



2016

INTERIM
REPORT



中国邮政储蓄银行

POSTAL SAVINGS BANK OF CHINA

(A joint stock limited liability company incorporated in the People's Republic of China)
STOCK CODE : 1658

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DEFINITIONS

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

“Bank/Postal Savings Bank/ Postal Savings Bank of China/PSBC/We/Us”	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, and, where the context so requires, includes its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets’ operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiary
“basis point(s)”	a unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
“CBRC”	China Banking Regulatory Commission
“central bank/PBOC”	The People’s Bank of China
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim report only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“China Post Group”	China Post Group Corporation, an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder
“County Area(s)”	areas designated as counties or county-level cities under China’s administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions
“Director(s)”	our director(s)
“Domestic Shares”	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
“duration”	an approach employed to measure the weighted average term of cash flows of debt securities, which mainly reflects the sensitivity of the value of debt securities to interest rate movements

“Group”	our Bank and our subsidiary
“H Shares”	our ordinary shares with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
“industries with high pollution, high energy consumption and over-capacity”	industries with high pollution, high energy consumption and over-capacity
“Large Commercial Banks”	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and our Bank, collectively
“Listing Date”	the date on which dealings in the H Shares first commenced on the Hong Kong Stock Exchange, i.e. September 28, 2016
“NSSF”	National Council for Social Security Fund of the PRC
“qualified tier-2 capital instruments”	debt securities issued by a commercial bank, the claim of which ranks prior to its equity capital and after other debts in respect of repayment of principal and interest in the process of liquidation. Qualified subordinated bonds can be recognized as tier-2 capital
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers” (農業、農村和農民)

DEFINITIONS

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“SMEs”	the enterprises classified as micro-sized, small-sized and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
“Supervisor(s)”	our supervisor(s)
“Transition from business tax to value-added tax”	taxable items previously subject to business tax are now subject to value-added tax
“two locations, three centers”	the two data centers we established in Beijing and the data center we established in Hefei
“VIP customers”	Our customer segmentation is primarily based on each customer’s personal financial assets and loan balances with us (collectively “consolidated assets”). We usually classify customers with consolidated assets RMB100,000 or more as our VIP customers

In this interim report, we define the geographical regions of China to which we refer for the purpose of describing our distribution network and presenting certain results of operations and financial condition as follows:

Geographical regions

Branches

“Yangtze River Delta”	<ul style="list-style-type: none">• Shanghai Municipality• Zhejiang Province	<ul style="list-style-type: none">• Jiangsu Province• City of Ningbo
“Pearl River Delta”	<ul style="list-style-type: none">• Guangdong Province• City of Shenzhen	<ul style="list-style-type: none">• Fujian Province• City of Xiamen
“Bohai Rim”	<ul style="list-style-type: none">• Beijing Municipality• Tianjin Municipality• Hebei Province	<ul style="list-style-type: none">• Shandong Province• City of Qingdao
“Central China”	<ul style="list-style-type: none">• Shanxi Province• Hubei Province• Henan Province• Hunan Province	<ul style="list-style-type: none">• Jiangxi Province• Hainan Province• Anhui Province

Geographical regions**Branches**

“Western China”

- Chongqing Municipality
- Sichuan Province
- Guizhou Province
- Yunnan Province
- Shaanxi Province
- Gansu Province
- Qinghai Province
- Ningxia Autonomous Region
- Xinjiang Autonomous Region
- Tibet Autonomous Region
- Inner Mongolia Autonomous Region
- Guangxi Autonomous Region

“Northeastern China”

- Liaoning Province
- Heilongjiang Province
- Jilin Province
- City of Dalian

Certain amounts and percentage figures included in this interim report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

BASIC CORPORATE INFORMATION

Legal name in Chinese:	中國郵政儲蓄銀行股份有限公司 (abbreviation in Chinese “中國郵政儲蓄銀行”)
Legal name in English:	“POSTAL SAVINGS BANK OF CHINA CO., LTD.” (abbreviation in English “POSTAL SAVINGS BANK OF CHINA”)
Legal representative:	Li Guohua
Chairman:	Li Guohua
President:	Lyu Jiajin
Registered address and place of business in the PRC:	No. 3 Financial Street, Xicheng District, Beijing
Principal place of business in Hong Kong:	18/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
Authorized Representatives:	Yao Hong, Xu Xueming
Postal code:	100808
Contact telephone number:	86-10-68858158
Fax:	86-10-68858165
E-mail:	ir@psbc.com
Hotline for customer services and complaints:	86-95580
Website:	www.psbc.com
Unified credit code:	9111000071093465XC
Financial license institutional code:	B0018H111000001
Stock exchange on which H shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC
Stock code:	1658

Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Legal Advisors as to PRC Law:	Haiwen & Partners
Legal Advisors as to Hong Kong Law:	Davis Polk & Wardwell
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP
International auditor:	PricewaterhouseCoopers

FINANCIAL HIGHLIGHTS

Financial Data and Indicators

(Financial data and indicators set out in this interim report have been prepared in accordance with the IFRS. Unless otherwise specified, they are consolidated data of our Bank and our subsidiary. This report is presented in RMB.)

Key Financial Data

In millions of RMB, except for percentages

Item	June 30, 2016	December 31, 2015	Increase/ (decrease)	Change (%)
Data as at the end of the reporting period				
Total assets	7,974,475	7,296,364	678,111	9.29
Total loans to customers ⁽¹⁾	2,759,534	2,471,853	287,681	11.64
Allowance for impairment losses on loans	62,790	59,258	3,532	5.96
Loans to customers, net	2,696,744	2,412,595	284,149	11.78
Investment securities and other financial assets, net	3,202,600	2,986,667	215,933	7.23
Cash and deposits with central bank	1,207,058	1,131,231	75,827	6.70
Total liabilities	7,690,801	7,025,533	665,268	9.47
Customer deposits	6,896,142	6,305,014	591,128	9.38
Equity attributable to shareholders of the Bank	283,304	270,448	12,856	4.75
Net capital	346,217	329,848	16,369	4.96
Core tier-1 capital	281,711	269,008	12,703	4.72
Additional tier-1 capital	5	1	4	400.00
Risk-weighted assets	3,447,348	3,153,015	294,333	9.33

In millions of RMB, except for percentages

Item	For the six months ended June 30,			
	2016	2015	Increase/ (decrease)	Change (%)
Interim operating results				
Operating income	93,286	92,498	788	0.85
Net interest income	81,637	87,724	(6,087)	(6.94)
Net fee and commission income	5,866	4,141	1,725	41.66
Operating expenses	62,187	58,212	3,975	6.83
Impairment losses on assets	4,964	8,660	(3,696)	(42.68)
Profit before income tax	26,135	25,626	509	1.99
Net profit	23,216	20,954	2,262	10.80
Net profit attributable to shareholders of the Bank	23,229	20,954	2,275	10.86
Net cash from operating activities	420,404	69,840	350,564	501.95

(1) For ease of reference, in this report, we refer to "loans and advances to customers" as "loans to customers"

Financial Indicators

Item	For the six months ended June 30,		
	2016	2015	Change
Profitability (%)			
Return on average total assets ⁽¹⁾⁽²⁾	0.61	0.65	(0.04)
Return on average net assets ⁽¹⁾⁽³⁾	16.75	21.06	(4.31)
Net interest margin ⁽¹⁾⁽⁴⁾	2.30	2.81	(0.51)
Net interest spread ⁽¹⁾⁽⁵⁾	2.34	2.74	(0.40)
Net fee and commission income to operating income	6.29	4.48	1.81
Cost-to-income ratio ⁽⁶⁾	63.63	58.73	4.90
Per share data (RMB)			
Basic earnings per share ⁽⁷⁾	0.34	0.37	(0.03)
Diluted earnings per share ⁽⁸⁾	0.34	0.37	(0.03)

FINANCIAL HIGHLIGHTS

Item	June 30, 2016	December 31, 2015	Change
Asset quality (%)			
Non-performing loan ratio ⁽⁹⁾	0.78	0.80	(0.02)
Allowance coverage ratio ⁽¹⁰⁾	293.41	298.15	(4.74)
Allowance to loan ratio ⁽¹¹⁾	2.28	2.40	(0.12)
Capital adequacy ratio (%)			
Core tier-1 capital adequacy ratio ⁽¹²⁾	8.17	8.53	(0.36)
Tier-1 capital adequacy ratio ⁽¹³⁾	8.17	8.53	(0.36)
Capital adequacy ratio ⁽¹⁴⁾	10.04	10.46	(0.42)
Risk-weighted assets to total assets ratio ⁽¹⁵⁾	43.23	43.21	0.02
Total equity to total assets ratio	3.56	3.71	(0.15)

(1) On an annualized basis.

(2) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.

(3) Represents net profit for the period as a percentage of average balance of total equity at the beginning and the end of the period.

(4) Calculated by dividing net interest income by the daily average balance of interest-earning assets.

(5) Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.

(7) Calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

(8) There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

(9) Calculated by dividing total non-performing loans by the gross loans to customers.

(10) Calculated by dividing total allowance for impairment losses on loans by total non-performing loans.

(11) Calculated by dividing total allowance for impairment losses on loans by gross loans to customers.

(12) Calculated by dividing core tier-1 capital, net of core tier-1 capital deductions, by risk-weighted assets.

(13) Calculated by dividing tier-1 capital, net of tier-1 capital deductions, by risk-weighted assets.

(14) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.

(15) Calculated by dividing risk-weighted assets by total assets.

Other Major Indicators

Item		Regulatory standard	June 30, 2016	December 31, 2015
Liquidity ratio (%) ⁽¹⁾	RMB	≥25	46.19	33.71
	Foreign currency		444.37	661.14
Loan-to-deposit ratio (%) ⁽²⁾			40.02	39.20
Loan exposure to a single customer (%) ⁽³⁾		≤10	64.44	73.70
Loan migration ratio (%)	Normal		0.88	2.15
	Special mention		11.06	6.53
	Substandard		83.69	87.94
	Doubtful		60.20	81.94

- (1) Liquidity ratio = current assets/current liabilities × 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivables and other payment receivables due within one month, eligible loans due within one month, bond investments due within one month, bond investments able to be liquidated at any time in domestic or international secondary markets and other assets able to be liquidated within one month (excluding non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), fixed time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interests payables and all kinds of payables due within one month, borrowings from central bank due within one month and other liabilities due within one month.
- (2) Loan-to-deposit ratio = total loans to customers/total customer deposits × 100%. On August 29, 2015, the Standing Committee of the National People's Congress promulgated the Decision of the Standing Committee of the National People's Congress on Amending the PRC Commercial Banking Law. According to the Decision, effective from October 1, 2015, the maximum loan-to-deposit ratio of 75% stipulated under the PRC Commercial Banking Law was revoked and relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished.
- (3) Loan exposure to a single customer = total loans to the largest customer/net capital × 100%. Largest customer refers to the customer with the highest balance of loans at the period end. As of June 30, 2016, China Railway Corporation was our largest single borrower, and the outstanding loan balance with China Railway Corporation was RMB223,104 million, representing 64.44% of our net capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which we historically provided to it and was approved by the CBRC. As of June 30, 2016, the outstanding loan balance under such credit approved by the CBRC for China Railway Corporation was RMB220.0 billion and after the deduction of RMB220.0 billion, our loan balance with China Railway Corporation represented 0.90% of our net capital.

MESSAGE FROM THE CHAIRMAN

Established in 2007, PSBC is the youngest Large Commercial Bank in China. Since our inception, we have strategically positioned ourselves as a retail bank serving communities, SMEs and Sannong customers. Over the past nine years, we adapt to China's economic and social development needs, adhere to our differentiated development strategy and have grown into a leading large retail bank in China, thus paving our unique path of sustainable growth.

In the first half of the year, we adhere to the strategic positioning of a retail bank. Along with the transformation and advancement of China's economy, our various business lines experienced a rapid and sound growth. Business performance improved steadily, realizing a net profit of RMB23,216 million representing an increase of 10.80%, as compared to the corresponding period of the previous year. Our ability to manage risks continue to improve. The non-performing loan ratio decreased steadily to 0.78% as of the end of June 2016, maintaining high quality assets.

We are also deepening our reform while maintaining our steady development. Following the conversion into a joint-stock commercial bank in 2012 and successful introduction of strategic investors in 2015, we listed our H Shares on September 28 this year and implemented a 3-step reform roadmap, namely transformation of ownership, introduction of strategic investors, and public listing, with our investment value highly recognized by domestic and overseas investors.

Going forward, we will facilitate our customers with professional, reliable, secure and convenient services, and reward our shareholders with our continuously enhanced value creation capabilities, and endeavor to become the most trusted and valuable, first-tier, large retail bank, as well as an outstanding listed company with high growth potential and unique competitiveness. PSBC is devoted to collaborate with vast number of investors and partners from various sectors of society to create a prosperous future together.



Chairman: Li Guohua

September 28, 2016

MESSAGE FROM THE PRESIDENT

In the first half of 2016, in face of complex economic and financial situation, our Bank has adhered to our strategic position as a retail bank, responded to challenges calmly, taken initiatives, accelerated business development, strengthened risk management, improved management efficiency and maintained good development momentum.

The asset size grew steadily, and the profitability continued to strengthen. As of the end of June 2016, our Bank's total assets reached RMB7.97 trillion, representing an increase of 9.29% as compared to the end of the previous year; total deposits were RMB6.90 trillion, representing an increase of 9.38% as compared to the end of the previous year; total loans were RMB2.76 trillion, representing an increase of 11.64% as compared to the end of the previous year. During the first half of 2016, operating income was RMB93,286 million, representing an increase of 0.85% as compared to the corresponding period of the previous year; net profit was RMB23,216 million, representing an increase of 10.80% as compared to the corresponding period of the previous year. Amidst an overall slowdown in the growth of the banking industry, our Bank continued to maintain relatively fast growth momentum.

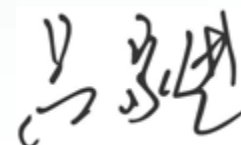
Sound business development momentum in line with the economic transformation. The main drivers of economic transformation and development are expected from three areas: rising of consumer demand, emergence of small and micro enterprises and new-type urbanization. The strategic positioning of PSBC of serving communities, SMEs and Sannong customers is highly in line with such drivers and brings great development momentum to our Bank. In the first half of the year, for personal business, our Bank continued to solidify our strengths in the deposit business with deposit increased by RMB484,516 million; we supported household consumption, established the "Family One (邮你有家)" consumer industry alliance and launched a one-stop customized "consumption + financing" services, with consumer loans increased by RMB175,780 million. For corporate business, we continued to increase lending to various sectors such as transportation, electricity and urban infrastructure, adapted to the structural reform of China's economy, actively established our presence in emerging industries such as renewable energy and environmental protection, medical care and innovative technology, and provided substantial support for high quality and innovative small enterprises, with corporate loans increased by RMB64,501 million. For treasury business, we steadily developed our interbank investment business to meet evolving financing demands arising from the transformation of China's economy. Our asset management business actively pursues innovation with assets under management exceeding RMB700 billion. In addition, fee- and commission-based businesses such as investment banking, custodian and credit card achieved a relatively fast development.

Solid and effective risk management with superior asset quality. In the first half of the year, our Bank strengthened the development of comprehensive risk management system, actively built the internal ratings system and data mart, and completed the planning and consultation for the implementation of New Capital Accord. We also updated our internal control system in a timely manner and strengthened our risk management. By fully leveraging our internal audit function, we constantly take initiatives to enhance the effectiveness of proactive risk management. As of the end of June, our Bank's non-performing loan ratio was 0.78% and allowance coverage ratio was 293.41%, both of which were better than the average levels in the PRC banking industry.

MESSAGE FROM THE PRESIDENT

Effectively solidifying the fundamental capabilities and constantly improving the operating efficiency. In the first half of the year, our Bank actively strengthened independent scientific and technological innovation, implemented a new round of IT planning and focused on pushing forward the launch of application platforms and system cluster projects. Key projects such as new portals and mobile security access platforms have commenced operation. We continuously improved the integrated operation and maintenance model of “two locations, three centers”. As a result, the system network operation and maintenance capability was significantly enhanced. We actively promoted a “smart and light” physical outlet network, further optimized the financial guidance policy, pursued centralized management of operating funds, strengthened fund collection and budget planning, and invested efforts in cost control. We continue to improve human resources management and performance management, enrich training methods and steadily enhance efficiency per capita.

We achieved our listing in September this year. Looking back, PSBC has reached various milestones successively. Currently, we have laid a solid foundation for our development upon our differentiated strategic positioning and sound risk management. Going forward, we will proactively respond to market trends, adhere to our strategic positioning and leverage on our edges in network, customer and funding to further improve our targeted management and value creation capabilities to achieve sustainable growth. Ambition and dedication are keys to success. We believe that PSBC will have a prosperous future with our persistent efforts!



President: Lyu Jiajin

September 28, 2016

DISCUSSION AND ANALYSIS

ENVIRONMENT AND PROSPECTS

In the first half of 2016, the global economic recovery remained sluggish. Instabilities and uncertainties heightened and major economies further diverged in terms of their growth trends and monetary policies. Recovery of the US economy was moderate but lacked a solid foundation, and the process of increasing interest rate slowed down. The European economic recovery was weak and Brexit hit the financial markets, increasing levels of uncertainty. The Japanese economy remained depressed with higher risk of deflation. The economic growth of emerging economies continued to slow down, reflecting their vulnerability. According to the updated forecasts of the World Economic Outlook published by the International Monetary Fund (IMF) in July 2016, growth rates of the global economy for 2016 and 2017 were projected to be 3.1% and 3.4%, respectively, both were 0.1 percentage point lower than the forecasts made in April 2016.

In the first half of 2016, the China's economy was stable with its GDP up by 6.7% in the second quarter, which was the same as that of first quarter. Major economic indicators were within reasonable ranges, while prices remained stable overall and the consumer price index (CPI) of residents increased by 2.1% as compared to the end of the previous year. The growth in fixed asset investment dropped slightly as compared to the corresponding period of the previous year, while exports continuously declined. Meanwhile, the consumption accounted for larger proportion of the growth in GDP. The New Economy, such as emerging industries and businesses, and new business models, grew steadily, which helped further optimize the overall economic structure. In the first half of the year, the consumption contributed 73.4% of the economic growth, representing an increase of 13.2 percentage points as compared to the corresponding period of the previous year. Tertiary industry accounted for 54.1% of GDP, representing an increase of 1.8 percentage points as compared to the corresponding period of the previous year. The economy of the County Areas has grown at a faster pace with per capita disposable income of rural residents achieving an increase of 6.7% on a year-on-year basis in the first half of the year, higher than the 5.8% growth rate of urban residents during the same period.

In the first half of 2016, the central bank continued to implement sound monetary policies, and flexibly adopted more accurate policy tools, such as reduction in statutory deposit reserve ratio, open market operations, standing lending facilities, medium-term lending facilities, to provide liquidity. Liquidity in the banking system was reasonably adequate, monetary credit and social financing grew steadily, and interest rate remained at low level. The RMB exchange rate exhibited more flexibility.

Looking forward to the second half of 2016, the global economy is expected to grow with continued divergence, and the PRC economy will continue its structural adjustment and supply-side structural reform. Despite a number of challenges, the fundamentals that support sound long-term economic development remain unchanged. Under the impetus of a series of reform measures, the growth of the PRC economy is expected to stabilize in the second half of 2016, and the quality and efficiency of the economic growth will further improve. Consumption will continue to play an important role, new economy led by SMEs will continue to promote the transformation and upgrading of real economy, and County Areas will maintain a faster economic growth than urban areas and become a new growth engine for the PRC economy. The World Economic Outlook published by IMF in July 2016 anticipated that the PRC economy will grow by 6.6% in 2016, up 0.1 percentage point as compared to the forecast made in April. It is expected that the central bank will continue to implement sound monetary policy, maintain steady growth of money supply and further drive down funding cost, providing strong support for supply-side structural reform.

In the second half of 2016, our Bank will continue to adhere to the business development strategy of "One Body Two Wings" and strategic positioning of serving communities, small and micro enterprises and Sannong customers, providing comprehensive and quality financial services to the most promising customers during China's economic transformation. We will continue to focus on developing differentiated competitive advantages through continuous deepening reform and upgrading management innovation and proactively seize the development opportunities during the transformation and upgrading of China's economy, so as to ensure the rapid development in our business lines, the steady growth in operating results and successful completion of the business targets for the year.

ANALYSIS OF FINANCIAL STATEMENTS

Analysis of Comprehensive Income Statement

In the first half of 2016, we realized a net profit of RMB23,216 million, representing an increase of RMB2,262 million, or by 10.80%, as compared to the corresponding period of the previous year. Operating income was RMB93,286 million, representing an increase of RMB788 million, or by 0.85%, as compared to the corresponding period of the previous year.

Changes of Key Comprehensive Income Statement Items

In millions of RMB, except for percentages

Item	For the six months ended June 30,		Increase/ (decrease)	Change (%)
	2016	2015		
Net interest income	81,637	87,724	(6,087)	(6.94)
Net fee and commission income	5,866	4,141	1,725	41.66
Other non-interest income	5,783	633	5,150	813.59
Operating income	93,286	92,498	788	0.85
Less: Operating expenses	62,187	58,212	3,975	6.83
Less: Impairment losses on assets	4,964	8,660	(3,696)	(42.68)
Profit before income tax	26,135	25,626	509	1.99
Less: Income tax expense	2,919	4,672	(1,753)	(37.52)
Net profit	23,216	20,954	2,262	10.80
Attributable to shareholders of the Bank	23,229	20,954	2,275	10.86
Attributable to non-controlling interests	(13)	—	(13)	—
Other comprehensive income	(1,373)	1,151	(2,524)	(219.29)
Total comprehensive income	21,843	22,105	(262)	(1.19)

Net Interest Income

For the six months ended June 30, 2016, our net interest income was RMB81,637 million, representing a decrease of RMB6,087 million, or by 6.94%, as compared to the corresponding period of the previous year. In the first half of 2016, our net interest margin and net interest spread was 2.30% and 2.34%, respectively, representing decreases of 51 basis points and 40 basis points, as compared to the corresponding period of the previous year. The decreases in net interest margin and net interest spread were primarily due to (1) the effect of consecutive benchmark interest rate cuts by the central bank in 2015, and (2) the separation of price and tax for the interest income as a result of “transition from business tax to value-added tax.”

Average Yield of Interest-Earning Assets and Average Cost of Interest-Bearing Liabilities

In millions of RMB, except for percentages

Item	For the six months ended June 30,					
	Average balance	2016 Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	2015 Interest income/expense	Average yield/cost (%) ⁽¹⁾
Assets						
Total loans to customers	2,579,404	66,490	5.18	2,074,214	67,506	6.56
Fixed-income investments ⁽²⁾	2,653,908	53,181	4.03	1,615,571	38,282	4.78
Deposits with central bank ⁽³⁾	1,203,605	9,498	1.59	1,371,934	12,663	1.86
Amounts due from banks and other financial institutions ⁽⁴⁾	689,182	13,107	3.82	1,243,833	31,730	5.14
Total interest-earning assets	7,126,099	142,276	4.02	6,305,552	150,181	4.80
Allowance for impairment losses	48,121	—	—	37,934	—	—
Non-interest earning assets ⁽⁵⁾	443,155	—	—	147,108	—	—
Total assets	7,521,133	—	—	6,414,726	—	—
Liabilities						
Customer deposits	6,618,866	51,273	1.56	5,992,797	60,778	2.05
Amounts due to banks and other financial institutions ⁽⁶⁾	624,340	8,805	2.84	115,823	1,679	2.92
Debt securities issued ⁽⁷⁾	25,000	561	4.51	—	—	—
Total interest-bearing liabilities	7,268,206	60,639	1.68	6,108,620	62,457	2.06
Non-interest bearing liabilities ⁽⁸⁾	124,728	—	—	124,070	—	—
Total liabilities	7,392,934	—	—	6,232,690	—	—
Net interest income	—	81,637	—	—	87,724	—
Net interest spread⁽⁹⁾	—	—	2.34	—	—	2.74
Net interest margin⁽¹⁰⁾	—	—	2.30	—	—	2.81

DISCUSSION AND ANALYSIS

- (1) On an annualized basis.
- (2) Consists of fixed income investments held by the Bank and classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.
- (3) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.
- (4) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.
- (5) Consists primarily of cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payment, deferred tax assets and other assets.
- (6) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.
- (7) Consists of qualified tier-2 capital instruments issued.
- (8) Consists primarily of derivative financial liabilities, employee benefits payable, payables for agency services, taxes payable, interest payable and other liabilities.
- (9) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (10) Calculated by dividing net interest income by the average balance of total interest-earning assets.

Changes in Net Interest Income Due to Changes in Volume and Interest Rate*In millions of RMB*

Item	For the six months ended June 30, 2016 vs 2015		
	Increase/(decrease) Volume ⁽¹⁾	Increase/(decrease) Interest rate ⁽²⁾	Total ⁽³⁾
Assets			
Gross loans to customers	13,171	(14,187)	(1,016)
Fixed-income investments	20,897	(5,998)	14,899
Deposits with central bank	(1,298)	(1,867)	(3,165)
Amounts due from banks and other financial institutions	(11,056)	(7,567)	(18,623)
Changes in interest income	21,714	(29,619)	(7,905)
Liabilities			
Customer deposits	4,978	(14,483)	(9,505)
Amounts due to banks and other financial institutions	7,175	(49)	7,126
Debt securities issued	561	–	561
Changes in interest expense	12,714	(14,532)	(1,818)
Changes in net interest income	9,000	(15,087)	(6,087)

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the period.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

DISCUSSION AND ANALYSIS

Interest Income

For the first half of 2016, the Bank's interest income amounted to RMB142,276 million, representing a decrease of RMB7,905 million, or by 5.26%, as compared to the corresponding period of the previous year, primarily due to a decrease in the average yield by 78 basis points, which was partially offset by an increase of RMB820,547 million in the average balance of interest-earning assets.

