

Management Discussion and Analysis

Financial Review

Economic and Financial Environment

In the first half of 2021, the global economy maintained its recovery even as the COVID-19 pandemic continued to spread around the world. However, divergences among different countries and regions become more pronounced, with the US and European economies rapidly gaining momentum, Japan mounting a sluggish recovery due to weak domestic demand, and emerging economies experiencing ongoing disparities in the pace of recovery.

Volatility in international financial markets increased. Major developed economies maintained accommodative monetary policies. The size of the US Federal Reserve's balance sheet reached a historic high. Some emerging economies began to raise interest rates. Overall, global liquidity remained ample. The USD Index weakened after an increase. Euro exchange rates moved in a V-shaped pattern. The currencies of major emerging economies recorded mixed performances. Global stock markets staged a bumpy upturn, bond market yields declined in a volatile manner after a rise, and commodity prices showed a dramatic rise.

China carried out COVID-19 prevention and control while pursuing economic and social development, and the economy maintained a stable recovery. In particular, production and demand continuously increased, employment and consumer prices remained generally stable, major macroeconomic indicators were kept within an appropriate range, and the Chinese economy remained on course for steady and sound development. In the first half of 2021, China's gross domestic product (GDP) grew by 12.7% year-on-year. Total retail sales of consumer goods (TRSCG) rose by 23.0% year-on-year, total fixed asset investments (TFAI) increased by 12.6% year-on-year, and total goods imports and exports

climbed by 27.1% year-on-year, with a trade surplus of RMB1.6 trillion. The consumer price index (CPI) rose by 0.5% year-on-year.

The People's Bank of China kept prudent monetary policy flexible and targeted and at a reasonable and appropriate level, and sustained the continuity, stability, and sustainability of the policies. Money supply and aggregate financing to the real economy (AFRE) grew moderately, maintaining the liquidity at a proper and adequate level. As at 30 June 2021, the outstanding broad money supply (M2) was RMB231.8 trillion, an increase of 8.6% year-on-year. The balance of RMB loans reached RMB185.5 trillion, an increase of 12.3% year-on-year. Outstanding AFRE was RMB301.56 trillion, an increase of 11.0% year-on-year. The RMB exchange rate fluctuated in both directions, and remained basically stable at an adaptive and equilibrium level. As at 30 June 2021, the central parity of the RMB against the USD was 6.4601, an appreciation of 1.0% compared with the prior year-end.

China's banking sector maintained stable operations and sound development momentum, improved the quality and effectiveness of serving the real economy, and injected more financial resources into key areas and weak links, such as the micro and small-sized business, rural revitalisation, manufacturing sector, scientific and technological innovation, and green and low carbon sectors. The banking sector also set up a long-term mechanism for forestalling and defusing financial risks, so as to firmly defend the bottom line that no systematic risk should occur. As at 30 June 2021, the total assets of China's banking sector grew by 5.1% from the prior year-end to RMB336 trillion, while total liabilities increased by 5.1% to RMB308 trillion. Commercial banking institutions recorded a profit for the period of RMB1.1 trillion, a year-on-year increase of 11.1%. Outstanding non-performing loans (NPLs) stood at RMB2.8 trillion as at 30 June 2021, with an NPL ratio of 1.76%.

Income Statement Analysis

The Bank grounded its work in the new stage of development, applied the new development philosophy, served to create the new development pattern, carried out COVID-19 prevention and control, and improved its business management. Its operational performance demonstrated resilience while gaining solid momentum. In the first half of 2021, the Group achieved a profit for the period of RMB118.547 billion, an increase of 9.96% compared with the same period of the prior year. It realised a profit attributable to equity holders of the Bank of RMB112.813 billion, an increase of 11.79% compared with the same period of the prior year. Return on average total assets (ROA) was 0.93% and return on average equity (ROE) was 11.97%.

