Insurance Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–	
BOC International (China) Co., Ltd.	Others	–	9,090,000	2.60	Domestic preference shares	–	

Note: Ping An Life Insurance Company of China, Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd. are related parties. Save for the above, the Bank is not aware of any related party relationship or concerted actions among the above holders of preference shares, as well as between the above preference shareholders and the top ten holders of ordinary shares.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

As reviewed and approved by the 24th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of Everbright P3 on 19 April 2021. The total dividends of RMB1,680 million (before tax) were distributed with a dividend rate of 4.80% (before tax).

As reviewed and approved by the 26th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of Everbright P1 on 25 June 2021. The total dividends of RMB890 million (before tax) were distributed with a dividend rate of 4.45% (before tax).

As reviewed and approved by the 26th Meeting of the Eighth Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of Everbright P2 on 11 August 2021. The total dividends of RMB390 million (before tax) were distributed with a dividend rate of 3.90% (before tax).

IV. DURING THE REPORTING PERIOD, THERE WAS NO REDEMPTION OF PREFERENCE SHARES OR CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES BY THE BANK.

V. DURING THE REPORTING PERIOD, THERE WAS NO VOTING RIGHT RESTORATION OF THE PREFERENCE SHARES OF THE BANK.

VI. ACCOUNTING POLICIES FOR PREFERENCE SHARES OF THE BANK AND REASONS FOR ADOPTION

According to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, *Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments* and *Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF, the preference shares issued by the Bank were accounted for as an equity instrument.

Convertible Corporate Bonds

I. OVERVIEW

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30 billion and the net funds stood at about RMB29,923 million after deducting the issuance expense. The proceeds were used in business development, which could replenish core tier-1 capital after conversion. On 5 April 2017, the above-mentioned A share convertible bonds were listed on SSE (bond name: Everbright Convertible Bonds, stock code: 113011).

II. HOLDERS OF CONVERTIBLE BONDS AND GUARANTORS

Unit: RMB, %

Convertible bond holders as at the end of the reporting period	3,948	
Guarantors of convertible bonds	Nil	
Top ten convertible bond holders	Par value of bond held at period end	Percentage of bonds held
Specific account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China)	3,713,910,000	15.35
China Everbright Group Ltd.	2,909,153,000	12.02
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of China)	1,457,335,000	6.02
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank)	1,377,304,000	5.69
Specific account for collateralized bond repurchase in the securities depository and clearing system (Shenwan Hongyuan Securities Co., Ltd.)	750,000,000	3.10
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank)	680,452,000	2.81
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of Communications)	614,425,000	2.54
Specific account for collateralized bond repurchase in the securities depository and clearing system (China CITIC Bank)	588,466,000	2.43
Specific account for collateralized bond repurchase in the securities depository and clearing system (Agricultural Bank of China)	568,931,000	2.35
Specific account for collateralized bond repurchase in the securities depository and clearing system (Shanghai Pudong Development Bank)	502,298,000	2.08

III. CHANGES IN CONVERTIBLE BONDS

During the reporting period, a total of RMB22,000 “Everbright Convertible Bonds” were converted into A shares of the Bank, and the number of converted shares was 5,841.

IV. PREVIOUS ADJUSTMENTS OF CONVERSION PRICE

On 20 July 2021 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2020. In accordance with the applicable provisions in the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the “Everbright Convertible Bonds” saw its initial conversion price adjusted from RMB3.76 per share to RMB3.55 per share as of 21 July 2021 (the ex-dividend date). Previous adjustments of conversion price were as follows:

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website, website of the Bank	Due to profit distribution for ordinary A shares for 2016
26 December 2017	4.31	22 December 2017	Ibid.	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	Ibid.	Due to profit distribution for ordinary A shares for 2017
26 June 2019	3.97	18 June 2019	Ibid.	Due to profit distribution for ordinary A shares for 2018
24 June 2020	3.76	15 June 2020	Ibid.	Due to profit distribution for ordinary A shares for 2019
21 July 2021	3.55	12 July 2021	Ibid.	Due to profit distribution for ordinary A shares for 2020
Conversion price as of the disclosure date of this Report				3.55

V. THE BANK'S OUTSTANDING DEBTS, CREDIT WORTHINESS AND AVAILABILITY OF CASH FOR REPAYMENT OF DEBTS IN FUTURE YEARS

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin International Credit Rating Co., Ltd. (“CCXI”) to track and rate the credit standing of its A share convertible bonds issued in March 2017. CCXI issued the *Tracking and Rating Report on A Share Convertible Corporate Bonds (2021) of China Everbright Bank Company Limited* on 26 May 2021 based on the comprehensive analysis and evaluation of the Bank’s operating results and the industry situation, maintaining the credit rating of the bond issuer as AAA with a stable outlook and the credit rating of Everbright Convertible Bonds as AAA. The rating incurred no change from the previous one. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt repayment.

Directors, Supervisors, Senior Management, Staff and Business Outlets

- I. NONE OF THE CURRENT DIRECTORS, SUPERVISORS OR SENIOR MANAGEMENT OR THOSE LEFT OFFICE DURING THE REPORTING PERIOD HELD SHARES OR SHARE OPTIONS OF THE BANK, OR WERE GRANTED RESTRICTED SHARES OF THE BANK DURING THE REPORTING PERIOD.**
- II. AS AT THE END OF THE REPORTING PERIOD, THE BANK DID NOT IMPLEMENT ANY STOCK INCENTIVE PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN.**
- III. PROFILE OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS**

The Board of Directors consisted of 13 Directors, including 2 Executive Directors (Mr. Fu Wanjun and Mr. Qu Liang), 5 Non-Executive Directors (Mr. Li Xiaopeng, Mr. Wu Lijun, Mr. Yao Zhongyou, Mr. Yao Wei, and Mr. Liu Chong), and 6 Independent Non-Executive Directors (Mr. Xu Hongcai, Mr. Wang Liguang, Mr. Shao Ruiqing, Mr. Hong Yongmiao, Mr. Li Yinquan, and Mr. Han Fuling).

The Board of Supervisors had 9 Supervisors, including 3 Shareholder Supervisors (Mr. Lu Hong, Mr. Yin Lianchen, and Mr. Wu Junhao), 3 External Supervisors (Mr. Wu Gaolian, Mr. Wang Zhe, and Mr. Qiao Zhimin), and 3 Employee Supervisors (Mr. Xu Keshun, Mr. Sun Jianwei, and Mr. Shang Wencheng).

The Senior Management was composed of 8 members. They are Mr. Fu Wanjun, Mr. Wu Chongkuan, Mr. Dong Tiefeng, Mr. Qu Liang, Mr. Li Jiayan, Ms. Qi Ye, Mr. Yang Bingbing, and Mr. Zhao Ling.

Please refer to the *2020 Annual Report* of the Bank for resumes of directors, supervisors and senior management members of the Bank. Please refer to the announcement dated 24 December 2020 for the resume of Director Mr. Han Fuling newly-appointed, the announcement dated 2 February 2021 for the resume of newly-appointed Chairman of the Board of Supervisors Mr. Lu Hong, and the announcement dated 28 April 2021 for the resume of newly-appointed President Mr. Fu Wanjun during the reporting period.

IV. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Appointment and Resignation of Directors

1. On 5 February 2021, CBIRC approved the qualifications of Mr. Fu Wanjun, Mr. Yao Wei, Mr. Yao Zhongyou, and Mr. Qu Liang as Directors of the Bank.
2. On 2 March 2021, due to work adjustment, Mr. Lu Hong resigned from the positions as Executive Director of the Bank, and member of Risk Management Committee of the Board of Directors of the Bank.
3. On 16 March 2021, due to work adjustment, Mr. Liu Jin resigned from the positions as Executive Director of the Bank, Chairman and member of Risk Management Committee, Chairman and member of Inclusive Finance Development and Consumer Rights and Interests Protection Committee, and member of Strategy Committee of the Board of Directors of the Bank.
4. On 10 May 2021, due to work adjustment, Ms. Yu Chunling resigned from the positions as Non-executive Director of the Bank, member of Risk Management Committee and member of Related Party Transactions Control Committee of the Board of Directors of the Bank.
5. On 25 May 2021, CBIRC approved the qualifications of Mr. Han Fuling as Independent Non-executive Director of the Bank, and Mr. Feng Lun ceased to perform his duties.
6. On 1 June 2021, CBIRC approved Mr. Fu Wanjun's qualifications as President of the Bank, and Mr. Fu Wanjun was changed from Non-executive Director to Executive Director of the Bank.

7. On 10 June 2021, the 27th Meeting of the Eighth Session of the Board of Directors approved to nominate Mr. Li Wei as a candidate for Non-Executive Director of the Bank. On 29 June 2021, the 2020 Annual General Meeting elected Mr. Li Wei as Non-Executive Director of the Bank, which was subject to CBIRC for approval.
8. On 18 June 2021, due to work adjustment, Mr. Yao Zhongyou resigned from the position as Executive Vice President of the Bank, and was changed from Executive Director to Non-executive Director of the Bank.

ii. Appointment and Resignation of Supervisors

1. On 19 January 2021, due to retirement, Mr. Li Xin resigned from the positions as Chairman of the Board of Supervisors, Shareholder Supervisor, and member of Nomination Committee of the Board of Supervisors of the Bank.
2. On 2 February 2021, the 10th Meeting of the Eighth Session of the Board of Supervisors approved to nominate Mr. Lu Hong as candidate for Shareholder Supervisor of the Bank. On 25 March 2021, the 2021 First Extraordinary General Meeting elected Mr. Lu Hong as Shareholder Supervisor of the Bank. On 26 March 2021, the 11th Meeting of the Eighth Session of the Board of Supervisors elected Mr. Lu Hong as Chairman of the Board of Supervisors of the Bank.

iii. Appointment and Resignation of Senior Management Members

1. On 2 March 2021, due to work adjustment, Mr. Lu Hong resigned from the position as Executive Vice President of the Bank.
2. On 16 March 2021, due to work adjustment, Mr. Liu Jin resigned from the position as President of the Bank.
3. On 1 June 2021, CBIRC approved the qualifications of Mr. Fu Wanjun as President of the Bank.
4. On 18 June 2021, due to work adjustment, Mr. Yao Zhongyou resigned from the position of Executive Vice President of the Bank.
5. On 30 August 2021, the 30th Meeting of the Eighth Session of the Board of Directors approved to appoint Mr. Zhao Ling as Executive Vice President of the Bank, which was subject to CBIRC for approval.

V. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

1. Mr. Fu Wanjun, Executive Director and President of the Bank, began to serve as Executive Director of China Everbright Group and ceased to serve as Deputy General Manager of China Everbright Group.
2. Mr. Yao Zhongyou, Non-executive Director of the Bank, began to serve as Director-General of Leasing Business Management Center of China Everbright Group and Chairman (Designate) of Everbright Financial Leasing Co., Ltd.
3. Mr. Qu Liang, Executive Director and Executive Vice President of the Bank, ceased to concurrently serve as Secretary of CPC Committee, General Manager of Beijing Branch of the Bank.
4. Mr. Yao Wei, Non-executive Director of the Bank, began to serve as Director of Konka Group Co., Ltd. and Director of Overseas Chinese Town (Yunnan) Investment Co., Ltd.
5. Mr. Xu Hongcai, Independent Non-executive Director of the Bank, ceased to serve as Independent Non-executive Director of Bank of Hebei Co., Ltd.

Directors, Supervisors, Senior Management, Staff and Business Outlets

6. Mr. Hong Yongmiao, Independent Non-executive Director of the Bank, began to serve as Dean of the School of Economics and Management of University of Chinese Academy of Sciences and Independent Non-executive Director of BBMG Corporation, and ceased to serve as Independent Non-executive Director of Xiamen Bank Co., Ltd.
7. Mr. Li Yinquan, Independent Non-executive Director of the Bank, ceased to serve as Independent Non-executive Director of LIZHI INC.
8. Mr. Yin Lianchen, Shareholder Supervisor of the Bank, ceased to serve as Executive Director and Chief Investment Office of China Everbright Limited.
9. Mr. Sun Jianwei, Employee Supervisor of the Bank, began to serve as Inspection and Supervision Commissioner of the Inspection Office of the Bank, and ceased to serve as General Manager of Legal and Compliance Department.

VI. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

None of the Directors or Supervisors of the Bank had any material interest in any material contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the Directors or Supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to Director or Supervisor if the contract is terminated within one year for the Bank's reason (excluding statutory compensation).

VII. BASIC INFORMATION ON STAFF AND BUSINESS OUTLETS

As at the end of the reporting period, the Bank had 45,562 employees (excluding those of subsidiaries).

As at the end of the reporting period, the Bank had 1,299 domestic branches and outlets, which consisted of 39 tier-1 branches, 115 tier-2 branches, and 1,145 outlets, representing an increase of 3 outlets over the end of the previous year. The Bank has established 5 overseas branches which are Hong Kong Branch, Seoul Branch, Luxembourg Branch, Sydney Branch and Tokyo Representative Office. Macao Branch is under preparation for establishment.

Please refer to the *2020 Annual Report* of the Bank for details on the departments, branches and outlets of the Bank. During the reporting period, the Bank newly established Retail Credit Department, which is a tier-1 department in the Head Office.

Details of the Bank's employees and business outlets are as follows:

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	7,163	3,590,640	China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	70	2,844	655,302	No. 1 Xuanwumen Inner Street, Xicheng District, Beijing
Shanghai Branch	56	1,774	348,218	No. 1118 Century Avenue, Pudong New Area, Shanghai
Tianjin Branch	34	918	75,883	Annex Building of Zhonglian Building, No. 83 Qufu Avenue, Heping District, Tianjin
Chongqing Branch	26	934	106,043	No. 168 Minzu Road, Yuzhong District, Chongqing
Shijiazhuang Branch	55	1,356	109,006	No. 56 Yuhua East Road, Qiaodong District, Shijiazhuang
Taiyuan Branch	37	1,070	101,199	No. 295 Yingze Street, Yingze District, Taiyuan
Huhhot Branch	20	583	40,612	Tower D, Dongfangjunzuo, Chilechuan Street, Saihan District, Huhhot
Dalian Branch	24	708	35,752	No. 4 Wuwu Road, Zhongshan District, Dalian
Shenyang Branch	38	1,204	59,878	No. 156 Heping North Street, Heping District, Shenyang
Changchun Branch	37	959	48,933	No. 2677 Jiefang Road, Chaoyang District, Changchun
Heilongjiang Branch	38	1,054	46,160	No. 278 Dongdazhi Street, Nangang District, Harbin
Nanjing Branch	61	1,670	283,311	No. 120 Hanzhong Road, Gulou District, Nanjing
Suzhou Branch	21	870	101,170	No. 188 Xinghai Street, Industrial Park District, Suzhou
Wuxi Branch	9	364	78,085	No. 1 Renmin Middle Road, Chongan District, Wuxi
Hangzhou Branch	41	1,315	240,806	Zheshang Times Building, No. 1 Miduqiao Road, Gongshu District, Hangzhou
Ningbo Branch	19	745	61,783	No. 1 Building, Hengfu Plaza, No. 828 Fuming Road, Jiangdong District, Ningbo
Hefei Branch	55	1,459	171,055	No. 200 Changjiang West Road, Shushan District, Hefei City
Fuzhou Branch	42	1,312	78,047	No. 1 Building, Zhengxiang Center, No. 153 Wuyi North Road, Gulou District, Fuzhou
Xiamen Branch	17	504	38,774	No. 160 Hubin Middle Road, Siming District, Xiamen
Nanchang Branch	32	770	83,181	No. 1333, Fenghezong Avenue, Honggutan New Area, Nanchang
Jinan Branch	37	937	67,310	No. 85 Jingqi Road, Shizhong District, Jinan
Qingdao Branch	35	1,006	69,308	No. 69 Hongkong West Road, Shinan District, Qingdao
Yantai Branch	15	493	52,755	No. 111 Nandajie Street, Zhifu District, Yantai
Zhengzhou Branch	51	1,339	155,833	No. 18 Nongye Road, Jinshui District, Zhengzhou
Wuhan Branch	40	1,100	110,761	No. 143-144 Yanjiang Avenue, Jiang'an District, Wuhan
Changsha Branch	64	1,535	115,861	No. 142 Section 3 of Furong Middle Road, Tianxin District, Changsha