Interest Income from Loans to Customers

Interest income from loans to customers amounted to RMB66,490 million, representing a decrease of RMB1,016 million, or by 1.51%, as compared to the corresponding period of the previous year, primarily due to a decrease of 138 basis points in the average yield, which was partially offset by an increase of RMB505,190 million in the average balance of loans to customers.

The Average Balance, Interest Income and Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	For the six months ended June 30,					
	2016			2015		
	Average balance	Interest income	Average yield (%) ⁽¹⁾	Average balance	Interest income	Average yield (%) ⁽¹⁾
Corporate loans	996,403	23,259	4.69	869,372	25,043	5.81
Discounted bills	313,915	5,691	3.65	163,600	4,595	5.66
Personal loans	1,269,086	37,540	5.95	1,041,242	37,868	7.33
Total loans to customers	2,579,404	66,490	5.18	2,074,214	67,506	6.56

(1) On an annualized basis.

In terms of business lines, during the reporting period interest income from corporate loans amounted to RMB23,259 million, representing a decrease of RMB1,784 million, or by 7.12%, as compared to the corresponding period of the previous year. Interest income from personal loans amounted to RMB37,540 million, representing a decrease of RMB328 million, or by 0.87%, as compared to the corresponding period in the previous year. The decline in interest income from corporate and personal loans was mainly due to the decrease in the average yield on loans, which was partially offset by the increase in the average balance of loans to customers. The decline in the average yield on corporate and personal loans was primarily due to (1) consecutive interest rate cuts by the central bank in 2015, leading to lower interest rates for new loans extended in the first half of 2016 and the re-pricing of existing loans; and (2) the separation of price and tax for interest income as a result of the transition from business tax to value-added tax.

During the reporting period, our interest income from discounted bills amounted to RMB5,691 million, representing an increase of RMB1,096 million, or by 23.85%, as compared to the corresponding period of the previous year. This was primarily due to an increase of RMB150,315 million in the average balance of discounted bills, which was partially offset by the decline in average yield.

Interest Income from Fixed Income Investments

During the reporting period, interest income from fixed income investments amounted to RMB53,181 million, representing an increase of RMB14,899 million, or by 38.92%, as compared to the corresponding period in the previous year, primarily due to an increase in the average balance of fixed income investments attributable to the purchase of long-term special financial bonds amounting to RMB778.0 billion in the second half of 2015, which was partially offset by a decline in average yield. The decline of 75 basis points in the average yield on our fixed income investments was primarily due to the decline in the yield on our debt securities with floating interest rates as a result of consecutive cuts in benchmark interest rates by the PBOC in 2015, and the returns on the debt securities and interbank investment products in which we invested in the first half of 2016 were lower than those in the corresponding period of 2015 as a result of the decreased market interest rates.

Interest Income from Deposits with Central Bank

During the reporting period, interest income from deposits with central bank amounted to RMB9,498 million, representing a decrease of RMB3,165 million, or by 24.99%, as compared to the corresponding period of the previous year, primarily due to the decline in average yield by 27 basis points and a decrease of RMB168,329 million in the average balance of deposits with the central bank as compared to the corresponding period in the previous year. This was primarily due to the maturity of the rest of our Bank's special deposits with the central bank in 2015 and the consecutive cuts in statutory deposit reserve ratio by the central bank in 2015.

Interest Income from Amounts Due from Banks and Other Financial Institutions

During the reporting period, interest income from amounts due from banks and other financial institutions amounted to RMB13,107 million, representing a decrease of RMB18,623 million, or by 58.69%, as compared to the corresponding period of the previous year, primarily due to a decrease of RMB554,651 million in the average balance of amounts due from banks and other financial institutions, and a decrease of 132 basis points in the average yield. The decrease in the average balance was primarily due to allocation of a portion of amounts due from banks and other financial institutions upon maturity in 2015 on assets with higher returns, and the decline of funding needs of banks and other financial institutions as a result of the adequate market liquidity. The decrease in the average yield was primarily attributable to the decreased interbank market interest rates as a result of consecutive cuts in benchmark interest rates by the central bank in 2015 and adequate market liquidity.

Interest Expense

In the first half of 2016, the Bank's interest expense amounted to RMB60,639 million, representing a decrease of RMB1,818 million, or by 2.91%, as compared to the corresponding period of the previous year, primarily due to a decrease in the average cost by 38 basis points, which was partially offset by an increase of RMB1,159,586 million in the average balance of interest-bearing liabilities.

DISCUSSION AND ANALYSIS

Interest Expense on Customer Deposits

For the first half of 2016, interest expense on customer deposits amounted to RMB51,273 million, accounting for 84.55% of total interest expense and representing a decrease of RMB9,505 million, or by 15.64%, as compared to the corresponding period of the previous year, primarily due to a decrease in the average cost of customer deposits, which was partially offset by an increase in the average balance of customer deposits. The decline in average cost was mainly due to the effect of consecutive cuts in the benchmark interest rates by the central bank in 2015.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	For the six months ended June 30,					
	2016			2015		
	Average balance	Interest expense	Average cost (%) ⁽¹⁾	Average balance	Interest expense	Average cost (%) ⁽¹⁾
Corporate deposits						
Time	303,361	3,703	2.45	235,715	3,823	3.27
Demand	631,774	2,055	0.65	538,977	2,385	0.89
Subtotal	935,135	5,758	1.24	774,692	6,208	1.62
Personal deposits						
Time	3,610,922	42,369	2.36	3,341,020	51,261	3.09
Demand ⁽²⁾	2,072,809	3,146	0.31	1,877,085	3,309	0.36
Subtotal	5,683,731	45,515	1.61	5,218,105	54,570	2.11
Total customer deposits	6,618,866	51,273	1.56	5,992,797	60,778	2.05

(1) On an annualized basis.

(2) Inclusive of credit card deposits.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

For the first half of 2016, interest expense on amounts due to banks and other financial institutions amounted to RMB8,805 million, representing an increase of RMB7,126 million, as compared to the corresponding period of the previous year, primarily due to an increase in the average balance of amounts due to banks and other financial institutions. The increase in the average balance was primarily due to our increased interbank borrowing to maintain growth in our liabilities commensurate with our assets according to market liquidity conditions, and an increase in long-term interbank borrowings for the purpose of liquidity management.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued amounted to RMB561 million for the first half of 2016, primarily due to our issuance of qualified tier-2 capital instruments in an aggregate principal amount of RMB25.0 billion on September 9, 2015.

Net Fee and Commission Income

For the first half of 2016, the Bank realized net fee and commission income of RMB5,866 million, representing an increase of RMB1,725 million, or by 41.66%, as compared to the corresponding period of the previous year. In particular, fee and commission income and expense increased by RMB2,080 million and RMB355 million, respectively, representing increase rates of 26.64% and 9.68%, respectively.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	For the six months ended			
	June 30,			
	2016	2015	Increase/ (decrease)	Change (%)
Settlement and clearing fee income	2,831	2,802	29	1.03
Bank cards and POS fee income	2,418	2,184	234	10.71
Wealth management fee income	2,135	896	1,239	138.28
Agency service fee income	1,446	1,152	294	25.52
Custodian business income	408	221	187	84.62
Others	651	554	97	17.51
Fee and commission income	9,889	7,809	2,080	26.64
Less: Fee and commission expense	4,023	3,668	355	9.68
Net fee and commission income	5,866	4,141	1,725	41.66

Settlement and clearing fee income amounted to RMB2,831 million, representing an increase of RMB29 million, or by 1.03%, as compared to the corresponding period of the previous year.

Bank cards and POS fee income amounted to RMB2,418 million, representing an increase of RMB234 million, or by 10.71%, as compared to the corresponding period of the previous year. The increase was primarily due to our continuous efforts to develop our bank cards business with an increase in the number of bank cards issued, the increased transaction volume of bank cards and the rapid growth of credit cards installment business.

Wealth management fee income amounted to RMB2,135 million, representing an increase of RMB1,239 million, or by 138.28%, as compared to the corresponding period of the previous year, primarily due to the fast development in terms of business scale as a result of our efforts to develop our wealth management business.

DISCUSSION AND ANALYSIS

Agency service fee income amounted to RMB1,446 million, representing an increase of RMB294 million, or by 25.52%, as compared to the corresponding period of the previous year, primarily due to an increase in the volume of insurance products that we distributed.

Custodian business income amounted to RMB408 million, representing an increase of RMB187 million, or by 84.62%, as compared to the corresponding period of the previous year, primarily due to an increase in the assets under our custody as a result of our efforts to actively develop our custodian business.

Other fee and commission income amounted to RMB651 million, representing an increase of RMB97 million, or by 17.51%, as compared to the corresponding period of the previous year.

Fee and commission expense amounted to RMB4,023 million, representing an increase of RMB355 million, or by 9.68%, as compared to the corresponding period of the previous year, primarily due to an increase in the number of financial products distributed by China Post Group for the Bank. For information on the agency fees payable by the Bank to China Post Group, see Note 37.3(1) to the Condensed Consolidated Financial Statements.

Other Non-Interest Income

For the first half of 2016, the Bank realized other non-interest income of RMB5,783 million, representing an increase of RMB5,150 million, as compared to the corresponding period of the previous year.

Components of Other Non-Interest Income

In millions of RMB, except for percentages

Item	For the six months ended			
	June 30,			
	2016	2015	Increase/ (decrease)	Change (%)
Net trading gains/(losses)	559	(4)	563	—
Net gains on investment securities	4,264	309	3,955	1,279.94
Other operating income	960	328	632	192.68
Total	5,783	633	5,150	813.59

Net trading gains amounted to RMB559 million, representing an increase of RMB563 million, as compared to the corresponding period of the previous year, primarily due to an increase in gains on trading of the bonds held for trading and negotiable certificates of deposits.

Net gains on investment securities amounted to RMB4,264 million, representing an increase of RMB3,955 million, as compared to the corresponding period of the previous year, primarily due to an increase in gains on investments in money market funds.

Other operating income amounted to RMB960 million, representing an increase of RMB632 million, as compared to the corresponding period of the previous year, primarily due to an increase in exchange gains.

Operating Expenses

For the first half of 2016, our operating expenses amounted to RMB62,187 million, representing an increase of RMB3,975 million, or by 6.83%, as compared to the corresponding period of the previous year. Deposit agency fees increased by 10.99%, reflecting increased customer deposits taken through agency outlets. Meanwhile, staff costs increased by 6.67%, and other general operating and administrative expenses increased by 6.73%. Our cost-to-income ratio was 63.63%, representing an increase of 4.90 percentage points as compared to the corresponding period of the previous year.

Composition of the Operating Expenses

In millions of RMB, except for percentages

Item	For the six months ended			
	June 30,			
	2016	2015	Increase/ (decrease)	Change (%)
Staff costs	17,170	16,097	1,073	6.67
Deposit agency fees	29,697	26,757	2,940	10.99
Other general operating and administrative expenses	8,466	7,932	534	6.73
Business taxes and surcharges	2,827	3,887	(1,060)	(27.27)
Depreciation and amortization	2,299	2,391	(92)	(3.85)
Others	1,728	1,148	580	50.52
Total operating expenses	62,187	58,212	3,975	6.83
Cost to income ratio (%)⁽¹⁾	63.63	58.73	4.90	—

(1) Calculated by dividing total operating expense (excluding business tax and surcharges) by operating income.

Impairment Losses on Assets

For the first half of 2016, our impairment losses amounted to RMB4,964 million, representing a decrease of RMB3,696 million, as compared to the corresponding period of the previous year, primarily due to the write-back of allowance as a result of the review and reassessment of the risk profiles of placements with banks and other financial institutions based on historical default data and the maturity of certain investments classified as receivables.

Income Tax Expenses

For the first half of 2016, our income tax expenses amounted to RMB2,919 million. The effective tax rate was 11.17%, lower than the statutory tax rate of 25%, primarily reflecting the effect of tax-free part of the interest income from PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

Segment Information

We manage our business from the perspectives of business lines and geographical regions.

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	67,246	72.09	62,272	67.32
Corporate banking	17,045	18.27	17,634	19.07
Treasury business	8,797	9.43	12,463	13.47
Others	198	0.21	129	0.14
Total operating income	93,286	100.00	92,498	100.00

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	For the six months ended June 30,			
	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	7,510	8.05	13,409	14.50
Yangtze River Delta	12,645	13.56	11,621	12.56
Pearl River Delta	9,761	10.46	9,003	9.73
Bohai Rim	12,458	13.35	11,438	12.37
Central China	24,424	26.18	21,991	23.77
Western China	18,971	20.34	17,619	19.05
Northeastern China	7,517	8.06	7,417	8.02
Total operating income	93,286	100.00	92,498	100.00

Analysis of Balance Sheet

Assets

As of June 30, 2016, our total assets amounted to RMB7,974,475 million, representing an increase of RMB678,111 million, or by 9.29%, as compared to the end of the previous year. Total loans to customers increased by RMB287,681 million, or 11.64%, as compared to the end of the previous year. Net investment securities and other financial assets increased by RMB215,933 million, or 7.23%, as compared to the end of the previous year. Cash and deposits with central bank increased by RMB75,827 million, or 6.70%, as compared to the end of the previous year. Deposits and placements with banks and other financial institutions decreased by RMB101,475 million, or 19.34%, as compared to the end of the previous year. Financial assets held under resale agreements increased by RMB191,570 million, or 128.68%, as compared to the end of the previous year. In terms of assets structure, net loans to customers accounted for 33.81% of total assets, net investment securities and other financial assets accounted for 40.16% of total assets, cash and central bank deposits accounted for 15.14% of total assets, deposits and placements with banks and other financial institutions accounted for 5.31% of total assets, and financial assets held under resale agreements accounted for 4.27% of total assets.

Key Items of Assets

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	2,759,534	—	2,471,853	—
Less: Allowance for impairment losses	62,790	—	59,258	—
Loans to customers, net	2,696,744	33.81	2,412,595	33.07
Investment securities and other financial assets, net ⁽¹⁾	3,202,600	40.16	2,986,667	40.93
Cash and deposits with central bank	1,207,058	15.14	1,131,231	15.50
Deposits with banks and other financial institutions	149,108	1.87	324,137	4.44
Placements with banks and other financial institutions ⁽²⁾	274,039	3.44	200,485	2.75
Financial assets held under resale agreements	340,438	4.27	148,868	2.04
Other assets ⁽³⁾	104,488	1.31	92,381	1.27
Total assets	7,974,475	100.00	7,296,364	100.00

DISCUSSION AND ANALYSIS

- (1) Investment securities and other financial assets consist of investment classified as receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets, net of the related allowance for impairment losses.
- (2) Placements with banks and other financial institutions are net of the related allowance for impairment losses.
- (3) Other assets consist primarily of property and equipment, derivative financial assets, interest receivables, receivable and temporary payments, deferred tax assets and other assets.

Loans to Customers

As of June 30, 2016, our total loans to customers amounted to RMB2,759,534 million, representing an increase of RMB287,681 million, or by 11.64%, as compared to the end of the previous year.

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,045,481	37.89	980,980	39.69
Discounted bills	312,779	11.33	268,303	10.85
Personal loans	1,401,274	50.78	1,222,570	49.46
Total loans to customers	2,759,534	100.00	2,471,853	100.00

As of June 30, 2016, our total corporate loans amounted to RMB1,045,481 million, representing an increase of RMB64,501 million, or by 6.58%, as compared to the end of the previous year, primarily due to our continued efforts to increase lending to various sectors, including transportation, electricity and urban infrastructure and adapted to the structural reform of China's economy, and our active pursuit of business expansion in emerging industries such as renewable energy and environmental protection, medical care and innovative technology.

As of June 30, 2016, our total discounted bills amounted to RMB312,779 million, representing an increase of RMB44,476 million, or by 16.58%, as compared to the end of the previous year, primarily due to further increased number of customers as a result of our better services adapted to customers' increasing demand.

As of June 30, 2016, our total personal loans amounted to RMB1,401,274 million, representing an increase of RMB178,704 million, or by 14.62%, as compared to the end of the previous year, primarily due to the increase in residential mortgage loans to meet the increasing demand in the residential mortgage loans market.

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loans	467,599	44.73	393,126	40.07
Medium and long term corporate loans	577,882	55.27	587,854	59.93
Total	1,045,481	100.00	980,980	100.00

As of June 30, 2016, short-term corporate loans increased by RMB74,473 million, or 18.94%. Medium and long term corporate loans decreased by RMB9,972 million, or 1.70%. The proportion of medium and long term loans to total corporate loans declined by 4.66 percentage points to 55.27%, as compared to the end of the previous year, primarily because working capital loans accounted for a relatively high proportion of loans newly extended during the reporting period.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	345,027	33.00	356,956	36.39
Manufacturing	175,768	16.81	152,310	15.53
Production and supply of electricity, heating, gas and water	134,439	12.86	134,484	13.71
Financial services	128,513	12.29	86,576	8.83
Wholesale and retail	58,370	5.58	58,722	5.99
Construction	47,520	4.55	40,255	4.10
Mining	40,417	3.87	41,712	4.25
Real estate	39,427	3.77	41,113	4.19
Management of water conservancy, environmental and public facilities	32,110	3.07	31,727	3.23
Others ⁽¹⁾	43,890	4.20	37,125	3.78
Total	1,045,481	100.00	980,980	100.00

(1) Others consist of leasing and commercial services, agriculture, forestry, animal husbandry and fishery, information transmission, computer services and software, etc.

DISCUSSION AND ANALYSIS

As of June 30, 2016, the top five industries to which we extended corporate loans were transportation, storage and postal services, manufacturing, production and supply of electricity, heating, gas and water, financial services, and wholesale and retail. The balance of loans extended to the top five industries accounted for 80.54% of total corporate loans in aggregate, representing an increase of 0.09 percentage point as compared to the end of the previous year.

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	732,353	52.26	577,256	47.22
Other consumer loans	180,366	12.87	159,683	13.06
Personal business loans	296,766	21.18	304,930	24.94
Micro loans	142,471	10.17	136,207	11.14
Credit card overdrafts and others	49,318	3.52	44,494	3.64
Total personal loans	1,401,274	100.00	1,222,570	100.00

During the reporting period, our Bank's personal loans increased by RMB178,704 million, or 14.62%, primarily due to the increase in residential mortgage loans of RMB155,097 million, or by 26.87%. Other consumer loans increased by RMB20,683 million, or 12.95%.

As of June 30, 2016, our Bank's residential mortgage loans balance amounted to RMB732,353 million, representing an increase of RMB155,097 million, or by 26.87%, as compared to the end of the previous year, primarily due to our active support of households' borrowing needs to purchase residential properties for their self-use, consistent with government policies.

Other consumer loans balance amounted to RMB180,366 million, representing an increase of RMB20,683 million, or by 12.95%, as compared to the end of the previous year, primarily due to our continuous efforts in diversification of consumer loan products and optimization of the loan portfolio to meet consumers' demands.

Credit card overdrafts and other personal loans balance amounted to RMB49,318 million, representing an increase of RMB4,824 million, or by 10.84%, as compared to the end of the previous year. The increase in our credit card overdrafts and other personal loans was primarily attributable to continued increases in the number of credit cards issued and the transaction volume of credit cards.

Distribution of Customer Loans by Geographical Region*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	273,264	9.90	287,598	11.63
Yangtze River Delta	478,672	17.35	396,183	16.03
Pearl River Delta	301,513	10.93	271,485	10.98
Bohai Rim	398,674	14.45	363,593	14.71
Central China	600,264	21.74	508,398	20.57
Western China	497,781	18.04	458,173	18.54
Northeastern China	209,366	7.59	186,423	7.54
Total loans to customers	2,759,534	100.00	2,471,853	100.00

Investment Securities and Other Financial Assets

Our investment securities and other financial assets are major components of our total assets. As of June 30, 2016, our investment securities and other financial assets (net of allowance for impairment losses) amounted to RMB3,202,600 million, representing 40.16% of our total assets and an increase of RMB215,933 million, or by 7.23%, as compared to the end of the previous year.

Investment Structure by Type of Investment Instrument*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	2,832,532	88.44	2,723,005	91.17
Equity instruments	370,068	11.56	263,662	8.83
Total	3,202,600	100.00	2,986,667	100.00

As of June 30, 2016, the debt instruments increased by RMB109,527 million, or 4.02%, as compared to the end of the previous year, primarily contributed by the increased investment in government bonds; while the equity instruments increased by RMB106,406 million, or 40.36%, primarily due to the increased investment in commercial bank wealth management products.

Distribution of Investments by Product*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	1,980,310	61.84	1,874,852	62.78
Government bonds	499,166	15.59	396,339	13.27
Debt securities issued by public institutions and quasi-government	570	0.02	570	0.02
Debt securities issued by financial institutions	1,412,287	44.10	1,408,485	47.16
Debt securities issued by corporates	68,287	2.13	69,458	2.33
Negotiable certificates of deposit	44,026	1.37	18,526	0.62
Commercial bank wealth management products	488,877	15.27	326,581	10.93
Asset management plans	245,384	7.66	285,426	9.56
Trust investment plans	156,691	4.89	228,317	7.64
Securities investment funds	278,547	8.70	246,103	8.24
Others	8,765	0.27	6,862	0.23
Total	3,202,600	100.00	2,986,667	100.00

In the first half of 2016, we took the opportunity in the market to increase investment in commercial bank wealth management products with large commercial banks and joint-stock commercial banks as major counterparties. At the same time, we strengthened risk control and moderately increased investments in local government bonds moderately to support regional economic development.

Distribution of Investments in Debt Securities by Remaining Maturity*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	—	—	—	—
Less than 3 months	39,344	1.99	37,472	2.00
Over 3 months up to 12 months	83,755	4.23	69,223	3.69
Over 1 year up to 5 years	696,337	35.16	618,015	32.96
More than 5 years	1,160,874	58.62	1,150,142	61.35
Total	1,980,310	100.00	1,874,852	100.00

As of June 30, 2016, our investments in debt securities due in less than 3 months as a percentage of our total investments decreased by 0.01 percentage point, investments due in 3 months up to 12 months increased by 0.54 percentage point, and investments due in over 1 year decreased by 0.53 percentage point, as compared to the end of the previous year.

In the first half of 2016, the proportion of our debt securities investment with remaining maturities of more than 5 years declined, while that with remaining maturities of 1-5 years rose, primarily due to the fact that as time passes, the remaining maturities of certain debt securities naturally shorten to less than 5 years, and also due to the effect of the structure of the new local government bond investments.

Distribution of Investments in Debt Securities by Currency*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	1,973,956	99.68	1,873,163	99.91
Foreign currencies	6,354	0.32	1,689	0.09
Total	1,980,310	100.00	1,874,852	100.00

In terms of currency types, as of June 30, 2016, our Bank's debt securities denominated in Renminbi increased by RMB100,793 million, or 5.38%, as compared to the end of the previous year; and debt securities denominated in foreign currencies increased by RMB4,665 million, or 276.20%.

Distribution of Investment Securities and Other Financial Assets by Investment Intention*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	64,550	2.02	27,719	0.93
Available-for-sale financial assets	876,246	27.36	390,683	13.08
Held-to-maturity investments	744,948	23.26	684,767	22.93
Investment classified as receivables ⁽¹⁾	1,516,856	47.36	1,883,498	63.06
Total	3,202,600	100.00	2,986,667	100.00

(1) Investment classified as receivables is net of the related allowance for impairment losses.

Liabilities

As of June 30, 2016, our Bank's total liabilities increased by RMB665,268 million or 9.47% as compared to the end of the previous year to RMB7,690,801 million. Customer deposits increased by RMB591,128 million, or 9.38%; deposits and placements from banks and other financial institutions increased by RMB215,515 million, or 132.86%; financial assets sold under repurchase agreements decreased by RMB127,370 million, or 32.26%.

Key Items of Liabilities*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	6,896,142	89.67	6,305,014	89.74
Deposits from banks and other financial institutions	322,848	4.20	91,351	1.30
Placements from banks and other financial institutions	54,877	0.71	70,859	1.01
Financial assets sold under repurchase agreements	267,447	3.48	394,817	5.62
Debt securities issued	24,974	0.32	24,973	0.36
Other liabilities ⁽¹⁾	124,513	1.62	138,519	1.97
Total liabilities	7,690,801	100.00	7,025,533	100.00

(1) Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, interest payable, payables for agency services, employee benefit payable, taxes payable and other liabilities.

Customer deposits

As of June 30, 2016, the Bank's total customer deposits, was RMB6,896,142 million, increased by RMB591,128 million, or 9.38%, as compared to the end of the previous year.

Distribution of Customer Deposits by Business Line*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,023,831	14.85	917,607	14.55
Time	330,301	4.79	301,356	4.78
Demand	693,530	10.06	616,251	9.77
Personal deposits	5,871,146	85.13	5,386,630	85.44
Time	3,741,986	54.26	3,335,615	52.91
Demand	2,129,160	30.87	2,051,015	32.53
Other deposits ⁽¹⁾	1,165	0.02	777	0.01
Total	6,896,142	100.00	6,305,014	100.00

(1) Other deposits consist of funds deposited with us for remittance, credit card deposits and outbound remittance.

DISCUSSION AND ANALYSIS

In terms of customer structure, as of June 30, 2016, personal deposits increased by RMB484,516 million, or 8.99%; and corporate deposits increased by RMB106,224 million, or 11.58%, as compared to the end of the previous year. In terms of maturity structure, the proportion of demand deposits was 40.93%, representing a decrease of 1.37 percentage points, as compared to the end of the previous year.