The principal components and changes of the Group's consolidated income statement are set forth below:

Unit: RMB million, except percentages

Items	For the six-month period ended 30 June 2021	For the six-month period ended 30 June 2020	Change	Change (%)
Net interest income	208,773	205,413	3,360	1.64%
Non-interest income	94,082	81,570	12,512	15.34%
Including: net fee and commission income	46,813	41,824	4,989	11.93%
Operating income	302,855	286,983	15,872	5.53%
Operating expenses	(102,357)	(90,946)	(11,411)	12.55%
Impairment losses on assets	(52,945)	(66,484)	13,539	(20.36%)
Operating profit	147,553	129,553	18,000	13.89%
Profit before income tax	148,302	129,616	18,686	14.42%
Income tax expense	(29,755)	(21,804)	(7,951)	36.47%
Profit for the period	118,547	107,812	10,735	9.96%
Profit attributable to equity holders of the Bank	112,813	100,917	11,896	11.79%

A detailed review of the Group's principal items in each quarter is summarised in the following table:

Unit: RMB million

Items	For the three-month period ended					
	30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Operating income	144,989	157,866	137,345	143,319	138,440	148,543
Profit attributable to equity holders of the Bank	58,824	53,989	47,159	44,794	48,334	52,583
Net cash inflow/(outflow) from operating activities	108,072	580,504	23,184	(87,513)	(296,989)	434,346

Management Discussion and Analysis

Net Interest Income and Net Interest Margin

In the first half of 2021, the Group achieved net interest income of RMB208.773 billion, an increase of RMB3.360 billion or 1.64% compared with the same period of the prior year. Specifically, interest income grew by RMB2.486 billion or 0.65% to RMB386.934 billion, and interest expense stood at RMB178.161 billion, a decrease of RMB0.874 billion or 0.49% compared with the same period of the prior year.

Interest Income

In the first half of 2021, interest income on loans was RMB282.858 billion, an increase of RMB5.460 billion or 1.97% compared with the same period of the prior year, which was primarily attributable to an increase in loan scale.

Interest income on investments amounted to RMB75.417 billion, a decrease of RMB1.058 billion or 1.38% compared with the same period of the prior year, mainly due to a decrease in investment yield.

Interest income on balances with central banks and due from and placements with banks and other financial institutions was RMB28.659 billion, a decrease of RMB1.916 billion or 6.27% compared with the same period of the prior year, mainly due to a decrease in the yield of balances with central banks and due from and placements with banks and other financial institutions.

Interest Expense

In the first half of 2021, interest expense on due to customers was RMB130.550 billion, a decrease of

RMB2.416 billion or 1.82% compared with the same period of the prior year, principally due to a decrease in the interest rate of deposits.

Interest expense on due to and placements from banks and other financial institutions was RMB27.290 billion, a decrease of RMB1.660 billion or 5.73% compared with the same period of the prior year, primarily owing to a decrease in the interest rate of due to and placements from banks and other financial institutions.

Interest expense on bonds issued was RMB20.321 billion, an increase of RMB3.202 billion or 18.70% compared with the same period of the prior year, which was mainly attributable to an increase in the scale of bonds issued.

Net Interest Margin

In the first half of 2021, the Group's net interest margin was 1.76%, a decrease of 11 basis points compared with the same period of the prior year, mainly due to declining yields from RMB loans in the Chinese mainland. In an effort to mitigate downward pressures on asset returns, the Bank continuously optimised its asset and liability structure. On one hand, the Bank continued to improve its deposit structure and strived to control deposit costs at a reasonable level in order to optimise its volume growth and pricing. On the other hand, the Bank allocated more credit facilities to medium- and long-term loans. The proportion of the average balance of RMB medium- and long-term loans within the overall RMB loan business in the Chinese mainland increased by 1.77 percentage points compared with the same period of the prior year.