Directors, Supervisors, Senior Management, Staff and Business Outlets

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Guangzhou Branch	91	2,445	297,570	No. 685 Tianhe North Road, Tianhe District, Guangzhou
Shenzhen Branch	49	1,200	239,308	No. 18 Zizhuqi Avenue, Zhuzilinsi Road, Futian District, Shenzhen
Nanning Branch	31	873	62,393	Oriental Manhattan Plaza, No. 52-1 Jinhu Road, Qingxiu District, Nanning
Haikou Branch	23	735	40,574	Jinlong City Plaza Building, South of Jinlong Road, Longhua District, Haikou
Chengdu Branch	30	925	83,854	No. 79 Dacisi Road, Jinjiang District, Chengdu
Kunming Branch	22	727	47,025	No. 28 Renmin Middle Road, Wuhua District, Kunming
Xi'an Branch	39	1,111	72,950	No. 33 Hongguang Street, Lianhu District, Xi'an
Urumqi Branch	7	209	15,435	No. 165 Nanhu East Road, Shuimogou District, Urumqi
Guiyang Branch	13	382	32,185	West Tower III, Financial Center, Zone B, Convention and Exhibition City, Changling North Road, Guanshanhu District, Guiyang
Lanzhou Branch	11	320	21,659	No. 555 Donggang West Road, Chengguan District, Lanzhou
Yinchuan Branch	5	138	5,838	No. 219 Jiefang West Street, Xingqing District, Yinchuan
Xining Branch	2	81	6,113	No. 57-7 Wusi West Road, Chengxi District, Xining
Lhasa Branch	2	76	5,694	Taihe International Culture Square, No. 7 Jinzhu Middle Road, Chengguan District, Lhasa
Hong Kong Branch	1	211	181,226	23/F, Everbright Center, 108 Gloucester Road, Wan Chai, Hong Kong
Seoul Branch	1	42	26,638	23/F, Youngpoong Building, 41 Cheonggyecheon-ro, Jongro-ku, Seoul Special City, Republic of Korea
Luxembourg Branch	1	48	24,668	10 Avenue Emile Reuter, Luxembourg City, Grand Duchy of Luxembourg
Sydney Branch	1	46	23,770	28/F, International Tower 1, 100 Barangaroo Avenue, Sydney, Commonwealth of Australia
Tokyo Representative Office	1	4	–	1 Chome-4-1 Marunouchi, Chiyoda City, Tokyo, Japan
Macao Branch Preparatory Group	–	3	–	–
Adjustment on consolidation			(2,465,748)	
Total	1,305	45,562	5,646,818	

Notes:

- The employees of the Head Office of the Bank included 3,008 staff members in the Credit Card Center and 1,714 staff members in the Remote Banking Center.
- The number of outlets, the number of employees and the total assets listed in the above table excluded subsidiaries' figures.

Corporate Governance

I. OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, the Board of Directors of the Bank reviewed and approved the rolling strategic plan for 2021-2025 to push forward the building of a first-class wealth management bank. Taking into account the external policy environment and the Bank's rolling strategic plan, the Board of Directors reviewed and approved the capital plan for 2021-2025 to meet regulatory requirements and business development needs. It also reviewed the issuance of tier-2 capital bonds and submitted the result to Shareholders' General Meeting for approval to enhance the Bank's sustainable development capacity. In response to the national financial opening-up policy, the Board of Directors reviewed and approved the proposal on introducing strategic investors for the wealth management subsidiary to provide new dynamics for the development of Everbright Wealth Management. It prudently performed the selection and appointment procedures for directors and senior management members, and timely adjusted the composition of its special committees of the Board of Directors. It made further improvements to the management mechanism on related party transactions and strictly reviewed major related party transactions.

The Board of Supervisors of the Bank continued to carry out the annual evaluation on duty performance of the Board of Directors, the Board of Supervisors, the Senior Management and its members. It reviewed regular reports and annual profit distribution plan of the Bank, fulfilled its duties of financial supervision, strengthened the supervision over strategy implementation, internal control and risk management, and pushed forward supervision in all respects with high quality. Focusing on strategy implementation and the "Year for Management Improvement" campaign, the Board of Supervisors of the Bank conducted in-depth surveys in branches to effectively improve the quality and efficiency of supervision. It also actively carried out exchanges with peers and drew on their excellent practices to elevate the work of the Board of Supervisors to a new level.

The corporate governance practice of the Bank did not deviate from the *Company Law* or relevant regulations of CSRC, CBIRC or HKEX.

II. SHAREHOLDERS' GENERAL MEETINGS

The Bank organizes shareholders' general meetings in strict compliance with the *Articles of Association* and *Rules of Procedures of the Shareholders' General Meeting* of the Bank to ensure that decisions on important matters are made in compliance with the law, and to safeguard the legitimate rights and interests of shareholders. During the reporting period, the Bank convened one annual general meeting and one extraordinary general meeting, the details of which are as follows:

On 25 March 2021, the Bank convened the 2021 First Extraordinary General Meeting in Beijing, considered and approved 3 proposals on the election of Independent Non-executive Directors, election of Shareholder Supervisors and change of registered capital.

On 29 June 2021, the Bank convened the 2020 Annual General Meeting in Beijing, considered and approved 10 proposals on the 2020 work report of the Board of Directors, the 2020 work report of the Board of Supervisors, final accounts, the fixed asset investment budget, the engagement of accounting firm, the profit distribution plan, the remuneration of the directors and supervisors, the issuance of tier-2 capital bonds, and the election of non-executive directors, and heard 5 reports.

The procedures for convening, issuing the notices, holding and voting at the above meetings fully complied with the *Company Law*, the listing rules of the places where the Bank is listed and the *Articles of Association* of the Bank. The legal advisor engaged by the Board of Directors of the Bank attested the above shareholders' meetings of the Bank. The A share lawyer issued relevant legal opinions.

Please refer to the Bank's *Articles of Association* for the responsibilities of the shareholders' general meeting.

Corporate Governance

III. CONVENING OF MEETINGS OF THE BOARD OF DIRECTORS AND ITS SPECIAL COMMITTEES

i. Meetings of the Board of Directors

During the reporting period, the Board of Directors of the Bank held 7 meetings, including 3 on-site meetings, namely the 24th, 25th and 26th meetings of the Eighth Session of the Board of Directors, and 4 meetings via written resolutions, namely the 22nd, 23rd, 27th and 28th meetings of the Eighth Session of the Board of Directors. The Board of Directors considered 74 proposals and heard 20 reports, effectively playing its role in scientific decision-making.

Please refer to the Bank's *Articles of Association* for the responsibilities of the Board of Directors.

ii. Meetings of the Special Committees of the Board of Directors

The special committees under the Board of Directors convened 22 meetings in total, including 2 meetings of the Strategy Committee, 3 meetings of the Audit Committee, 5 meetings of the Risk Management Committee, 3 meetings of the Nomination Committee, 1 meeting of the Remuneration Committee, 6 meetings of the Related Party Transaction Control Committee, and 2 meetings of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, considered 68 proposals in total and heard 29 reports.

iii. Attendance of Directors at Board Meetings

Director	Special Committees of the Board of Directors								
	Shareholder's Meeting	Board of Directors	Strategy Committee	Audit Committee	Risk Management Committee	Nomination Committee	Remuneration Committee	Related Party Transactions Control Committee	Inclusive Finance Development and Consumer Rights and Interests Protection Committee
					Number of attendance in person/Number of meetings during the term of office				
Incumbent Directors									
Li Xiaopeng	2/2	7/7	2/2	-	-	3/3	1/1	-	-
Wu Lijun	2/2	6/7	1/2	-	-	-	-	-	-
Fu Wanjun	2/2	6/6	1/1	2/2	4/4	-	-	-	1/1
Yao Zhongyou	2/2	6/6	-	-	4/4	-	-	-	-
Qu Liang	1/2	5/6	-	-	-	-	-	-	2/2
Yao Wei	1/2	6/6	-	1/2	-	-	-	-	2/2
Liu Chong	0/2	7/7	-	-	4/4	-	-	-	2/2
Xu Hongcai	1/2	7/7	2/2	3/3	-	3/3	-	6/6	-
Wang Liguo	1/2	7/7	-	3/3	-	-	1/1	6/6	2/2
Shao Ruiqing	1/2	7/7	-	3/3	4/4	-	1/1	6/6	-
Hong Yongmiao	2/2	7/7	2/2	-	-	3/3	1/1	6/6	-
Li Yinquan	1/2	7/7	-	3/3	-	3/3	1/1	6/6	-
Han Fuling	1/1	3/3	-	-	-	1/1	-	1/1	-
Former Directors									
Liu Jin	0/0	2/2	0/0	-	1/1	-	-	-	0/0
Lu Hong	0/0	1/1	-	-	1/1	-	-	-	-
Yu Chunling	0/1	3/4	-	-	2/3	-	-	4/4	-

Notes:

1. Directors newly appointed in 2021 would start to perform their duties after their appointment qualifications are approved by CBIRC.
2. On 5 February 2021, CBIRC approved the qualifications of Mr. Fu Wanjun, Mr. Yao Zhongyou, Mr. Qu Liang and Mr. Yao Wei as Directors of the Bank. On 25 May 2021, CBIRC approved Mr. Han Fuling's qualifications as Director of the Bank.
3. "Number of attendance in person" includes on-site attendance and attendance via written resolutions.
4. Directors who were unable to attend in person the meetings of the Board of Directors and Special Committees all entrusted other Directors to attend the meetings by proxy and exercise their voting rights.

iv. Duty Performance of Independent Non-executive Directors

The Bank had 6 Independent Non-executive Directors, exceeding one-third of the Board members. In accordance with the Bank's *Articles of Association*, the Remuneration Committee, the Nomination Committee, the Related Party Transactions Control Committee and the Audit Committee of the Board of Directors were chaired by Independent Non-executive Directors. During the reporting period, they expressed their independent opinions on all issues involving the interests of minority shareholders, such as profit distribution plan, nomination of Directors, appointment of the Senior Management members, remuneration of Directors and the Senior Management members, and major related party transactions. In all Board committees, each of the Independent Non-executive Directors, based on their expertise, provided professional and constructive opinions and recommendations on issues under discussion. When the Board of Directors was not in session, the Independent Non-executive Directors kept themselves updated of the Bank's internal documents and information on the *Bulletin of the Board* and participated in the director communication meetings and director surveys, so as to be well informed of strategy implementation, business development and innovation, internal control and audit and risk prevention and control of the Bank. They communicated actively with other Directors, Supervisors, Senior Management members and auditors, so as to obtain necessary information to perform their duties. Independent Non-executive Directors maintained close contacts with the Bank via emails and phone calls. The Independent Non-executive Directors' recommendations were highly valued, and some were adopted by the Senior Management, playing a positive role in defining strategic direction, improving the risk prevention & control and promoting business development of the Bank.

IV. BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

i. Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank convened 4 meetings, including 2 on-site meetings, namely the 11th and 13th meetings of the Eighth Session of the Board of Supervisors, and 2 meetings via written resolutions, namely the 10th and 12th meetings of the Eighth Session of the Board of Supervisors. The Board of Supervisors considered 26 proposals and heard 25 reports, effectively performing its supervisory duty.

Please refer to the Bank's *Articles of Association* for the responsibilities of the Board of Supervisors.

ii. Meetings of Special Committees of the Board of Supervisors

The special committees of the Board of Supervisors convened 5 meetings in total, including 3 meetings of the Supervision Committee and 2 meetings of the Nomination Committee, and considered 14 proposals and heard 1 report.

Corporate Governance

iii. Attendance of Supervisors at Meetings of the Board of Supervisors

Supervisors	Special Committees of the Board of Supervisors		
	Board of Supervisors	Nomination Committee	Supervision Committee
	Number of attendance in person/Number of meetings during the term of office		
Incumbent Supervisors			
Lu Hong	3/3	0/0	–
Yin Lianchen	4/4	2/2	–
Wu Junhao	3/4	–	1/3
Wu Gaolian	4/4	2/2	3/3
Wang Zhe	4/4	2/2	3/3
Qiao Zhimin	4/4	2/2	3/3
Xu Keshun	4/4	2/2	–
Sun Jianwei	3/4	–	2/3
Shang Wencheng	4/4	–	3/3

Notes:

1. Newly-elected Supervisors in 2021 started performing their duties immediately after they were elected.
2. On 25 March 2021, Mr. Lu Hong was elected Shareholder Supervisor of the Bank. On 26 March 2021, he was elected Chairman of the Board of Supervisors.
3. “Number of attendance in person” includes on-site attendance and attendance via written resolutions.
4. Supervisors who were unable to attend in person the meetings of the Board of Supervisors and special committees had all entrusted other Supervisors to attend the meetings by proxy and exercise their voting rights.

iv. Duty Performance of External Supervisors

The Bank had 3 External Supervisors, no less than one third of the members of the Board of Supervisors, and each of them had worked for the Bank for less than 6 years accumulatively. According to the *Articles of Association* of the Bank, Chairman of both the Nomination Committee and the Supervision Committee of the Board of Supervisors shall be acted by External Supervisors. During the reporting period, all the 3 External Supervisors performed their duties in good faith and with due diligence in strict compliance with laws, regulations, regulatory requirements and the *Articles of Association*, and attended all meetings of the Board of Supervisors and its special committees in person. The time they spent on the supervision work of the Bank was 17 working days on average. The External Supervisors could maintain their independence, and expressed independent, professional and objective opinions on major issues of concern such as material related party transactions, profit distribution, information disclosure, authenticity of financial reports, nomination and appointment of directors, supervisors and senior management members and their remuneration. When the Board of Supervisors was not in session, the External Supervisors carefully studied internal documents sent by the Bank, the information on the *Bulletin of the Board of Supervisors* and other materials to fully obtain information on duty performance, and maintained close contact with the Bank through email and phone calls. They actively participated in the surveys of the Board of Supervisors, paid attention to protecting the legitimate rights and interests of minority shareholders and other stakeholders, and played an active role in the Board of Supervisors’ duty performance.

v. Review of the 2021 Interim Report by the Board of Supervisors

The Board of Supervisors reviewed the interim report and issued a written review opinion. The Board of Supervisors held that the preparation and review procedures of the 2021 Interim Report complied with relevant laws, regulations, regulatory requirements, the *Articles of Association* and the Bank's internal management systems. The content and format of the report were in compliance with laws, regulations and regulatory requirements, and the information contained in the report truly reflected the Bank's operation, management and financial position in the first half of 2021. No personnel involved in the preparation and review of the interim report was found to have violated confidentiality provisions.

V. SENIOR MANAGEMENT

The Senior Management of the Bank is responsible for operation and management work, including organizing the implementation of resolutions of the Board of Directors, implementing strategic plans, business plans and investment plans approved by the Board of Directors, drafting the setup plan and basic management rules for internal management institutions, and formulating specific management measures, etc.

VI. INFORMATION DISCLOSURE

During the reporting period, the Bank released the *2020 Annual Report* and *First Quarterly Report of 2021* as scheduled, and enriched the contents disclosed centering on the Bank's objective to build a "first-class wealth management bank". In strict compliance with the regulatory rules for information disclosure, 65 A share ad hoc announcements and 83 H share ad hoc announcements were published on SSE and HKEX respectively. The Bank continued to strengthen the management of insiders to prevent leakage of sensitive information, and ensure the rights of investors to fair access to the information of the Bank.