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	626	0.01	589	0.01
Yangtze River Delta	1,014,993	14.72	917,696	14.56
Pearl River Delta	652,886	9.47	608,887	9.66
Bohai Rim	1,033,194	14.98	969,905	15.38
Central China	2,123,198	30.79	1,876,608	29.76
Western China	1,509,062	21.88	1,387,835	22.01
Northeastern China	562,183	8.15	543,494	8.62
Total customer deposits	6,896,142	100.00	6,305,014	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	2,925,003	42.42	2,728,957	43.28
Less than 3 months	799,471	11.59	1,396,678	22.15
3 - 12 months	2,671,098	38.73	1,713,012	27.17
1 - 5 years	500,570	7.26	466,367	7.40
More than 5 years	—	—	—	—
Total	6,896,142	100.00	6,305,014	100.00

Shareholders' Equity

As of June 30, 2016, the Bank's shareholders' equity was RMB283,674 million, representing an increase of RMB12,843 million, or by 4.74%, as compared to the end of the previous year, primarily due to the increase in retained earnings resulting from the increase in net profit during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	68,604	24.18	68,604	25.33
Capital reserve	36,887	13.00	36,887	13.62
Investment revaluation reserve	3,615	1.27	4,988	1.84
Surplus reserve	16,411	5.79	16,411	6.06
General reserve	84,754	29.88	84,754	31.29
Retained earnings	73,033	25.75	58,804	21.71
Equity attributable to shareholders of the Bank	283,304	99.87	270,448	99.86
Non-controlling interests	370	0.13	383	0.14
Total shareholders' equity	283,674	100.00	270,831	100.00

Off-Balance Sheet Items

Our off-balance sheet commitments consist primarily of irrevocable loan commitments, bank acceptances, issued letters of guarantee and guarantees and unused credit card commitments. Loan commitments are the Bank's commitments to extend credit. Our Bank issues letters of guarantee and letters of credit to the third parties to guarantee our customers' performance of their obligations. Bank acceptances consist of the undertakings by the Bank to pay the bills of exchange issued by our customers.

Off-Balance Sheet Commitments*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	184,764	49.28	167,205	52.63
Bank acceptance	27,695	7.39	20,739	6.53
Guarantee and letters of guarantee	19,532	5.21	12,653	3.98
Letters of credit	4,841	1.29	2,960	0.93
Unused credit card commitments	138,076	36.83	114,133	35.93
Total	374,908	100.00	317,690	100.00

Other Financial Information***Changes in Accounting Policies***

There was no significant change in accounting policies during the reporting period. For details, please refer to Note 2 to the Condensed Consolidated Financial Statements: basis of preparation and significant accounting policies.

BUSINESS OVERVIEW

Personal Banking Business

Our Bank constantly improves its targeted management capabilities for personal banking business, and continuously excavate the needs of various groups of customers, to which differentiated products and services are provided. We also actively encourage cross-selling across different business lines and departments within our personal banking business, optimize distribution of outlets and deepen the transformation of outlets marketing, with an aim to continuously improve our comprehensive service abilities and customer satisfaction. As of the end of the reporting period, the number of our Bank's personal customer accounts reached 513 million, of which 20.76 million were personal VIP customers.

Personal Loans

Our Bank offers a wide variety of personal loan products, such as residential mortgage loans and other consumer loans, personal business loans, micro loans, credit card overdrafts, among others. As of the end of the reporting period, the Bank's total personal loans amounted to RMB1,401,274 million, representing an increase of RMB178,704 million, or by 14.6%, as compared to the end of the previous year. In particular, consumer loans was RMB912,719 million, representing 65.1% of our total personal loans, personal business loans was RMB296,766 million, representing 21.2% of our total personal loans, and micro loans was RMB142,471 million, representing 10.2% of our total personal loans.

Our Bank is establishing the new generation of retail credit factory model, which integrates advanced management concepts and information technology. This model enables us to improve the operational efficiency and risk management of our consumer loans, personal business loans and micro loans businesses through standardized operations, automated decision-making and centralized management.

Personal Deposits

Our Bank offers demand and time deposits in Renminbi and major foreign currencies to our retail customers. Our Bank launched integrated marketing activities to enhance the coordinated development of wealth management and deposits businesses, with rapid growth in personal deposits. As of June 30, 2016, total personal deposits reached RMB5,871,146 million, representing an increase of RMB484,516 million, as compared to the end of the previous year.

Bank Card Business

Our Bank provides comprehensive bank card products and services to retail customers. As of the end of the reporting period, the number of issued debit cards in circulation amounted to RMB805.96 million, of which the number of Green Card IC debit cards in circulation amounted to RMB237.32 million. During the reporting period, the consumption amount of our Bank's debit cards amounted to RMB1,307.24 billion, increased by 59.3%, as compared to the corresponding period of the previous year. According to China UnionPay's statistical data, the interbank POS consumption amount of our Bank's debit cards ranked 4th in China's banking sector during the reporting period. As of the end of the reporting period, the number of credit cards in circulation amounted to 11.26 million, while the consumption amount during the reporting period reached RMB218.73 billion, representing an increase of 39.6%, as compared to the corresponding period of the previous year. During the reporting period, the Bank launched its first credit card with the theme of Chinese zodiac, where the Year of Monkey stamp was used for the card design. Furthermore, the Bank launched the EMS co-branded card, which was the Bank's first card with EMV chip, to satisfy the demand from a broad spectrum of customers and those interested in cross-border online shopping. In addition, our Bank promoted the marketing of credit cards and continuously improved bank card customer experience by launching Apple Pay and other means of mobile payments.

Details of Bank Cards

	June 30, 2016	June 30, 2015	Growth rate (%)
Debit cards in circulation (in thousand)	805,957	695,418	15.90
Credit cards in circulation (in thousand)	11,262	8,312	35.49

Item	For the six months ended June 30,		
	2016	2015	
Debit card consumption amount (RMB million)	1,307,236	820,624	59.30
Credit card consumption amount (RMB million)	218,734	156,738	39.55

Personal Settlement Business

We provide various settlement services for retail customers, primarily including money transfer and Renminbi remittance services. During the reporting period, the transaction volume of our Bank's personal settlement business was RMB4,917,285 million. We provide various collection and payment agency services for customers, primarily including payment of payrolls, benefits and allowances, pensions, as well as collection of utility bill payments. We also provide collection and payment agency services for the New Rural Social Endowment Insurance ("NSEI") and the New Rural Cooperative Medical Service ("NCMS"). During the reporting period, the transaction volumes of our Bank's collection services and payment services were RMB313.2 billion and RMB1,036.0 billion, respectively. In particular, the Bank provided collection and payment agency services for 361 million pension transactions, including collection agency services for 34.38 million pension transactions and payment agency services for 327 million pension transactions. The Bank acted as the collection agency for 10.52 million transactions of "NSEI" with transaction volume of RMB2.5 billion, and as the payment agency for 125 million "NSEI" transactions with transaction volume of RMB14.1 billion.

Personal Wealth Management Services

Personal Wealth Management

We provide diversified wealth management products and services for retail customers. Under the “PSBC Fortune (郵銀財富)” brand, we have launched three series of open-ended wealth management products and eight series of close-ended wealth management products, fulfilling the investment and wealth management demands of customers with different tenor preferences and risk appetites. We provide comprehensive personal wealth management products and advisory services. Our personal wealth management products include fixed income products, equity products, and equity and debt hybrid products. As of the end of the reporting period, the balance of our Renminbi wealth management products to retail customers was RMB499.4 billion, increased by RMB95.7 billion, or 23.7%, as compared to the end of the previous year.

Bancassurance

We conduct our bancassurance business through our directly-operated outlets and agency outlets. As at the end of the reporting period, the Bank has signed bancassurance agreements with 59 insurance companies. By leveraging the largest and the most extensive bancassurance distribution channel in China, consisting of our directly-operated outlets and agency outlets, total written premium of new policies of our bancassurance business during the reporting period amounted to RMB310.4 billion, representing an increase by 17.3%, as compared to the corresponding period of the previous year, consistently achieving top market share in the bancassurance industry. Our Bank strongly promoted the transformation of the bancassurance business and achieved rapid growth of regular payment insurance business. During the first half of the year, our Bank’s regular premium amounted to RMB18.6 billion, increased significantly by 455.4%, as compared to the corresponding period of the previous year.

Distribution of Fund Products

We distribute various fund products through multiple channels including outlets, online banking and mobile banking. During the reporting period, stock markets fluctuated at relatively low level. The Bank promoted principal-guaranteed funds and automatic investment plans in our investment fund business, tailored automatic investment plans for our various groups of customers and provided professional asset allocation services for customers. During the reporting period, the total volume of fund products distributed by the Bank amounted to RMB17.9 billion.

Distribution of PRC Government Bonds

We distribute certificated PRC government bonds and PRC government savings bonds (electronic). During the reporting period, the Bank increased marketing for government bond products and actively promoted the sales function of Internet banking for government bonds. We distributed two tranches of certificated government bonds with total sales of RMB4.5 billion and four tranches of government savings bonds (electronic) with total sales of RMB8.1 billion.

Precious Metals Business

We trade precious metals on the Shanghai Gold Exchange on behalf of our customers and also distribute gold and silver coins, gold and silver investment products, gold and silver crafts and other precious metal products for specialized third-party institutions. During the reporting period, due to international political and economic instability, the international gold and silver prices surged rapidly. The precious metals business of the Bank recorded a steady growth, and the transaction volume of our precious metals business was RMB21.2 billion. In order to satisfy the diversified investment demands from customers, the Bank also promoted the “PSBC Gold Coin & Bar (郵儲金)”, our own brand of precious metals product.

Corporate Banking Business

We provide diversified financial products and services to our corporate banking customers, including corporate loans, corporate deposits, and fee- and commission-based products and services such as settlement, cash management, investment banking and custodian businesses. As of the end of the reporting period, our Bank had 609,279 corporate customers.

Corporate Loans Business

We provide working capital loans, fixed asset loans, trade finance, corporate loans to small enterprises and other corporate loan products to corporate customers. During the reporting period, we continued to increase lending to various sectors such as transportation, electricity and urban infrastructure, adapted to the structural reform of China's economy, actively established our presence in emerging industries such as renewable energy and environmental protection, medical care and innovative technology. As of the end of the reporting period, our total corporate loans were RMB1,045,481 million, increased by RMB64,501 million, or 6.6%, as compared to the end of the previous year.

We continue to strengthen the strategic positioning of "Serving SMEs" and streamline the operation of each key step of corporate loans to small enterprises, which have further enhanced efficiency. As of the end of the reporting period, our Bank's balance of corporate loans to small enterprises was RMB155,074 million, representing 14.8% of our total corporate loans. In addition, our Bank published a small and micro enterprise development index in association with Economic Daily on a monthly basis, which is currently an important reference for decision-making by government authorities.

Corporate Deposits Business

We offer time and demand deposits to corporate customers in Renminbi and other major foreign currencies. By providing high-quality services, our Bank focuses on providing payment and settlement services to various large-sized national enterprises to obtain a large scale of corporate demand deposits, achieving stable growth of corporate deposits business. As of the end of the reporting period, our total corporate deposits were RMB1,023,831 million, representing an increase of RMB106,224 million, or by 11.6%, as compared to the end of the previous year.

Settlement and Cash Management Business

We offer comprehensive and convenient settlement services in China through counters and online banking system. During the reporting period, the Bank designed comprehensive customized cash management solutions for customers and helped customers manage cash effectively, improve financial management consolidation, improve cash utilization rate and reduce financial risk by leveraging on our vast settlement network and advanced cash settlement products. As of the end of the reporting period, the Bank's cash management business had 134,966 contracted accounts, representing an increase of 14,492 accounts, as compared to the end of the previous year.

Trade Financing and International Trade Settlement Business

We continue to build regional centers for trade financing business. We actively expanded the border trade business by connecting regional key branches with bordering countries and regions, while we accelerated innovation in trade financing products. Our Bank continued to expand the scope of corresponding banking services and had established an agency relationship with 928 domestic and foreign banks. During the reporting period, the total volume of trade financing was RMB199.6 billion, while the total volume of international settlement was USD7,342 million, representing an increase by 12.9%, as compared to the corresponding period of the previous year.

Investment Banking Services

We provide corporate customers with underwriting and distribution services in respect of debt financing instruments, including short-term commercial papers, medium-term notes, private placement notes and asset-backed securities, and expands the financial advisory business by leveraging on our project financing and acquisition financing capacities. Our Bank will expand investment banking business as an important means to increase the fee and commission income. During the reporting period, we had 23 debt securities underwriting projects in the phase of execution. The Bank had over 50 structured finance or acquisition financing projects in pipeline, expecting to raise proceeds of approximately RMB160.0 billion.

Custodian Services

The assets under our Bank's custody consist primarily of securities investment funds, insurance funds, bank wealth management products, trust plans, insurance asset management plans, asset management plans for specific customers of fund companies, asset management plans for customers of securities companies and private equity funds. During the reporting period, the Bank developed cross-border custodian business and achieved new breakthroughs in various segments. The successful launch of online customer service system for assets custody has effectively improved the efficiency of custodian customer services. As of the end of the reporting period, the balance of assets under our custody amounted to RMB3,285,761 million, representing an increase of RMB1,034,928 million, or by 46.0%, as compared to the end of the previous year.

Treasury Business

Our Bank's treasury business primarily consists of financial market business, including trading, investment and interbank financing, as well as asset management business.

Trading Business

We trade standard financial products in the interbank market. During the reporting period, our Bank has officially obtained the market-making qualification in the interbank bond market, the business qualification for option trading in the interbank foreign exchange market, enabling our Bank to leap forward to become a full licensed trading institution with a comprehensive product scope. During the reporting period, the total trading volume of our Bank was RMB29,005.16 billion with a total number of 44,534 transactions.

Investment Business

Investments in Debt Securities and Negotiable Certificates of Deposit

We invest in various types of debt securities in the interbank market and exchanges, primarily including government bonds, bonds issued by policy banks and commercial banks, enterprise bonds, corporate bonds, non-financial enterprise debt financing instruments, and negotiable certificates of deposit. During the reporting period, our Bank strengthened credit bond investment management, improved the investment process, strictly prevented credit risk; actively participated in the trading of debt securities, strengthened efforts to promote market transactions, improved investment structure of debt securities and increased investment returns on debt securities; promoted the distribution business of debt securities and accelerated the establishment of customer system. As of the end of the reporting period, the balance of investments in debt securities and negotiable certificates of deposit amounted to RMB2,024,336 million.

Interbank Investments

Our Bank's interbank investment refers to our Bank's investments (or investments made through other financial institutions) in special purpose vehicles (including commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds) according to our Bank's investment strategies and risk appetite as well as market development conditions. During the reporting period, we actively responded to changes in government policies and social financing demands and built the "financing + intelligence" development model to satisfy investment and financing needs of customers. As of the end of the reporting period, the balance of our Bank's investments (or investments made through other financial institutions) in commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds was RMB1,169,499 million in total.

Interbank Financing Business

Interbank financing is a strategic business of our Bank to enhance cooperation with financial institutions, and also a business where our Bank has inherent advantages and significant market influence. As of the end of the reporting period, our Bank's deposits and placements with banks and other financial institutions were RMB423,147 million, and the Bank's deposits and placements from banks and other financial institutions were RMB377,725 million.

Asset Management Business

We manage proceeds raised from wealth management products issued to retail and corporate customers. We have launched two product lines, namely, "PSBC Fortune" for retail customers and "PSBC Wisdom" for corporate customers. Our wealth management products are tailored to meet the diversified investment and wealth management needs of our customers with different risk appetite. We have established an investment management system covering a variety of investment products with diversified allocation strategies. By optimizing the customers base, expanding the scope of investment and diversifying the allocation strategy, our Bank was able to retain our customers, increase our revenue and manage risks.

As of the end of the reporting period, the balance of our Bank's wealth management products was RMB706.6 billion, increased by RMB232.0 billion, or 48.9%, as compared to the end of the previous year. In particular, the balance of corporate wealth management products was RMB207.2 billion, increased by RMB136.2 billion, or 191.8%, as compared to the end of the previous year.

Sannong Finance Services

Our Bank focused our services on farmers and new-type agriculture operators. In that regard, our Bank actively provided services to leading agricultural enterprises and participated in construction of rural infrastructures and social affairs of the County Areas. Accordingly, the scope of Sannong finance services was expanded and the quality of Sannong finance services was improved. As of the end of the reporting period, the balance of our Bank's agriculture-related loans was RMB838.6 billion, increased by RMB90.7 billion, or 12.1%, as compared to the end of the previous year. In particular, the balance of micro loans was RMB142.5 billion.

During the reporting period, our Bank continued to strengthen product innovation for Sannong finance services and optimize business processes. In order to better manage credit risks, our Bank continued to improve internal control system, implement advanced micro loan technologies in determining credit limits, strengthen post-loan management, and utilize big data technology in risk monitoring.

We established the Sannong Finance Department in September 2016 to build professional service system, operation and management mechanism. We believe the establishment of the Sannong Finance Department will help promote cooperation between Sannong-related business lines and management, and enhance the operating efficiency of Sannong finance business and further enhance our risk control.

Green Finance

In the first half of 2016, we further optimized our credit policies, pursuant to which we strictly controlled the thresholds for approving loans to industries with high pollution, high energy consumption and over-capacity, resulting in slower growth and smaller proportion of loans to such industries, and strengthened monitoring and early warning to ensure the credit risk-related loans within an acceptable range.

We strengthened research on industries with high pollution, high energy consumption and over-capacity and continued to improve the review and approval means for green credits, adhering to the environmental friendly one vote veto system and no acceptance, review and approval of businesses that do not meet the environmental protection requirements. Rights of approval have been designated at senior level, pursuant to which business credits involving industries with high pollution, high energy consumption and over-capacity are subject to the approval by the head office.

Distribution Channels

Outlets Network

During the reporting period, we further promoted transformation of outlets to enhance value-creation capabilities. As of the end of the reporting period, our Bank had a total of 40,046 outlets, including 8,288 self-owned outlets which accounted for 20.7% and 31,758 agency outlets which accounted for 79.3%, covering all cities and 98.9% of the County Areas in the PRC.

Electronic Banking

As a leading large retail bank, we are committed to fully leveraging our broad network coverage to build an Internet financial service platform featuring comprehensive online services, smart offline services and collaborative development of online-to-offline services. During the reporting period, our Bank strengthened electronic banking channels, and promoted technology and product innovation. As of the end of the reporting period, we have 167.46 million electronic banking customers; the transaction substitution ratio reached 75.4%, representing an increase of 3.7 percentage points, as compared to the corresponding period of the previous year. During the reporting period, our electronic banking was awarded the honor of the “Best Socialized Marketing Platform of Financial Industry in 2016” by the China Financial Certification Authority (中國金融認證中心).

Online Banking

We provide online banking services via website (www.psbc.com) to our retail and corporate customers. Our retail customers can use services such as transfers and remittances, credit cards, online payment, investment, wealth management, foreign exchange, personal loans and utility payment. Our Bank’s corporate customers can use services such as account inquiry and management, payment management, cash management, bills, deposit, credit business and merchant services via online banking. During the reporting period, we developed our online banking services, accelerated the development of a new generation of personal online banking, increased risk prevention and control abilities, and provided a convenient and safe channel for online transactions. As of the end of the reporting period, our Bank’s retail online banking customers reached 141.50 million, with the number and transaction volume amounted to 370 million and RMB951.2 billion, respectively, during the reporting period.

Mobile Banking

We provide mobile banking services to our retail customers, primarily including account inquiry, account management, transfers and remittances, credit card services, fund business, wealth management, precious metals services, PRC government bonds, mobile phone top-up, convenient payment, mobile payment, personal loans, utility payment services and business travel services. During the reporting period, our Bank developed intelligent, efficient, flexible and convenient customized banking services by utilizing the features of smart phones. Among the first batch of banks to support the “Apple Pay” function, we launched Cloud Quick Pass (雲閃付) products to meet customers’ needs for mobile payment. Mobile banking business development was promoted in full swing and steps were taken to safeguard information security as to hardware, system and network. As of the end of the reporting period, the number of our mobile banking customers exceeds 115.57 million, while during the reporting period, the number of mobile banking transactions reached 925 million, and the total transaction volume amounted to RMB1,068.9 billion.

Self-service Banking

We provide services via various self-service terminals, including account inquiry, cash deposit and withdrawal, transfers and remittances, fee payment and top-up, credit card repayment and other services. During the reporting period, the Bank actively explored the development of light, self-service and smart outlets. Our first smart outlet was launched in Shenzhen, providing 29 functions, such as card issuance, signing electronic banking contracts, purchase of wealth management funds, etc. In addition, 5,605 self-service terminals, including ATM, cash recycling systems, auto card issuing machines, passbook teller machines, fast speed cash deposit machines, etc., were newly installed to facilitate effective substitution of counter business. As of the end of the reporting period, our Bank had 109,068 self-service terminals, while the number of transactions from self-service banking reached 2,566 million and the total transaction volume reached RMB2,557.4 billion during the reporting period.

Information Technology

We put great emphasis on the establishment of our information system, and orderly promote technological R&D and product innovation, providing strong technical support for the development of our Bank as a whole.

We continued to promote the development of key scientific and technological innovation projects. Our Bank proceeded with the development of digitalization projects in full force, improved the establishment of R&D system, deepened the integrated operations of “two locations, three centers”, developed big data platform and initiated the independent development of platforms, etc.

We continued further cooperation and communication with strategic partners to carry out in-depth communication and discussions in respect of cloud platform, big data, quick development, technological innovation, intelligent operations, scientific decision-making, smart customer service, and block chain, etc. The Bank actively participated in technology and product innovation, and commenced research on block chain financial applications.

During the reporting period, the operation of our Bank’s information system was stable and all information technology risk monitoring indicators were within normal range. According to the statistics from China UnionPay, the success rate of our cross-bank transactions ranked No. 1 among large commercial banks, and the core system availability of corporate, credit and personal online banking was maintained at above 99.99%, effectively supporting business operation and development.

Human Resources Management and Institution Management

Human Resources Management

For staff training, we implemented comprehensive training programs, including “corporate banking”, “retail banking” and “internal control and risk management” for senior management, participated by nearly 1,200 members of senior management. By cooperating with strategic investors and universities, we enhanced nurturing of professional talents and management personnel. We further built our team of in-house trainers, applied remote training and learning systems and carried out key training programs on transformation of operation and management at our outlets and the transition from business tax to value-added tax. Qualifications for employees’ positions were continuously promoted, and approximately 65,300 qualifications on a cumulative basis were obtained by employees during the reporting period.

For remuneration reform, we strengthened management on remuneration and performance, increased its linkage between remuneration and economic efficacy and adhered to economic efficacy-orientation. We also further centralized the management of remuneration and improved the remuneration allocation system based on the value of the position and performance to fully reflect the protective and incentive functions of remuneration and continued to improve departmental performance evaluation.

Employees

As of the end of the reporting period, our Bank had a total of 160,109 full-time employees.

Bank’s employees by business function

Item	June 30, 2016	
	Number of employees	Percentage (%)
Management	5,999	3.75
Personal banking	59,449	37.13
Corporate banking	11,408	7.13
Treasury business	1,360	0.85
Financial and accounting	16,889	10.55
Risk management and internal control	10,904	6.81
Others ⁽¹⁾	54,100	33.79
Total	160,109	100.00

(1) Others include administration, information technology and other supporting functions.

Bank's employees by age

Item	June 30, 2016	
	Number of employees	Percentage (%)
Under 30 (inclusive)	58,670	36.64
31 - 40	52,515	32.80
41 - 50	40,135	25.07
Over 51 (inclusive)	8,789	5.49
Total	160,109	100.00

Bank's employees by education level

Item	June 30, 2016	
	Number of employees	Percentage (%)
Master's degree and above	7,361	4.60
Bachelor's degree	87,950	54.93
Associate degree	53,188	33.22
Others	11,610	7.25
Total	160,109	100.00

Bank's employees by geographical region

Item	June 30, 2016	
	Number of employees	Percentage (%)
Head Office	1,400	0.87
Yangtze River Delta	17,250	10.77
Pearl River Delta	17,492	10.93
Bohai Rim	26,503	16.55
Central region	40,911	25.55
Western region	37,172	23.22
Northeastern region	19,381	12.10
Total	160,109	100.00

Institution Management

Our bank-wide management and operation is directed by our head office located in Beijing. We have established tier-1 branches in the capital cities of provinces and autonomous regions, municipalities and cities with independent planning status. As the operation management center within the corresponding regions, tier-1 branches are responsible for managing all branches and sub-branches in their responsible areas and directly report to our head office. Tier-2 branches are generally set up in the prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-2 branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-1 branches in their respective regions. Our tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. Our tier-2 sub-branches primarily undertake the function of business operation. The table below sets forth the number of our branches and sub-branches as of the date indicated.

Number of Branches and Sub-branches of our Bank

Item	June 30, 2016
Tier-1 branches	36
Tier-2 branches	319
Tier-1 sub-branches	2,098
Tier-2 sub-branches and others	6,144
Total	8,597⁽¹⁾

(1) Includes 8,288 outlets.

Subsidiary

The Bank currently has one subsidiary, namely, PSBC Consumer Finance Company Limited. PSBC Consumer Finance Company Limited was established on November 19, 2015 with registered capital of RMB1 billion, of which our Bank holds 61.5%. During the reporting period, PSBC Consumer Finance Company Limited developed well with the balance of loans exceeding RMB1.8 billion as of the end of the reporting period.

Protection of Consumer Interests

During the reporting period, our Bank further improved the organizational system for the protection of consumer interests and established the social responsibility committee of the Board of Directors, which is mainly responsible for evaluating the comprehensiveness, timeliness and effectiveness of the protection of consumer interests throughout our Bank. We carried out a series of activities promoting consumer protection and financial knowledge as part of the performance of our social responsibilities. We also actively engaged in legal education, which has effectively enhanced the level of financial risk awareness and the basic legal knowledge of our employees and customers.

RISK MANAGEMENT

Comprehensive Risk Management System

Our Bank follows the requirements of risk management appetite objectives determined by the Board to continuously develop a prudent and sound comprehensive risk management system. During the first half of 2016, our Bank continued to enhance risk control, optimize risk appetite and policy notification mechanism, as well as to improve criteria for risk rating system. In the ongoing pursuit of risk management capabilities, our Bank strived to form quantitative-based risk management tools and strengthen risk prevention and resolution over key areas.

Credit Risk

Credit risk is the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or its reduced capability to fulfill its contractual obligations. Our Bank is exposed to credit risk primarily through our loan portfolio, treasury business and off-balance sheet credit business.