The average balances¹ and average interest rates of the major interest-earning assets and interest-bearing liabilities of the Group, as well as the impact on interest income/expense of variances in the volume factor and the interest rate factor², are summarised in the following table:

Unit: RMB million, except percentages

Items	For the six-month period ended 30 June 2021			For the six-month period ended 30 June 2020			Analysis of changes in interest income/expense		
	Average balance	Interest income/ expense	Average interest rate	Average balance	Interest income/ expense	Average interest rate	Volume factor	Interest rate factor	Total
Interest-earning assets									
Loans	14,870,211	282,858	3.84%	13,619,894	277,398	4.10%	25,421	(19,961)	5,460
Investments	5,127,403	75,417	2.97%	4,839,648	76,475	3.18%	4,538	(5,596)	(1,058)
Balances with central banks and due from and placements with banks and other financial institutions	3,955,514	28,659	1.46%	3,617,373	30,575	1.70%	2,851	(4,767)	(1,916)
Total	23,953,128	386,934	3.26%	22,076,915	384,448	3.50%	32,810	(30,324)	2,486
Interest-bearing liabilities									
Due to customers	17,262,586	130,550	1.53%	16,050,374	132,966	1.67%	10,039	(12,455)	(2,416)
Due to and placements from banks and other financial institutions	3,578,637	27,290	1.54%	3,286,675	28,950	1.77%	2,563	(4,223)	(1,660)
Bonds issued	1,282,185	20,321	3.20%	1,046,030	17,119	3.29%	3,853	(651)	3,202
Total	22,123,408	178,161	1.62%	20,383,079	179,035	1.77%	16,455	(17,329)	(874)
Net interest income		208,773			205,413		16,355	(12,995)	3,360
Net interest margin			1.76%			1.87%			(11) Bps

Notes:

- Investments include debt securities at fair value through other comprehensive income, debt securities at amortised cost, investment trusts and asset management plans, etc.
- Balances with central banks and due from and placements with banks and other financial institutions include mandatory reserves, surplus reserves, other placements with central banks and due from and placements with banks and other financial institutions.
- Due to and placements from banks and other financial institutions include due to and placements from banks and other financial institutions, due to central banks and other funds.

¹ Average balances are average daily balances derived from the Group's management accounts (unreviewed).

² The impact on interest income/expense of variances in the volume factor is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact on interest income/expense of variances in the interest rate factor is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both the volume factor and the interest rate factor has been classified as a change in the interest rate factor.

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The average balances and average interest rates of loans and due to customers in the Chinese mainland, classified by business type, are summarised in the following table:

Unit: RMB million, except percentages

Items	For the		For the		Change	
	six-month period		six-month period			
	ended 30 June 2021		ended 30 June 2020			
	Average	Average	Average	Average	Average	Average
	balance	interest rate	balance	interest rate	balance	interest rate
RMB businesses						
in the Chinese mainland						
Loans						
Corporate loans	6,370,006	4.10%	5,522,044	4.36%	847,962	(26) Bps
Personal loans	5,129,859	4.84%	4,565,758	4.92%	564,101	(8) Bps
Trade bills	283,806	2.80%	341,490	2.67%	(57,684)	13 Bps
Total	11,783,671	4.39%	10,429,292	4.55%	1,354,379	(16) Bps
Including:						
Medium- and long-term loans	8,835,641	4.74%	7,635,237	4.88%	1,200,404	(14) Bps
Short-term loans within 1 year and others	2,948,030	3.34%	2,794,055	3.65%	153,975	(31) Bps
Due to customers						
Corporate demand deposits	3,651,396	0.80%	3,353,501	0.72%	297,895	8 Bps
Corporate time deposits	2,593,370	2.85%	2,395,923	2.82%	197,447	3 Bps
Personal demand deposits	2,384,806	0.36%	2,248,516	0.42%	136,290	(6) Bps
Personal time deposits	3,593,779	3.09%	2,966,302	3.01%	627,477	8 Bps
Other	704,595	3.26%	913,483	3.49%	(208,888)	(23) Bps
Total	12,927,946	1.90%	11,877,725	1.87%	1,050,221	3 Bps
Foreign currency businesses						
in the Chinese mainland						
Unit: USD million, except percentages						
Loans	42,468	0.88%	40,545	2.09%	1,923	(121) Bps
Due to customers						
Corporate demand deposits	70,975	0.27%	42,265	0.51%	28,710	(24) Bps
Corporate time deposits	28,403	0.92%	35,964	2.09%	(7,561)	(117) Bps
Personal demand deposits	26,402	0.01%	25,068	0.03%	1,334	(2) Bps
Personal time deposits	16,812	0.44%	17,518	0.78%	(706)	(34) Bps
Other	2,472	1.79%	1,699	2.25%	773	(46) Bps
Total	145,064	0.39%	122,514	0.94%	22,550	(55) Bps