VII. INVESTOR RELATIONS MANAGEMENT

During the reporting period, the Bank held the 2020 financial results (A+H shares) announcement and press conference online. Over 100 institutional investors, banking analysts and media correspondents from home and abroad participated in this communication event. Besides, the Bank held onsite thematic open day activity and exchanged views with investors on the Bank's strategy implementation and features of wealth management. It arranged 35 field research seminars and securities companies' investment strategy seminars for domestic and overseas investment banking analysts and institutional investors and directly communicated with investors for over 200 person-times in total. Additionally, it answered over 200 phone calls from investors and replied over 100 emails for inquiry. It interacted with investors via online platforms such as "SSE e-interaction", and updated the contents of the Bank's Chinese and English websites, delivering the Bank's information to investors.

VIII. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the *Hong Kong Listing Rules* as the code of conduct to govern the securities transactions by directors and supervisors of the Bank. Upon enquiry, all directors and supervisors confirmed that they had always complied with the *Model Code* during the six months ended 30 June 2021. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less exacting than the *Model Code*. It has not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

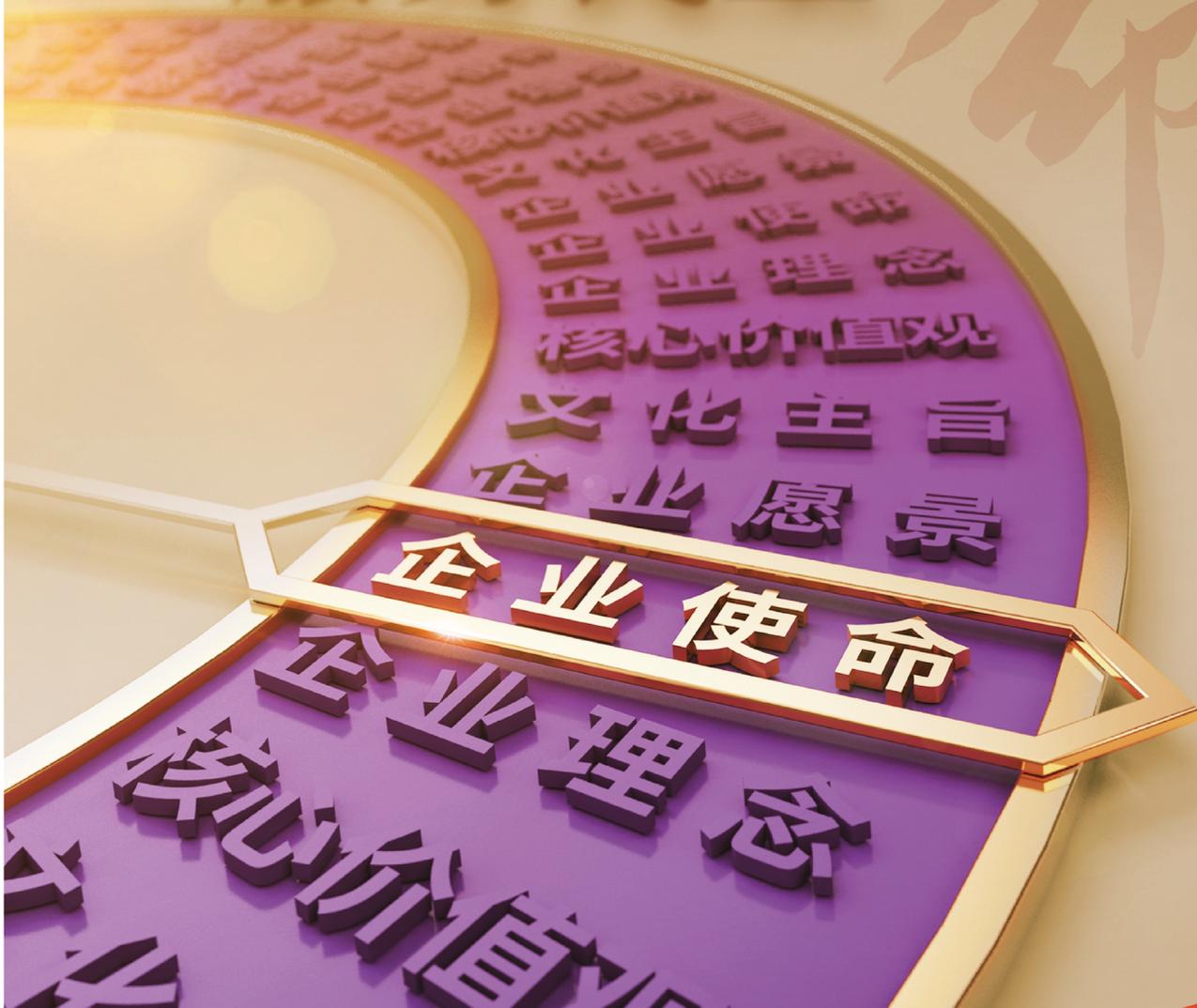
IX. STATEMENT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE HONG KONG LISTING RULES

During the six months ended 30 June 2021, the Bank applied the principles of the *Corporate Governance Code* stipulated in Appendix 14 to the *Hong Kong Listing Rules*, and complied with all the code provisions.

使命 MISSION

管理财富 服务民生

使命



Report on Review of Interim Financial Information

To the Board of Directors of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the “Bank”) and its subsidiaries (together, the “Group”), which comprises the condensed consolidated statement of financial position as at 30 June 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong

30 August 2021

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Interest income		113,085	111,120
Interest expense		(57,188)	(56,454)
Net interest income	1	55,897	54,666
Fee and commission income		16,322	15,377
Fee and commission expense		(1,317)	(1,244)
Net fee and commission income	2	15,005	14,133
Net trading gains	3	1,230	57
Dividend income		1	1
Net gains arising from investment securities	4	4,317	2,754
Net gains on derecognition of financial assets measured at amortised cost		85	25
Net foreign exchange gains		82	71
Other net operating income		534	450
Operating income		77,151	72,157
Operating expenses	5	(21,245)	(19,446)
Credit impairment losses	6	(28,734)	(30,526)
Other impairment losses		21	(147)
Operating profit		27,193	22,038
Losses on investments in joint ventures		(7)	–
Profit before tax		27,186	22,038
Income tax	7	(4,680)	(3,617)
Net profit		22,506	18,421
Net profit attributable to:			
Equity shareholders of the Bank		22,436	18,363
Non-controlling interests		70	58
		22,506	18,421
Earnings per share			
Basic earnings per share (in RMB/share)	8	0.37	0.31
Diluted earnings per share (in RMB/share)	8	0.33	0.28

The notes form an integral part of these Interim Financial Information.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Net profit		22,506	18,421
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		2	1
– Related income tax effect	21(b)	(1)	-
Subtotal		1	1
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		492	507
– Changes in allowance for expected credit losses		428	(252)
– Reclassified to profit or loss upon disposal		(102)	(276)
– Related income tax effect	21(b)	(212)	(1)
– Exchange differences on translation of financial statements		(36)	51
Subtotal		570	29
Other comprehensive income, net of tax		571	30
Total comprehensive income		23,077	18,451
Total comprehensive income attributable to:			
Equity shareholders of the Bank		23,007	18,392
Non-controlling interests		70	59
		23,077	18,451

The notes form an integral part of these Interim Financial Information

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2021 Unaudited	31 December 2020 Audited
Assets			
Cash and deposits with the central bank	9	377,531	360,287
Deposits with banks and other financial institutions	10	33,878	46,059
Precious metals		6,485	9,353
Placements with banks and other financial institutions	11	70,741	69,290
Derivative financial assets	12	17,188	25,264
Financial assets held under resale agreements	13	96,928	43,592
Loans and advances to customers	14	3,167,425	2,942,435
Finance lease receivables	15	110,934	100,788
Financial investments	16	1,775,485	1,670,415
– Financial assets at fair value through profit or loss		364,835	304,908
– Debt instruments at fair value through other comprehensive income		278,779	222,807
– Equity instruments at fair value through other comprehensive income		1,127	875
– Financial investments measured at amortised cost		1,130,744	1,141,825
Investment in joint ventures	17(b)	343	257
Property, plant and equipment	18	23,441	23,301
Right-of-use assets	19	10,951	11,137
Goodwill	20	1,281	1,281
Deferred tax assets	21	21,529	19,587
Other assets	22	58,656	45,064
Total assets		5,772,796	5,368,110
Liabilities and equity			
Liabilities			
Due to the central bank	24	229,545	241,110
Deposits from banks and other financial institutions	25	466,337	469,345
Placements from banks and other financial institutions	26	171,372	161,879
Financial liabilities at fair value through profit or loss	27	172	4
Derivative financial liabilities	12	16,645	25,778
Financial assets sold under repurchase agreements	28	14,140	14,182
Deposits from customers	29	3,692,419	3,480,667
Accrued staff costs	30	15,633	15,169
Taxes payable	31	6,546	8,772
Lease liabilities	32	10,597	10,762
Debt securities issued	33	627,063	440,870
Other liabilities	34	58,189	44,574
Total liabilities		5,308,658	4,913,112

The notes form an integral part of these Interim Financial Information.

	Note III	30 June 2021 Unaudited	31 December 2020 Audited
Equity			
Share capital	35	54,032	54,032
Other equity instruments	36	109,062	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	37	58,434	58,434
Other comprehensive income	38	1,964	1,393
Surplus reserve	39	26,245	26,245
General reserve	39	67,800	67,702
Retained earnings		145,002	136,581
Total equity attributable to equity shareholders of the Bank		462,539	453,449
Non-controlling interests		1,599	1,549
Total equity		464,138	454,998
Total liabilities and equity		5,772,796	5,368,110

Approved and authorised for issue by the board of directors on 30 August 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Fu Wanjun
Vice president
Executive Director

Sun Xinhong
General Manager of Financial
Accounting Department

The notes form an integral part of these Interim Financial Information.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2021

	Note III	Unaudited											
		Attributable to equity shareholders of the Bank										Non-controlling interests	Total
		Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
		Share capital	Preference shares	Perpetual bonds	Others								
Balance at 1 January 2021		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998
Changes in equity for the period:													
Net profit		-	-	-	-	-	-	-	-	22,436	22,436	70	22,506
Other comprehensive income	38	-	-	-	-	-	571	-	-	-	571	-	571
Appropriation of profit:	40												
- Appropriation to general reserve		-	-	-	-	-	-	-	98	(98)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,347)	(11,347)	(20)	(11,367)
- Dividends to preference shareholders		-	-	-	-	-	-	-	-	(2,570)	(2,570)	-	(2,570)
Balance at 30 June 2021		54,032	64,906	39,993	4,163	58,434	1,964	26,245	67,800	145,002	462,539	1,599	464,138

For the six months ended 30 June 2020

	Note III	Unaudited											
		Attributable to equity shareholders of the Bank										Non-controlling interests	Total
		Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
		Share capital	Preference shares	Others									
Balance at 1 January 2020		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054	
Changes in equity for the period:													
Net profit		-	-	-	-	-	-	-	-	18,363	18,363	58	18,421
Other comprehensive income		-	-	-	-	29	-	-	-	-	29	1	30
Appropriation of profit:	40												
- Appropriation to general reserve		-	-	-	-	-	-	301	(301)	-	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,233)	(11,233)	-	(11,233)
- Dividends to preference shareholders		-	-	-	-	-	-	-	-	(1,829)	(1,829)	-	(1,829)
Balance at 30 June 2020		52,489	64,906	5,161	53,533	2,766	26,245	59,718	125,494	390,312	1,131	391,443	

The notes form an integral part of these Interim Financial Information.

For the year of 2020

	Audited												
	Attributable to equity shareholders of the Bank											Non-controlling interests	Total
	Note III	Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
		Share capital	Preference shares	Perpetual bonds	Others								
Balance at 1 January 2020		52,489	64,906	-	5,161								
Changes in equity for the year:													
Net profit	-	-	-	-	-	-	-	-	37,824	37,824	81	37,905	
Other comprehensive income	38	-	-	-	-	(1,344)	-	-	-	(1,344)	(3)	(1,347)	
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	400	400	
Capital contribution by other equity instrument holders	-	-	39,993	-	-	-	-	-	-	39,993	-	39,993	
Conversion of convertible bonds into share capital and capital reserve	-	1,543	-	(998)	4,901	-	-	-	-	5,446	-	5,446	
Appropriation of profit:	40	-	-	-	-	-	-	-	-	-	-	-	
- Appropriation to general reserve	-	-	-	-	-	-	-	8,285	(8,285)	-	-	-	
- Dividends to ordinary shareholders	-	-	-	-	-	-	-	-	(11,233)	(11,233)	(1)	(11,234)	
- Dividends to preference shareholders	-	-	-	-	-	-	-	-	(2,219)	(2,219)	-	(2,219)	
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998

The notes form an integral part of these Interim Financial Information.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
Cash flows from operating activities		
Net profit	22,506	18,421
<i>Adjustments for:</i>		
Credit impairment losses	28,734	30,526
Other impairment losses	(21)	147
Depreciation and amortisation	2,843	2,503
Unwinding of discount	(397)	(372)
Dividend income	(1)	(1)
Unrealised foreign exchange losses/(gains)	78	(114)
Interest income from investment securities and net gains on disposal	(29,076)	(28,267)
Net gains on derecognition of financial assets measured at amortised cost	(85)	(25)
Losses on investments in joint ventures	7	–
Net gains on disposal of trading securities	(753)	(673)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(1,883)	100
Interest expense on debt securities issued	7,825	5,920
Interest expense on lease liabilities	232	243
Net losses on disposal of property, plant and equipment	14	6
Income tax	4,680	3,617
	34,703	32,031
<i>Changes in operating assets</i>		
Net increase in deposits with the central bank, banks and other financial Institutions	(7,864)	(9,502)
Net (increase)/decrease in placements with banks and other financial institutions	(7,619)	6,159
Net increase in financial assets held for trading	(36,675)	(39,672)
Net increase in loans and advances to customers	(253,331)	(231,656)
Net increase in financial assets held under resale agreements	(53,322)	(185,652)
Net increase in other operating assets	(23,310)	(28,666)
	(382,121)	(488,989)

The notes form an integral part of these Interim Financial Information.

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
Cash flows from operating activities (continued)		
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in deposits from banks and other financial institutions	(3,716)	34,847
Net increase in placements from banks and other financial institutions	9,243	23,679
Net (decrease)/increase in financial assets sold under repurchase agreements	(60)	1,799
Net decrease in amounts due to the central bank	(13,734)	(57,483)
Net increase in deposits from customers	209,867	649,522
Income tax paid	(9,534)	(9,037)
Net increase in other operating liabilities	12,143	1,235
	204,209	644,562
Net cash flows from operating activities	(143,209)	187,604
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	384,825	345,868
Investment income received	30,118	27,786
Proceeds from disposal of property, plant and equipment and other assets	10	2
Payments on acquisition of investments	(452,120)	(507,352)
Payments on acquisition of property, plant and equipment, intangible assets and other long-term assets	(1,647)	(1,238)
Net cash flows from investing activities	(38,814)	(134,934)

The notes form an integral part of these Interim Financial Information

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Cash flows from financing activities			
Proceeds from insurance of debts		298,213	191,640
Repayments of debts issued		(111,824)	(202,571)
Interest paid on debt securities issued		(8,021)	(7,008)
Dividends paid		(2,590)	(10,555)
Other net cash flows from financing activities		(1,557)	(1,514)
Net cash flows used in financing activities		174,221	(30,008)
Effect of foreign exchange rate changes on cash and cash equivalents		(1,010)	831
Net (decrease)/increase in cash and cash equivalents	44(a)	(8,812)	23,493
Cash and cash equivalents as at 1 January		145,076	117,499
Cash and cash equivalents as at 30 June	44(b)	136,264	140,992
Interest received		85,942	84,539
Interest paid (excluding interest expense on debt securities issued)		(44,304)	(45,744)

The notes form an integral part of these Interim Financial Information.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (the “PRC”) on 18 August 1992. The A shares and H shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013, respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued with the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People’s Republic of China.