Credit Risk Management

During the reporting period, our Bank continued to adopt sound and prudent credit risk management policies to continue to build the risk management system. The credit rating system was upgraded and the establishment of internal rating system was accelerated. Business processes and management systems were improved on an ongoing basis, focusing on proactivity and foresight of our risk management. Our Bank also improved the credit structure and, in view of macroeconomic and financial conditions and industrial restructuring, implemented enhanced risk control in key areas, such as real estate, steel and coal industries. In addition, in order to strengthen our credit risk management, our Bank focused on accelerating the disposal of non-performing loans.

Credit Risk Management for Corporate Loan

During the reporting period, in light of the development of the macro economy, our Bank continued to improve credit extension policies, customers' admission standards and credit reviewing techniques, and enhanced appraisal and supervision of credit management and reinforced our Bank's credit management foundation comprehensively.

During the reporting period, our Bank continued to strengthen the risk management and control, improve risk control system, and enhance risk monitoring and warning system. Our Bank also refined credit investigation management and application by reducing the exposure to high-risk customers, in order to effectively manage industry or group-specific risks.

Credit Risk Management for Personal Loan

During the reporting period, we further developed the credit system, strengthened off-site supervision, established suspension and resumption systems for outlets or products, performed inspection of risks relating to key products, optimized the processes, improved our risk management capabilities for personal loans and enhanced targeted management. To strengthen post-loan management, we innovated post-loan management models to increase efficiency through using big data technologies integrated with internal and external data platforms. We implemented relevant regulatory requirements strictly, including, for consumer loans, the implementation of differentiated loan pricing policies to curb irrational speculation, while satisfying households' financing needs for purchase of residential properties for self-use.

Credit Risk Management for Credit Card Business

During the reporting period, in order to prevent credit card risks and strengthen risk management, we took active steps to promote policies innovation and systems upgrading, improving admission criteria for issuing cards, client structure and risk-based return. Our Bank also proactively promoted the establishment of its scoring model system and increased the risk identification capabilities during the pre-lending, lending and post-loan phases. To strengthen risk alert mechanism, we increased risk projection and handling capability through launching an alert system and optimizing alert rules.

DISCUSSION AND ANALYSIS

Credit Risk Management for Treasury Business

During the reporting period, risk management and mitigation measures were further expanded by means of special inspections, external audit, allowance recognized for wealth management, which also contributed to further improvement in compliance and risk management capabilities.

During the reporting period, we established interbank customers cross-verification mechanism so as to strictly manage admission of customers. Meanwhile, our Bank continuously tracked and monitored the risk profile of customers with timely risks alerts, aiming to improve the risk reporting system. Process management was strengthened while business operational procedures were strictly implemented.

Credit Risk Analysis

Maximum Credit Risk Exposure before Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	June 30, 2016	December 31, 2015
Deposits with central bank	1,163,206	1,085,043
Deposits with banks and other financial institutions	149,108	324,137
Placements with banks and other financial institutions	274,039	200,485
Financial assets at fair value through profit or loss	64,550	27,719
Derivative financial assets	1,335	1,073
Financial assets held under resale agreements	340,438	148,868
Loans and advances to customers	2,696,744	2,412,595
Available-for-sale financial assets – debt instruments	506,178	127,021
Held-to-maturity investments	744,948	684,767
Investment classified as receivables	1,516,856	1,883,498
Other financial assets	38,899	32,481
Total of on-balance-sheet items	7,496,301	6,927,687
Credit commitments	374,908	317,690
Total	7,871,209	7,245,377

Non-performing Loan Structure by Collateral*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Loans secured by mortgages ⁽²⁾⁽³⁾	13,655	63.81	11,449	57.60
Loans secured by pledges ⁽²⁾⁽⁴⁾	981	4.58	926	4.66
Guaranteed loans ⁽²⁾	5,745	26.85	6,634	33.38
Unsecured loans	1,018	4.76	866	4.36
Discounted Bills	1	0.00	—	—
Total	21,400	100.00	19,875	100.00

- (1) Calculated by dividing the balance of non-performing loans secured by each type of collateral by total non-performing loans.
- (2) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.
- (3) Represents security interests in certain assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.
- (4) Represents security interests in certain assets, such as moveable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

During the reporting period, the increase in our Bank's balances of non-performing loans mainly comprised overdue loans secured by mortgages, primarily consisting of small enterprise loans and personal business loans extended to small and micro enterprise borrowers and individual entrepreneurs. This reflected the adverse impact of slowdown in economic growth on the business operations and the financial conditions of small and micro enterprises and individual entrepreneurs.

Aging Analysis of Overdue Loan Structure*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 day to 90 days	8,991	0.33	7,721	0.31
Overdue for 91 days to 1 year	11,846	0.43	11,536	0.47
Overdue for 1 year to 3 years	6,756	0.24	5,040	0.20
Overdue for more than 3 years	316	0.01	208	0.01
Total	27,909	1.01	24,505	0.99

As of the end of the reporting period, our balances of overdue loans amounted to RMB27,909 million, representing an increase of RMB3,404 million as compared to the end of the previous year. The increase in our balances of overdue loans was contributed primarily by small enterprise loans and personal business loans. It was, to a large extent, due to weaker repayment ability of small and micro enterprises and individual entrepreneurs, who were relatively vulnerable to risks under the adverse impact of slowdown in the current economic growth, leading to an increase in overdue loans.

Rescheduled Loans and Advances*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Rescheduled loans and advances	544	0.02	381	0.02

Loan Concentration

In millions of RMB, except for percentages

Ten largest single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital (%) ⁽¹⁾
Borrower A ⁽²⁾	Transportation, storage and postal services	223,104	8.08	64.44
Borrower B	Production and supply of electricity, heating, gas and water	17,000	0.62	4.91
Borrower C	Management of water conservancy, environment and public facilities	15,000	0.54	4.33
Borrower D	Transportation, storage and postal services	6,440	0.23	1.86
Borrower E	Mining	5,960	0.22	1.72
Borrower F	Transportation, storage and postal services	5,811	0.21	1.68
Borrower G	Manufacturing	5,740	0.21	1.66
Borrower H	Financial services	5,185	0.19	1.50
Borrower I	Real estate	4,608	0.17	1.33
Borrower J	Production and supply of electricity, heating, gas and water	4,247	0.15	1.23

(1) Represents credit exposure as a percentage of our net capital, calculated in accordance with the requirements of the Capital Administrative Measures (Provisional).

(2) China Railway Corporation was our largest single borrower. As of June 30, 2016, the outstanding loan with China Railway Corporation was RMB223,104 million, representing 64.44% of our net capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which we historically provided to it and was approved by the CBRC. As of June 30, 2016, the outstanding loan under such credit approved by the CBRC for China Railway Corporation was RMB220.0 billion and after the deduction of RMB220.0 billion, our loan balance with China Railway Corporation represented 0.90% of our net capital.

Distribution of Loans by Five-category Classification*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	2,703,613	97.97	2,414,984	97.70
Special mention	34,521	1.25	36,994	1.50
Non-performing loans	21,400	0.78	19,875	0.80
Substandard	4,561	0.17	4,126	0.17
Doubtful	8,187	0.30	6,976	0.28
Loss	8,652	0.31	8,773	0.35
Total	2,759,534	100.00	2,471,853	100.00

Due to the slowdown of macro economy, our Bank enhanced our credit risk management, strengthened risk prevention and control measures, adjusted credit policies in a timely manner, and responded effectively to changes of the external economic and financial condition, ensuring quality of the loan assets. As of the end of the reporting period, our Bank's balance of non-performing loans amounted to RMB21,400 million, representing an increase of RMB1,525 million as compared to the end of the previous year. Non-performing loan ratio was 0.78%, representing a decrease of 0.02 percentage point as compared to the end of the previous year. The balance of special mention loans amounted to RMB34,521 million, representing a decrease of RMB2,473 million as compared to the end of the previous year. Special mention loans ratio was 1.25%, representing a decrease of 0.25 percentage points as compared to the end of the previous year.

Distribution of Non-Performing Loans by Product Type*In millions of RMB, except for percentages*

Item	June 30, 2016			December 31, 2015		
	Non-performing loan balance	Percentage (%)	Non-performing loan ratio ⁽¹⁾ (%)	Non-performing loan balance	Percentage (%)	Non-performing loan ratio ⁽¹⁾ (%)
Corporate loans						
Working capital loans	7,105	33.20	1.99	5,911	29.74	1.79
Fixed asset loans	113	0.53	0.02	108	0.54	0.02
Trade finance loans	1,081	5.05	0.76	1,118	5.63	1.13
Others ⁽²⁾	2	0.01	0.00	2	0.01	0.21
Subtotal	8,301	38.79	0.79	7,139	35.92	0.73
Discounted bills	1	0.00	0.00	—	—	—
Personal loans						
Consumer loans:						
Residential mortgage loans	1,505	7.03	0.21	1,287	6.48	0.22
Other consumer loans	757	3.54	0.42	516	2.60	0.32
Personal business loans	5,302	24.78	1.79	4,580	23.04	1.50
Micro loans	4,850	22.66	3.40	5,744	28.90	4.22
Credit card overdrafts and others	684	3.20	1.39	609	3.06	1.37
Subtotal	13,098	61.21	0.93	12,736	64.08	1.04
Total	21,400	100.00	0.78	19,875	100.00	0.80

(1) Calculated by dividing the balance of non-performing loans in each product type by gross loans in that product type.

(2) Consists of a loan asset portfolio our Bank purchased from a PRC commercial bank in 2010.

During the reporting period, increase in the balance of our non-performing corporate loans mainly concentrated in working capital loans to small enterprises. Over-capacity and traditional industries were depressed due to the slowdown and restructuring of the economy. Small and medium enterprises were jeopardized by the external environment due to their smaller scale. Their credit conditions were vulnerable, which gave rise to non-performing loans.

During the reporting period, increase in our Bank's non-performing personal loans mainly concentrated in personal business loans and consumer loans. As China's economic growth slowed down in recent years, owners of small and micro enterprises and individual businesses with small scale and weak risks resilience, were vulnerable to tighten capital chain and operational difficulties caused by the economic downturn, which led to further deterioration in solvencies.

Distribution of Non-Performing Loans by Geographical Region*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	686	3.21	609	3.06
Yangtze River Delta	2,946	13.77	2,711	13.64
Pearl River Delta	2,002	9.36	1,914	9.63
Bohai Rim	2,771	12.95	2,478	12.47
Central China	4,357	20.36	3,647	18.35
Western China	5,699	26.62	4,868	24.49
Northeastern China	2,939	13.73	3,648	18.36
Total	21,400	100.00	19,875	100.00

During the reporting period, Western China and Central China experienced a greater increase in the balance of non-performing loans by RMB831 million and RMB710 million, respectively, as compared to the end of the previous year, primarily due to the operation difficulties and adverse financial condition of the small and micro enterprises attributable to the economic slowdown, giving rise to non-performing loans.

Distribution of Non-Performing Domestic Corporate Loans by Industry*In millions of RMB, except for percentages*

Item	June 30, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	143	1.72	122	1.71
Manufacturing	3,815	45.96	3,294	46.14
Production and supply of electricity, heating, gas and water	49	0.59	24	0.34
Financial services	—	—	—	—
Wholesale and retail	2,893	34.85	2,498	34.99
Construction	431	5.19	324	4.54
Real estate	19	0.23	9	0.13
Mining	125	1.51	107	1.50
Management of water conservancy, environment and public facilities	23	0.28	26	0.36
Leasing and commercial services	91	1.10	65	0.90
Agriculture, forestry, animal husbandry and fishery	370	4.45	291	4.08
Information transmission, computer services and software	62	0.75	57	0.80
Hotels and catering	187	2.25	200	2.80
Residential services and other services	53	0.64	54	0.76
Culture, sports and entertainment	26	0.31	43	0.60
Others ⁽¹⁾	14	0.17	25	0.35
Total	8,301	100.00	7,139	100.00

(1) Consists primarily of public administration and social organizations, education, scientific studies and technical services, health, social security and social welfare.

During the reporting period, the increase in the balance of our non-performing corporate loans was principally attributable to the manufacturing industry and the wholesale and retail industry.

Currently due to the slowdown of economic growth, the resource-based industry was depressed, and the small and micro enterprises in low-end manufacturing industry related to real estate and mining faced significant challenges, resulting in downsized business, lower accounts receivable turnover ratio and tightened capital chain, giving rise to non-performing loans.

Wholesale and retail enterprises had a relatively weak risk resilience because of their asset-light nature. Currently, due to the economic slowdown, borrowers in the wholesale commodities trading industry were vulnerable to industry risks and faced with operation difficulties and adverse financial condition.

Movements of Allowance for Impairment Losses*In millions of RMB*

Item	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As of January 1, 2016	43,927	13,835	1,496	59,258
Net provision in current period	2,172	5,264	680	8,116
Write-off and transfer out	—	(4,994)	(180)	(5,174)
Recovery of loans and advances written off in previous periods	—	758	13	771
Unwinding of discount on allowance	—	(164)	(17)	(181)
As of June 30, 2016	46,099	14,699	1,992	62,790

Market Risk

Market risk refers to the risk of losses to the on- and off-balance sheet businesses as a result of unfavorable changes in the market prices. Market risk comprises interest rate risk, exchange rate risk, stock price risk and commodity price risk.

Our Bank is exposed to market risks primarily through the assets and liabilities on-balance sheet and the commitments and guarantees off-balance sheet. The major types of market risks that our Bank is exposed to include interest rate risk and exchange rate risk. Our Bank's market risk management organizational structure comprises the Board of Directors and its risk management committee, the senior management and its risk management committee, the Risk Management Department, the Financial Market Department and the Asset and Liability Department. Our Bank has established a market risk management system covering market risk identification, measurement, monitoring and control, which manages market risk by exercising daily monitoring and risk limit management, thereby controlling potential losses arising from market risk at an acceptable range and maximizing the risk-adjusted return.

During the reporting period, our Bank actively responded to the changes in the market environment and the business line expansion in the industry, formulated annual market risk management policies and satisfied limit requirements, continued to strengthen exposure limit management and risk monitoring reports, as well as proactively carried out stress testing, leading to various types of exposures maintained within a controllable range and sound implementation of key risks limits.

Separation of Trading Book and Banking Book

To enhance the effectiveness of market risk management and the accuracy of measurement of regulatory capital required for market risk, our Bank classifies all the on- and off-balance sheet assets and liabilities into either the trading book or the banking book. The trading book includes financial instruments and commodities positions held by our Bank for trading or hedging purposes. Any other positions are classified into the banking book. The market risk our Bank is exposed to mainly arises from positions of interest rate and exchange rate products (including gold).

Market Risk Management of Trading Book

The trading book risk arises from fluctuations in the value of the financial instruments in our Bank's trading book due to changes in interest rates, exchange rates and commodity prices. Our Bank uses means such as duration analysis, price value of basis point, stress test and scenario analysis to assess, measure, monitor and control market risk in our Bank's trading book. Our Bank uses information systems to monitor trading activities and measure associated market risks through valuation, sensitivity analysis and exposure limit management, and prepares market risk analysis reports based on its systems. During the reporting period, our Bank actively tracked the market changes, controlled the risk exposure of the trading book on a reasonable basis, actively followed the regulatory updates and proactively carried out stress testing.

Market Risk Management of Banking Book

Interest Rate Risk Management

Interest rate risk is our Bank's exposure to movements in the market interest rate or the statutory interest rate that may adversely affect its returns. The interest rate risk in our Bank's banking book arises primarily from the mismatch in the re-pricing dates or maturity dates of our Bank's interest rate-sensitive on- and off-balance sheet assets and liabilities.

Our Bank manages interest rate risk in its banking book primarily through setting exposure limits, adjusting re-pricing term structure, and matching the maturity of its assets and liabilities.

DISCUSSION AND ANALYSIS

During the first half of 2016, our Bank actively dealt with the negative impact and challenges brought by the interest rate cuts and the interest rate liberalization, properly took advantage of re-pricing cycle and optimized the maturity structure. We improved the pricing management mechanism, promoted the differentiated pricing strategy, timely adjusted the pricing authorization, improved the abilities of our Bank's head office, branches and sub-branches to adapt to market changes and distinguish customers to differentiate pricing, enhanced interest rates monitoring and key products management, as well as focused on the balanced development of volume and price. Our Bank continued to consolidate the measurement basis of the interest rate risk, strengthened the utilization and optimization of the interest rate risk management system, and measured the interest rate risk by various methods, including gap analysis, duration analysis and static scenario analogy. Analysis and forecast related to net interest margin was enhanced. Product and maturity structures of the asset and liability portfolio were properly adjusted to ensure the overall interest rate risk level is controlled within a manageable range.

Exchange Rate Risk Management

Exchange rate risk is our Bank's exposure to exchange rate fluctuations arising primarily from mismatch in the currency denomination of our Bank's on- and off-balance sheet assets and liabilities. Our Bank seeks to manage the adverse effects of exchange rate changes within a tolerable range by setting exposure limits and adjusting the currency mix of our Bank's assets and liabilities.

During the first half of 2016, our Bank continued to enhance the monitoring of foreign exchange exposures, developed foreign currency denominated assets and liabilities business in a balanced manner, and managed the trading exposure of exchange rate risks through spot and forward foreign exchange transactions. Our Bank also strengthened the management of currency matching of foreign currency denominated assets and liabilities, maintained the structural exposure of exchange rate risks at a basically stable level, and ensured the exchange rate risk exposure is within a reasonable range.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest earning
June 30, 2016	(1,063,543)	705,389	(468,590)	181,277	527,275	348,679
December 31, 2015	(554,486)	(221,769)	43,586	267,332	467,722	223,542

Interest Rate Sensitivity Analysis

In millions of RMB

Item	June 30, 2016 Movements in net interest income	December 31, 2015 Movements in net interest income
Movements in yield rate basis points		
Increased by 100 basis points (subject to adjustment based on the situation of the Bank)	(6,180)	(7,112)
Decreased by 100 basis points (subject to adjustment based on the situation of the Bank)	6,180	7,112

Exchange Rate Risk Analysis

The major currency of our Bank for daily operation is Renminbi. As of the end of the reporting period, our Bank's financial assets and liabilities denominated in foreign currencies amounted to RMB46,144 million and RMB15,394 million respectively, representing 0.58% of our total assets and 0.20% of our total liabilities respectively. For analysis of our exchange rate risk, see Note 42.4 Market Risk - Foreign exchange risk to the Condensed Consolidated Financial Statements.

Liquidity Risk

Liquidity risk management

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting our Bank's liquidity include changes in the maturity profiles of our Bank's assets and liabilities and the monetary policies of the central bank. The primary objective of our Bank's liquidity risk management is to maintain sufficient funding at all times to fulfill our payment obligations and working capital requirements.

In recent years, our Bank continuously enhanced the building of liquidity risk management system, regulated the liquidity risk governance structure and delineated the duties and responsibilities, such as decision-making, supervision, management and implementation, among the board of directors, the board of supervisors and senior management (兩會一層), departments, business lines and branches; formulated the annual limit management plan according to the risk limits and set the pre-warning alert limit; determined the criteria and limits of tier classification of liquid reserve assets of our Bank, regulated the replenishment and disposal process of reserve assets, established a dynamic adjustment mechanism for the limits of reserve assets; conducted liquidity risk measurement, monitoring and pre-warning by relying on information systems; established a financing working group and emergency working group under the asset and liability management committee to conduct research and make judgment proactively on macro monetary policies and market liquidity, analyze the matching conditions of maturities of assets and liabilities, discuss the financing strategies and enhance the foresight management abilities; conducted quarterly liquidity risk stress test, formulated liquidity contingency plan and carried out liquidity emergency drills.

DISCUSSION AND ANALYSIS

During the reporting period, our Bank implemented the liquidity risk appetite and continued to adhere to our prudent and sound liquidity risk management policies. In light of the interest rate liberalization, financial reform and innovation and monetary policy adjustments by the central bank, our Bank enhanced the unified coordination and dynamic monitoring of our liquidity to effectively maintain the balance among security, liquidity and profitability of its capital funds. Our Bank put active efforts on, among other things, system development, limit management, financing management, reserve asset management, emergency management, system construction and prospective management, maintaining the liquidity at a stable and healthy level with a leading position among banks in the PRC.

Liquidity risk analysis

In the first half of 2016, the PRC monetary policies remained stable and the short-term liquidity in the market was adequate in general. Meanwhile, a favourable growth trend of deposits enabled our Bank to maintain sufficient liquidity.

Liquidity gap analysis

The table below sets out the net position of our Bank's liquidity as of the dates indicated. Our Bank assessed liquidity risk through liquidity gap analysis.

Net position of liquidity

In millions of RMB

	Overdue	On demand	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Undated	Total
June 30, 2016	11,101	(2,721,406)	321,336	(78,216)	(1,597,512)	1,111,128	2,049,808	1,134,248	230,487
December 31, 2015	9,274	(2,466,965)	(251,361)	(524,760)	(648,265)	1,143,161	1,897,028	1,067,815	225,927

As of the end of June 2016, the negative gap on demand increased as compared to the end of the previous year, primarily due to increase in demand liabilities in line with expanded scale of deposits; the negative gap less than one year decreased by RMB69,994 million as compared to the end of the previous year, the positive gap between one and five years was substantially the same as the end of the previous year and the positive gap more than five years increased by RMB152,780 million as compared to the end of the previous year.

Appendix II sets out details of our Bank's liquidity coverage ratio as of the end of the reporting period.

Operational Risk

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events.

During the reporting period, our Bank strictly followed the Guidelines on the Operational Risk Management of Commercial Banks promulgated by the CBRC (《商業銀行操作風險管理指引》) and implemented a centralized management and multi-level control strategy for operational risk management. Our Bank implemented practical and effective operational risk management policies and strengthened key-position personnel management and frontline risk management talent team development; fully planned and carried out three-year establishment of internal control compliance activities, established a sound internal control system, business and management process and improved internal control measures; further improved the prevention and control system of non-compliance incidents, enhanced the long-term mechanism for prevention and control of non-compliance incidents, implemented administrative measures for inspections on risks of non-compliance incidents and controlled our Bank's operational risks and operational risk losses at a lower level.

Legal and Compliance Risk

Legal risk is the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights of others or otherwise in connection with any contract or business activity in which our Bank is involved. Compliance risk is the risk of being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of failing to comply with applicable laws, regulations and rules.

During the reporting period, our Bank continuously improved the legal risk management system and procedures, continued to strengthen its capacity of legal and compliance risk management and improved its ability to provide services and support for business transformation and innovative development. Moreover, standardization of business contracts was further adopted, the legal basis of contracts was strengthened, and the standards of legal inspection of specific business were further improved to effectively enhance the refined management level of legal inspection within our Bank. In addition, our Bank optimized the litigation management process, improved work efficiency and focused on prevention and management of litigations, especially those where our Bank was the defendant. Besides, our Bank actively collected non-performing loans through legal means and improved the effectiveness of legal collection. Additionally, our Bank continued to optimize authorization management procedures and improve authorization standardization of branches to ensure compliance of its operations with laws and regulations.

Anti-Money laundering

During the reporting period, we orderly carried out anti-money laundering work. We also optimize our anti-money laundering system on an ongoing basis by implementing an additional 73 automatic models for identifying suspicious transactions, improving the procedures for manual analysis of the suspicious transactions, adding suspicious transactions quality assessment function, supplementing annual filing and categorized filing of anti-money laundry of the PBOC and strengthening the management of standardization of assessment of risks of money laundering of clients. We have analyzed the problems identified by regulatory authorities in 2015 in order to rectify in a timely manner.

Information Technology Risk

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural or human factors, technical loopholes and management failure arising from our use of information technology. During the reporting period, we continued to enhance the development of information technology risk management system, promote the implementation of responsibilities of information technology risk management among our various departments, and support our sound operations through routine, streamlined and ongoing information technology risk management.

Reputational Risk

Reputational risk is the risk of negative media coverage or perception relating to our business, operation, management, human resources and other actions that we take, as well as external events relating to us. During the reporting period, we continued to improve reputational risk system development, identify, monitor, assess and report reputational risk-related events on a 24 hour basis, check the abilities to handle media-related issues of all branches, enhance our social influence and promote brand image continuously.

Consolidated Risk Management

Consolidated management refers to the comprehensive and continuous management and control of corporate governance, capital and finance of the Group and its affiliates and the effective identification, measurement, monitoring and control of the overall risk of the Group.

During the reporting period, our Bank incorporated PSBC Consumer Finance Company Limited into the scope of consolidated risk management after having identified its strategy and business position. In addition, we continuously enhanced our consolidated risk management level through improving the corporate governance of the Group, strengthening consolidated capital management, firewall and risk prevention mechanism and risk information reporting system.

Capital Management

During the reporting period, we aimed to maintain our capital at a level commensurate with our risk profile, continuously developed capital management system and proactively explored a capital-based business model by optimizing assets structure so as to improve the efficiency of capital utilization. We also continued to improve the management of capital adequacy planning, capital limit control and daily monitoring of capital adequacy ratio, continuously improved capital constraint mechanism in respect of capital measurement, capital deployment, capital monitoring and capital assessment, to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements.

During the reporting period, we actively improved the overall planning and implementation of the New Capital Accord, promoted the implementation of advanced capital measurement method and optimized business structure and refined capital management so as to continuously improve the capital utilization efficiency and capital management capacity. We also disclosed capital management information in compliance with the regulatory requirements in order to meet the requirements of regulatory compliance continuously.

Capital Adequacy Ratio

As of the end of the reporting period, PSBC Consumer Finance Company Limited is the only subsidiary within the scope of consolidated capital management of our Bank.

Pursuant to the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) and coupled with our Bank's development, the standardized approach was practically adopted for the measurement of credit risk weighted assets, the standardized approach was adopted for the measurement of market risk weighted assets, the basic indicator approach was adopted for the measurement of operational risk weighted assets, and our Bank had strictly complied with the minimum requirements of capital adequacy. As of the end of the reporting period, our Bank's capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio was 10.04%, 8.17% and 8.17%, respectively.