Note: "Due to customers — Other" includes structured deposits.

Non-interest Income

In the first half of 2021, the Group reported non-interest income of RMB94.082 billion, an increase of RMB12.512 billion or 15.34% compared with the same period of the prior year. Non-interest income represented 31.07% of operating income.

Net Fee and Commission Income

The Group earned net fee and commission income of RMB46.813 billion, an increase of RMB4.989 billion or 11.93% compared with the same period of the prior year. Net fee and commission income represented 15.46% of operating income. The Bank actively seized market opportunities and tapped into businesses with strong potential. As a result, it realised robust growth in income from its fund distribution, custody and online payment businesses. Please refer to Note III.2 to the Condensed Consolidated Interim Financial Information.

Other Non-interest Income

The Group realised other non-interest income of RMB47.269 billion, an increase of RMB7.523 billion or 18.93% compared with the same period of the prior year. This was primarily attributable to a year-on-year increase in net trading gains. Please refer to Notes III.3, 4, 5 to the Condensed Consolidated Interim Financial Information.

Operating Expenses

In the first half of 2021, the Group recorded operating expenses of RMB102.357 billion, an increase of

RMB11.411 billion or 12.55% compared with the same period of the prior year. The Group's cost to income ratio (calculated under regulations in the Chinese mainland) was 24.06%, continuously maintaining at a relatively low level. The Bank continued to operate its business in a prudent and frugal manner. It proactively optimised its cost structure, increased investment in technological innovation, allocated greater resources to key products, areas and regions, and made greater efforts to support key projects such as scenario construction, mobile finance, etc., so as to continuously improve input and output efficiency. Please refer to Notes III.6, 7 to the Condensed Consolidated Interim Financial Information.

Impairment Losses on Assets

In the first half of 2021, the Group's impairment losses on assets amounted to RMB52.945 billion, a decrease of RMB13.539 billion or 20.36% compared with the same period of the prior year. Specifically, the Group's impairment losses on loans and advances amounted to RMB47.750 billion, a decrease of RMB12.978 billion or 21.37% compared with the same period of the prior year. The Bank continued to improve its enterprise risk management (ERM) system and constantly adopted a proactive and forward-looking approach to risk management, ensuring relatively stable credit asset quality. At the same time, it stringently implemented a prudent and solid risk provisioning policy, thus maintaining an adequate risk resistance capability. Please refer to the section "Risk Management — Credit Risk Management" and Notes III.8, 16 and Note IV.1 to the Condensed Consolidated Interim Financial Information for more information on loan quality and the allowance for loan impairment losses.

Management Discussion and Analysis

Financial Position Analysis

The Bank closely monitored changes in its operating environment, enhanced its asset and liability management in a more coordinated manner and strengthened its forward-looking and predictive research capabilities. It dynamically adjusted its business strategies and continually improved its asset and liability structure, thus achieving steady growth in its various businesses. As at 30 June 2021, the Group's total assets amounted to RMB26,317.327 billion, an increase of RMB1,914.668 billion or 7.85% compared with the prior year-end. The Group's total liabilities amounted to RMB24,086.979 billion, an increase of RMB1,847.157 billion or 8.31% compared with the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