The principal activities of the Bank and its subsidiaries (Note III 17(a)) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

These interim financial information has been approved and authorised for by the board of directors on 30 August 2021.

II BASIS OF PREPARATION

1 Compliance with International Financial Reporting Standards (“IFRSs”)

The unaudited interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2020.

2 Use of estimates and assumptions

The preparation of the interim financial informations requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group’s accounting estimates are consistent with those adopted in the Group’s financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies

3.1 Amendments effective in 2021

On 1 January 2021, the Group adopted the following amendments.

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

3.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021

		Effective for annual periods beginning on or after
IFAS 16 Amendments	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>	1 April 2021
IFRS 3 Amendments	<i>Reference to the Conceptual Framework</i>	1 January 2022
IAS 16 Amendments	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
IAS 37 Amendments	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
IAS 1 Amendments	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	<i>Disclosure of Accounting Policies</i>	1 January 2023
IAS 8 Amendments	<i>Definition of Accounting Estimates</i>	1 January 2023
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
IAS 12 Amendments	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 (issued in May 2020)	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i>	1 January 2022

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	For the six months ended 30 June	
		2021	2020
Interest income arising from			
Deposits with the central bank		2,439	2,570
Deposits with banks and other financial institutions		195	461
Placements with banks and other financial institutions		484	667
Loans and advances to customers	(a)		
– Corporate loans and advances		38,051	38,801
– Personal loans and advances		41,335	38,142
– Discounted bills		1,048	1,221
Finance lease receivables		3,094	2,714
Financial assets held under resale agreements		273	497
Investments		26,166	26,047
Subtotal		113,085	111,120
Interest expenses arising from			
Due to the central bank		3,404	3,619
Deposits from banks and other financial institutions		5,832	4,839
Placements from banks and other financial institutions		1,912	2,409
Deposits from customers			
– Corporate customers		28,206	29,166
– Individual customers		9,741	10,202
Financial assets sold under repurchase agreements		268	299
Debt securities issued		7,825	5,920
Subtotal		57,188	56,454
Net interest income		55,897	54,666

Note:

(a) The interest income arising from impaired financial assets for the six months ended 30 June 2021 amounted to RMB397 million (Six months ended 30 June 2020: RMB372 million).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	For the six months ended 30 June	
	2021	2020
Fee and commission income		
Bank card service fees	6,583	6,253
Agency services fees	2,177	2,144
Wealth management service fees	1,961	1,463
Settlement and clearing fees	1,326	1,291
Custody and other fiduciary business fees	1,065	958
Acceptance and guarantee fees	924	985
Underwriting and advisory fees	801	907
Others	1,485	1,376
Subtotal	16,322	15,377
Fee and commission expense		
Bank card transaction fees	884	889
Settlement and clearing fees	90	81
Others	343	274
Subtotal	1,317	1,244
Net fee and commission income	15,005	14,133

3 Net trading gains

	For the six months ended 30 June	
	2021	2020
Trading financial instruments		
– Derivatives	115	(443)
– Debt securities	1,118	476
Subtotal	1,233	33
Precious metal contracts	(3)	24
Total	1,230	57

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	For the six months ended 30 June	
	2021	2020
Net gains arising from financial investments at fair value through profit or loss	4,419	2,855
Net losses arising from debt instruments at fair value through other comprehensive income	(258)	(545)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	54	168
Net revaluation gains reclassified from other comprehensive income on disposal	102	276
Total	4,317	2,754

5 Operating expenses

	For the six months ended 30 June	
	2021	2020
Staff costs		
– Salaries and bonuses	8,831	9,108
– Pension and annuity	1,632	557
– Housing allowances	522	471
– Staff welfares	227	173
– Others	1,106	985
Subtotal	12,318	11,294
Premises and equipment expenses		
– Depreciation of right-of-use assets	1,346	1,316
– Depreciation of property, plant and equipment	1,027	779
– Amortisation of intangible assets	315	252
– Interest expense on lease liabilities	232	243
– Rental and property management expenses	196	232
– Amortisation of other long-term assets	155	156
Subtotal	3,271	2,978
Tax and surcharges	821	752
Other general and administrative expenses	4,835	4,422
Total	21,245	19,446

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Credit impairment losses

	For the six months ended 30 June	
	2021	2020
Loans and advances to customers		
– measured at amortised cost	26,446	29,189
– measured at fair value through other comprehensive income	401	86
Debt instruments at fair value through other comprehensive income	24	(344)
Financial investments measured at amortised cost	758	413
Finance lease receivables	322	622
Others	783	560
Total	28,734	30,526

7 Income tax

(a) Income tax:

	Note III	For the six months ended 30 June	
		2021	2020
Current tax		6,911	7,489
Deferred tax	21(b)	(2,155)	(3,413)
Adjustments for prior year	7(b)	(76)	(459)
Total		4,680	3,617

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	For the six months ended 30 June	
		2021	2020
Profit before tax		27,186	22,038
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		6,797	5,510
Effect of different tax rates applied by certain subsidiaries		–	(3)
Non-deductible expenses and others		539	882
Non-taxable income	(i)	(2,580)	(2,313)
Subtotal		4,756	4,076
Adjustments for prior year		(76)	(459)
Income tax		4,680	3,617

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Basic and diluted earnings per ordinary share

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

	For the six months ended 30 June	
	2021	2020
Net profit attributable to equity holders of the Bank	22,436	18,363
Less: Dividends on preference shares declared	2,570	1,829
Net profit attributable to ordinary shareholders of the Bank	19,866	16,534
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,489
Basic earnings per share (in RMB/share)	0.37	0.31

Weighted average number of ordinary shares in issue (in million shares)

	For the six months ended 30 June	
	2021	2020
Issued ordinary shares as at 1 January	54,032	52,489
Weighted average number of ordinary shares in issue	54,032	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	For the six months ended 30 June	
	2021	2020
Net profit attributable to ordinary shareholders of the Bank	19,866	16,534
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	384	462
Net profit used to determine diluted earnings per share	20,250	16,996
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,436	7,556
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,468	60,045
Diluted earnings per share (in RMB/share)	0.33	0.28

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Cash and deposits with the central bank

	Notes	30 June 2021	31 December 2020
Cash on hand		7,524	4,471
Deposits with the central bank			
– Statutory deposit reserves	(a)	303,750	293,540
– Surplus deposit reserves	(b)	60,857	56,132
– Fiscal deposits and others		5,265	5,998
Subtotal		377,396	360,141
Accrued interest		135	146
Total		377,531	360,287

Notes:

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2021	31 December 2020
Reserve ratio for RMB deposits	9.00%	9.00%
Reserve ratio for foreign currency deposits	7.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks overseas are determined by local jurisdictions.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

10 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Deposits in Mainland China		
– Banks	16,021	29,185
– Other financial institutions	1,419	314
Deposits outside Mainland China		
– Banks	16,943	16,980
Subtotal	34,383	46,479
Accrued interest	19	59
Total	34,402	46,538
Less: Provision for impairment losses	(524)	(479)
Net balances	33,878	46,059

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Placements in Mainland China		
– Banks	6,737	14,502
– Other financial institutions	17,609	17,702
Placements outside Mainland China		
– Banks	46,586	37,216
Subtotal	70,932	69,420
Accrued interest	157	179
Total	71,089	69,599
Less: Provision for impairment losses	(348)	(309)
Net balances	70,741	69,290

12 Derivatives and hedge accounting

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the period. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the period, they do not represent exposure at risk.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Derivatives and hedge accounting (continued)

(a) Analysed by nature of contract

	30 June 2021		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,002,612	4,889	(5,169)
– International futures	39	–	–
Currency derivatives			
– Foreign exchange forwards	38,313	428	(482)
– Foreign exchange swap and cross-currency interest rate swaps	818,039	11,337	(10,904)
– Foreign exchange options	28,012	534	(90)
Total	1,887,015	17,188	(16,645)

	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivative			
– Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
– Foreign exchange forwards	21,022	523	(610)
– Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
– Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
Total	2,210,297	25,264	(25,778)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	30 June 2021	31 December 2020
Counterparty default risk-weighted assets		
– Interest rate derivatives	1,710	2,504
– Currency derivatives	3,097	4,808
– Credit derivatives	–	21
Credit value adjustment risk-weighted assets	2,195	2,277
Total	7,002	9,610

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedge accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 30 June 2021, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,313 million (31 December 2020: RMB3,286 million), in the above hedging instrument, derivative financial assets amounted to RMB25 million (31 December 2020: RMB2 million), derivative financial liabilities amounted to RMB39 million (31 December 2020: RMB118 million).

For the six months ended 30 June 2021, the fair value changes recognised in profit or loss attributed to the ineffective hedging were not significant.

Notes to the Unaudited Condensed Consolidated Financial Statements

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Derivatives and hedge accounting (continued)

(d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from the phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate (“RFR”), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform.

The Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group’s hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as “Derivative financial instruments”.

As at 30 June 2021, the notional amount of interest rate derivatives designated in fair value hedge accounting relationships representing the extent of the fair value hedge accounting’s risk exposure managed by the Group that is directly affected by market-wide benchmark reform and impacted by the temporary exceptions is RMB3.313 billion (31 December 2020: RMB3.286 billion).

In August 2020, the IASB issued Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Group has adopted the amendments from 1 January 2021.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	30 June 2021	31 December 2020
In Mainland China		
– Banks	12,091	13,262
– Other financial institutions	84,620	30,331
Outside Mainland China		
– Banks	181	–
– Other financial institutions	28	5
Subtotal	96,920	43,598
Accrued interest	13	3
Total	96,933	43,601
Less: Provision for impairment losses	(5)	(9)
Net balances	96,928	43,592

(b) Analysed by type of security held

	30 June 2021	31 December 2020
Bonds		
– Government bonds	8,392	20,074
– Other debt securities	85,459	23,524
Bank acceptance bills	3,069	–
Subtotal	96,920	43,598
Accrued interest	13	3
Total	96,933	43,601
Less: Provision for impairment losses	(5)	(9)
Net balances	96,928	43,592

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers

(a) Analysed by nature

	30 June 2021	31 December 2020
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,732,542	1,627,339
Discounted bills	845	652
Personal loans and advances		
– Personal housing mortgage loans	536,437	492,444
– Personal business loans	184,969	171,336
– Personal consumption loans	199,198	173,565
– Credit cards	442,284	445,935
Subtotal	1,362,888	1,283,280
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	62,828	29,938
Discounted bills	79,519	68,273
Subtotal	142,347	98,211
Total	3,238,622	3,009,482
Accrued interest	9,030	8,486
Gross loans and advances to customers	3,247,652	3,017,968
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)	(75,533)
Net loans and advances to customers	3,167,425	2,942,435
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)	(594)

As at the end of the reporting period, part of the above loans and advances to customers was pledged for repurchase agreements. See Note III 23(a).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2021		
	Amount	Percentage	Loans and advances secured by collateral
Water, environment and public utility management	323,322	9.98%	131,741
Manufacturing	322,660	9.96%	105,273
Real estate	225,155	6.95%	157,047
Leasing and commercial services	208,877	6.45%	64,110
Finance	142,305	4.39%	6,640
Wholesale and retail trade	133,416	4.12%	58,827
Construction	123,809	3.82%	38,733
Transportation, storage and postal services	88,689	2.74%	35,606
Agriculture, forestry, husbandry and fishery	56,747	1.75%	19,445
Production and supply of electricity, gas and water	52,338	1.62%	13,286
Others	118,052	3.66%	35,421
Subtotal of corporate loans and advances	1,795,370	55.44%	666,129
Personal loans and advances	1,362,888	42.08%	717,786
Discounted bills	80,364	2.48%	74,260
Total	3,238,622	100.00%	1,458,175
Accrued interest	9,030		
Gross loans and advances to customers	3,247,652		
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)		
Net loans and advances to customers	3,167,425		
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)		

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(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2020		Loans and advances secured by collateral
	Amount	Percentage	
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(594)		

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	30 June 2021	31 December 2020
Unsecured loans	1,028,725	941,130
Guaranteed loans	751,722	710,746
Secured loans		
– By tangible assets other than monetary assets	1,096,803	1,017,960
– By monetary assets	361,372	339,646
Total	3,238,622	3,009,482
Accrued interest	9,030	8,486
Gross loans and advances to customers	3,247,652	3,017,968
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)	(75,533)
Net loans and advances to customers	3,167,425	2,942,435
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)	(594)

Notes to the Unaudited Condensed Consolidated Financial Statements

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	30 June 2021		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	716,420	22.12%	294,500
Central	576,865	17.81%	315,859
Pearl River Delta	438,156	13.53%	279,080
Bohai Rim	425,554	13.14%	238,180
Western	410,051	12.66%	226,373
Northeastern	116,814	3.61%	83,730
Overseas	104,638	3.23%	12,629
Head Office	450,124	13.90%	7,824
Total	3,238,622	100.00%	1,458,175

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
Total	3,009,482	100.00%	1,357,606

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	30 June 2021			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,048	(6,208)	(2,757)	(4,114)
Bohai Rim	5,464	(3,469)	(2,191)	(2,613)
Yangtze River Delta	5,196	(10,592)	(3,824)	(2,871)
Central	4,101	(6,630)	(3,326)	(2,311)
Western	3,423	(4,209)	(4,043)	(1,621)
Total	27,232	(31,108)	(16,141)	(13,530)

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Western	3,365	(3,400)	(3,326)	(1,786)
Total	24,832	(25,608)	(15,858)	(14,130)

For the definition of regional divisions, see Note III 47(b).

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue period

	30 June 2021				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,362	11,332	1,370	58	27,122
Guaranteed loans	5,078	5,115	2,292	417	12,902
Secured loans					
– By tangible assets other than monetary assets	7,883	9,509	5,246	741	23,379
– By monetary assets	1,178	1,375	324	1	2,878
Subtotal	28,501	27,331	9,232	1,217	66,281
Accrued interest	110	–	–	–	110
Total	28,611	27,331	9,232	1,217	66,391
As a percentage of gross loans and advances to customers	0.88%	0.84%	0.28%	0.04%	2.04%

	31 December 2020				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
– By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
– By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	–	–	–	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

Overdue loans represent loans of which the whole or part of the principal or interest was overdue for one day or more.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	30 June 2021				Stage 3 Loans and advances as a percentage of loans and advances
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	
Loan principal	3,067,317	123,797	47,508	3,238,622	1.47%
Accrued interest	7,185	1,532	313	9,030	
Gross loans and advances to customers	3,074,502	125,329	47,821	3,247,652	
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(36,888)	(22,046)	(21,293)	(80,227)	
Net loans and advances to customers	3,037,614	103,283	26,528	3,167,425	

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses (continued)

	31 December 2020			Total	Stage 3 Loans and advances as a percentage of loans and advances
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)		
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(31,192)	(21,037)	(23,304)	(75,533)
Transfer to Stage 1	(3,489)	2,534	955	–
Transfer to Stage 2	771	(1,223)	452	–
Transfer to Stage 3	155	3,873	(4,028)	–
Net charge for the period	(3,139)	(6,193)	(17,114)	(26,446)
Write-off and disposal	–	–	24,590	24,590
Recovery of loans and advances written off	–	–	(3,241)	(3,241)
Unwinding of discount on allowance	–	–	397	397
Exchange fluctuation and others	6	–	–	6
As at 30 June 2021	(36,888)	(22,046)	(21,293)	(80,227)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	–
Transfer to Stage 2	988	(1,072)	84	–
Transfer to Stage 3	216	10,315	(10,531)	–
Net charge for the year	(6,228)	(4,755)	(42,214)	(53,197)
Write-off and disposal	–	–	56,323	56,323
Recovery of loans and advances written off	–	–	(3,202)	(3,202)
Unwinding of discount on allowance	–	–	767	767
Exchange fluctuation and others	4	–	–	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

Note:

- (i) The above reconciliation of provision for impairment losses only represents provision for impairment losses on loans and advances to customers measured at amortised cost. As at 30 June 2021, the balance of provision for impairment losses on loans and advances to customers at fair value through other comprehensive income was RMB995 million (31 December 2020: RMB594 million).