Capital Adequacy Ratio Table

In millions of RMB, except for percentages

Item	June 30, 2016		December 31, 2015	
	The Group	The Bank	The Group	The Bank
Core tier-1 capital	281,711	281,713	269,008	269,001
Tier-1 capital	281,716	281,713	269,009	269,001
Net capital	346,217	346,194	329,848	329,834
Total risk-weighted assets	3,447,348	3,446,606	3,153,015	3,153,352
Credit risk-weighted assets	3,198,729	3,197,987	2,902,153	2,902,490
Market risk-weighted assets	19,829	19,829	22,072	22,072
Operational risk-weighted assets	228,790	228,790	228,790	228,790
Core tier-1 capital adequacy ratio	8.17%	8.17%	8.53%	8.53%
Tier-1 capital adequacy ratio	8.17%	8.17%	8.53%	8.53%
Capital adequacy ratio	10.04%	10.04%	10.46%	10.46%

Market Risk Capital Requirements

In millions of RMB

Item	June 30, 2016	December 31, 2015
Interest rate risk	786	365
Stock market risk	—	—
Exchange rate risk	801	1,401
Commodity risk	—	—
Option risk	—	—

DISCUSSION AND ANALYSIS

Leverage Ratio

Please refer to Appendix III for details of our leverage ratio.

Composition of Capital

Please refer to Appendix IV for details of composition of our capital.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

As of the date of this interim report, the composition of the Board of Directors, the Board of Supervisors and senior management of the Bank is as follows:

The Board of Directors of the Bank has 12 directors in total, including three executive Directors, namely Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong; five non-executive Directors, namely Mr. Li Guohua, Mr. Yang Songtang, Mr. Tang Jian, Mr. Lai Weiwen and Mr. Chin Hung I David; four independent non-executive Directors, namely Mr. Ma Weihua, Ms. Bi Zhonghua, Mr. Fu Tingmei and Mr. Gan Peizhong.

The Board of Supervisors of the Bank has nine Supervisors in total. Among them, three are shareholders representative Supervisors, namely Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang; three are external Supervisors, namely Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; and three are employee Supervisors, namely Mr. Dang Junzhang, Mr. Li Yue and Mr. Song Changlin.

The Bank has six senior management members in total, namely Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Qu Jiawen, Mr. Xu Xueming and Mr. Shao Zhibao.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors

On May 31, 2016, the 2015 annual general meeting of the Bank elected Mr. Lyu Jiajin and Mr. Zhang Xuewen to be reappointed as executive Directors of the Bank, elected Mr. Yang Songtang and Mr. Tang Jian to be reappointed as non-executive Directors of the Bank, elected Ms. Yao Hong as executive Director of the Bank, elected Mr. Chin Hung I David as non-executive Director of the Bank, elected Mr. Fu Tingmei and Mr. Gan Peizhong as independent non-executive Directors of the Bank. The professional qualifications of Ms. Yao Hong, Mr. Chin Hung I David, Mr. Fu Tingmei and Mr. Gan Peizhong were approved by the CBRC on August 12, 2016.

Changes in Supervisors

On March 18, 2016, the 2016 first employee representatives' meeting of the Bank elected Mr. Li Yue to be reappointed as employee Supervisor of the Bank and elected Mr. Dang Junzhang and Mr. Song Changlin as employee Supervisors of the Bank, with the term of office starting from the date of consideration and approval of the employee representatives' meeting. On May 31, 2016, the 2015 annual general meeting of the Bank elected Mr. Chen Yuejun to be reappointed as shareholder representative Supervisor of the Bank, elected Mr. Li Yujie and Mr. Zhao Yongxiang as shareholder representative Supervisors of the Bank and elected Mr. Zeng Kanglin and Mr. Wu Yu as external Supervisors of the Bank, with the term of office starting from the date of consideration and approval of the shareholders' general meeting. The meeting of the Board of Supervisors of the Bank elected Mr. Chen Yuejun as chairman of the Board of Supervisors of the Bank.

Changes in Senior Management

During the reporting period, there were no changes in the senior management of the Bank.

SIGNIFICANT EVENTS

INTERESTS AND SHORT POSITIONS HELD BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As of June 30, 2016, we were not a listed company. To the knowledge of our Directors, immediately following the listing, the following persons (except the Directors, the Supervisors and chief executive of the Bank) had or were deemed to have interests or short positions in shares or underlying shares of the Bank which have to be notified pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Class of shares	Number of shares held	Nature	Percentage of total issued shares (%)	Percentage of issued class shares (%)
China Post Group Corporation (中國郵政集團公司)	Legal and beneficial owner	Domestic shares	55,877,600,310	Long position	69.23	91.30
UBS AG ⁽¹⁾	Legal and beneficial owner	H shares	3,423,340,000	Long position	4.24	17.55
CSIC Investment One Limited ⁽²⁾	Legal and beneficial owner	H shares	3,423,340,000	Long position	4.24	17.55
Shanghai International Port Group (HK) Co., Limited ⁽³⁾	Legal and beneficial owner	H shares	3,349,490,000	Long position	4.15	17.17
China Life Insurance Company Limited ⁽⁴⁾	Legal and beneficial owner	Domestic shares	3,341,900,000	Long position	4.14	5.46
Victory Global Group Limited ⁽⁵⁾	Legal and beneficial owner	H shares	1,629,579,000	Long position	2.02	8.35
China National Tobacco Corporation	Legal and beneficial owner	H shares	1,296,000,000	Long position	1.61	6.64
National Council for Social Security Fund of the PRC	Legal and beneficial owner	H shares	1,144,853,000	Long position	1.42	5.87

- (1) UBS Group AG holds 100% shares of UBS AG and is therefore deemed to be interested in the H Shares held by UBS AG under the SFO. In addition, please also refer to the allotment results announcement issued by the Bank on September 27, 2016 regarding the details of 8,100,000 and 20,000,000 H Shares placed to UBS OCONNOR NEWCO DSA and UBS SWITZERLAND AG (both being wholly-owned subsidiaries of UBS AG) respectively, which in aggregate represents approximately 0.03% of the total issued share capital (or approximately 0.14% of H Shares) of our Bank at the time of listing.
- (2) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited holds 60% and 40% of the interests of CSIC Investment One Limited, respectively. China Shipbuilding & Offshore International Co., Ltd. holds 100% of the interests of China Shipbuilding & Offshore International (H.K.) Co., Limited, and China Shipbuilding Industry Corporation directly holds 53.41% of the interests of China Shipbuilding & Offshore International Co., Ltd. and 100% of the interests of China Shipbuilding Capital Limited. They are therefore deemed to be interested in the H Shares held by CSIC Investment One Limited under the SFO.
- (3) Shanghai International Port (Group) Co., Ltd. holds 100% of the equity interest in Shanghai International Port Group (HK) Co., Limited, and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Shanghai International Port Group (HK) Co., Limited.
- (4) China Life Insurance (Group) Company, an enterprise owned by the whole people, holds approximately 68.37% shares of China Life Insurance Company Limited and is therefore deemed to be interested in the Domestic Shares held by China Life under the SFO.
- (5) HNA Capital Group Co., Ltd. holds 100% of the equity interests in Victory Global Group Limited. HNA Group Co., Ltd. holds 100% of the interests of HNA Capital Group Co., Ltd. Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司) holds 70% of the interests of HNA Group Co., Ltd. Shengtang Development (Yangpu) Co., Ltd. (盛唐發展(洋浦)有限公司) holds 50% of the interests of Hainan Traffic Administration Holding Co., Ltd., Hainan Province CiHang Foundation (海南省慈航公益基金會) holds 65% of the interests of Shengtang Development (Yangpu) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Victory Global Group Limited.

CORPORATE GOVERNANCE

The Bank complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules from the listing date.

INTERNAL CONTROL AND INTERNAL AUDIT

Internal Control

The Bank has established a sound internal control organizational structure to specify the internal control responsibilities among the Board of Directors, the Board of Supervisors and the senior management, to improve the internal control measures and to guarantee the adequacy and effectiveness of the internal control system.

During the reporting period, the Bank initiated the internal control system construction consultation project and engaged Deloitte Touche Tohmatsu Certified Public Accountants to conduct internal control diagnosis and benchmarking and promote the construction of the internal control system in an all-round manner.

Optimization of the internal control compliance management system. We have formulated policies such as the “Postal Savings Bank of China Compliance Policy” to specify the compliance management organizational structure, the division of responsibilities, management procedures and safeguard measures.

Increasing efforts in compliance risk prevention, control and inspection. Our Bank has formulated the on-site inspection plan for 2016, achieved inspection results and information sharing through joint inspection and avoided “absence of inspection” and “excessive inspection” so as to better bring into play the supervisory and promoting role of due inspection in operations and management.

Expediting the promotion and application of the compliance management system to provide strong support for improving the compliance management standard of the Bank. During the reporting period, the Bank initiated the establishment of the compliance management system of Postal Savings Bank of China. The compliance management system has been successfully promoted and launched in 13 tier-1 branches. The system covers a total of 14,712 outlets.

During the reporting period, the Bank conscientiously carried out the work of identifying non-performing loan liabilities and further enhanced the compliance operation awareness and responsibility awareness of employees of the Bank, which played an important role in effectively preventing and controlling asset business risks and enhancing the internal control management standard.

Internal Audit

The Bank implements an internal audit system and has built a three-tier audit structure consisting of the Audit Office at our head office, the regional audit offices and the audit departments of our tier-1 branches, initially achieving an independent and relatively vertical audit supervision system that adapts to the development needs of the Bank.

In the first half of 2016, we fully implemented the audit resupervision function under the comprehensive risk management framework. Adhering the problem-oriented audit concept, we benchmarked the new requirement of “introduction and listing (引戰上市)” and conscientiously performed the duties of supervision, evaluation and consultation in accordance with the principle of “monitoring risks, promoting rectification, achieving effectiveness, managing processes and enhancing capabilities”. To strengthen the basic management and rationalize the existing system, we amended various audit business management measures such as the audit charter and the “Measures for the Administration of Anti-money Laundering Special Audit of Postal Savings Bank of China (2016 Edition) (中國郵政儲蓄銀行反洗錢專項審計管理辦法 (2016年版))”, facilitated the establishment of the audit management system and planned to complete the establishment of a new generation audit management system in the coming year, and built a professional team and enhanced audit skill training.

PROFIT AND DIVIDEND DISTRIBUTION

During the reporting period, in accordance with the relevant provisions in the share subscription agreements entered into between the Bank and strategic investors and upon consideration by the 2016 first extraordinary general meeting of the Bank, the Bank distributed a special dividend of RMB9 billion to China Post Group in respect of profits generated between January 1, 2015 and December 17, 2015. Other than that, there was no other profit and dividend distribution during the reporting period.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATION

During the reporting period, there were no legal proceedings and arbitration with material impact on the business operations of the Bank.

As of June 30, 2016, we were the defendant or arbitration respondent in several pending and material litigations or arbitrations each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB1,491 million. The Bank considers that these pending cases will not have any material adverse impact on the business, financial position or results of operations of the Bank.

MAJOR ASSET ACQUISITION, DISPOSAL AND MERGER BY ABSORPTION

During the reporting period, the Bank did not have any major asset acquisition, disposal and merger by absorption.

RELATED PARTY TRANSACTIONS

Please refer to the content of Notes to the Condensed Consolidated Financial Statements for details of related party transactions during the reporting period.

PLEDGE OF ASSETS

For information relating to the pledge of assets of the Bank, see Note 39.5 to the Condensed Consolidated Financial Statements.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

During the reporting period, we and our subsidiary did not purchase, sell or redeem any of the listed securities of the Bank.

IMPLEMENTATION OF THE SHARE INCENTIVE PLAN

During the reporting period, the Bank did not implement any share incentive plan.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted a code of conduct no less exacting than the standards as provided in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules for securities transactions by Directors and Supervisors. The Directors and Supervisors of the Bank confirmed that they have complied with the above code from the Listing Date to the date of this interim report.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' RIGHTS TO SUBSCRIBE FOR SHARES OR BONDS

At no time during the reporting period were rights to acquire benefits by means of acquisition of shares or bonds of the Bank granted to any Directors, chief executive, Supervisors or their respective spouse or minor children, nor were any such rights exercised by them, or was the Bank, or its subsidiary a party to any arrangement that enables the Directors or Supervisors or their respective spouse or minor children to acquire such rights in any other body corporate.

INTERESTS OF DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of the date this interim report, none of the Directors, chief executive or Supervisors of the Bank owned any interests or short positions (including interests and short positions which they were deemed to have, under provisions of the SFO, in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

INTERIM REVIEW

The 2016 Interim Financial Report of the Group has not been audited. The 2016 Interim Financial Report prepared by the Group in accordance with the IFRSs was reviewed by PricewaterhouseCoopers in accordance with the International Standards on Review Engagements.

The Audit Committee of the Board of Directors of the Group has reviewed and approved this Interim Report.

REVIEW REPORT AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Postal Savings Bank of China Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 77 to 175, which comprises the condensed consolidated statement of financial position of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (together, the "Group") as at June 30, 2016 and the related condensed consolidated comprehensive income statement, the condensed consolidated statement of changes in shareholders' equity and the condensed consolidated cash flows for the six months period then ended, and a summary of significant accounting policies and other 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". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board (the "IAASB"). 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 interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, September 28, 2016

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

	Notes	Six months ended June 30	
		2016 (unaudited)	2015 (unaudited)
Interest income	3	142,276	150,181
Interest expense	3	(60,639)	(62,457)
Net interest income	3	81,637	87,724
Fee and commission income	4	9,889	7,809
Fee and commission expense	4	(4,023)	(3,668)
Net fee and commission income	4	5,866	4,141
Net trading gains/(losses)	5	559	(4)
Net gains on investment securities	6	4,264	309
Other operating income	7	960	328
Operating income		93,286	92,498
Operating expenses	8	(62,187)	(58,212)
Impairment losses on assets	9	(4,964)	(8,660)
Profit before tax		26,135	25,626
Income tax expense	10	(2,919)	(4,672)
Net profit		23,216	20,954
Net profit attributable to			
Shareholders of the Bank		23,229	20,954
Non-controlling interests		(13)	—

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2016 (unaudited)	2015 (unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		—	(79)
Subtotal		—	(79)
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of available-for-sale financial assets		(1,782)	1,690
Amortization of unrealized fair value changes after reclassification to held-to-maturity investments		(48)	(48)
Less: related income tax impact		457	(412)
Subtotal		(1,373)	1,230
Total comprehensive income for the period		21,843	22,105
Total comprehensive income attributable to:			
Shareholders of the Bank		21,856	22,105
Non-controlling interests		(13)	—
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	11	0.34	0.37

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

	Notes	As at June 30, 2016 (unaudited)	As at December 31, 2015 (audited)
Assets			
Cash and deposits with central bank	12	1,207,058	1,131,231
Deposits with banks and other financial institutions	13	149,108	324,137
Placements with banks and other financial institutions	14	274,039	200,485
Financial assets at fair value through profit or loss	15	64,550	27,719
Derivative financial assets	16	1,335	1,073
Financial assets held under resale agreements	17	340,438	148,868
Loans and advances to customers	18	2,696,744	2,412,595
Investment instruments			
Available-for-sale financial assets	19	876,246	390,683
Held-to-maturity investments	19	744,948	684,767
Investment classified as receivables	19	1,516,856	1,883,498
Property and equipment	21	36,394	36,546
Deferred tax assets	22	9,923	9,199
Other assets	23	56,836	45,563
Total assets		7,974,475	7,296,364

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

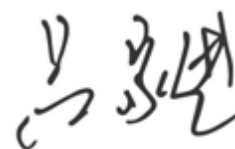
	Notes	As at June 30, 2016 (unaudited)	As at December 31, 2015 (audited)
Liabilities			
Deposits from banks and other financial institutions	25	322,848	91,351
Placements from banks and other financial institutions	26	54,877	70,859
Financial liabilities at fair value through profit or loss	27	6,443	4,139
Derivative financial liabilities	16	1,346	1,039
Financial assets sold under repurchase agreements	28	267,447	394,817
Customer deposits	29	6,896,142	6,305,014
Debt securities issued	30	24,974	24,973
Other liabilities	31	116,724	133,341
Total liabilities		7,690,801	7,025,533
Equity			
Share capital	32	68,604	68,604
Capital reserve	33	36,887	36,887
Other reserves	34	104,780	106,153
Retained earnings		73,033	58,804
Equity attributable to shareholders of the Bank		283,304	270,448
Non-controlling interests		370	383
Total equity		283,674	270,831
Total equity and liabilities		7,974,475	7,296,364

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

The condensed consolidated financial information were approved and authorised for issue by the Board of Directors on September 28, 2016 and are signed on its behalf by:



On behalf of Board of Directors



On behalf of Board of Directors

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

Notes	Attributable to shareholders of the Bank									
	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves		Retained earnings	Total	Non-controlling interests	Total equity
					Investment revaluation reserve					
As at January 1, 2016	68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831	
Profit for the period	—	—	—	—	—	23,229	23,229	(13)	23,216	
Other comprehensive income	—	—	—	—	(1,373)	—	(1,373)	—	(1,373)	
Total comprehensive income for the period	—	—	—	—	(1,373)	23,229	21,856	(13)	21,843	
Appropriations to surplus reserve	34	—	—	—	—	—	—	—	—	
Appropriations to general reserve	34	—	—	—	—	—	—	—	—	
Dividends	35	—	—	—	—	(9,000)	(9,000)	—	(9,000)	
As at June 30, 2016 (unaudited)	68,604	36,887	16,411	84,754	3,615	73,033	283,304	370	283,674	

Notes	Attributable to shareholders of the Bank									
	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves		Retained earnings	Total	Non-controlling interests	Total equity
					Investment revaluation reserve					
As at January 1, 2015	57,000	3,448	12,925	66,887	2,351	45,298	187,909	—	187,909	
Profit for the year	—	—	—	—	—	34,859	34,859	(2)	34,857	
Other comprehensive income	—	(97)	—	—	2,637	—	2,540	—	2,540	
Total comprehensive income for the year	—	(97)	—	—	2,637	34,859	37,399	(2)	37,397	
Appropriations to surplus reserve	34	—	—	3,486	—	(3,486)	—	—	—	
Appropriations to general reserve	34	—	—	17,867	—	(17,867)	—	—	—	
Share issuance	32	11,604	33,536	—	—	—	45,140	—	45,140	
Capital injection by non-controlling interest in setting up a subsidiary	20	—	—	—	—	—	—	385	385	
As at December 31, 2015 (audited)	68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831	

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2016 (unaudited)	2015 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	26,135	25,626
Adjustments for:		
Amortization of intangible assets and other assets	601	776
Depreciation of property and equipment and investment properties	1,698	1,736
Impairment losses on assets	4,964	8,660
Interest income arising from investment instruments	(53,032)	(38,061)
Interest expense arising from debt securities issued	561	—
Net gains on investment securities	(4,257)	(120)
Net losses from disposal of property, equipment and other assets	4	1
	(23,326)	(1,382)
NET CHANGES IN OPERATING ASSETS AND OPERATING LIABILITIES		
Net decrease in deposits with central bank, banks and other financial institutions	111,474	57,736
Net increase in placements with banks and other financial institutions	(21,226)	(1,134)
Net decrease in placements from banks and other financial institutions	(15,982)	(9,021)
Net decrease in financial assets held under resale agreements	16,679	207,724
Net decrease in financial assets sold under repurchase agreements	(127,369)	(62,177)
Net increase in loans and advances to customers	(292,146)	(375,645)
Net increase in customer deposits and deposits from banks and other financial institutions	824,739	281,593
Net increase in other operating assets	(30,161)	(13,379)
Net decrease in other operating liabilities	(16,312)	(7,141)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2016 (unaudited)	2015 (unaudited)
CASH FROM OPERATIONS	426,370	77,174
Income tax paid	(5,966)	(7,334)
NET CASH FROM OPERATING ACTIVITIES	420,404	69,840
Net cash flows from operating activities include:		
Interest received	90,265	109,602
Interest paid	(70,293)	(69,438)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from disposal of investment instruments	1,032,157	165,894
Cash received from interest income arising from investment instruments	51,889	38,429
Cash paid for purchase of investment instruments	(1,211,002)	(286,939)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets	(2,381)	(2,057)
Cash received from disposal of property and equipment, intangible assets and other long-term assets	134	13
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	(129,203)	(84,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,000)	—
Cash paid relating to other financing activities	(21)	(33)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	(9,021)	(33)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	282,180	(14,853)
Balance of cash and cash equivalents at beginning of period	227,361	537,941
Effect of foreign exchange rate changes	559	(29)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	510,100	523,059

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

1 GENERAL INFORMATION

Postal Savings Bank of China Co., Ltd. (hereinafter referred to as the “Bank” or “PSBC”) is a joint-stock commercial bank controlled by China Post Group. The Bank, originally known as Postal Savings Bank of China Company Limited (hereinafter referred to as the “Company”) was established on March 6, 2007 (“establishment date”) through restructuring of the postal savings system.

In 2011, with the approval from the Ministry of Finance (hereinafter referred to as the “MOF”) of the People’s Republic of China (“China” or the “PRC”) and China Banking Regulatory Commission (hereinafter referred to as the “CBRC”), the Company was restructured into a joint-stock bank, with China Post Group as the sole sponsor. On January 21, 2012, the Bank officially changed its name to Postal Savings Bank of China Co., Ltd.

The Bank, as approved by the CBRC, holds a financial institution license of the PRC (No. B0018H111000001) and obtained its business license with unified social credit code 9111000071093465XC from the State Administration for Industry and Commerce. The address of the Bank’s registered office is No. 3 Jinrong Street, Xicheng District, Beijing, the PRC.

The Bank and its subsidiary (hereinafter referred to as the “Group”) conducts its operating activities in the PRC, and its principal activities include: personal and corporate financial services, treasury operations and other business activities as approved by the CBRC.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This unaudited condensed consolidated interim financial statements for the six months ended June 30, 2016 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”, and all applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial statements should be read in conjunction with the financial information of the Group presented in the Appendix I to the Prospectus of the Bank dated September 14, 2016 (the “Prospectus”), which has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

2.2 Use of estimates and assumptions

The preparation of the interim financial statements 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.

In preparing this condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied in the preparation of the financial information as contained in the Appendix I to the Prospectus.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Except for those described below, the accounting policies and methods of computation used in preparing the condensed consolidated financial statements for the six months ended June 30, 2016 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2015. The condensed consolidated interim financial statements should be read in conjunction with the financial information presented in the Appendix I to the Prospectus of the Bank.

New and revised IFRSs effective by January 1, 2016 adopted by the Group

Amendment to IAS 1	Amendment to Disclosure Initiative	January 1, 2016
Amendment to IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Clarification of methods of disposal	January 1, 2016
Amendment to IFRS 7	Financial Instruments: Disclosures – Clarification regarding servicing contracts and interim financial statements	January 1, 2016
Amendment to IFRS 10 and Amendment to IAS 28	On the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
Amendment to IFRS 11 (revised)	Accounting for Acquisition of Interests in Joint Operations	January 1, 2016
Amendment to IFRS 14	Regulatory Deferral Accounts	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Amendment to IAS 19	Employee Benefits – Clarification of determination of discount rates for post-employment benefit obligations	January 1, 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016
Amendment to IAS 34	Interim Financial Reporting – Clarification of information disclosed elsewhere in the interim financial report	January 1, 2016

The application of these new and revised IFRSs do not have significant impacts on the Group's operating results, comprehensive income and financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leasing	January 1, 2019

The Group is in the process of assessing the impact of the new standards and amendments on the condensed consolidated financial statements. So far it has concluded that the adoption of them is unlikely to have a significant impact on the condensed consolidated financial statements except for the followings:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

Standards and amendments that are not yet effective and have not been adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 are subsequently measured at amortized cost or fair value under IFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under IFRS 9 that will change the way the Group classifies and measures its financial assets in 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale financial assets' under the existing IAS 39.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

Standards and amendments that are not yet effective and have not been adopted by the Group (continued)

IFRS 9 Financial Instruments (continued)

The Group is analyzing its business models, loans and other financial instruments' contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Group's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the risk management organization, process and key functions, budgeting and performance review, as well as the IT systems. The Group is starting to carry out an assessment of the need for any system modification related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training.

The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Group's operating results and financial position has not yet been quantified.

IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation transferred to customers. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required under IFRS 15.

The Group assesses that adopting IFRS 15 would not have a material impact to the Group's financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

***Standards and amendments that are not yet effective and have not been adopted by the Group
(continued)***

IFRS 16 Lease

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the statement of comprehensive income, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at June 30, 2016, the Group has non-cancellable operating lease commitments of RMB12.4 billion, see note 39.4. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

3 NET INTEREST INCOME

	Six months ended June 30	
	2016	2015
Interest income		
Deposits with central bank	9,498	12,663
Deposits with banks and other financial institutions	4,880	19,039
Placements with banks and other financial institutions	5,256	3,780
Financial assets at fair value through profit or loss	149	221
Financial assets held under resale agreements	2,971	8,911
Loans and advances to customers		
Including: Corporate loans and advances	28,950	29,638
Personal loans and advances	37,540	37,868
Available-for-sale financial assets	2,858	2,885
Held-to-maturity investments	12,755	12,631
Investment classified as receivables	37,419	22,545
Subtotal	142,276	150,181
Interest expense		
Deposits from banks and other financial institutions	(3,124)	(469)
Placements from banks and other financial institutions	(950)	(76)
Financial assets sold under repurchase agreements	(4,731)	(1,134)
Customer deposits	(51,273)	(60,778)
Debt securities issued	(561)	—
Subtotal	(60,639)	(62,457)
Net interest income	81,637	87,724
Including:		
Interest income accrued on impaired financial assets	181	174
Included in interest income		
Interest income from listed investments	16,044	16,562
Interest income from unlisted investments	37,137	21,720

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Notes	Six months ended June 30	
		2016	2015
Settlement and clearing fee income	(1)	2,831	2,802
Bank cards and POS fee income		2,418	2,184
Wealth management fee income		2,135	896
Agency service fee income	(2)	1,446	1,152
Custody business income		408	221
Others		651	554
Fee and commission income		9,889	7,809
Fee and commission expense	(3)	(4,023)	(3,668)
Net fee and commission income		5,866	4,141

- (1) Settlement and clearing fee income refers to income derived from settlement services provided for institutional and individual customers, mainly includes fee and commission derived from cross-province transactions and foreign exchange services.
- (2) Agency fee income mainly refers to fee and commission income from various agency services, including sales of insurance, funds, government bonds underwriting and collection and payment services.
- (3) Fee and commission expenses are mainly expenses incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 37.3(1) for expenses paid by the Bank to China Post Group.