Items	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, net	15,047,714	57.18%	13,848,304	56.75%
Investments	5,821,520	22.12%	5,591,117	22.91%
Balances with central banks	2,254,697	8.57%	2,076,840	8.51%
Due from and placements with banks and other financial institutions	2,036,841	7.74%	1,663,640	6.82%
Other assets	1,156,555	4.39%	1,222,758	5.01%
Total assets	26,317,327	100.00%	24,402,659	100.00%
Liabilities				
Due to customers	18,227,771	75.67%	16,879,171	75.90%
Due to and placements from banks and other financial institutions and due to central banks	3,756,174	15.59%	3,216,763	14.46%
Other borrowed funds	1,325,825	5.50%	1,270,437	5.71%
Other liabilities	777,209	3.24%	873,451	3.93%
Total liabilities	24,086,979	100.00%	22,239,822	100.00%

Note: "Other borrowed funds" includes bonds issued and other borrowings.

Loans and Advances to Customers

The Bank decisively implemented national macroeconomic policies and increased support for development of the real economy. It proactively met the credit needs of key areas such as inclusive finance, green finance, strategic emerging industries, high-end manufacturing, and rural revitalisation. It continuously improved its credit structure and expanded its lending scale at a stable and moderate pace. As at 30 June 2021, the Group's loans and advances to customers amounted to RMB15,416.400 billion, an increase of RMB1,199.923 billion or 8.44% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB12,282.921 billion, an increase of RMB943.931 billion or 8.32% compared with the prior year-end, while its foreign currency

loans amounted to USD485.051 billion, an increase of USD44.050 billion or 9.99% compared with the prior year-end.

The Bank continuously improved its comprehensive risk management structure, closely monitored changes in the macro-economic situation, effectively strengthened risk identification and controls in key areas, and stepped up efforts to recover and resolve non-performing assets (NPAs), thus maintaining relatively stable asset quality. As at 30 June 2021, the balance of the Group's allowance for loan impairment losses amounted to RMB369.168 billion, an increase of RMB549 million compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB18.940 billion, a decrease of RMB2.752 billion compared with the prior year-end.

The structure of the Group's loans and advances to customers is set out as below:

Unit: RMB million, except percentages

Items	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Corporate loans				
Chinese mainland: RMB	6,854,824	44.47%	6,266,331	44.08%
Foreign currency	301,231	1.95%	255,601	1.80%
Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	2,306,884	14.96%	2,078,158	14.62%
Subtotal	9,462,939	61.38%	8,600,090	60.50%
Personal loans				
Chinese mainland: RMB	5,251,290	34.06%	4,979,214	35.02%
Foreign currency	604	0.01%	645	0.01%
Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	666,655	4.32%	603,436	4.24%
Subtotal	5,918,549	38.39%	5,583,295	39.27%
Accrued interest	34,912	0.23%	33,092	0.23%
Total loans	15,416,400	100.00%	14,216,477	100.00%

Management Discussion and Analysis

Investments

The Bank closely tracked financial market dynamics, maintained investment activity at a reasonable pace and continuously improved its investment structure. As at 30 June 2021, the Group held investments of RMB5,821.520 billion, an increase of RMB230.403 billion or 4.12% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB4,489.997 billion, an increase of RMB123.687 billion or 2.83% compared with the prior year-end, while foreign currency investments totalled USD206.115 billion, an increase of USD18.402 billion or 9.80% compared with the prior year-end.

The classification of the Group's investment portfolio is shown below:

Unit: RMB million, except percentages

Items	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	510,583	8.77%	504,549	9.02%
Financial assets at fair value through other comprehensive income	2,174,982	37.36%	2,107,790	37.70%
Financial assets at amortised cost	3,135,955	53.87%	2,978,778	53.28%
Total	5,821,520	100.00%	5,591,117	100.00%

Investments by Currency

Unit: RMB million, except percentages

Items	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
RMB	4,489,997	77.13%	4,366,310	78.09%
USD	751,925	12.91%	701,408	12.55%
HKD	264,860	4.55%	212,522	3.80%
Other	314,738	5.41%	310,877	5.56%
Total	5,821,520	100.00%	5,591,117	100.00%

Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment Allowance
Bond issued by policy banks in 2018	13,370	4.98%	2025-01-12	–
Bond issued by policy banks in 2019	12,877	3.48%	2029-01-08	–
Bond issued by policy banks in 2020	12,150	2.96%	2030-04-17	–
Bond issued by policy banks in 2017	11,813	4.39%	2027-09-08	–
Bond issued by policy banks in 2018	11,225	4.88%	2028-02-09	–
Bond issued by policy banks in 2018	10,930	4.73%	2025-04-02	–
Bond issued by policy banks in 2020	9,446	3.23%	2030-03-23	–
Bond issued by policy banks in 2017	8,800	4.02%	2022-04-17	–
Bond issued by financial institutions in 2020	8,530	4.20%	2030-09-14	–
Bond issued by policy banks in 2017	7,750	4.30%	2024-08-21	–

Note: Financial bonds refer to debt securities issued by financial institutions in the bond market, including bonds issued by policy banks, other banks and non-bank financial institutions, but excluding restructured bonds and PBOC bills.

Due to Customers

Adhering to a customer-centric concept, the Bank put more efforts towards customer acquisition and customer activation, consolidated and expanded its customer base, enhanced the scale and quality of its assets under management (AUM), and continued to improve its funds precipitation capacity, thus promoting the steady growth in the scale of its customer deposits and further improving its liability structure. As at 30

June 2021, the Group's due to customers amounted to RMB18,227.771 billion, an increase of RMB1,348.600 billion or 7.99% compared with the prior year-end. Specifically, the Group's RMB due to customers totalled RMB13,823.993 billion, an increase of RMB820.966 billion or 6.31% compared with the prior year-end, while its foreign currency due to customers stood at USD681.689 billion, an increase of USD87.635 billion or 14.75% compared with the prior year-end.

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The structure of the Group's due to customers is set out as below:

Unit: RMB million, except percentages

Items	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
Corporate deposits				
Chinese mainland: RMB	6,790,709	37.25%	6,453,523	38.23%
Foreign currency	708,275	3.89%	560,993	3.32%
Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	2,266,232	12.43%	1,818,563	10.77%
Subtotal	9,765,216	53.57%	8,833,079	52.33%
Personal deposits				
Chinese mainland: RMB	6,577,459	36.08%	6,136,873	36.36%
Foreign currency	288,921	1.59%	300,406	1.78%
Hong Kong (China), Macao (China), Taiwan (China) and other countries and regions	1,165,788	6.40%	1,152,825	6.83%
Subtotal	8,032,168	44.07%	7,590,104	44.97%
Certificates of deposit and others	430,387	2.36%	455,988	2.70%
Total deposits	18,227,771	100.00%	16,879,171	100.00%

Note: "Certificates of deposit and others" includes accrued interest.

Equity

As at 30 June 2021, the Group's total equity stood at RMB2,230.348 billion, an increase of RMB67.511 billion or 3.12% compared with the prior year-end. This was primarily attributable to the following factors: (1) In the first half of 2021, the Group realised a profit for the period of RMB118.547 billion, of which profit attributable to equity holders of the Bank amounted to RMB112.813 billion. (2) The Bank pushed forward its

external capital replenishment projects in a proactive and prudent manner, successfully issuing RMB50.0 billion of undated capital bonds. (3) As per the 2020 dividends distribution plan approved at the Annual General Meeting, a cash dividend of RMB57.994 billion was paid out on ordinary shares. (4) The Bank paid a dividend on its preference shares of RMB4.4595 billion. Please refer to the "Condensed Consolidated Interim Statement of Changes in Equity" in the Condensed Consolidated Interim Financial Information.

Cash Flow Analysis

As at 30 June 2021, the balance of the Group's cash and cash equivalents was RMB1,979.557 billion, an increase of RMB484.689 billion compared with the prior year-end.