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2021	31 December 2020
Rescheduled loans and advances to customers	6,981	7,659
Of which: Rescheduled loans and advances to customers overdue more than 90 days	112	245

15 Finance lease receivables

	30 June 2021	31 December 2020
Finance lease receivables	129,545	118,247
Less: Unearned finance lease income	(16,320)	(15,442)
Present value of minimum lease receivables	113,225	102,805
Accrued interest	1,176	1,128
Less: Impairment losses	(3,467)	(3,145)
Net balance	110,934	100,788

Minimum finance lease receivables analysed by remaining period are listed as follows:

	30 June 2021	31 December 2020
Less than 1 year (inclusive)	35,767	32,149
1 year to 2 years (inclusive)	29,389	25,745
2 years to 3 years (inclusive)	24,307	20,825
3 years to 4 years (inclusive)	17,714	15,752
4 years to 5 years (inclusive)	12,513	11,420
More than 5 years	9,855	12,356
Total	129,545	118,247

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments

	Notes	30 June 2021	31 December 2020
Financial assets at fair value through profit or loss	(a)	364,835	304,908
Debt instruments at fair value through other comprehensive income	(b)	278,779	222,807
Equity instruments at fair value through other comprehensive income	(c)	1,127	875
Financial investments measured at amortised cost	(d)	1,130,744	1,141,825
Total		1,775,485	1,670,415

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

	Notes	30 June 2021	31 December 2020
Debt instruments held for trading	(i)	71,028	33,040
Financial assets designated at fair value through profit or loss	(ii)	–	1
Other financial assets at fair value through profit or loss	(iii)	293,807	271,867
Total		364,835	304,908

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

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

(i) Debt instruments held for trading

	Notes	30 June 2021	31 December 2020
Issued by the following governments or institutions:			
In Mainland China			
– Government		15,552	80
– Banks and other financial institutions		32,831	9,291
– Other institutions	(1)	21,147	19,985
Outside Mainland China			
– Banks and other financial institutions		553	1,770
– Other institutions		945	1,914
Total	(2)	71,028	33,040
Listed	(3)	3,035	4,391
Of which: listed in Hong Kong		1,867	2,194
Unlisted		67,993	28,649
Total		71,028	33,040

Notes:

- (1) At the end of the reporting period, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (2) At the end of the reporting period, some of the debt instruments held for trading were pledged for repurchase agreements. See Note III 23(a).
- (3) Listed investments include debt instruments traded on a stock exchange.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

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

(ii) Financial assets designated at fair value through profit or loss

	30 June 2021	31 December 2020
Fixed interest rate personal mortgage loans	–	1

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting period, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	30 June 2021	31 December 2020
Fund investments	232,651	212,937
Equity instruments	2,971	2,620
Others	58,185	56,310
Total	293,807	271,867

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	30 June 2021	31 December 2020
In Mainland China			
– Government		105,290	59,441
– Banks and other financial institutions	(1)	77,028	75,493
– Other institutions	(2)	55,301	51,310
Outside Mainland China			
– Government		97	349
– Banks and other financial institutions		27,241	12,535
– Other institutions		9,396	19,786
Subtotal		274,353	218,914
Accrued interest		4,426	3,893
Total	(3)(4)	278,779	222,807
Listed	(5)	56,286	50,534
Of which listed in Hong Kong		37,627	33,872
Unlisted		218,067	168,380
Subtotal		274,353	218,914
Accrued interest		4,426	3,893
Total		278,779	222,807

Notes:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (3) As at 30 June 2021, the provision for impairment losses on the debt instruments at fair value through other comprehensive income approximated to RMB482 million (31 December 2020: RMB456 million).
- (4) At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits. See Note III 23(a).
- (5) Listed investments include debt instruments traded on a stock exchange.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(420)	–	(36)	(456)
Transfer to Stage 2	46	(46)	–	–
Net charge for the period	(24)	–	–	(24)
Exchange fluctuation and others	(2)	–	–	(2)
As at 30 June 2021	(400)	(46)	(36)	(482)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Transfer to Stage 3	1	–	(1)	–
Net charge for the year	251	–	83	334
Exchange fluctuation and others	36	–	–	36
As at 31 December 2020	(420)	–	(36)	(456)

(c) Equity instruments at fair value through other comprehensive income

	Notes	30 June 2021	31 December 2020
Equity instruments at fair value through other comprehensive income	(i)	1,127	875
Listed	(ii)	25	23
Of which: listed in Hong Kong		–	–
Unlisted		1,102	852
Total		1,127	875

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 30 June 2021, the fair value was RMB1,127 million (31 December 2020: RMB875 million). For the six months ended 30 June 2021, the Group has not received dividends from the above equity instruments (for the six months ended 30 June 2020: Nil).

(ii) Listed investments include equity instruments traded on a stock exchange.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Notes	30 June 2021	31 December 2020
Debt securities and asset-backed instruments	(i)	968,541	921,967
Others	(ii)	151,917	207,486
Subtotal		1,120,458	1,129,453
Accrued interest		16,143	17,510
Total		1,136,601	1,146,963
Less: Provision for impairment losses		(5,857)	(5,138)
Net balance		1,130,744	1,141,825
Listed	(iii)	161,522	159,519
Of which: listed in Hong Kong		18,620	21,710
Unlisted		953,079	964,796
Subtotal		1,114,601	1,124,315
Accrued interest		16,143	17,510
Net balance		1,130,744	1,141,825

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	30 June 2021	31 December 2020
In Mainland China			
– Government		373,755	386,220
– Banks and other financial institutions	(1)	385,831	333,697
– Other institutions	(2)	183,257	168,370
Outside Mainland China			
– Government		4,416	4,777
– Banks and other financial institutions		10,757	23,141
– Other institutions		10,525	5,762
Subtotal		968,541	921,967
Accrued interest		14,502	15,621
Total	(3)	983,043	937,588
Less: Provision for impairment losses		(2,529)	(1,937)
Net balance		980,514	935,651
Fair value		991,197	944,985

Notes:

- (1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.
- (2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (3) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note III 23(a).

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial Investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(1,932)	(472)	(2,734)	(5,138)
Transfer to Stage 2	183	(183)	–	–
Transfer to Stage 3	67	626	(693)	–
Net charge for the period	89	(236)	(611)	(758)
Exchange fluctuation and others	39	–	–	39
As at 30 June 2021	(1,554)	(265)	(4,038)	(5,857)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	–	–
Transfer to Stage 2	179	(179)	–	–
Transfer to Stage 3	6	47	(53)	–
Net charge for the year	409	(269)	(912)	(772)
Exchange fluctuation and others	17	–	–	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Investments in subsidiaries and joint ventures

(a) Investments in subsidiaries

	30 June 2021	31 December 2020
Everbright Financial Leasing Co., Ltd.	4,680	4,680
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	600
CEB International Investment Co., Ltd.	2,267	2,267
China Everbright Bank Company Limited (Europe)	156	156
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Total	12,983	12,983

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Shaoshan Everbright Rural Bank Co., Ltd (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Investments in subsidiaries and joint ventures (continued)

(b) Investments in joint ventures

	For the six months ended 30 June 2021
As at 1 January 2021	257
Increased investment	93
Investment losses under the equity method	(7)
As at 30 June 2021	343

18 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2021	13,526	8,127	2,314	8,247	4,789	37,003
Additions	6	811	68	296	84	1,265
Transfers in/(out)	5	–	(5)	–	–	–
Disposals	–	–	–	(273)	(71)	(344)
Foreign currency conversion difference	–	(82)	–	–	–	(82)
As at 30 June 2021	13,537	8,856	2,377	8,270	4,802	37,842
Accumulated depreciation						
As at 1 January 2021	(4,506)	(582)	–	(5,100)	(3,351)	(13,539)
Charge for the period	(213)	(146)	–	(438)	(230)	(1,027)
Disposals	–	–	–	259	63	322
Foreign currency conversion difference	–	6	–	–	–	6
As at 30 June 2021	(4,719)	(722)	–	(5,279)	(3,518)	(14,238)
Provision for impairment						
As at 1 January 2021	(163)	–	–	–	–	(163)
As at 30 June 2021	(163)	–	–	–	–	(163)
Net book value						
As at 30 June 2021	8,655	8,134	2,377	2,991	1,284	23,441

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	–	–	(170)
Disposals	–	–	–	(378)	(196)	(574)
Foreign currency conversion difference	–	(477)	–	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,314	8,247	4,789	37,003
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	–	(578)	(448)	(1,651)
Transfer out	–	12	–	–	–	12
Disposals	–	–	–	372	169	541
Foreign currency conversion difference	–	37	–	1	1	39
As at 31 December 2020	(4,506)	(582)	–	(5,100)	(3,351)	(13,539)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
Charge for the year	(4)	–	–	–	–	(4)
As at 31 December 2020	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2020	8,857	7,545	2,314	3,147	1,438	23,301

Notes:

- (i) As at 30 June 2021, title deeds were not yet finalised for the premises with a carrying amount of RMB40 million (31 December 2020: RMB42 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 30 June 2021, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB8,134 million (31 December 2020: RMB7,545 million). As at the end of the reporting period, part of the finance lease receivables was pledged for borrowings from banks. See Note III 23(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	30 June 2021	31 December 2020
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,363	8,547
– Short term leases (less than 10 years)	292	310
Total	8,655	8,857

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Right-of-use assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2021	15,597	64	15,661
Additions	1,315	1	1,316
Deductions	(505)	(19)	(524)
Foreign currency conversion difference	(11)	–	(11)
As at 30 June 2021	16,396	46	16,442
Accumulated depreciation			
As at 1 January 2021	(4,501)	(23)	(4,524)
Additions	(1,344)	(2)	(1,346)
Deductions	374	2	376
Foreign currency conversion difference	3	–	3
As at 30 June 2021	(5,468)	(23)	(5,491)
Net book value			
As at 30 June 2021	10,928	23	10,951

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	2,524	12	2,536
Deductions	(937)	(14)	(951)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2020	15,597	64	15,661
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Additions	(2,662)	(15)	(2,677)
Deductions	548	9	557
Foreign currency conversion difference	1	–	1
As at 31 December 2020	(4,501)	(23)	(4,524)
Net book value			
As at 31 December 2020	11,096	41	11,137

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Goodwill

	30 June 2021	31 December 2020
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed the “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

21 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2021		31 December 2020	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	86,115	21,529	78,350	19,587
Deferred income tax liabilities	–	–	–	–
Total	86,115	21,529	78,350	19,587

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note (i)	Fair value changes of financial instruments Note (ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2021	17,324	137	2,126	19,587
Recognised in profit or loss	877	(449)	1,727	2,155
Recognised in other comprehensive income	(101)	(112)	–	(213)
As at 30 June 2021	18,100	(424)	3,853	21,529

	Provision for impairment losses Note (i)	Fair value changes of financial instruments Note (ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	–	406
As at 31 December 2020	17,324	137	2,126	19,587

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the period. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Fair value changes of financial instruments are subject to tax when realised.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Other assets

	Note	30 June 2021	31 December 2020
Other receivables	(a)	43,435	30,903
Accrued interest		5,667	4,661
Intangible assets		2,186	2,160
Refundable deposits		1,693	1,698
Purchase prepayment for property, plant and equipment		1,087	703
Long-term deferred expense		857	896
Repossessed assets		364	390
Land use rights		86	89
Others		3,281	3,564
Total		58,656	45,064

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

23 Pledged assets

(a) Assets pledged as collateral

The Group's assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the assets pledged as securities as at 30 June 2021 is RMB82.651 billion (31 December 2020: RMB79.936 billion)

(b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the six months ended 30 June 2021. As at 30 June 2021, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2020: Nil). These transactions are conducted under standard terms in the normal course of business.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Due to the central bank

	30 June 2021	31 December 2020
Due to the central bank	225,017	238,751
Accrued interest	4,528	2,359
Total	229,545	241,110

25 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Deposits in Mainland China		
– Banks	151,418	149,996
– Other financial institutions	310,778	317,300
Deposits outside Mainland China		
– Banks	1,610	226
Subtotal	463,806	467,522
Accrued interest	2,531	1,823
Total	466,337	469,345

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Placements in Mainland China		
– Banks	116,423	115,334
– Other financial institutions	3,165	1,004
Placements outside Mainland China		
– Banks	51,065	45,072
Subtotal	170,653	161,410
Accrued interest	719	469
Total	171,372	161,879

27 Financial liabilities at fair value through profit or loss

	30 June 2021	31 December 2020
Short position in debt securities	172	4
Total	172	4

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2021	31 December 2020
In Mainland China		
– Banks	6,614	7,047
– Other financial institutions	565	930
Outside Mainland China		
– Banks	6,386	5,895
– Other financial institutions	553	298
Subtotal	14,118	14,170
Accrued interest	22	12
Total	14,140	14,182

(b) Analysed by collateral

	30 June 2021	31 December 2020
Debt securities	12,555	9,958
Bank acceptances bills	1,563	4,212
Subtotal	14,118	14,170
Accrued interest	22	12
Total	14,140	14,182

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Deposits from customers

	30 June 2021	31 December 2020
Demand deposits		
– Corporate customers	946,004	850,381
– Individual customers	249,168	274,087
Subtotal	1,195,172	1,124,468
Time deposits		
– Corporate customers	1,549,153	1,530,885
– Individual customers	585,271	526,723
Subtotal	2,134,424	2,057,608
Pledged deposits	314,864	251,964
Other deposits	2,629	3,182
Subtotal deposits from customers	3,647,089	3,437,222
Accrued interest	45,330	43,445
Total	3,692,419	3,480,667

30 Accrued staff costs

	Notes	30 June 2021	31 December 2020
Salary and welfare payable		13,419	12,626
Pension and annuity payable	(a)	981	1,310
Supplementary retirement benefits payable	(b)	1,233	1,233
Total		15,633	15,169

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Accrued staff costs (continued)

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were assessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

Except for (a) and (b) above, the Group has no other major responsibilities for the payment of employee retirement benefits and other post-retirement benefits.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Taxes payable

	30 June 2021	31 December 2020
Income tax payable	2,918	5,617
Value added tax payable	3,155	2,705
Others	473	450
Total	6,546	8,772

32 Lease liabilities

	30 June 2021	31 December 2020
Within 1 year (inclusive)	2,674	2,636
1 year to 2 years (inclusive)	2,328	2,305
2 years to 3 years (inclusive)	1,810	1,893
3 years to 5 years (inclusive)	2,579	2,601
More than 5 years	2,718	2,916
Total undiscounted lease liabilities	12,109	12,351
Lease liabilities	10,597	10,762

33 Debt securities issued

	Notes	30 June 2021	31 December 2020
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	47,237	5,795
Tier-two capital bonds issued	(c)	41,432	41,430
Convertible bonds issued	(d)	23,195	22,884
Interbank deposits issued	(e)	443,396	313,045
Certificates of deposit issued	(f)	43,147	31,762
Medium term notes	(g)	20,312	17,412
Subtotal		625,419	439,028
Accrued interest		1,644	1,842
Total		627,063	440,870

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(a) Subordinated debts issued

	Notes	30 June 2021	31 December 2020
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

- (i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.
- (ii) As at 30 June 2021, the fair value of the total subordinated debts issued approximated to RMB6,838 million (31 December 2020: RMB6,871 million).