5 NET TRADING GAINS/(LOSSES)

	Six months ended June 30	
	2016	2015
Debt securities	595	(19)
Derivative financial instruments	(36)	15
Total	559	(4)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

6 NET GAINS ON INVESTMENT SECURITIES

	Six months ended June 30	
	2016	2015
Net gains from disposal of available-for-sale financial assets	3,994	138
Net re-valuation gains reclassified from other comprehensive income on disposal	154	135
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	48	48
Net gains/(losses) from disposal of investment classified as receivables	68	(12)
Total	4,264	309

7 OTHER OPERATING INCOME

	Six months ended June 30	
	2016	2015
Government subsidies	389	269
Precious metal sales income	342	74
Net exchange gains/(losses)	113	(172)
Leasing income	75	62
Others	41	95
Total	960	328

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

8 OPERATING EXPENSES

	Notes	Six months ended June 30	
		2016	2015
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	17,170	16,097
Deposit agency fees	(2)	29,697	26,757
Other general operating and administrative expenses		8,466	7,932
Business taxes and surcharges	(3)	2,827	3,887
Depreciation and amortization		2,299	2,391
Auditors' remuneration		8	8
Others		1,720	1,140
Total		62,187	58,212

(1) Staff costs (including emoluments of directors, supervisors and senior management)

	Six months ended June 30	
	2016	2015
Short-term employee benefits		
Wages and salaries, bonuses, allowances and subsidies	12,501	12,427
Staff welfare	469	465
Social security contributions	717	538
Including: Medical insurance	654	476
Work injury insurance	26	29
Maternity insurance	37	33
Housing funds	1,118	848
Labour union funds and employee education funds	379	317
Subtotal	15,184	14,595
Defined contribution benefits		
Basic pensions	1,535	1,130
Unemployment insurance	77	72
Annuity scheme	366	298
Subtotal	1,978	1,500
Supplementary retirement benefits (Note 31(1))	8	2
Total	17,170	16,097

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

8 OPERATING EXPENSES (continued)

- (2) Deposit agency fees are payments by the Bank to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Bank (Note 37.3(1)).
- (3) Business tax was calculated at 5% of taxable income before April 30, 2016. Pursuant to the “Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes from Business Taxes Reform” (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) issued by the MOF and the State Administration of Taxation, the Bank and its subsidiary are required to pay value added taxes instead of business taxes from May 1, 2016. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.

9 IMPAIRMENT LOSSES ON ASSETS

	Six months ended June 30	
	2016	2015
Loans and advances to customers	8,116	8,082
Placements with banks and other financial institutions	(1,491)	5
Investment classified as receivables	(1,731)	543
Others	70	30
Total	4,964	8,660

During the six months ended June 30, 2016, the Bank reviewed and made the best estimates of the risk profiles of placements with banks and other financial institutions based on historical default data and a write-back is made thereof.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

10 INCOME TAX EXPENSE

	Six months ended June 30	
	2016	2015
Current income tax	3,186	4,565
Deferred income tax (Note 22)	(267)	107
Total	2,919	4,672

Corporate income tax is calculated as 25% of estimated taxable profit. Pre-tax deductible items of corporate income tax are governed by the relevant regulations of the PRC.

Reconciliation of income tax expense and profits presented in the consolidated income statement are as follows:

	Notes	Six months ended June 30	
		2016	2015
Profit before income tax		26,135	25,626
Income tax calculated at the statutory tax rate of 25%		6,534	6,407
Tax effect of items not deductible for tax purpose	(1)	11	116
Tax effect of income not taxable for tax purpose	(2)	(3,626)	(1,851)
Income tax expense		2,919	4,672

- (1) Non-deductible expenses primarily include losses resulting from loans written-off, staff costs and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.
- (2) Non-taxable income mainly included interest income from government bonds, local government bonds, railway construction bonds, long term special financial bonds and micro loans to farmers, which is not subject to income tax in accordance with the relevant PRC tax regulations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

11 BASIC AND DILUTED EARNINGS PER SHARE

- (1) Basic earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Six months ended June 30	
	2016	2015
Net profit attributable to shareholders of the Bank (in RMB million)	23,229	20,954
Weighted average number of ordinary shares in issue (in million)	68,604	57,000
Basic earnings per share (in RMB Yuan)	0.34	0.37

- (2) For the six months ended June 30, 2016 and 2015, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

12 CASH AND DEPOSITS WITH CENTRAL BANK

	Notes	As at June 30, 2016	As at December 31, 2015
Cash on hand		43,852	46,188
Statutory reserve with central bank	(1)	1,133,338	1,066,727
Surplus reserve with central bank	(2)	29,027	17,294
Fiscal deposits with central bank		841	1,022
Total		1,207,058	1,131,231

- (1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at June 30, 2016, the ratio for RMB deposits statutory reserve was 16.5% (December 31, 2015: 17%), whereas the ratio for foreign currency deposits was 5% (December 31, 2015: 5%).
- (2) Surplus reserve with the central bank represents deposits placed with the central bank for settlement and clearance of interbank transactions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at June 30, 2016	As at December 31, 2015
Deposits with:		
Domestic banks	142,276	320,445
Other domestic financial institutions	—	3
Overseas banks	6,832	3,689
Total	149,108	324,137

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at June 30, 2016	As at December 31, 2015
Placements with:		
Domestic banks	91,973	37,459
Other domestic financial institutions	180,468	164,668
Overseas banks	1,749	—
Gross amount	274,190	202,127
Allowance for impairment losses (Note 24)	(151)	(1,642)
Carrying amounts	274,039	200,485

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	As at June 30, 2016	As at December 31, 2015
Financial assets held for trading			
Debt securities:			
– Listed in Hong Kong		1,144	149
– Listed outside Hong Kong		12,815	6,944
– Unlisted		53	33
Subtotal		14,012	7,126
Certificates of deposits			
– Listed outside Hong Kong		43,164	16,454
– Unlisted		862	—
Subtotal		44,026	16,454
Total of financial assets held for trading	(1)	58,038	23,580
Financial assets designated at fair value through profit or loss	(2)		
Asset management plans			
– Unlisted		6,512	4,139
Total		64,550	27,719

The debt securities above are mainly traded in the China Domestic Interbank Bond Market.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Financial assets at fair value through profit or loss is analyzed by types of issuers:

	Notes	As at June 30, 2016	As at December 31, 2015
Financial assets held for trading			
Debt securities:			
Issuers from Hong Kong			
– Corporates		17	—
Issuers from Mainland China			
– Government		375	120
– Financial institutions		9,914	1,949
– Corporates		3,552	5,057
Subtotal		13,841	7,126
Issuers from other countries and regions			
– Financial institutions		154	—
Total of debt securities		14,012	7,126
Certificates of deposits			
– Financial institutions from Mainland China		44,026	16,454
Total of financial assets held for trading	(1)	58,038	23,580
Designated at fair value through profit or loss	(2)		
Asset management plans			
– Financial institutions from Mainland China		6,512	4,139
Total		64,550	27,719

(1) There are no significant restraints on the ability of the Group to convert its financial assets hold for trading into cash.

(2) For the six months ended June 30, 2016, the fair value of the Group's financial assets designated as at fair value through profit or loss has no significant changes due to changes arising from their credit risk exposures.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

16 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group primarily enters into derivative contracts of foreign exchange rate and interest rate, which are related to trading, asset and liability management, and customer driven transactions.

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as of balance sheet dates are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

By types of contracts

	As at June 30, 2016		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	227,968	1,311	(1,296)
Interest rate contracts	47,218	24	(50)
Total	275,186	1,335	(1,346)

	As at December 31, 2015		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	156,699	1,044	(1,009)
Interest rate contracts	52,374	29	(30)
Total	209,073	1,073	(1,039)

As at June 30, 2016 and December 31, 2015, the Group did not have any netting arrangements or similar agreements with counterparties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

16 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Analyzed by credit risk weighted amount for counterparty

	As at June 30, 2016	As at December 31, 2015
Credit risk weighted amount for counterparties		
Exchange rate contracts	698	525
Interest rate contracts	15	14
Subtotal	713	539
Credit value adjustments	371	265
Total	1,084	804

The contractual/notional amounts of derivatives only represent the volume of unsettled transactions as at the end of the reporting period, rather than their risk adjusted amounts. The Group adopted Administrative Measures for the Capital Management of Commercial Banks (Provisional) and other related regulations since January 1, 2013. According to CBRC rules and requirements, the counterparty's credit risk-weighted assets now include adjustments to credit valuations, which are calculated based on the positions of counterparties and the specifics of the remaining maturities.

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at June 30, 2016	As at December 31, 2015
By collateral:		
Bills	12,945	32,796
Debt securities	324,493	113,072
Loans and others	3,000	3,000
Total	340,438	148,868

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 39.5 Contingent liabilities and commitments - Collateral". As at June 30, 2016 and December 31, 2015, the Group did not have any netting arrangements or similar agreements with counterparties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in millions of RMB unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

18.1 Loans and advances by types

	As at June 30, 2016	As at December 31, 2015
Corporate loans and advances		
Loans	1,045,481	980,980
Discounted bills	312,779	268,303
Subtotal	1,358,260	1,249,283
Personal loans and advances		
Consumer loans	912,719	736,939
– Residential mortgage loans	732,353	577,256
– Other consumer loans	180,366	159,683
Personal business loans	296,766	304,930
Micro loans	142,471	136,207
Credit card overdrafts and others	49,318	44,494
Subtotal	1,401,274	1,222,570
Gross loans and advances	2,759,534	2,471,853
Less: Allowance for impairment losses		
– Individual assessment	(1,992)	(1,496)
– Collective assessment	(60,798)	(57,762)
Net loans and advances	2,696,744	2,412,595

18.2 Detail information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation are set out in Note 42.2(2), Note 42.2(3) and Note 42.2(4).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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18 LOANS AND ADVANCES TO CUSTOMERS (continued)

18.3 Loans and advances by assessment results

	Loans and advances not identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed Individually	Total	Those identified as impaired as a percentage of total loans and advances
As at June 30, 2016					
Gross loans and advances	2,738,134	18,949	2,451	2,759,534	0.78%
Allowances for impairment losses	(46,099)	(14,699)	(1,992)	(62,790)	
Loans and advances to customers, net	2,692,035	4,250	459	2,696,744	
As at December 31, 2015					
Gross loans and advances	2,451,978	17,815	2,060	2,471,853	0.80%
Allowances for impairment losses	(43,927)	(13,835)	(1,496)	(59,258)	
Loans and advances to customers, net	2,408,051	3,980	564	2,412,595	

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For the six months ended June 30, 2016

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18 LOANS AND ADVANCES TO CUSTOMERS (continued)

18.4 Movements of the allowance for impairment losses by assessment results

	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at January 1, 2016	43,927	13,835	1,496	59,258
Net provision in current period	2,172	5,264	680	8,116
Write-off and transfer out	—	(4,994)	(180)	(5,174)
Recovery of loans and advances written off in previous years	—	758	13	771
Unwinding of discount on allowance	—	(164)	(17)	(181)
As at June 30, 2016	46,099	14,699	1,992	62,790

	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at January 1, 2015	34,244	8,859	578	43,681
Net provision in current year	9,683	12,085	1,418	23,186
Write-off and transfer out	—	(7,114)	(467)	(7,581)
Recovery of loans and advances written off in previous years	—	565	—	565
Unwinding of discount on allowance	—	(560)	(33)	(593)
As at December 31, 2015	43,927	13,835	1,496	59,258

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

18.5 Movement of allowance for impairment losses by borrower types

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2016	28,643	30,615	59,258
Net provision in current period	3,179	4,937	8,116
Write-off and transfer out	(1,771)	(3,403)	(5,174)
Recovery of loans and advances written off in previous years	199	572	771
Unwinding of discount on allowance	(91)	(90)	(181)
As at June 30, 2016	30,159	32,631	62,790

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2015	20,942	22,739	43,681
Net provision in current year	10,493	12,693	23,186
Write-off and transfer out	(2,489)	(5,092)	(7,581)
Recovery of loans and advances written off in previous years	53	512	565
Unwinding of discount on allowance	(356)	(237)	(593)
As at December 31, 2015	28,643	30,615	59,258

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

19 INVESTMENT INSTRUMENTS

19.1 Available-for-sale financial assets

	Note	As at June 30, 2016	As at December 31, 2015
Debt securities			
– Listed in Hong Kong		2,126	338
– Listed outside Hong Kong		134,591	103,238
– Unlisted		799	165
Subtotal		137,516	103,741
Asset-backed securities			
– Listed outside Hong Kong		26,675	23,280
Equity instruments	(1)		
– Unlisted		370,068	263,662
Debt instruments			
– Unlisted		341,987	—
Total		876,246	390,683

The above debt instruments listed outside Hong Kong are mainly traded in the China Domestic Interbank Bond Market.

(1) Equity instruments mainly include money market funds, asset management plans and wealth management products.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

19 INVESTMENT INSTRUMENTS (continued)

19.1 Available-for-sale financial assets (continued)

Analyzed by types of issuers

	As at June 30, 2016	As at December 31, 2015
Debt securities		
Issuers from Hong Kong		
– Financial institutions	394	—
Issuers from Mainland China		
– Government	48,375	36,901
– Financial institutions	77,200	55,186
– Corporates	10,781	11,654
Subtotal	136,750	103,741
Issuers from other countries and regions		
– Financial institutions	766	—
Total of debt securities	137,516	103,741
Asset-backed securities		
– Financial institutions from Mainland China	26,675	23,280
Equity instruments		
– Financial institutions from Mainland China	370,068	263,662
Other debt instruments		
– Unlisted	341,987	—
Total	876,246	390,683

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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19 INVESTMENT INSTRUMENTS (continued)

19.1 Available-for-sale financial assets (continued)

Movement of available-for-sale financial assets:

	January 1, 2016	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	June 30, 2016
Amortized cost	385,340	962,126	(474,781)	—	—	872,685
Fair value	5,343	—	—	(154)	(1,628)	3,561

	January 1, 2015	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	December 31, 2015
Amortized cost	136,601	441,544	(192,805)	—	—	385,340
Fair value	1,730	—	—	(213)	3,826	5,343

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(All amounts in millions of RMB unless otherwise stated)

19 INVESTMENT INSTRUMENTS (continued)

19.2 Held-to-maturity investments

	As at June 30, 2016	As at December 31, 2015
Debt securities		
– Listed in Hong Kong	970	721
– Listed outside Hong Kong	741,812	679,536
– Unlisted	66	195
Subtotal	742,848	680,452
Certificates of deposits		
– Listed outside Hong Kong	—	2,072
Asset-backed securities		
– Listed outside Hong Kong	2,100	2,243
Total	744,948	684,767
Fair value of listed held-to-maturity investments	768,618	710,865

The investments above listed outside Hong Kong are mainly traded in the China Domestic Interbank Bond Market.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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19 INVESTMENT INSTRUMENTS (continued)

19.2 Held-to-maturity investments (continued)

Analyzed by types of issuers

	As at June 30, 2016	As at December 31, 2015
Debt securities		
Issuers from Mainland China		
– Government	446,562	357,101
– Public institutions and quasi-government	570	570
– Financial institutions	248,129	274,937
– Corporates	47,487	47,844
Issuers from other countries and regions		
– Financial institutions	100	—
Subtotal	742,848	680,452
Certificates of deposits		
– Financial institutions from Mainland China	—	2,072
Asset-backed securities		
– Financial institutions from Mainland China	2,100	2,243
Total	744,948	684,767

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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19 INVESTMENT INSTRUMENTS (continued)

19.3 Investment classified as receivables

	Note	As at June 30, 2016	As at December 31, 2015
Debt securities			
– Listed outside Hong Kong		109,907	107,406
– Unlisted	(1)	976,027	976,127
Subtotal		1,085,934	1,083,533
Asset-backed securities			
– Unlisted		58,995	48,598
Other debt instruments			
– Unlisted	(2)	374,136	755,307
Allowance for impairment losses			
– collective assessment		(2,209)	(3,940)
Total		1,516,856	1,883,498

The above investments listed outside Hong Kong are mainly traded in the China Domestic Interbank Bond Market.

- (1) Debt securities included RMB778 billion long term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.
- (2) Other debt instruments primarily comprise trust investment plans, asset management plans and wealth management products.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19 INVESTMENT INSTRUMENTS (continued)

19.3 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at June 30, 2016	As at December 31, 2015
Debt securities		
Issuers from Mainland China		
– Government	3,854	2,217
– Financial institutions	1,075,630	1,076,413
– Corporates	6,450	4,903
Subtotal	1,085,934	1,083,533
Asset-backed securities		
– Financial institutions from Mainland China	58,995	48,598
Other debt instruments		
– Financial institutions from Mainland China	374,136	755,307
Allowance for impairment losses		
– collective assessment	(2,209)	(3,940)
Total	1,516,856	1,883,498

20 INVESTMENT IN SUBSIDIARY

	As at June 30, 2016	As at December 31, 2015
Investment cost	615	615

In November 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. (“PSBC Consumer Finance”). Registered in Guangzhou with a registered capital of RMB1 billion, PSBC Consumer Finance mainly engages in personal consumer loans; consumer financing advisory and agency services; agency sales of consumer loans related insurance products; borrowing from domestic financial institutions; authorized issuance of financial bonds; lending to domestic financial institutions; and fixed income securities investments. All service offerings are restricted to consumer financing only.

As at June 30, 2016, the Bank owned 61.5% equity interest and voting rights of PSBC Consumer Finance (December 31, 2015: 61.5%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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21 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2016	32,380	8,569	931	4,522	7,520	53,922
Add: Additions	332	147	4	57	1,651	2,191
Transfer-in from construction in progress	1,112	652	—	225	(1,989)	—
Less: Disposals	(184)	(83)	(2)	(9)	—	(278)
Transfer-out to investment properties	(196)	—	—	—	—	(196)
Transfer-out from construction in progress	—	—	—	—	(402)	(402)
As at June 30, 2016	33,444	9,285	933	4,795	6,780	55,237
Accumulated depreciation						
As at January 1, 2016	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Add: Charge for the period	(822)	(483)	(23)	(337)	—	(1,665)
Less: Disposals	50	77	2	9	—	138
Transfer-out to investment properties	60	—	—	—	—	60
As at June 30, 2016	(8,576)	(6,712)	(837)	(2,718)	—	(18,843)
Carrying amount						
As at June 30, 2016	24,868	2,573	96	2,077	6,780	36,394
As at January 1, 2016	24,516	2,263	115	2,132	7,520	36,546

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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21 PROPERTY AND EQUIPMENT (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2015	30,910	7,583	912	3,889	7,472	50,766
Add: Additions	820	627	32	589	2,813	4,881
Transfer-in from investment properties	33	—	—	—	—	33
Transfer-in from construction in progress	1,169	618	—	127	(1,914)	—
Less: Disposals	(539)	(259)	(13)	(83)	—	(894)
Transfer-out to investment properties	(13)	—	—	—	—	(13)
Transfer-out from construction in progress	—	—	—	—	(851)	(851)
As at December 31, 2015	32,380	8,569	931	4,522	7,520	53,922
Accumulated depreciation						
As at January 1, 2015	(6,300)	(5,636)	(738)	(1,761)	—	(14,435)
Add: Charge for the year	(1,583)	(936)	(90)	(676)	—	(3,285)
Transfer-in from investment properties	(6)	—	—	—	—	(6)
Less: Disposals	21	266	12	47	—	346
Transfer-out to investment properties	4	—	—	—	—	4
As at December 31, 2015	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Carrying amount						
As at December 31, 2015	24,516	2,263	115	2,132	7,520	36,546
As at January 1, 2015	24,610	1,947	174	2,128	7,472	36,331

Upon the Bank's establishment and restructuring, China Post Group injected certain property and equipment to the Bank as its capital contribution. Part of the properties were still in the process of renewing ownership certificates, with net book value amounted to RMB1.0 billion as at June 30, 2016 (December 31, 2015: RMB1.1 billion).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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21 PROPERTY AND EQUIPMENT (continued)

In addition, as at June 30, 2016, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with net book value of RMB1.7 billion (December 31, 2015: RMB1.7 billion).

The management of the Group believed the defects of the above mentioned properties did not have any material adverse effect on our business operations, operating performance and financial position.

All land and buildings of the Group were located outside Hong Kong.

Property and equipment held under finance leases are as follows:

	Cost	Accumulated depreciation	Carrying amount
As at June 30, 2016			
Electronic equipment	8	(7)	1
Motor vehicles	7	(6)	1
Office equipment and others	—	—	—
Total	15	(13)	2
As at December 31, 2015	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	16	(12)	4
Motor vehicles	7	(5)	2
Office equipment and others	7	(6)	1
Total	30	(23)	7

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22 DEFERRED TAXATION

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following is the analysis of the deferred tax balances:

	As at June 30, 2016	As at December 31, 2015
Deferred tax assets	9,923	9,199

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Deductible losses	Total
January 1, 2016	10,725	128	(1,656)	2	9,199
Credit/(Charge) to profit or loss	356	1	(98)	8	267
Credit to other comprehensive income	—	—	457	—	457
June 30, 2016	11,081	129	(1,297)	10	9,923

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Deductible losses	Total
January 1, 2015	7,143	642	(787)	—	6,998
Credit/(Charge) to profit or loss	3,582	(514)	10	2	3,080
Credit to other comprehensive income	—	—	(879)	—	(879)
December 31, 2015	10,725	128	(1,656)	2	9,199

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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22 DEFERRED TAXATION (continued)

- (2) Deferred income tax assets and liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at June 30, 2016		As at December 31, 2015	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	44,324	11,081	42,901	10,725
Fair value changes of financial instruments	—	—	44	11
Staff cost accrued but not paid	516	129	510	128
Deductible losses	41	10	7	2
Total	44,881	11,220	43,462	10,866
Deferred tax liabilities				
Fair value changes of financial instruments	(5,188)	(1,297)	(6,669)	(1,667)
Total	(5,188)	(1,297)	(6,669)	(1,667)
Net carrying amount	39,693	9,923	36,793	9,199

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23 OTHER ASSETS

	Notes	As at June 30, 2016	As at December 31, 2015
Interest receivable		35,043	30,837
Accounts receivable and temporary payments		5,504	3,977
Long-term prepaid expenses	(1)	1,364	1,555
Land use rights	(2)	1,874	1,901
Investment properties		858	755
Intangible assets		1,632	1,475
Others		10,811	5,294
Gross amount		57,086	45,794
Allowances for doubtful accounts receivable (Note 24)		(250)	(231)
Net value		56,836	45,563

- (1) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating lease.
- (2) Land use rights are classified in other assets and amortized over a straight-line basis over the respective lease periods, which range from 10 to 40 years.

24 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

	As at June 30, 2016				
	Balance at the beginning of the period	Current period provision/ (write-back)	Increase/(Decrease) in current period		Balance at the end of the period
			Recovery	Written off and transferred out	
Allowance for impairment losses of placements with banks and other financial institutions	1,642	(1,491)	—	—	151
Allowance for impairment losses of investments classified as receivables	3,940	(1,731)	—	—	2,209
Allowance for impairment losses of loans and advances to customers	59,258	8,116	590	(5,174)	62,790
Allowance for impairment losses of other assets	231	70	—	(51)	250
Total	65,071	4,964	590	(5,225)	65,400

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (continued)

	As at December 31, 2015				
	Balance at the beginning of the year	Current year provision	Decrease in current year		Balance at the end of the year
			Recovery	Written off and transferred out	
Allowance for impairment losses of placements with banks and other financial institutions	1,093	549	—	—	1,642
Allowance for impairment losses of investments classified as receivables	2,272	1,668	—	—	3,940
Allowance for impairment losses of loans and advances to customers	43,681	23,186	(28)	(7,581)	59,258
Allowance for impairment losses of other assets	447	197	—	(413)	231
Total	47,493	25,600	(28)	(7,994)	65,071

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at June 30, 2016	As at December 31, 2015
Deposits from:		
Domestic banks	218,013	60,215
Other domestic financial institutions	104,835	31,136
Total	322,848	91,351

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26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at June 30, 2016	As at December 31, 2015
Placements from:		
Domestic banks	54,593	69,039
Other domestic financial institutions	—	500
Overseas banks	284	1,320
Total	54,877	70,859

27 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at June 30, 2016	As at December 31, 2015
Wealth management products	6,443	4,139

The Group designates its principal-guaranteed wealth management products as financial liabilities at fair value through profit or loss, and designates its investments made with proceeds from these wealth management products as financial assets at fair value through profit or loss. As at June 30, 2016 and December 31, 2015 there was no significant discrepancy between the fair value of the Group's wealth management products and the contractual amount payable to the holders of these products upon maturity. During the six months ended June 30, 2016, and the year ended December 31, 2015, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in the Group's own credit risks.

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at June 30, 2016	As at December 31, 2015
Analyzed by type of collateral:		
Debt securities	258,010	386,767
Bills	9,437	8,050
Total	267,447	394,817

The collateral pledged under repurchase agreement is disclosed in "Note 39.5 Contingent liabilities and commitments - Collateral".

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(All amounts in millions of RMB unless otherwise stated)

29 CUSTOMER DEPOSITS

	As at June 30, 2016	As at December 31, 2015
Demand deposits		
Corporates	693,530	616,251
Personal	2,129,160	2,051,015
Subtotal	2,822,690	2,667,266
Time deposits		
Corporates	330,301	301,356
Personal	3,741,986	3,335,615
Subtotal	4,072,287	3,636,971
Other deposits	1,165	777
Total	6,896,142	6,305,014

As at June 30, 2016, customer deposits received by the Group included pledged deposits of RMB27.6 billion (December 31, 2015: 22.7 billion).