In the first half of 2021, net cash flow from operating activities was an inflow of RMB688.576 billion, an increase of RMB551.219 billion compared with the same period of the prior year. This was mainly attributable to a net increase in due to banks and other financial institutions whereas it was a net decrease in the same period of the prior year.

Net cash flow from investing activities was an outflow of RMB177.385 billion, as compared to an inflow of RMB208.188 billion in the same period of the prior year. This was mainly attributable to a decrease in cash

received from the disposals and maturities of financial investments.

Net cash flow from financing activities was an outflow of RMB8.606 billion, as compared to an inflow of RMB19.099 billion in the same period of the prior year, mainly because repayments of debts issued increased year-on-year.

Segment Information

The Group manages its operations on both geographic and business segment lines. From a geographic perspective, the Group operates in three principal regions: the Chinese mainland; Hong Kong (China), Macao (China), Taiwan (China); and other countries and regions. From a business perspective, the Group provides financial services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

A geographical analysis of operating income of the Group is set forth in the following table:

Unit: RMB million, except percentages

Items	For the six-month period ended 30 June 2021		For the six-month period ended 30 June 2020	
	Amount	% of total	Amount	% of total
Chinese mainland	237,960	78.33%	220,733	76.67%
Hong Kong (China), Macao (China), Taiwan (China)	55,579	18.29%	55,538	19.29%
Other countries and regions	10,279	3.38%	11,641	4.04%
Elimination	(963)	–	(929)	–
Group	302,855	100.00%	286,983	100.00%

Note: Percentages of operating income for each geographic area are calculated based on the amount before elimination.

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Operating income for each business segment of the Group is set forth in the following table:

Unit: RMB million, except percentages

Items	For the six-month period ended 30 June 2021		For the six-month period ended 30 June 2020	
	Amount	% of total	Amount	% of total
Commercial banking business	266,952	88.15%	259,236	90.33%
Including: Corporate banking	104,698	34.57%	113,530	39.56%
Personal banking	111,781	36.91%	111,467	38.84%
Treasury operations	50,473	16.67%	34,239	11.93%
Investment banking and insurance	22,603	7.46%	17,649	6.15%
Others and elimination	13,300	4.39%	10,098	3.52%
Group	302,855	100.00%	286,983	100.00%

Please refer to Note III.31 to the Condensed Consolidated Interim Financial Information for more detailed information related to the Group's other operating results and financial position in terms of geographic and business segment categories.

Fair Value Measurement

Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	As at 30 June 2021	As at 31 December 2020	Change	Impact on profit for the period
Financial assets at fair value through profit or loss				
Debt securities	336,597	347,243	(10,646)	
Equity instruments	88,040	88,025	15	2,661
Fund investments and other	85,946	69,281	16,665	
Loans and advances to customers at fair value	306,943	362,658	(55,715)	(117)
Financial assets at fair value through other comprehensive income				
Debt securities	2,151,166	2,086,362	64,804	(148)
Equity instruments	23,816	21,428	2,388	
Derivative financial assets	116,240	171,738	(55,498)	1,196
Derivative financial liabilities	(121,560)	(212,052)	90,492	
Due to and placements from banks and other financial institutions at fair value	(1,952)	(3,831)	1,879	46
Due to customers at fair value	(30,199)	(25,742)	(4,457)	–
Bonds issued at fair value	(1,008)	(6,162)	5,154	24
Short position in debt securities	(12,706)	(17,912)	5,206	6

The Bank has put in place a sound internal control mechanism for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, the *Regulatory Guidelines on Valuation of Financial Instruments in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of international banks regarding valuations, the Bank formulated the *Valuation Policy of Financial Instrument Fair Values of Bank of China Limited* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information

disclosure. Please refer to Note IV.4 to the Condensed Consolidated Interim Financial Information for more detailed information related to fair value measurement.

Other Financial Information

There are no differences between shareholders' equity and profit for the period prepared by the Group in accordance with IFRS and those prepared in accordance with CAS. Please refer to Supplementary Information I to the Condensed Consolidated Interim Financial Information for detailed information.