(b) Financial bonds issued

	Notes	30 June 2021	31 December 2020
Financial fixed rate bonds maturing in November 2021	(i)	4,998	4,996
Financial fixed rate bonds maturing in January 2022	(ii)	800	799
Financial fixed rate bonds maturing in March 2024	(iii)	39,985	–
Financial floating rate bonds maturing in May 2024	(iv)	1,454	–
Total		47,237	5,795

Notes:

- (i) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.
- (ii) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.
- (iii) Fixed rate financial bonds for small and micro enterprise loans in 2021 of RMB40.00 billion with a term of three years were issued by Everbright Financial on 22 March 2021. The coupon rate is 3.45% per annum.
- (iv) Floating rate financial bonds of AUD0.30 billion with a term of three years were issued by Everbright Financial Sydney Branch on 18 May 2021. The initial coupon rate is 0.68% per annum.
- (v) As at 30 June 2021, the fair value of the total financial bonds issued approximated to RMB47,530 million (31 December 2020: RMB5,840 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(c) Tier-two capital bonds issued

	Notes	30 June 2021	31 December 2020
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,990	27,990
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,996	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,446	1,445
Total		41,432	41,430

Notes:

- (i) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.
- (ii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.
- (iv) As at 30 June 2021, the fair value of the total tier-two capital bonds issued approximated to RMB41,968 million (31 December 2020: RMB41,935 million).

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(d) Convertible bonds issued

	30 June 2021	31 December 2020
Fixed rate six years convertible bonds issued in March 2017	23,195	22,884

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Liability component	Equity component Note III 36	Total
Nominal value of convertible bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Accumulated amortisation as at 1 January 2021	3,569	–	3,569
Accumulated conversion amount as at 1 January 2021	(5,447)	(998)	(6,445)
Balance as at 1 January 2021	22,884	4,163	27,047
Amortisation during the period	311	–	311
Balance as at 30 June 2021	23,195	4,163	27,358

Notes:

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes: (continued)

- (ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*
- (iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2021, the conversion price is RMB3.76 per share.*
- (iv) *As at 30 June 2021, a total of RMB5,801 million (31 December 2020: RMB5,801 million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,819,820 shares (31 December 2020: 1,542,813,979 shares).*
- (v) *For the six months ended 30 June 2021, a total of RMB363 million interest on the convertible bonds has been paid by the Bank (six months ended 30 June 2020: RMB300 million).*

(e) Interbank deposits issued

For the six months ended 30 June 2021, 114 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB249,330 million (six months ended 30 June 2020: RMB191,640 million). The carrying amount of interbank deposits due in the six months ended 30 June 2021 was RMB117,360 million (six months ended 30 June 2020: RMB168,960 million). As at 30 June 2021, the fair value of its outstanding interbank deposits issued was RMB437,822 million (31 December 2020: RMB310,619 million).

(f) Certificates of deposit issued

As at 30 June 2021, the certificates of deposit were issued by the Bank's Hong Kong Branch, Seoul Branch, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(g) Medium term notes

	Notes	30 June 2021	31 December 2020
Medium term notes with floating rate maturing on 13 June 2021	(i)	–	2,407
Medium term notes with floating rate maturing on 13 June 2021	(ii)	–	1,958
Medium term notes with floating rate maturing on 19 September 2021	(iii)	1,935	1,958
Medium term notes with floating rate maturing on 24 June 2022	(iv)	3,224	3,262
Medium term notes with floating rate maturing on 11 December 2022	(v)	3,224	3,262
Medium term notes with floating rate maturing on 3 August 2023	(vi)	4,514	4,565
Medium term notes with fixed rate maturing on 11 March 2024	(vii)	3,546	–
Medium term notes with fixed rate maturing on 15 June 2024	(viii)	3,869	–
Total		20,312	17,412

Notes:

- (i) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.
- (ii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.
- (iii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.
- (iv) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.
- (v) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.
- (vi) Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.
- (vii) Fixed rate medium term notes of USD550 million with a term of three years were issued by the Bank's Hong Kong branch on 4 March 2021. The coupon rate is 0.93% per annum.
- (viii) Fixed rate medium term notes of USD600 million with a term of three years were issued by the Bank's Hong Kong branch on 8 June 2021. The coupon rate is 0.84% per annum.
- (ix) As at 30 June 2021, the fair value of the medium term notes approximated to RMB20,348 million (31 December 2020: RMB17,432 million)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Other liabilities

	Notes	30 June 2021	31 December 2020
Deferred income	(a)	4,136	5,222
Bank loans	(b)	11,169	14,302
Finance leases payable		6,694	6,034
Provisions	(c)	4,923	4,280
Payment and collection clearance accounts		5,807	3,364
Dormant accounts		439	421
Dividend payables		11,368	21
Others		13,653	10,930
Total		58,189	44,574

Notes:

- (a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*
- (b) *As at 30 June 2021, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB11,169 million (31 December 2020: RMB14,302 million).*
- (c) *Provisions*

	30 June 2021	31 December 2020
<i>Expected credit losses on off-balance sheet items</i>	4,729	4,099
<i>Litigation losses</i>	129	126
<i>Others</i>	65	55
Total	4,923	4,280

The movement of the provision was as follows:

	For the six Months ended 30 June 2021	31 December 2020
<i>As at 1 January 2021</i>	4,280	2,751
<i>Net charge for the period/year</i>	651	1,640
<i>Payments for the period/year</i>	(8)	(111)
<i>As at 30 June 2021/31 December 2020</i>	4,923	4,280

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Share capital

The Bank's shareholding structure as at the end of the reporting period is as follows:

	30 June 2021	31 December 2020
Ordinary shares listed in Mainland China (A share)	41,353	41,353
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	54,032	54,032

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

36 Other equity instruments

	Note III	30 June 2021	31 December 2020
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	33(d)	4,163	4,163
Perpetual bonds (Notes (d), (e))		39,993	39,993
Total		109,062	109,062

(a) Preference shares at the end of the period

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instruments (continued)

(b) Main clauses of preference shares

(i) *Dividend*

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) *Conditions to distribution of dividends*

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) *Dividend blocker*

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

(iv) *Order of distribution and liquidation method*

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

(v) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital adequacy ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instruments (continued)

(b) Main clauses of preference shares (continued)

(v) *Mandatory conversion trigger events* (continued)

Upon the occurrence of a non-viability trigger event (the earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

(vi) *Redemption*

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2021		Additions for the period		30 June 2021	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	–	–	650	64,906

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	–	–	650	64,906

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instruments (continued)

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the “Bonds”) which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank’s additional tier one capital and to increase its capital adequacy ratio.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instruments (continued)

(e) Interests attributable to equity instruments' holders

Items	30 June 2021	31 December 2020
Total equity attributable to equity shareholders of the Bank	462,539	453,449
– Equity attributable to ordinary shareholders of the Bank	357,640	348,550
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to perpetual bonds of the Bank	39,993	39,993
Total equity attributable to non- controlling interests	1,599	1,549
– Equity attributable to non-controlling interests of ordinary shares	1,599	1,549

37 Capital reserve

	30 June 2021	31 December 2020
Share premium	58,434	58,434

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other comprehensive income

	30 June 2021	31 December 2020
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	17	16
Remeasurement of a defined benefit plan	(281)	(281)
Subtotal	(264)	(265)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,345	1,739
– Net change in fair value	1,207	928
– Net change in expected credit losses	1,138	811
Exchange differences on translation of financial statements	(117)	(81)
Subtotal	2,228	1,658
Total	1,964	1,393

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

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the year	(1,070)	(150)	2	(148)	22	(1,344)
As at 1 January 2021	928	811	16	(81)	(281)	1,393
Changes in amount for the period	279	327	1	(36)	–	571
As at 30 June 2021	1,207	1,138	17	(117)	(281)	1,964

Notes to the Unaudited Condensed Consolidated Financial Statements

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

40 Appropriation of profits

- (a) At the Annual General Meeting of Shareholders held on 29 June 2021, the Shareholders approved the following profit appropriations for the year ended 31 December 2020:
- The accumulated amount of withdrawal has reached 50% of the Bank's registered capital; according to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
 - Appropriated RMB7,492 million to general reserve; and
 - Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as at 31 December 2020, representing RMB2.10 per 10 shares before tax.
- (b) At the Board Meeting held on 26 March 2021, the dividend distribution of Everbright P3 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2020, and are calculated at 4.80% of dividend yield ratio for Everbright P3;
- (c) At the Board Meeting held on 28 May 2021, the dividend distribution of Everbright P1 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2020, and are calculated at 4.45% of dividend yield ratio for the Everbright P1;

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Appropriation of profits (continued)

- (d) At the Annual General Meeting of Shareholders held on 5 June 2020, the shareholders approved the following appropriations for the year ended 31 December 2019:
- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated accrued amount has reached 50% of the Bank's registered capital;
 - Appropriated RMB5,380 million to general reserve; and
 - Declared cash dividends to all ordinary shareholders of RMB11,233 million, representing RMB2.14 per 10 shares before tax.
- (e) At the Board Meeting held on 27 March 2020, the dividend distribution of Everbright P3 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB769 million before tax, representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated at 4.80% of dividend yield ratio for Everbright P3.
- (f) At the Board Meeting held on 5 June 2020, the dividend distribution of Everbright P1 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,060 million before tax, representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated at 5.30% of dividend yield ratio for Everbright P1.
- (g) At the Board Meeting held on 30 July 2020, the dividend distribution of Everbright P2 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 13 August 2019, and are calculated at 3.90% of dividend yield ratio for Everbright P2.

41 Involvement with structured entities

(a) **Structured entities sponsored by third party institutions in which the Group holds an interest:**

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the reporting period:

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities (continued)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest: (continued)

	30 June 2021		31 December 2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	221,791	221,791	211,085	211,085
– Asset management plans	40,736	40,736	30,282	30,282
Financial investments measured at amortised cost				
– Asset management plans	150,231	150,231	205,206	205,206
– Asset-backed securities	145,797	145,797	149,205	149,205
Total	558,555	558,555	595,778	595,778

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed 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 units to investors. Interests held by the Group include investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2021, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

As at 30 June 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB877,140 million (31 December 2020: RMB836,273 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2021 but matured before 30 June 2021 was nil (Six months ended 30 June 2020: nil).

For the six months ended 30 June 2021, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB1,961 million (Six months ended 30 June 2020: RMB1,463 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 30 June 2021, the balance of the above transactions was RMB5,010 million, included in “Financial assets held under resale agreements” (31 December 2020: Nil). For the six months ended 30 June 2021, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note III 42 for the interests in the unconsolidated structured entities of asset securitisation transactions held by the Group as at 30 June 2021. For the six months ended 30 June 2021, the Group’s income from these structured entities was immaterial.

In July 2020, the regulatory authorities made a decision on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions to the end of 2021 and encouraged orderly disposal of legacy assets in a variety of ways such as undertaking by new wealth management products, market-based transfer, and transferring assets back to the statement of financial position. According to the regulatory requirements, the Group has promoted the disposal of the legacy wealth management business in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor’s principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Transferred financial assets

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

Credit assets backed securitisation

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was nil as at 30 June 2021 (31 December 2020: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 30 June 2021, the Group has no continuing involvement in credit asset-backed securities (31 December 2020: Nil).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Transferred financial assets (continued)

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2021, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2021, loans with an original carrying amount of RMB1,998 million (31 December 2020: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 30 June 2021, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2020: RMB251 million).

43 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management (continued)

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with “Regulation Governing Capital of Commercial Banks (provisional)”. For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group’s capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with *Regulation Governing Capital of Commercial Banks (provisional)* and relevant requirements are as follows:

	30 June 2021	31 December 2020
Total common equity tier-one capital	358,828	349,479
Share capital	54,032	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	64,561	63,990
Surplus reserve	26,245	26,245
General reserve	67,800	67,702
Retained earnings	145,002	136,581
Qualifying portions of non-controlling interests	1,188	929
Common equity tier-one capital deductions	(3,483)	(3,457)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,186)	(2,160)
Net deferred tax assets arising from operating losses that depend on future profits	(16)	(16)
Net common equity tier-one capital	355,345	346,022
Additional tier-one capital	105,057	105,023
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	158	124
Tier-one capital net	460,402	451,045
Tier-two capital	83,370	82,485
Qualifying portions of tier-two capital instruments issued and share premium	42,256	44,525
Excess loan loss provisions	39,607	36,566
Qualifying portions of non-controlling interests	1,507	1,394
Net capital base	543,772	533,530
Total risk-weighted assets	4,042,430	3,837,489
Common equity tier-one capital adequacy ratio	8.79%	9.02%
Tier-one capital adequacy ratio	11.39%	11.75%
Capital adequacy ratio	13.45%	13.90%

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Notes to the consolidated cash flow statement

(a) Net increase in cash and cash equivalents

	For the six months ended 30 June	
	2021	2020
Cash and cash equivalents as at 30 June	136,264	140,992
Less: Cash and cash equivalents as at 1 January	145,076	117,499
Net (decrease)/increase in cash and cash equivalents	(8,812)	23,493

(b) Cash and cash equivalents

	30 June 2021	30 June 2020
Cash on hand	7,524	8,032
Deposits with the central bank	60,857	59,672
Deposits with banks and other financial institutions	30,000	38,904
Placements with banks and other financial institutions	37,883	34,384
Total	136,264	140,992

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions

(a) Related parity relationships

(i) *The ultimate parent company and its subsidiaries*

The ultimate parent of the Group is China Investment Corporation set up in China.

Approved by the State Council of the PRC, China Investment Corporation (“CIC”) was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the Group and the ultimate parent company and its subsidiaries are listed in Note III 45(b).

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(ii) *Affiliated companies*

The immediate parent of the Group is China Everbright Group Ltd. (“China Everbright Group”). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note III 45(b).

The affiliated companies that have related party transactions with the Group are as follows:

Related parties

- China Everbright Limited (Everbright Limited)
- Everbright Securities Co., Ltd. (Everbright Securities)
- China Everbright Group Limited
- China Everbright industry (Group) Co., Ltd
- Everbright Financial Holdings Asset Management Co., Ltd
- Everbright Life Insurance Co., Ltd
- Everbright Xinglong Trust Co., Ltd
- Everbright Prudential Fund Management Co., Ltd
- Everbright Futures Co., Ltd
- Everbright Fortune Investment Co., Ltd
- Everbright Capital Investment Co., Ltd
- Everbright happiness International Leasing Co., Ltd
- Everbright Yongming Asset Management Co., Ltd
- Everbright Jinou Asset Management Co., Ltd
- Everbright Securities Financial Holding Co., Ltd
- China CYTS Group Corporation
- Cachet Pharmaceutical Co., Ltd
- Everbright Technology Co., Ltd
- Hangzhou Jinou Asset Management Co., Ltd
- Guokaitai Industrial Development Co., Ltd
- Zhongqing Chuangyi Investment Management Co., Ltd
- Shenzhen Qianhai Everbright Investment Management Co., Ltd
- Everbright Securities Asset Management Co., Ltd
- Guanghang No.2 (Tianjin) Leasing Co., Ltd
- Beijing Everbright Jinhui 360 Investment Management Center
- Everbright Tesilian (Beijing) Culture Technology Co., Ltd
- Everbright Photonics Investment Management Co., Ltd
- Guanghang No.1 (Tianjin) Leasing Co., Ltd
- Shanghai Guiyun Asset Management Co., Ltd
- China Everbright Pension Health Industry Co., Ltd
- Everbright Cultural Investment Co., Ltd
- Everbright Development Investment Co., Ltd
- Everbright Cloud Payment Technology Co., Ltd
- Beijing Everbright Huichen Pension Service Co., Ltd
- Shanghai Everbright Securities Asset Management Co., Ltd
- Everbright Hongrun Investment Management Co., Ltd
- Everbright Yunfu Internet Co., Ltd
- Beijing Huixin Housing Construction Engineering Co., Ltd
- CYTS Jiangsu real estate Co., Ltd
- China Everbright medical and Health Industry Co., Ltd

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

Other related parties

- Overseas Chinese Town Holding Company
- China Shipping (Group) Company
- Orient Securities Co., Ltd. Henan Zhongyuan Chemical Co., Ltd
- Jilin TuoCheng Construction Engineering Co., Ltd
- China UnionPay Co., Ltd
- Orient Securities Co., Ltd
- Konka Group Co., Ltd
- China Pacific Insurance (Group) Co., Ltd
- COSCO Shipping Development Co., Ltd
- China Ocean Shipping Group Co., Ltd
- Shenergy Group Co., Ltd.
- Bohai Securities Co., Ltd
- Shanghai Gas (Group) Co., Ltd
- China Marine Fuel Co., Ltd
- Shenzhen Weipin Zhiyuan Information Technology Co., Ltd
- Shanghai Zhongbo Enterprise Management Development Co., Ltd
- Shanghai Insurance Exchange Co., Ltd
- Beijing Jingneng Clean Energy Power Co., Ltd
- Shijiazhuang Hualin Food Co., Ltd
- Zhengzhou Chemical Light Industry Co., Ltd
- China Eastern Airlines Group Co., Ltd
- Huadian Fuxin Energy Co., Ltd
- Fujian Bofang Technology Co., Ltd
- China Cinda Asset Management Co., Ltd
- Zhongke Zhiyuan Technology Co., Ltd
- Shanghai International Port (Group) Co., Ltd
- CYTS Holding Co., Ltd
- Beijing aimaisi Technology Co., Ltd
- China Aircraft Leasing Co., Ltd
- China Shipping Group Investment Co., Ltd
- China Sinochem Group Co., Ltd
- China Minmetals Group Co., Ltd

The amounts and balances of transactions between the Group and other related parties are shown in Note III 45(b).