30 DEBT SECURITIES ISSUED

	As at June 30, 2016	As at December 31, 2015
Subordinated debts	24,974	24,973

In September 2015, upon the approval from CBRC and PBOC, the Group issued RMB25 billion of 10-year tier-2 capital bonds of at a fixed interest rate of 4.5%, paying interest annually. The Group has an option to redeem part or all of the bonds at par value in September 2020 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBRC. If the Group does not exercise this redemption right, the annual interest rate would remain at 4.5% from September 2020 onward. The tier-2 capital bonds contain a write-down feature, which allows the Group to write down the entire principal of the bonds when a regulatory triggering event occurs as stipulated in the offering documents and not to pay any outstanding interests payable that have been accumulated. These tier-2 capital bonds meet the relevant criteria of CBRC and are qualified for tier-2 capital instruments.

On April 6, 2016, the Board of Directors resolved to issue qualified tier-2 instruments up to RMB50 billion to enhance capital adequacy, which was approved by CBRC on June 17, 2016. As at June 30, 2016, the Group has not issued these bonds.

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31 OTHER LIABILITIES

	Note	As at June 30, 2016	As at December 31, 2015
Interest payable		81,663	91,317
Payables for agency services		9,820	15,828
Employee benefits payable	(1)	7,235	6,219
Settlement and clearance payables		4,959	4,221
Value added taxes and other taxes payable		2,599	2,476
Payables to China Post Group and its subsidiaries		1,659	1,309
Exchange transaction payables		1,160	1,229
Corporate income tax		814	3,584
Payable for construction cost		655	604
Payable for finance lease		17	38
Others		6,143	6,516
Total		116,724	133,341

(1) Employee benefits payable

	Notes	As at June 30, 2016	As at December 31, 2015
Short-term employee benefits	(i)	6,119	4,963
Defined contribution benefits	(ii)	608	741
Supplementary retirement benefits	(iii)	508	515
Total		7,235	6,219

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

31 OTHER LIABILITIES (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits

	As at June 30, 2016			
	Balance at the beginning of the period	Increase in current period	Decrease in current period	Balance at the end of the period
Wages and salaries, bonus, allowances and subsidies	4,517	12,501	(11,630)	5,388
Staff welfare	4	469	(461)	12
Social security contributions	25	717	(616)	126
Including: Medical insurance	22	654	(555)	121
Work injury insurance	1	26	(25)	2
Maternity insurance	2	37	(36)	3
Housing funds	16	1,118	(1,065)	69
Labour union funds and employee education funds	401	379	(256)	524
Total	4,963	15,184	(14,028)	6,119

	As at December 31, 2015			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Wages and salaries, bonus, allowances and subsidies	2,131	25,726	(23,340)	4,517
Staff welfare	4	1,257	(1,257)	4
Social security contributions	33	1,184	(1,192)	25
Including: Medical insurance	30	1,053	(1,061)	22
Work injury insurance	1	61	(61)	1
Maternity insurance	2	70	(70)	2
Housing funds	16	1,881	(1,881)	16
Labour union funds and employee education funds	213	796	(608)	401
Total	2,397	30,844	(28,278)	4,963

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31 OTHER LIABILITIES (continued)

(1) Employee benefits payable (continued)

(ii) Defined contribution benefits

	As at June 30, 2016			
	Balance at the beginning of the period	Increase in current period	Decrease in current period	Balance at the end of the period
Basic pensions	66	1,535	(1,509)	92
Unemployment insurance	5	77	(72)	10
Annuity scheme	670	366	(530)	506
Total	741	1,978	(2,111)	608

	As at December 31, 2015			
	Balance at beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Basic pensions	66	2,594	(2,594)	66
Unemployment insurance	5	148	(148)	5
Annuity scheme	518	575	(423)	670
Total	589	3,317	(3,165)	741

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31 OTHER LIABILITIES (continued)

(1) Employee benefits payable (continued)

(iii) Supplementary retirement benefits

The retirement benefit obligations of the Group refer to supplementary benefits for retirees and early-retirees recognized in the consolidated comprehensive income statement using the projected unit credit method as follows:

	As at June 30, 2016	As at December 31, 2015
Balance at the beginning of the period/year	515	437
Interest expenses	8	16
Gain or loss from actuarial calculation	—	92
Charge to profit or losses	—	(5)
Charge to other comprehensive income	—	97
Benefits paid	(15)	(30)
Balance at the end of the period/year	508	515

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	As at June 30, 2016	As at December 31, 2015
Discount rate-retirement benefit plan	3.25%	3.25%
Discount rate-early retirement benefit plan	2.75%	2.75%
Annual growth rate of average medical expenses	8.00%	8.00%
Annual growth rates of retiree expenses	3% and 0%	3% and 0%
Annual growth rates of early-retiree expenses	6%, 3% and 0%	6%, 3% and 0%
Normal retirement age		
– Male	60	60
– Female	55, 50	55, 50

Assumption for future mortality rate is based on the China Life Insurance Mortality Table (2000-2003), which is the statistical information publicly available in China.

As at June 30, 2016 and December 31, 2015, the Group has no default on the staff costs payable above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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32 SHARE CAPITAL

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at June 30, 2016	As at December 31, 2015
Number of shares, issued and fully paid at par value (in millions)		
– At the beginning of the period/year	68,604	57,000
– Addition in current period/year	—	11,604
At the end of the period/year	68,604	68,604

33 CAPITAL RESERVE

	As at June 30, 2016	As at December 31, 2015
Asset revaluation surplus from the Bank's joint stock restructuring	3,448	3,448
Capital premium	33,536	33,536
Remeasurement of retirement benefit obligations	(97)	(97)
Total	36,887	36,887

34 OTHER RESERVES

34.1 Surplus reserve

	As at June 30, 2016	As at December 31, 2015
At the beginning of the period/year	16,411	12,925
Appropriations	—	3,486
At the end of the period/year	16,411	16,411

In accordance with *the Company Law of the People's Republic of China*, the Bank's Articles of Association and the resolutions of its Board of Directors, the Bank shall appropriate 10% of its net profit for the year to the statutory surplus reserve, and can cease appropriation when the statutory surplus reserve accumulates to more than 50% of the registered capital.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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34 OTHER RESERVES (continued)

34.2 General reserve

	As at June 30, 2016	As at December 31, 2015
At the beginning of the period/year	84,754	66,887
Appropriations	—	17,867
At the end of the period/year	84,754	84,754

In accordance with the “Administrative Measures for Provisioning of Financial Enterprises” (金融企業準備金計提管理辦法) issued by the MOF on March 30, 2012, the balance of general risk reserve should be no less than 1.5% of its risk assets at the end of each year. Banks are required to make adequate provisions to its general risk reserve within 5 years from July 1, 2012.

34.3 Investment revaluation reserve

	Gross amount	Taxation effect	Net carrying amount
January 1, 2016	6,649	(1,661)	4,988
Changes in fair value of available-for-sale financial assets	(1,628)	406	(1,222)
Transferred to profit or loss			
– Upon disposal of available-for-sale financial assets	(154)	39	(115)
– Others	(48)	12	(36)
June 30, 2016	4,819	(1,204)	3,615
	Gross amount	Taxation effect	Net carrying amount
January 1, 2015	3,133	(782)	2,351
Changes in fair value of available-for-sale financial assets	3,826	(956)	2,870
Transferred to profit or loss			
– Upon disposal of available-for-sale financial assets	(213)	53	(160)
– Others	(97)	24	(73)
December 31, 2015	6,649	(1,661)	4,988

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35 DIVIDENDS

The Bank's first extraordinary shareholders' meeting on March 3, 2016 approved the Bank's distribution of RMB9 billion cash dividends attributable to the profits for the period between January 1, 2015 and December 17, 2015 to China Post Group with RMB0.158 per share, and the Bank paid RMB5 billion and RMB4 billion of the dividends to China Post Group on March 14, 2016 and April 28, 2016 respectively (December 31, 2015: nil).

36 CASH AND CASH EQUIVALENTS

For the purpose of presentation of the consolidated cash flow statements, cash and cash equivalents include the following balances with an original maturity within 3 months:

	As at June 30, 2016	As at December 31, 2015
Cash	43,852	46,188
Deposits with central bank	29,025	17,294
Deposits with banks and other financial institutions	9,220	6,342
Placements with banks and other financial institutions	86,946	36,109
Financial assets held under resale agreements	329,608	121,359
Short-term debt securities	11,449	69
Total	510,100	227,361

37 TRANSACTIONS WITH RELATED PARTIES

37.1 Information of the parent company

(1) **General information of the parent company**

	Place of registration	Nature of business
China Post Group	Beijing, the PRC	Domestic and international mail delivery, distribution of publications, stamps issuance, postal remittance, confidential correspondence communication, postal financial, postal express delivery and postal logistics, etc.

MOF holds 100% shares and voting rights of China Post Group.

- (2) As at June 30, 2016, and December 31, 2015, China Post Group held 83.08% and 83.08% of the equity shares and voting rights in the Bank respectively.

37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.2 Information of major related parties

Name of enterprise	Relationship with the Group
China Postal Express & Logistics Limited and its subsidiaries	Under the common control of China Post Group
China Post Life Insurance Limited	Under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd.	An associate of China Post Group

37.3 Related party transactions

(1) Services from China Post Group and its provincial branches

In addition to conducting commercial banking services at its owned business locations, the Group also engages China Post Group and its provincial branches as agents to provide certain commercial banking services at China Post Group's business locations where financial operating licenses have been obtained. These commercial banking services mainly include: deposits taking; bank card (debit card) services, repayment of credit cards; electronic banking business; agency underwriting and redemption of government bonds; certification of personal deposits; agency sales of fund products and personal wealth management products, and other agency services. In accordance with the *Interim Administrative Measures for Institutional Agency of Postal Savings Bank of China* (中國郵政儲蓄銀行代理營業機構管理暫行辦法) issued by CBRC, all agency operations were provided by China Post Group under bases of fees determined in accordance with the *Agency Banking Businesses Framework Agreement (2012)* (代理銀行業務框架協議(2012)) and the *Agreement on Entrusted and Agency Banking Services* (委託代理銀行業務協議) entered into between the Bank and China Post Group and its provincial branches.

For RMB deposit-taking services, the basis is computed based on the principle of "Fixed Rate, Scaled Fees Based on Deposit Types (固定費率、分檔計費)", i.e. different deposit agency fees rates are applicable to savings deposits with different maturity. The formula of calculating the scaled fees is as follows:

Monthly deposit agency fee at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month times the number of days of deposit X the respective deposit agency fee rate of the relevant type of deposit/365) - aggregate cash times the number of days at the relevant branch X 1.5%/365.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.3 Related party transactions (continued)

(1) Services from China Post Group and its provincial branches (continued)

The Group pays deposit agency fees for agency savings deposits received, net of cash reserves held by agency outlets and deposits in transit. The agency fee rates range from 0.2% to 2.3% during the periods.

The agency fee for foreign currency deposit-taking was insignificant, and it is determined in line with industrial practice, applying market rates such as the composite interest rate of the China Interbank Foreign Currency Market.

For intermediary business services performed by agency outlets such as settlement and sales services, the agency fees are determined based on the income from agency services net of all direct taxes and expenses.

Agency fees payable to China Post Group and its provincial branches are settled regularly.

	Six months ended June 30	
	2016	2015
Deposit agency fees	29,697	26,757
Fees for agency savings settlement	2,138	2,215
Expenses for agency sales and other commissions	899	529
Total	32,734	29,501

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For the six months ended June 30, 2016
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37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.3 Related party transactions (continued)

(2) Operating lease with related parties

The Group and the related parties lease buildings, ancillary equipment and other properties from each other under operating leases during the course of business.

As lessor

	Six months ended June 30	
	2016	2015
Buildings	40	16
Others	16	5
Total	56	21

As lessee

	Six months ended June 30	
	2016	2015
Buildings	467	360
Others	20	17
Total	487	377

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For the six months ended June 30, 2016

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37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.3 Related party transactions (continued)

(3) *Comprehensive services and goods transactions with related parties*

Rendering services and selling general office supplies to related parties

	Note	Six months ended June 30	
		2016	2015
Comprehensive services rendered to related parties	(i)	23	12
General office supplies sold to related parties		2	1
Total		25	13

- (i) Comprehensive services rendered to related parties include equipment maintenance, cash escort and other services.

Receiving services or purchasing products from related parties

	Note	Six months ended June 30	
		2016	2015
Comprehensive services received from related parties	(ii)	277	281
Marketing services received from related parties		878	206
Goods purchased from related parties		16	14
Total		1,171	501

- (ii) Comprehensive services received from related parties include property management services, advertising, mailing, labor and other services.

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37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.3 Related party transactions (continued)

(4) Credit facilities granted to related parties

As at June 30, 2016, the Group had not provided acceptance credit to related parties (December 31, 2015: RMB2 million).

(5) Deposits from related parties

	As at June 30, 2016	As at December 31, 2015
China Post Group	18,659	10,816
China Postal Express & Logistics Company Limited and its subsidiaries	1,245	1,601
Other related parties	678	857
Total	20,582	13,274
Interest rates per annum	0.30%~3.33%	0.30%~3.75%

During the six months ended June 30, 2016, and the year ended December 31, 2015, interest expenses on deposits paid to related parties were not significant.

(6) Income from agency services provided to related parties

	Six months ended June 30	
	2016	2015
Insurance agency sales		
China Post Life Insurance Company Limited	34	35
Fund agency sales		
China Post & Capital Fund Management Co., Ltd.	15	25

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.4 Balance with related parties

(1) *Accounts receivable*

	As at June 30, 2016	As at December 31, 2015
China Post Group	228	233

(2) *Accounts payable*

	As at June 30, 2016	As at December 31, 2015
China Post Group (Note 31)	1,659	1,309

37.5 Commitments

As at the balance sheet date, related-party commitments were mainly operating lease commitments:

	As at June 30, 2016	As at December 31, 2015
China Post Group	958	517

37.6 The Group and other government related entities

Other than disclosed above and also in other relevant notes in these condensed consolidated financial statements, part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies. Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

37 TRANSACTIONS WITH RELATED PARTIES (continued)

37.7 Key management personnel compensation

Key management of the Group are persons who have rights and responsibility to plan, execute and control the Group's operating activities. These personnel include Directors of the Board, Supervisors of the Supervisory Board and senior management.

	Six Month Ended June 30	
	2016	2015
Key management personnel compensation	8	9

38 STRUCTURED ENTITIES

(1) Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP Vehicles") formed to issue and distribute wealth management products ("WMPs"), which are not subject to any guarantee by the Group in respect the principal invested or interest to be paid. The WMP Vehicles invest in a range of fixed-rate assets, including money market instruments, debt securities and loan assets. As the manager of the WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income. The variable return earned by the Group under the WMPs is not significant, therefore, the WMP Vehicles are not consolidated by the Group.

As at June 30, 2016, and December 31, 2015, the Group's maximum risk exposure to these wealth management products was its fee and commission income from these products. As at June 30, 2016, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB700.4 billion (December 31, 2015: RMB470.4 billion). The Group earned fee and commission of RMB2.1 billion from these WMPs for the six months ended June 30, 2016 (Six months ended June 30, 2015: RMB0.9 billion).

For the six months ended June 30, 2016, and for the year ended December 31, 2015, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. During the six months ended June 30, 2016, and the year ended December 31, 2015, the WMP Vehicles did not incur any losses, or experience any difficulties in financing their activities.

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For the six months ended June 30, 2016

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38 STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities held by the Group

Unconsolidated structured entities invested by the Group comprise trust investment plans, fund investment, asset-backed securities, asset management plans, and WMPs held by the Group as investments, and the Group records trading gains or losses and interest income therefrom. As at June 30, 2016 and December 31, 2015, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2016			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	
Equity instruments	370,068	—	—	370,068
Asset-backed securities	26,675	2,100	58,702	87,477
Other debt instruments	341,987	—	372,220	714,207
Total	738,730	2,100	430,922	1,171,752

	As at December 31, 2015			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	
Equity instruments	263,662	—	—	263,662
Asset-backed securities	23,280	2,243	48,358	73,881
Other debt instruments	—	—	751,607	751,607
Total	286,942	2,243	799,965	1,089,150

No open market information was readily available for overall scale of those unconsolidated structured entities mentioned above.

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38 STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities held by the Group (continued)

For the six months ended June 30, 2016 and 2015, the income from these unconsolidated structured entities held by the Group was as follows:

	Six months ended June 30	
	2016	2015
Interest income	19,815	17,242
Net gain arising from investment securities	4,284	94
Other comprehensive income	515	1,015
Total	24,614	18,351

For the six months ended June 30, 2016 and 2015, the Group did not experience any losses related to the above structured entities.

(3) Consolidated structured entities held by the Group

The Group's consolidated structured entities consist principally of WMP Vehicles that issue and distribute WMPs with respect to which the Group has guaranteed the investors' principal investment and/or return upon maturity of the WMPs, regardless of its actual performance; and a special purpose trust founded by a third party trust company for issuing asset-backed securities by the Group. For the six months ended June 30, 2016 and 2015, the Group did not provide any financial support to any of these WMP Vehicles and the special purpose trust.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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39 CONTINGENT LIABILITIES AND COMMITMENTS

39.1 Lawsuits and claims

The Group was involved in a number of lawsuits and claims during its normal business operations. Based on consultation with its legal advisers, the Group expects that the final outcome of these lawsuits and claims would not have a significant impact on the financial position and operating performance of the Group.

39.2 Capital commitments

	As at June 30, 2016	As at December 31, 2015
Contracts signed but not executed	1,286	828
Contracts approved but not signed	1,218	1,185
Total	2,504	2,013

39.3 Credit commitments

	As at June 30, 2016	As at December 31, 2015
Loan commitments		
- With an original maturity of less than 1 year	6,464	7,279
- With an original maturity of 1 year or above	178,300	159,926
Subtotal	184,764	167,205
Bank acceptance	27,695	20,739
Guarantee and letters of guarantee	19,532	12,653
Letters of credit	4,841	2,960
Unused credit card commitments	138,076	114,133
Total	374,908	317,690

Loan commitments mainly include unused limits for credit cards issued to customers and general credit facilities. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

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39 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

39.4 Operating lease commitments

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at June 30, 2016	As at December 31, 2015
Within 1 year	3,323	3,029
1 to 2 years	2,528	2,500
2 to 3 years	2,169	2,186
3 to 5 years	2,780	3,187
Over 5 years	1,600	2,045
Total	12,400	12,947

39.5 Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at June 30, 2016	As at December 31, 2015
Debt securities	257,675	386,319
Bills	9,561	8,104
Total	267,236	394,423

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collateral. As at June 30, 2016, the carrying amount of debt securities pledged as collateral amounted to RMB35.2 billion (December 31, 2015: RMB30.5 billion). The pledged debt securities are mainly classified as held-to-maturity investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

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39 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

39.5 Collateral

Collateral received

Collateral under loans and advances mainly includes land use rights and buildings, vehicles and certificates of time deposits. The Group has not resold or re-pledged these collateral.

The Group obtains debt securities from counterparties which can be resold or re-pledged as collateral for financial assets held under resale agreements. The fair value of these collateral amounted to RMB0.133 billion as at June 30, 2016 (December 31, 2015: RMB0.065 billion).

39.6 Redemption commitment for government bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of the treasury bonds have the right to redeem the bonds at any time prior to maturity and the Group is committed to honour such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at June 30, 2016, the nominal value of treasury bonds the Group was obligated to redeem was RMB92.2 billion (December 31, 2015: RMB91.7 billion). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

39.7 Credit risk weighted amounts for financial guarantees and credit commitments

	As at June 30, 2016	As at December 31, 2015
Financial guarantees and credit commitments	131,764	111,347

The credit risk-weighted figures are amounts calculated in accordance with the CBRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities. Risk weights applied to contingent liabilities and credit commitments may vary from 0% to 100%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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40 TRANSFER OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to structured entities. Where the transfers fully or partially qualify for derecognition, the related financial assets will be fully or partially derecognized. If the Group retains substantially all the risks and rewards of ownership of the financial asset, the transfers do not qualify for derecognition and the Group shall continue to recognize these financial asset.

40.1 Outright repurchase agreements

The Group has entered into the following repurchase agreements, and the recourse rights of the counterparties are not limited to the transferred assets.

	As at June 30, 2016		As at December 31, 2015	
	Available-for-sale financial assets	Held-to-maturity investments	Available-for-sale financial assets	Held-to-maturity investments
Carrying amount of the collateral	—	2,111	—	2,100
Financial assets sold under repurchase agreements	—	(2,024)	—	(2,002)

40.2 Securitization transactions

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may maintain continuing involvement in its transferred assets as it may hold subordinated tranches of the asset-backed securities (“ABS”). The Group recognizes these credit assets in its balance sheet to the extent of its continuing involvement, while derecognizes the remaining parts. 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 June 30, 2016 and December 31, 2015, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at June 30, 2016	As at December 31, 2015
ABS issued-par value	6,800	6,800
Assets retained by the Group, net	273	273

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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41 SEGMENT ANALYSIS

41.1 Business segment

The Group manages the business from both a business and geographic perspective. From the business perspective, the Group provides services through four main business segments listed below:

Personal banking

Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Treasury

This segment covers businesses including deposits and placements with banks and other financial institutions, interbank lending transactions, repurchase and resale transactions, various debt instrument investments, equity instrument investment, investment bank and wealth management products. The issuance of bond securities also falls into this range.

Others

This segment include items that are not attributed to the above segments or cannot be allocated on a reasonable basis.

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41 SEGMENT ANALYSIS (continued)

41.1 Business segment (continued)

	Six months ended June 30, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Net interest income from external customers	39,491	30,842	71,943	—	142,276
Net interest expense to external customers	(45,505)	(5,768)	(9,366)	—	(60,639)
Intersegment net interest income/(expense)	67,958	(8,574)	(59,384)	—	—
Net interest income	61,944	16,500	3,193	—	81,637
Net fee and commission income	4,540	545	781	—	5,866
Net trading gains	—	—	559	—	559
Net gains from investment securities	—	—	4,264	—	4,264
Other operating income	762	—	—	198	960
Operating expenses	(50,811)	(5,643)	(5,662)	(71)	(62,187)
Impairment losses on assets	(4,937)	(3,249)	3,222	—	(4,964)
Profit before income tax	11,498	8,153	6,357	127	26,135

	As at June 30, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,706,405	1,571,704	4,686,443	—	7,964,552
Deferred income tax assets	—	—	—	—	9,923
Total assets	—	—	—	—	7,974,475
Segment liabilities	(5,961,139)	(1,044,586)	(685,076)	—	(7,690,801)
Supplementary information	—	—	—	—	—
Depreciation and amortization	1,930	333	36	—	2,299
Capital expenditures	1,999	344	38	—	2,381
Credit commitments	138,076	236,832	—	—	374,908

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41 SEGMENT ANALYSIS (continued)

41.1 Business segment (continued)

	Six months ended June 30, 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Net interest income from external customers	40,354	32,183	77,644	—	150,181
Net interest expense to external customers	(54,552)	(6,226)	(1,679)	—	(62,457)
Intersegment net interest income/(expense)	72,620	(8,466)	(64,154)	—	—
Net interest income	58,422	17,491	11,811	—	87,724
Net fee and commission income	3,651	143	347	—	4,141
Net trading losses	—	—	(4)	—	(4)
Net gains from investment securities	—	—	309	—	309
Other operating income	199	—	—	129	328
Operating expenses	(46,909)	(5,726)	(5,512)	(65)	(58,212)
Impairment losses on assets	(5,074)	(3,493)	(93)	—	(8,660)
Profit before income tax	10,289	8,415	6,858	64	25,626
Supplementary information					
Depreciation and amortisation	1,975	371	45	—	2,391
Capital expenditures	1,699	320	38	—	2,057
	As at December 31, 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,498,528	1,452,727	4,335,910	—	7,287,165
Deferred income tax assets					9,199
Total assets					7,296,364
Segment liabilities	(5,495,764)	(938,612)	(591,157)	—	(7,025,533)
Supplementary information					
Credit commitments	114,133	203,557	—	—	317,690

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41 SEGMENT ANALYSIS (continued)

41.2 Geographical segment

Geographical segments, as defined for management reporting purposes, are as follows:

- Head Office
- “Yangtze River Delta”: Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;
- “Pearl River Delta”: Guangdong Province, Shenzhen, Fujian Province and Xiamen;
- “Bohai Rim” Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and Qingdao;
- the “Central China” region: Shanxi Province, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- the “Western China” region: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region, and Guangxi Zhuang Autonomous Region; and
- the “Northeastern China” region: Liaoning Province, Jilin Province, Heilongjiang Province and Dalian.