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Related party transactions

(i) *The ultimate parent company and its subsidiaries*

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	For the six months ended 30 June	
	2021	2020
Interest income	236	496
Interest expense	(2,270)	(1,577)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	30 June 2021	31 December 2020
Deposits with banks and other financial institutions	6,753	13,098
Placements with banks and other financial institutions	18,598	22,233
Derivative financial assets	4,459	7,047
Financial assets held under resale agreements	12,842	15,505
Loans and advances to customers	4,720	2,599
Financial investments	236,470	221,493
Financial assets at fair value through profit or loss	67,001	56,471
Debt instruments at fair value through other comprehensive income	35,312	39,852
Financial investments measured at amortised cost	134,157	125,170
Other assets	4,761	3,548
Deposits from banks and other financial institutions	72,139	98,208
Placements from banks and other financial institutions	56,061	56,025
Derivative financial liabilities	4,993	9,072
Financial assets sold under repurchase agreements	2,415	6,523
Deposits from customers	68,520	51,476
Other liabilities	1,189	249

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(ii) *Transactions with other PRC state-owned entities*

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) *Affiliated companies and other related parties*

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note III 45(a))	Affiliated companies	Others	Total
Transactions with related parties for the six months ended 30 June 2021:				
Interest income	–	981	724	1,705
Interest expense	(36)	(234)	(215)	(485)
Balances with related parties as at 30 June 2021:				
Placements with banks and other financial institutions	–	1,300	–	1,300
Derivative financial assets	–	–	16	16
Financial assets held under resale agreements	–	6,873	1,105	7,978
Loans and advances to customers	–	7,107	12,797	19,904
Financial investments	–	44,633	1,564	46,197
Financial assets at fair value through profit or loss	–	10,644	504	11,148
Debt instruments at fair value through other comprehensive income	–	141	218	359
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	33,848	744	34,592
Other assets	–	8	2,465	2,473
Total	–	59,921	17,947	77,868
Deposits from banks and other financial institutions	–	21,305	2,969	24,274
Placements from banks and other financial institutions	–	1,300	–	1,300
Derivative financial liabilities	–	–	16	16
Deposits from customers	41	14,260	59,456	73,757
Other liabilities	–	–	1	1
Total	41	36,865	62,442	99,348
Significant other items with related parties as at 30 June 2021:				
Guarantee granted (Note)	180	–	–	180

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) *Affiliated companies and other related parties* (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows: (continued)

	China Everbright Group (Note III 45(a))	Affiliated companies	Others	Total
Transactions with related parties for the six months ended 30 June 2020:				
Interest income	–	327	287	614
Interest expense	(67)	(177)	(204)	(448)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	–	3,200	1,000	4,200
Derivative financial assets	–	–	21	21
Financial assets held under resale agreements	–	385	1,900	2,285
Loans and advances to customers	–	5,523	15,356	20,879
Financial investments	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	–	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	32,046	655	32,701
Other assets	–	5	2,633	2,638
Total	105	49,726	23,858	73,689
Deposits from banks and other financial institutions	–	17,173	9,769	26,942
Derivative financial liabilities	–	–	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Total	4,284	26,988	49,204	80,476
Significant other items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	–	–	180

Note: As at 30 June 2021, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2020: RMB180 million) due to one of the state-owned commercial banks.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iv) Remuneration of directors, supervisors and senior management

	For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Remuneration	14,148	13,198
Retirement benefits	1,950	388
Of which: Basic social pension insurance	272	179

(v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Aggregate amount of relevant loans outstanding as at the end of period	6,577	8,708
Maximum aggregate amount of relevant loans outstanding during the period	6,609	8,738

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Statement of financial position of the Bank

	Note III	30 June 2021	31 December 2020
Assets			
Cash and deposits with the central bank		377,327	360,131
Deposits with banks and other financial institutions		29,537	40,231
Precious metals		6,485	9,353
Placements with banks and other financial institutions		79,181	74,769
Derivative financial assets		17,188	25,262
Financial assets held under resale agreements		96,755	43,587
Loans and advances to customers		3,161,385	2,939,071
Financial investments		1,762,441	1,658,026
– Financial assets at fair value through profit or loss		359,415	299,768
– Debt instruments at fair value through other comprehensive income		271,831	216,324
– Equity instruments at fair value through other comprehensive income		1,122	870
– Financial investments measured at amortised cost		1,130,073	1,141,064
Investments in subsidiaries	17(a)	12,983	12,983
Property, plant and equipment		15,248	15,698
Right-of-use assets		10,844	11,096
Goodwill		1,281	1,281
Deferred tax assets		20,388	18,444
Other assets		55,775	43,593
Total assets		5,646,818	5,253,525

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Statement of financial position of the Bank (continued)

	30 June 2021	31 December 2020
Liabilities and equity		
Liabilities		
Due to the central bank	229,428	241,059
Deposits from banks and other financial institutions	469,083	473,926
Placements from banks and other financial institutions	89,102	89,948
Derivative financial liabilities	16,645	25,694
Financial assets sold under repurchase agreements	9,249	10,115
Deposits from customers	3,690,569	3,478,730
Accrued staff costs	15,420	14,874
Taxes payable	5,860	7,708
Lease liabilities	10,493	10,723
Debt securities issued	619,820	433,749
Other liabilities	34,791	18,698
Total liabilities	5,190,460	4,805,224
Equity		
Share capital	54,032	54,032
Other equity instruments	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	2,199	1,509
Surplus reserve	26,245	26,245
General reserve	66,015	66,015
Retained earnings	140,371	133,004
Total equity	456,358	448,301
Total liabilities and equity	5,646,818	5,253,525

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, 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, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities

	For the six months ended 30 June 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,885	31,546	12,466	–	55,897
Internal net interest income/ (expense)	13,650	(9,349)	(4,301)	–	–
Net interest income	25,535	22,197	8,165	–	55,897
Net fee and commission income	4,735	9,741	529	–	15,005
Net trading gains	–	–	1,230	–	1,230
Dividend income	–	–	–	1	1
Net gains arising from investment securities	228	–	4,082	7	4,317
Net gains on derecognition of financial assets measured at amortised cost	–	–	85	–	85
Foreign exchange gains/(losses)	201	21	(140)	–	82
Other net operating income	452	26	23	33	534
Operating income	31,151	31,985	13,974	41	77,151
Operating expenses	(9,230)	(10,839)	(1,130)	(46)	(21,245)
Credit impairment losses	(13,019)	(14,853)	(862)	–	(28,734)
Other impairment losses	23	–	(2)	–	21
Losses on investments in joint ventures	–	–	–	(7)	(7)
Segment profit before tax	8,925	6,293	11,980	(12)	27,186
Other segment information					
– Depreciation and amortisation	1,375	1,327	141	–	2,843
– Capital expenditure	697	867	83	–	1,647
	30 June 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,330,204	1,500,029	1,919,008	745	5,749,986
Segment liabilities	2,953,016	908,140	1,432,476	3,658	5,297,290

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities (continued)

	For the six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,445	27,913	15,308	–	54,666
Internal net interest income/ (expense)	13,932	(7,580)	(6,352)	–	–
Net interest income	25,377	20,333	8,956	–	54,666
Net fee and commission income	4,653	8,893	587	–	14,133
Net trading gains	–	–	57	–	57
Dividend income	–	–	–	1	1
Net (losses)/gains arising from investment securities	(35)	1	2,788	–	2,754
Net gains on derecognition of financial assets measured at amortised cost	–	–	25	–	25
Foreign exchange gains/(losses)	120	37	(86)	–	71
Other net operating income	373	19	27	31	450
Operating income	30,488	29,283	12,354	32	72,157
Operating expenses	(8,402)	(9,932)	(1,054)	(58)	(19,446)
Credit impairment losses	(12,214)	(18,195)	(117)	–	(30,526)
Other impairment losses	(112)	(33)	(2)	–	(147)
Segment profit before tax	9,760	1,123	11,181	(26)	22,038
Other segment information					
– Depreciation and amortisation	1,224	1,148	131	–	2,503
– Capital expenditure	525	650	63	–	1,238
	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,482	1,409,348	1,801,709	703	5,347,242
Segment liabilities	2,755,106	859,093	1,295,799	3,093	4,913,091

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note III	30 June 2021	31 December 2020
Segment assets		5,749,986	5,347,242
Goodwill	20	1,281	1,281
Deferred tax assets	21	21,529	19,587
Total assets		5,772,796	5,368,110
Segment liabilities		5,297,290	4,913,091
Dividend payables	34	11,368	21
Total liabilities		5,308,658	4,913,112

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qingdao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- “Western” refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- “Northeastern” refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg and Sydney; and
- “Head Office” refers to the head office of the Bank.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(b) Geographical information (continued)

	Operating income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Overseas
For the six months ended 30 June 2021	14,774	13,564	10,980	13,295	10,467	9,639	3,105	1,327	77,151
For the six months ended 30 June 2020	13,664	11,176	12,293	12,401	9,515	8,527	3,200	1,381	72,157

	Non-current assets (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Overseas
30 June 2021	3,719	3,409	10,269	11,587	2,908	2,903	1,381	488	36,664
31 December 2020	3,813	3,410	10,395	11,137	2,968	3,077	1,393	494	36,687

Note:

(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Credit Department and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of “Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution”.
- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardised system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardised review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimisation testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

Treasury business

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL

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

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

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

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

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

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

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

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

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

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Management overlay
- Modification of contract cash flows

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Criteria for judging significant increases in credit risk

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

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

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtors' operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgements based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Definition of credit-impaired financial asset

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

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

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

Parameters of ECL measurement

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

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

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI and investment in property, plant and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Forward-looking information (continued)

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group adjusted the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

Management overlay

The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note III 51(a).

	30 June 2021				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	377,531	–	–	–	377,531
Deposits with banks and other financial institutions	33,878	–	–	–	33,878
Placements with banks and other financial institutions	70,607	–	134	–	70,741
Financial assets held under resale agreements	96,928	–	–	–	96,928
Loans and advances to customers	3,037,614	103,283	26,528	–	3,167,425
Finance lease receivables	106,559	4,122	253	–	110,934
Financial investments	1,392,576	4,263	12,684	365,962	1,775,485
Others (Note)	45,953	–	–	17,188	63,141
Total	5,161,646	111,668	39,599	383,150	5,696,063
	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	360,287	–	–	–	360,287
Deposits with banks and other financial institutions	46,059	–	–	–	46,059
Placements with banks and other financial institutions	69,140	–	150	–	69,290
Financial assets held under resale agreements	43,592	–	–	–	43,592
Loans and advances to customers	2,812,466	105,109	24,860	–	2,942,435
Finance lease receivables	96,564	3,970	254	–	100,788
Financial investments	1,352,507	4,876	7,249	305,783	1,670,415
Others (Note)	33,530	–	–	25,264	58,794
Total	4,814,145	113,955	32,513	331,047	5,291,660

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2021	31 December 2020
<i>Impaired</i>		
Carrying amount	666	666
Provision for impairment losses	(532)	(516)
Subtotal	134	150
<i>Neither overdue nor impaired</i>		
– grade A to AAA	195,253	151,764
– grade B to BBB	132	1,123
– unrated (Note)	6,029	5,904
Subtotal	201,414	158,791
Total	201,548	158,941

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2021	31 December 2020
<i>Impaired</i>		
Carrying amount	2,907	1,904
Provision for impairment losses	(1,674)	(1,179)
Subtotal	1,233	725
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AA- to AA+	3,522	32,504
– grade A- to A+	19,162	31,773
– grade lower than A-	15,173	23,035
Subtotal	37,857	87,312
<i>Other agency ratings</i>		
– grade AAA	1,081,485	955,020
– grade AA- to AA+	121,812	105,717
– grade A- to A+	12,836	4,075
– grade lower than A-	18,609	2,508
– unrated	68,035	55,666
Subtotal	1,302,777	1,122,986
Total	1,341,867	1,211,023

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

Gap risk

Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Basis risk

Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period:

	30 June 2021						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	377,531	22,661	354,870	–	–	–
Deposits with banks and other financial institutions	0.86%	33,878	19	30,704	3,155	–	–
Placements with banks and other financial institutions	1.43%	70,741	157	48,507	19,930	2,147	–
Financial assets held under resale agreements	2.09%	96,928	13	96,915	–	–	–
Loans and advances to customers	5.16%	3,167,425	35,060	2,373,522	676,714	79,276	2,853
Finance lease receivables	5.84%	110,934	1,429	18,639	64,284	19,488	7,094
Financial investments	3.77%	1,775,485	320,620	80,844	225,341	710,859	437,821
Others	–	139,874	136,846	–	–	–	3,028
Total assets	4.45%	5,772,796	516,805	3,004,001	989,424	811,770	450,796
Liabilities							
Due to the central bank	2.99%	229,545	4,528	96,603	128,414	–	–
Deposits from banks and other financial institutions	2.51%	466,337	2,531	312,329	149,940	1,537	–
Placements from banks and other financial institutions	1.99%	171,372	725	102,908	67,739	–	–
Financial assets sold under repurchase agreements	1.69%	14,140	22	10,041	2,052	2,025	–
Deposits from customers	2.20%	3,692,419	173,913	1,855,904	744,850	917,735	17
Debt securities issued	2.95%	627,063	1,644	211,926	319,406	47,401	46,686
Others	–	107,782	96,555	–	9,013	1,977	237
Total liabilities	2.34%	5,308,658	279,918	2,589,711	1,421,414	970,675	46,940
Asset-liability gap	2.11%	464,138	236,887	414,290	(431,990)	(158,905)	403,856

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (continued)

	31 December 2020						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	360,287	16,919	343,368	–	–	–
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	–	–
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	–
Financial assets held under resale agreements	1.90%	43,592	3	43,589	–	–	–
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	67,190	315,202	209,932	681,052	397,039
Others	–	135,244	131,989	–	–	–	3,255
Total assets	4.59%	5,368,110	247,182	3,102,204	837,793	770,135	410,796
Liabilities							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	–	–
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	–	–
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	–	–
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	–
Deposits from customers	2.30%	3,480,667	50,225	2,008,963	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	–	105,059	90,129	10,214	3,625	1,091	–
Total liabilities	2.39%	4,913,112	146,866	2,563,719	1,293,878	861,940	46,709
Asset-liability gap	2.20%	454,998	100,316	538,485	(456,085)	(91,805)	364,087

* The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2021, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB1,465 million (31 December 2020: increase by RMB96 million), and equity to decrease by RMB7,990 million (31 December 2020: decrease by RMB5,603 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,711 million (31 December 2020: increase by RMB125 million), and equity to increase by RMB8,622 million (31 December 2020: increase by RMB6,189 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the portfolio of asset and liability;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

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

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the period are as follows:

	30 June 2021			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	363,135	10,379	4,017	377,531
Deposits with banks and other financial institutions	12,040	12,802	9,036	33,878
Placements with banks and other financial institutions	21,379	46,584	2,778	70,741
Financial assets held under resale agreements	96,720	37	171	96,928
Loans and advances to customers	3,000,902	105,594	60,929	3,167,425
Financial lease receivables	110,182	752	–	110,934
Financial investments	1,674,970	77,666	22,849	1,775,485
Others	133,096	4,337	2,441	139,874
Total assets	5,412,424	258,151	102,221	5,772,796
Liabilities				
Due to the central bank	229,545	–	–	229,545
Deposits from banks and other financial institutions	464,393	284	1,660	466,337
Placements from banks and other financial institutions	95,313	58,081	17,978	171,372
Financial assets sold under repurchase agreements	7,182	2,500	4,458	14,140
Deposits from customers	3,488,780	162,901	40,738	3,692,419
Debt securities issued	562,108	61,437	3,518	627,063
Others	101,483	3,477	2,822	107,782
Total liabilities	4,948,804	288,680	71,174	5,308,658
Net position	463,620	(30,529)	31,047	464,138
Off-balance sheet credit commitments	1,341,336	45,738	18,064	1,405,138
Derivative financial instruments (Note)	(16,335)	43,672	(30,638)	(3,301)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the period are as follows: (continued)

	31 December 2020			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Finance lease receivables	99,987	801	–	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,376	5,527	1,341	135,244
Total assets	5,026,352	243,708	98,050	5,368,110
Liabilities				
Due to the central bank	241,110	–	–	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,893	144,010	36,764	3,480,667
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,325	2,009	3,725	105,059
Total liabilities	4,581,216	262,708	69,188	4,913,112
Net position	445,136	(19,000)	28,862	454,998
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	30 June 2021	31 December 2020
Exchange rates against RMB for the HK dollar	0.8317	0.8428
Exchange rates against RMB for the US dollar	6.4583	6.5337

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2021, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB16 million (31 December 2020: increase by RMB4 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB16 million (31 December 2020: decrease by RMB4 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

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

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or share price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2021							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	309,015	68,516	-	-	-	-	-	377,531
Deposits with banks and other financial institutions	-	29,308	1,213	202	3,155	-	-	33,878
Placements with banks and other financial institutions	134	-	40,945	7,473	19,972	2,217	-	70,741
Financial assets held under resale agreements	-	-	96,928	-	-	-	-	96,928
Loans and advances to customers	45,503	418,446	126,983	171,331	815,308	799,038	790,816	3,167,425
Finance lease receivables	82	260	3,202	5,897	20,606	72,353	8,534	110,934
Financial investments	14,994	227,795	32,259	44,372	247,058	761,530	447,477	1,775,485
Others	68,547	51,112	2,013	5,605	3,907	5,649	3,041	139,874
Total assets	438,275	795,437	303,543	234,880	1,110,006	1,640,787	1,249,868	5,772,796
Liabilities								
Due to the central bank	-	-	20,577	78,510	130,458	-	-	229,545
Deposits from banks and other financial institutions	-	172,448	52,227	90,185	149,940	1,537	-	466,337
Placements from banks and other financial institutions	-	6	50,990	52,345	68,031	-	-	171,372
Financial assets sold under repurchase agreements	-	-	7,587	2,471	2,057	2,025	-	14,140
Deposits from customers	-	1,346,602	288,349	374,200	754,108	929,142	18	3,692,419
Debt securities issued	-	-	77,344	98,385	323,414	79,788	48,132	627,063
Others	-	62,605	4,728	5,692	9,605	18,829	6,323	107,782
Total liabilities	-	1,581,661	501,802	701,788	1,437,613	1,031,321	54,473	5,308,658
Net position	438,275	(786,224)	(198,259)	(466,908)	(327,607)	609,466	1,195,395	464,138
Notional amount of derivative financial instruments	-	-	259,279	224,953	581,874	818,118	2,791	1,887,015

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period: (continued)

	31 December 2020							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	299,538	60,749	-	-	-	-	-	360,287
Deposits with banks and other financial institutions	-	40,161	1,100	4,098	700	-	-	46,059
Placements with banks and other financial institutions	150	-	45,942	9,673	11,351	2,174	-	69,290
Financial assets held under resale agreements	-	-	43,592	-	-	-	-	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,121	37,604	2,748	4,458	10,652	6,080	4,581	135,244
Total assets	432,592	775,227	280,344	247,109	924,418	1,538,130	1,170,290	5,368,110
Liabilities								
Due to the central bank	-	-	13,195	7,712	220,203	-	-	241,110
Deposits from banks and other financial institutions	-	154,114	70,330	72,828	172,073	-	-	469,345
Placements from banks and other financial institutions	-	6	44,194	47,445	70,234	-	-	161,879
Financial assets sold under repurchase agreements	-	-	7,132	3,093	3,508	449	-	14,182
Deposits from customers	-	1,303,947	289,829	447,446	568,955	870,466	24	3,480,667
Debt securities issued	-	-	5,450	81,580	270,937	34,772	48,131	440,870
Others	-	47,537	4,091	5,735	20,338	19,252	8,106	105,059
Total liabilities	-	1,505,604	434,221	665,839	1,326,248	924,939	56,261	4,913,112
Net position	432,592	(730,377)	(153,877)	(418,730)	(401,830)	613,191	1,114,029	454,998
Notional amount of derivative financial instruments	-	-	326,206	252,135	820,303	767,683	43,970	2,210,297

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period:

	30 June 2021							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	229,545	231,746	–	20,599	78,892	132,255	–	–
Deposits from banks and other financial institutions	466,337	474,508	172,524	54,146	92,302	153,997	1,539	–
Placements from banks and other financial institutions	171,372	172,744	6	51,053	52,588	69,097	–	–
Financial assets sold under repurchase agreements	14,140	14,165	–	7,591	2,480	2,063	2,031	–
Deposits from customers	3,692,419	3,740,151	1,346,602	291,074	377,579	767,933	956,939	24
Debt securities issued	627,063	658,983	–	79,184	100,611	329,069	99,414	50,705
Other financial liabilities	64,035	66,529	35,490	2,464	1,140	5,595	14,318	7,522
Derivative financial liabilities	5,264,911	5,358,826	1,554,622	506,111	705,592	1,460,009	1,074,241	58,251
Derivative financial instruments settled on net basis		(278)	–	1	(2)	26	(283)	(20)
Derivative financial instruments settled on gross basis								
– Cash inflow		852,321	–	206,174	200,064	432,212	13,871	–
– Cash outflow		(852,160)	–	(206,474)	(199,231)	(432,598)	(13,857)	–
Total derivative financial liabilities		161	–	(300)	833	(386)	14	–

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period: (continued)

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	241,110	245,941	-	13,216	7,743	224,982	-	-
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	-	-
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	-	-
Financial assets sold under repurchase agreements	14,182	14,205	-	7,132	3,099	3,523	451	-
Deposits from customers	3,480,667	3,527,109	1,303,948	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	-	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,060	53,973	19,315	568	1,774	10,227	14,134	7,955
Total non-derivative financial liabilities	4,859,113	4,948,754	1,477,655	436,444	674,662	1,337,165	961,934	60,894
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(513)	-	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
- Cash inflow		1,076,507	-	301,281	213,938	514,515	5,694	41,079
- Cash outflow		(1,076,200)	-	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
Total derivative financial liabilities		307	-	321	355	(307)	(65)	3

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2021			
	Within one year	Between one years and five years	More than five year	Total
Loan and credit card commitments	357,008	602	2,267	359,877
Guarantees, acceptances and other credit commitments	1,001,323	43,157	781	1,045,261
Total	1,358,331	43,759	3,048	1,405,138

	31 December 2020			
	Within one year	Between one years and five years	More than five year	Total
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
Total	1,423,380	49,424	3,742	1,476,546

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) *Derivative financial instruments*

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and are due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortised cost, except for debt securities investments, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note III 17.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued. Except for the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of period:

	Carrying value		Fair value	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Financial assets				
Debt securities investments measured at amortised cost	980,514	935,651	991,197	944,985
Financial liabilities				
Debt securities issued	627,063	440,870	621,543	440,017

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomson Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Derivative financial assets</i>				
– Currency derivatives	–	12,299	–	12,299
– Interest rate derivatives	–	4,889	–	4,889
<i>Loans and advances to customers</i>	–	142,347	–	142,347
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	3,035	67,993	–	71,028
– Financial assets designated at fair value through profit or loss	233,575	46,807	13,425	293,807
<i>Debt instruments at fair value through other comprehensive income</i>	56,900	221,879	–	278,779
<i>Equity instruments at fair value through other comprehensive income</i>	25	–	1,102	1,127
<i>Precious metals</i>	63	–	–	63
Total	293,598	496,214	14,527	804,339
Liabilities				
<i>Financial liabilities at fair value through profit or loss</i>	172	–	–	172
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	11,476	–	11,476
– Interest rate derivatives	–	5,169	–	5,169
Total	172	16,645	–	16,817

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III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2020			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Derivative financial assets</i>				
– Currency derivatives	–	19,441	–	19,441
– Interest rate derivatives	–	5,819	2	5,821
– Credit derivatives	–	2	–	2
<i>Loans and advances to customers</i>	–	98,211	–	98,211
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	4,391	28,649	–	33,040
– Financial assets designated at fair value through profit or loss	–	–	1	1
– Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
<i>Debt instruments at fair value through other comprehensive income</i>	51,111	171,696	–	222,807
<i>Equity instruments at fair value through other comprehensive income</i>	23	–	852	875
<i>Precious metals</i>	35	–	–	35
Total	269,341	371,541	11,218	652,100
Liabilities				
<i>Financial liabilities at fair value through profit or loss</i>				
	4	–	–	4
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	19,355	–	19,355
– Interest rate derivatives	–	6,338	2	6,340
– Credit derivatives	–	83	–	83
Total	4	25,776	2	25,782

During the reporting period, there were no significant transfers within the fair value hierarchy of the Group.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the period ended 30 June 2021 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
As at 1 January 2021	2	10,364	852	11,218	(2)	(2)
Total gains or losses:						
– In profit or loss	(1)	54	–	53	1	1
Purchases	–	3,095	250	3,345	–	–
Settlements	(1)	(88)	–	(89)	1	1
As at 30 June 2021	–	13,425	1,102	14,527	–	–
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(1)	54	–	53	1	1

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
As at 1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	1	65	–	66	(1)	(1)
Purchases	–	6,396	250	6,646	–	–
Settlements	(1)	(131)	–	(132)	2	2
As at 31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	–	66	(1)	(1)

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	164,130	827,067	–	991,197
Financial liabilities				
Debt securities issued	23,799	597,744	–	621,543

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	161,862	783,123	–	944,985
Financial liabilities				
Debt securities issued	25,558	414,459	–	440,017

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using the cash flow discount model and the market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2021, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	30 June 2021	31 December 2020
Entrusted loans	116,779	125,827
Entrusted funds	116,779	125,827

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	30 June 2021	31 December 2020
Loan commitments		
– Original contractual maturity within one year	12,810	16,758
– Original contractual maturity more than one year (inclusive)	8,253	7,939
Credit card commitments	338,814	327,299
Subtotal	359,877	351,996
Acceptances	690,881	769,458
Letters of guarantee	127,429	130,425
Letters of credit	226,766	224,482
Guarantees	185	185
Total	1,405,138	1,476,546

The Group may be exposed to credit risk in all the credit businesses above. The Group's management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	30 June 2021	31 December 2020
Credit risk-weighted amount of credit commitments	397,971	382,659

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities (continued)

(c) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

	30 June 2021	31 December 2020
Contracted but not paid – Purchase of property and equipment	1,437	1,962
Approved but not contracted for – Purchase of property and equipment	3,851	4,445
Total	5,288	6,407

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2021.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the reporting period, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2021	31 December 2020
Redemption commitments	5,971	5,918

(e) Outstanding litigations and disputes

As at 30 June 2021, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,511 million (31 December 2020: RMB1,262 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note III 36). The Group considers that the provisions made are reasonable and adequate.

52 Subsequent events

The Group has no significant subsequent events.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should not be lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	30 June 2021
Liquidity coverage ratio	144.97%
High Quality Liquid Assets	789,952
Net cash outflows in 30 days from the end of the reporting period	544,893

Liquidity Ratio*

	As at 30 June 2021	Average for the six months ended 30 June 2021	As at 31 December 2020	Average for the year ended 31 December 2020
RMB current liabilities	65.86%	65.22%	66.07%	67.65%
Foreign current assets to foreign current liabilities	131.76%	135.17%	127.90%	107.74%

* Liquidity ratio is calculated in accordance with the banking level.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Leverage Ratio

	30 June 2021
Leverage Ratio	6.85%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio of 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Net Stable Funding Ratio

The net stable funding ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable funding ratio is not less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 30 June 2021, the Group met the supervision requirement with the net stable funding ratio standing at 104.90%.

Indicators	30 June 2021
Available and stable funds	3,207,969
Required stable funds	3,058,248
Net stable funding ratio	104.90%

2 CURRENCY CONCENTRATIONS

	30 June 2021			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	258,151	54,410	47,811	360,372
Spot liabilities	(288,680)	(46,796)	(24,378)	(359,854)
Forward purchases	457,423	11,068	5,813	474,304
Forward sales	(413,751)	(21,463)	(26,056)	(461,270)
Net long/(short) position	13,143	(2,781)	3,190	13,552
Net structural position	–	89	76	165

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	243,708	50,901	47,149	341,758
Spot liabilities	(262,708)	(47,896)	(21,292)	(331,896)
Forward purchases	545,777	11,904	4,789	562,470
Forward sales	(526,584)	(11,424)	(31,178)	(569,186)
Net long position	193	3,485	(532)	3,146
Net structural position	3	55	32	90

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include property, plant and equipment.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

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

	As at 30 June 2021			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China – of which attributed to Hong Kong	97,929	7,531	37,323	142,783
Europe	33,187	2,245	15,529	50,961
North and South America	29,988	–	16,785	46,773
	8,917	80	17,685	26,682
Total	136,834	7,611	71,793	216,238

	As at 31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China – of which attributed to Hong Kong	99,166	7,470	41,939	148,575
Europe	28,097	2,107	15,229	45,433
North and South America	17,617	40	27,957	45,614
	10,989	312	18,768	30,069
Total	127,772	7,822	88,664	224,258

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	30 June 2021	31 December 2020
Northeastern	8,161	5,171
Pearl River Delta	6,570	3,353
Bohai Rim	5,163	4,784
Yangtze River Delta	3,969	4,608
Central	3,636	3,598
Western	2,800	2,586
Overseas	8	8
Head Office	7,473	9,139
Total	37,780	33,247

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	30 June 2021	31 December 2020
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	14,634	8,048
– between 6 months and 1 year (inclusive)	12,697	13,725
– over 1 year	10,449	11,474
Total	37,780	33,247
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.45%	0.27%
– between 6 months and 1 year (inclusive)	0.39%	0.45%
– over 1 year	0.32%	0.38%
Total	1.16%	1.10%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	30 June 2021	31 December 2020
Covered portion of loans and advances past due but not impaired	8,286	9,218
Uncovered portion of loans and advances past due but not impaired	18,379	18,705
Total loans and advances past due but not impaired	26,665	27,923
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	19,932	24,019

5 EXPOSURE TO NO-BANK INSTITUTIONS

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 30 June 2021, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.



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