	Six months ended June 30, 2016								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Net interest income from external customers	80,332	10,992	7,614	9,480	15,448	13,322	5,088	—	142,276
Net interest expense to external customers	(8,247)	(8,796)	(4,183)	(8,514)	(16,054)	(10,832)	(4,013)	—	(60,639)
Intersegment net interest income/(expense)	(70,594)	9,503	5,611	10,662	23,764	15,238	5,816	—	—
Net interest income	1,491	11,699	9,042	11,628	23,158	17,728	6,891	—	81,637
Net fee and commission income	1,132	831	610	769	1,078	881	565	—	5,866
Net trading gains	557	2	—	—	—	—	—	—	559
Net gains from investment securities	4,248	16	—	—	—	—	—	—	4,264
Other operating income	82	97	109	61	188	362	61	—	960
Operating expenses	(2,820)	(8,487)	(6,874)	(8,108)	(16,757)	(13,404)	(5,737)	—	(62,187)
Impairment losses on assets	1,284	(967)	(501)	(710)	(1,734)	(1,979)	(357)	—	(4,964)
Profit before income tax	5,974	3,191	2,386	3,640	5,933	3,588	1,423	—	26,135

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41 SEGMENT ANALYSIS (continued)

41.2 Geographical segment (continued)

	As at June 30, 2016								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	8,924,128	1,074,337	707,140	1,350,830	2,195,480	1,574,067	623,955	(8,485,385)	7,964,552
Deferred income tax assets									9,923
Total assets									7,974,475
Segment liabilities	(8,664,551)	(1,072,020)	(704,012)	(1,349,885)	(2,190,892)	(1,571,041)	(623,785)	8,485,385	(7,690,801)
Supplementary information									
Depreciation and amortization	323	522	143	299	363	455	194	—	2,299
Capital expenditures	335	540	148	310	376	471	201	—	2,381
Credit commitments	7,758	60,293	63,008	39,195	114,672	67,757	22,225	—	374,908

	Six months ended June 30, 2015								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Net interest income from external customers	82,051	12,010	8,381	10,369	16,515	14,869	5,986	—	150,181
Net interest expense to external customers	(1,153)	(10,151)	(4,701)	(9,960)	(18,368)	(12,821)	(5,303)	—	(62,457)
Intersegment net interest income/(expense)	(68,885)	9,244	4,853	10,586	23,071	14,817	6,314	—	—
Net interest income	12,013	11,103	8,533	10,995	21,218	16,865	6,997	—	87,724
Net fee and commission income	1,282	465	409	406	614	588	377	—	4,141
Net trading losses	(4)	—	—	—	—	—	—	—	(4)
Net gains from investment securities	309	—	—	—	—	—	—	—	309
Other operating income	(191)	53	61	37	159	166	43	—	328
Operating expenses	(3,664)	(7,792)	(6,283)	(7,505)	(15,167)	(12,477)	(5,324)	—	(58,212)
Impairment losses on assets	(591)	(1,024)	(749)	(1,097)	(2,182)	(1,612)	(1,405)	—	(8,660)
Profit before income tax	9,154	2,805	1,971	2,836	4,642	3,530	688	—	25,626
Depreciation and amortization	854	262	184	265	433	329	64	—	2,391
Capital expenditures	735	225	158	228	373	283	55	—	2,057

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41 SEGMENT ANALYSIS (continued)

41.2 Geographical segment (continued)

	As at December 31, 2015								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Segment assets	8,048,947	975,576	657,830	1,227,283	1,963,876	1,477,689	595,761	(7,659,797)	7,287,165
Deferred income tax assets									9,199
Total assets									7,296,364
Segment liabilities	(7,806,743)	(971,774)	(654,551)	(1,224,758)	(1,957,142)	(1,473,935)	(596,427)	7,659,797	(7,025,533)
Supplementary information									
Credit commitments	879	47,462	45,216	45,441	70,810	83,480	24,402	—	317,690

42 FINANCIAL RISK MANAGEMENT

42.1 Overview

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a risk management strategy of “appropriate risk-taking, appropriate returns and prudent operations”, and achieves a decent return through appropriate risk-taking with consideration of size, growth and quality of its businesses.

The Group is mainly exposed to credit risk, market risk, liquidity risk and operational risk. Market risk includes exchange rate risk and interest rate risk.

This section describes the Group’s position with respect to the above risk exposures, and the Group’s objectives, policies and processes in managing those risk exposures, and procedures and outcomes of the Group’s capital management.

The Group risk management policies and procedures used in preparing the condensed consolidated financial statements for the six months ended June 30, 2016 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2015.

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk

(1) Maximum credit risk exposures before considering collaterals or other credit enhancements

A summary of the maximum credit risk exposures is presented as below:

	As at June 30, 2016	As at December 31, 2015
Deposits with central bank	1,163,206	1,085,043
Deposits with banks and other financial institutions	149,108	324,137
Placements with banks and other financial institutions	274,039	200,485
Financial assets at fair value through profit or loss	64,550	27,719
Derivative financial assets	1,335	1,073
Financial assets held under resale agreements	340,438	148,868
Loans and advances to customers	2,696,744	2,412,595
Available-for-sale financial assets-debt instruments	506,178	127,021
Held-to-maturity investments	744,948	684,767
Investment classified as receivables	1,516,856	1,883,498
Other financial assets	38,899	32,481
Subtotal	7,496,301	6,927,687
Credit commitments	374,908	317,690
Total	7,871,209	7,245,377

The table above presents the Group's maximum credit risk exposures before considering any collateral, netting agreements or other credit enhancements as June 30, 2016, and December 31, 2015. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(2) Loans and advances to customers

(a) Loans and advances by geographical region:

	As at June 30, 2016		As at December 31, 2015	
	Amount	Proportion	Amount	Proportion
Head Office	273,264	10%	287,598	12%
Central China	600,264	22%	508,398	20%
Western China	497,781	18%	458,173	18%
Yangtze River Delta	478,672	17%	396,183	16%
Bohai Rim	398,674	14%	363,593	15%
Pearl River Delta	301,513	11%	271,485	11%
Northeastern China	209,366	8%	186,423	8%
Total	2,759,534	100%	2,471,853	100%

(b) Loans and advances by types:

	As at June 30, 2016		As at December 31, 2015	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including:				
Corporate loans	1,045,481	38%	980,980	40%
Discounted bills	312,779	11%	268,303	11%
Personal loans and advances	1,401,274	51%	1,222,570	49%
Total	2,759,534	100%	2,471,853	100%

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(2) Loans and advances to customers (continued)

(c) Loans and advances by industries:

	As at June 30, 2016		As at December 31, 2015	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services	345,027	13%	356,956	14%
Manufacturing	175,768	6%	152,310	6%
Production and supply of electricity, heating, gas and water	134,439	5%	134,484	5%
Financial services	128,513	5%	86,576	4%
Wholesale and retail	58,370	2%	58,722	2%
Mining	40,417	1%	41,712	2%
Real estate	39,427	1%	41,113	2%
Construction	47,520	2%	40,255	2%
Management of water conservancy, environmental and public facilities	32,110	1%	31,727	1%
Other industries	43,890	2%	37,125	2%
Subtotal	1,045,481	38%	980,980	40%
Discounted bills	312,779	11%	268,303	11%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	732,353	26%	577,256	23%
– Other consumer loans	180,366	7%	159,683	6%
Personal business loans	296,766	11%	304,930	12%
Micro loans	142,471	5%	136,207	6%
Credit card overdraft	49,318	2%	44,494	2%
Subtotal	1,401,274	51%	1,222,570	49%
Total	2,759,534	100%	2,471,853	100%

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(2) Loans and advances to customers (continued)

(d) Loans and advances by types of collateral:

	As at June 30, 2016		As at December 31, 2015	
	Amount	Proportion	Amount	Proportion
Unsecured loans	725,697	26%	658,159	26%
Guaranteed loans	225,607	8%	217,566	9%
Loans secured by mortgages	1,339,593	49%	1,183,088	48%
Loans secured by pledges	155,858	6%	144,737	6%
Discounted bills	312,779	11%	268,303	11%
Total	2,759,534	100%	2,471,853	100%

(3) Loans and advances by overdue and impairment status:

	As at June 30, 2016	As at December 31, 2015
Corporate loans and advances		
– Neither overdue nor impaired	1,347,699	1,240,130
– Overdue but not impaired	2,259	2,014
– Impaired	8,302	7,139
Subtotal	1,358,260	1,249,283
Personal loans and advances		
– Neither overdue nor impaired	1,383,412	1,206,295
– Overdue but not impaired	4,764	3,539
– Impaired	13,098	12,736
Subtotal	1,401,274	1,222,570
Total	2,759,534	2,471,853

When the principal or interest of any loan is overdue by 1 day, the whole loan is classified as overdue.

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(3) Loans and advances by overdue and impairment status (continued):

(a) Loans and advances neither overdue nor impaired

The Group classifies its credit assets in accordance with regulatory requirements and criteria, including the CBRC Guidelines. Loans and advances neither overdue nor impaired are classified as follows as per these regulatory requirements and criteria:

	As at June 30, 2016		
	Normal	Special mention	Total
Corporate loans and advances	1,323,716	23,983	1,347,699
Personal loans and advances	1,379,482	3,930	1,383,412
Total	2,703,198	27,913	2,731,111

	As at December 31, 2015		
	Normal	Special mention	Total
Corporate loans and advances	1,214,054	26,076	1,240,130
Personal loans and advances	1,200,757	5,538	1,206,295
Total	2,414,811	31,614	2,446,425

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(3) Loans and advances by overdue and impairment status (continued):

(b) *Loans and advances overdue but not impaired*

The overdue status are as follows:

	As at June 30, 2016			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	1,458	801	—	2,259
Personal loans and advances	3,103	1,661	—	4,764
Total	4,561	2,462	—	7,023

	As at December 31, 2015			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	881	1,133	—	2,014
Personal loans and advances	2,044	1,495	—	3,539
Total	2,925	2,628	—	5,553

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(3) Loans and advances by overdue and impairment status (continued):

(c) Impaired loans and advances

Impaired loans and advances by geographical region are as follows:

	As at June 30, 2016			As at December 31, 2015		
	Amount	Proportion	Impaired loan ratio	Amount	Proportion	Impaired loan ratio
Head Office	686	3%	0.25%	609	3%	0.21%
Central China	4,357	20%	0.73%	3,647	18%	0.72%
Western China	5,699	27%	1.14%	4,868	25%	1.06%
Yangtze River Delta	2,946	14%	0.62%	2,711	14%	0.68%
Bohai Rim	2,771	13%	0.70%	2,478	12%	0.68%
Pearl River Delta	2,002	9%	0.66%	1,914	10%	0.71%
Northeastern China	2,939	14%	1.40%	3,648	18%	1.96%
Total	21,400	100%	0.78%	19,875	100%	0.80%

Concentration of impaired loans and advances are as follows:

	As at June 30, 2016			As at December 31, 2015		
	Amount	Proportion	Impaired loan ratio	Amount	Proportion	Impaired loan ratio
Corporate loans and advances	8,302	38%	0.61%	7,139	36%	0.57%
Personal loans and advances						
Consumer loans						
– Residential mortgage loans	1,505	7%	0.21%	1,287	6%	0.22%
– Other consumer loans	757	4%	0.42%	516	3%	0.32%
Personal business loans	5,302	25%	1.79%	4,580	23%	1.50%
Micro loans	4,850	23%	3.40%	5,744	29%	4.22%
Credit card overdraft and others	684	3%	1.39%	609	3%	1.37%
Total	21,400	100%	0.78%	19,875	100%	0.80%

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(3) Loans and advances by overdue and impairment status (continued):

(c) Impaired loans and advances (continued)

Collectively assessed impairment allowances are provided on loans and advances above neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC Guidelines, as well as additional information on industry and portfolio exposure.

(4) Overdue loans and advances

Overdue loans and advances by security types and overdue status are as follows:

	As at June 30, 2016				Total
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	
Unsecured loans	502	513	280	22	1,317
Guaranteed loans	1,666	2,561	1,847	185	6,259
Loans secured by mortgages	6,353	8,545	3,979	109	18,986
Loans secured by pledges	57	227	650	—	934
Discounted bills	413	—	—	—	413
Total	8,991	11,846	6,756	316	27,909

	As at December 31, 2015				Total
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	
Unsecured loans	425	441	215	20	1,101
Guaranteed loans	1,598	3,083	1,857	115	6,653
Loans secured by mortgages	5,619	7,672	2,525	73	15,889
Loans secured by pledges	49	340	443	—	832
Discounted bills	30	—	—	—	30
Total	7,721	11,536	5,040	208	24,505

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(5) Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. As at June 30, 2016, rescheduled loans and advances of the Group was RMB544 million (December 31, 2015: RMB381 million).

(6) Deposits and placements with banks and other financial institutions

As at June 30, 2016, and December 31, 2015, the counterparties for deposits and placements with banks and other financial institutions were mainly domestic banks, including policy banks and large and medium-size commercial banks.

(7) Debt instruments

Credit quality of debt instruments

(a) Debt instruments neither overdue nor impaired

	As at June 30, 2016				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	Total
Government bonds	375	48,375	446,562	3,854	499,166
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	10,068	78,360	248,229	1,075,630	1,412,287
Corporate bonds	3,569	10,781	47,487	6,450	68,287
Certificates of deposits	44,026	—	—	—	44,026
Asset-backed securities	—	26,675	2,100	58,995	87,770
Other debt instruments	6,512	341,987	—	374,136	722,635
Total	64,550	506,178	744,948	1,519,065	2,834,741

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

(a) Debt instruments neither overdue nor impaired (continued)

	As at December 31, 2015				Total
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment securities classified as receivables	
Government bonds	120	36,901	357,101	2,217	396,339
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	1,949	55,186	274,937	1,076,413	1,408,485
Corporate bonds	5,057	11,654	47,844	4,903	69,458
Certificates of deposits	16,454	—	2,072	—	18,526
Asset-backed securities	—	23,280	2,243	48,598	74,121
Other debt instruments	4,139	—	—	755,307	759,446
Total	27,719	127,021	684,767	1,887,438	2,726,945

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

(b) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the bonds portfolio held. The ratings are obtained from major rating agencies where the issuers of the bonds are located. The carrying amounts of bonds investments analyzed by rating as at the end of the reporting period are as follows:

	As at June 30, 2016					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	292,837	206,329	—	—	—	499,166
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,390,010	15,729	3,564	1,283	1,701	1,412,287
Corporate bonds	6,698	55,181	4,752	1,494	162	68,287
Certificates of deposits	44,026	—	—	—	—	44,026
Asset-backed securities	60,552	19,373	7,612	233	—	87,770
Other debt instruments	722,635	—	—	—	—	722,635
Subtotal	2,517,328	296,612	15,928	3,010	1,863	2,834,741

	As at December 31, 2015					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	302,035	94,304	—	—	—	396,339
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,388,316	12,393	6,030	951	795	1,408,485
Corporate bonds	9,925	54,982	4,422	119	10	69,458
Certificates of deposit	18,526	—	—	—	—	18,526
Asset-backed securities	48,798	19,147	6,176	—	—	74,121
Other debt instruments	759,446	—	—	—	—	759,446
Subtotal	2,527,616	180,826	16,628	1,070	805	2,726,945

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For the six months ended June 30, 2016

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42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The table below summarizes the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period.

	As at June 30, 2016								Total
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	—	72,876	—	—	—	—	—	1,134,182	1,207,058
Deposits with banks and other financial institutions	—	9,220	3,559	8,145	63,186	64,998	—	—	149,108
Placements with banks and other financial institutions	—	—	103,206	16,609	34,471	119,753	—	—	274,039
Financial assets at fair value through profit or loss	—	71	11,364	26,575	24,183	2,000	357	—	64,550
Derivative financial assets	—	—	281	127	882	45	—	—	1,335
Financial assets held under resale agreements	—	—	334,108	3,132	3,198	—	—	—	340,438
Loans and advances to customers	10,502	—	141,092	284,141	848,502	535,392	877,115	—	2,696,744
Available-for-sale financial assets	—	279,549	14,266	90,829	364,265	96,054	31,217	66	876,246
Held-to-maturity investments	—	—	6,635	7,970	46,365	326,821	357,157	—	744,948
Investment securities classified as receivables	—	—	36,143	45,252	138,147	488,378	808,936	—	1,516,856
Other financial assets	599	2,296	10,978	13,795	11,040	191	—	—	38,899
Total financial assets	11,101	364,012	661,632	496,575	1,534,239	1,633,632	2,074,782	1,134,248	7,910,221
Deposits from banks and other financial institutions	—	141,638	8,560	4,178	167,372	1,100	—	—	322,848
Placements from banks and other financial institutions	—	—	4,313	278	50,286	—	—	—	54,877
Financial liabilities at fair value through profit or loss	—	—	2,805	3,081	557	—	—	—	6,443
Derivative financial liabilities	—	—	273	135	870	68	—	—	1,346
Financial assets sold under repurchase agreements	—	—	65,740	2,902	198,805	—	—	—	267,447
Customer deposits	—	2,925,003	246,841	552,630	2,671,098	500,570	—	—	6,896,142
Debt securities issued	—	—	—	—	—	—	24,974	—	24,974
Other financial liabilities	—	18,777	11,764	11,587	42,763	20,766	—	—	105,657
Total financial liabilities	—	3,085,418	340,296	574,791	3,131,751	522,504	24,974	—	7,679,734
Net liquidity	11,101	(2,721,406)	321,336	(78,216)	(1,597,512)	1,111,128	2,049,808	1,134,248	230,487

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42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2015								Total
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	—	63,482	—	—	—	—	—	1,067,749	1,131,231
Deposits with banks and other financial institutions	—	6,487	78,553	61,810	82,806	94,481	—	—	324,137
Placements with banks and other financial institutions	—	—	34,043	3,805	38,638	123,999	—	—	200,485
Financial assets at fair value through profit or loss	—	—	9,143	6,572	11,822	182	—	—	27,719
Derivative financial assets	—	—	207	172	662	32	—	—	1,073
Financial assets held under resale agreements	—	—	112,729	20,764	14,375	1,000	—	—	148,868
Loans and advances to customers	8,826	—	111,184	245,813	785,932	513,034	747,806	—	2,412,595
Available-for-sale financial assets	—	246,204	546	3,172	40,944	81,394	18,357	66	390,683
Held-to-maturity investments	—	—	837	26,944	47,094	306,899	302,993	—	684,767
Investment securities classified as receivables	—	—	16,641	191,562	308,834	513,616	852,845	—	1,883,498
Other financial assets	448	110	9,172	10,652	11,811	288	—	—	32,481
Total financial assets	9,274	316,283	373,055	571,266	1,342,918	1,634,925	1,922,001	1,067,815	7,237,537
Deposits from banks and other financial institutions	—	41,759	40	7,037	41,957	558	—	—	91,351
Placements from banks and other financial institutions	—	—	29,151	1,872	39,836	—	—	—	70,859
Financial liabilities at fair value through profit or loss	—	—	142	418	3,579	—	—	—	4,139
Derivative financial liabilities	—	—	237	167	598	37	—	—	1,039
Financial assets sold under repurchase agreements	—	—	182,062	50,619	162,136	—	—	—	394,817
Customer deposits	—	2,728,957	388,150	1,008,528	1,713,012	466,367	—	—	6,305,014
Debt securities issued	—	—	—	—	—	—	24,973	—	24,973
Other financial liabilities	—	12,532	24,634	27,385	30,065	24,802	—	—	119,418
Total financial liabilities	—	2,783,248	624,416	1,096,026	1,991,183	491,764	24,973	—	7,011,610
Net liquidity	9,274	(2,466,965)	(251,361)	(524,760)	(648,265)	1,143,161	1,897,028	1,067,815	225,927

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42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

The table below presents the cash flows of the Group's financial assets and financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the undiscounted contractual cash flows. The Group manages its inherent liquidity risk in the short term based on the expected undiscounted cash flows.

	As at June 30, 2016								Total
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial assets									
Cash and deposits with central bank	—	72,876	—	512	—	—	—	1,134,182	1,207,570
Deposits with banks and other financial institutions	—	9,239	3,579	9,747	65,985	67,512	—	—	156,062
Placements with banks and other financial institutions	—	—	103,312	19,272	40,040	123,952	—	—	286,576
Financial assets at fair value through profit or loss	—	71	11,398	26,756	24,687	2,155	434	—	65,501
Financial assets held under resale agreements	—	—	334,423	3,200	3,263	—	—	—	340,886
Loans and advances to customers	10,958	—	151,391	304,475	921,231	754,078	1,171,658	—	3,313,791
Available-for-sale financial assets	—	279,550	15,083	92,451	373,408	106,044	33,332	66	899,934
Held-to-maturity investments	—	—	8,674	14,615	64,785	410,334	458,162	—	956,570
Investment securities classified as receivables	—	—	39,044	56,904	182,111	652,548	972,482	—	1,903,089
Other financial assets	—	2,277	—	1,434	—	145	—	—	3,856
Total non-derivative financial assets	10,958	364,013	666,904	529,366	1,675,510	2,116,768	2,636,068	1,134,248	9,133,835
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	141,638	8,679	4,291	172,596	1,199	—	—	328,403
Placements from banks and other financial institutions	—	—	4,360	280	51,937	—	—	—	56,577
Financial liabilities at fair value through profit or loss	—	—	2,808	3,092	563	—	—	—	6,463
Financial assets sold under repurchase agreements	—	—	65,855	2,923	205,271	—	—	—	274,049
Customer deposits	—	2,927,439	252,877	564,416	2,744,241	557,956	—	—	7,046,929
Debt securities issued	—	—	—	1,125	—	4,500	30,625	—	36,250
Other financial liabilities	—	16,342	5,709	759	662	522	—	—	23,994
Total non-derivative financial liabilities	—	3,085,419	340,288	576,886	3,175,270	564,177	30,625	—	7,772,665
Net liquidity	10,958	(2,721,406)	326,616	(47,520)	(1,499,760)	1,552,591	2,605,443	1,134,248	1,361,170

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42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2015								Total
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial assets									
Cash and deposits with central bank	—	63,482	—	532	—	—	—	1,067,749	1,131,763
Deposits with banks and other financial institutions	—	6,506	79,723	62,659	84,034	95,632	—	—	328,554
Placements with banks and other financial institutions	—	—	34,071	6,236	45,529	132,200	—	—	218,036
Financial assets at fair value through profit or loss	—	—	9,265	6,696	12,127	207	—	—	28,295
Financial assets held under resale agreements	—	—	112,850	21,025	14,734	1,005	—	—	149,614
Loans and advances to customers	9,207	—	121,573	265,942	859,694	731,591	1,030,851	—	3,018,858
Available-for-sale financial assets	—	246,204	890	3,800	44,954	89,627	20,062	66	405,603
Held-to-maturity investments	—	—	2,505	30,225	67,528	382,376	401,395	—	884,029
Investment securities classified as receivables	—	—	18,395	206,748	359,618	689,091	1,030,693	—	2,304,545
Other financial assets	—	91	—	525	870	158	—	—	1,644
Total non-derivative financial assets	9,207	316,283	379,272	604,388	1,489,088	2,121,887	2,483,001	1,067,815	8,470,941
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	41,773	43	7,096	43,286	602	—	—	92,800
Placements from banks and other financial institutions	—	—	29,163	1,881	41,133	—	—	—	72,177
Financial assets sold under repurchase agreements	—	—	182,205	51,021	167,234	—	—	—	400,460
Financial liabilities at fair value through profit or loss	—	—	142	421	3,638	—	—	—	4,201
Customer deposits	—	2,731,602	397,718	1,040,178	1,769,311	529,486	—	—	6,468,295
Debt securities issued	—	—	—	—	1,125	4,500	30,625	—	36,250
Other financial liabilities	—	9,873	15,930	1,015	779	543	—	—	28,140
Total non-derivative financial liabilities	—	2,783,248	625,201	1,101,612	2,026,506	535,131	30,625	—	7,102,323
Net liquidity	9,207	(2,466,965)	(245,929)	(497,224)	(537,418)	1,586,756	2,452,376	1,067,815	1,368,618

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk

Sensitivity analysis on net interest income

The table below shows the potential impact on the Group's net interest income by an upward and a downward parallel shift of interest rates by 100 basis points. The actual circumstances may differ from the assumptions so that the impact on the net interest income as shown in the following analysis may be different from the actual outcome.

	Increase/(Decrease) in net interest income	
	As at June 30, 2016	As at December 31, 2015
Upward parallel shift of 100 bps for yield curves	(6,180)	(7,112)
Downward parallel shift of 100 bps for yield curves	6,180	7,112

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities are stated at their carrying amounts based on the earlier of their contractual repricing date or maturity date.

	As at June 30, 2016						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Cash and deposits with central bank	1,160,597	—	—	—	—	46,461	1,207,058	
Deposits with banks and other financial institutions	27,779	61,915	46,086	13,328	—	—	149,108	
Placements with banks and other financial institutions	103,206	47,802	35,164	87,867	—	—	274,039	
Financial assets at fair value through profit or loss	11,807	26,861	23,710	1,714	357	101	64,550	
Derivative financial assets	—	—	—	—	—	1,335	1,335	
Financial assets held under resale agreements	334,108	3,132	3,198	—	—	—	340,438	
Loans and advances to customers	474,225	357,709	1,815,584	38,292	10,934	—	2,696,744	
Available-for-sale financial assets	18,149	78,148	311,468	80,321	18,092	370,068	876,246	
Held-to-maturity investments	22,891	43,754	49,116	278,150	351,037	—	744,948	
Investment classified as receivables	177,416	649,126	335,203	183,282	171,829	—	1,516,856	
Other financial assets	—	—	—	—	—	38,899	38,899	
Total financial assets	2,330,178	1,268,447	2,619,529	682,954	552,249	456,864	7,910,221	

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Interest rate risk (continued)

	As at June 30, 2016						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Deposits from banks and other financial institutions	150,197	4,178	167,373	1,100	—	—	322,848
Placements from banks and other financial institutions	4,313	278	50,286	—	—	—	54,877
Financial liabilities at fair value through profit or loss	2,792	3,070	550	—	—	31	6,443
Derivative financial liabilities	—	—	—	—	—	1,346	1,346
Financial assets sold under repurchase agreements	65,740	2,902	198,805	—	—	—	267,447
Customer deposits	3,170,679	552,630	2,671,098	500,570	—	1,165	6,896,142
Debt securities issued	—	—	—	—	24,974	—	24,974
Other financial liabilities	—	—	7	7	—	105,643	105,657
Total financial liabilities	3,393,721	563,058	3,088,119	501,677	24,974	108,185	7,679,734
Interest rate risk gap	(1,063,543)	705,389	(468,590)	181,277	527,275	348,679	230,487

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2015						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Cash and deposits with central bank	1,083,704	—	—	—	—	47,527	1,131,231	
Deposits with banks and other financial institutions	135,540	99,960	51,126	37,511	—	—	324,137	
Placements with banks and other financial institutions	34,043	41,995	32,351	92,096	—	—	200,485	
Financial assets at fair value through profit or loss	9,146	6,573	11,818	182	—	—	27,719	
Derivative financial assets	—	—	—	—	—	1,073	1,073	
Financial assets held under resale agreements	112,729	20,764	14,375	1,000	—	—	148,868	
Loans and advances to customers	1,377,140	315,372	662,416	45,970	11,697	—	2,412,595	
Available-for-sale financial assets	14,002	9,268	21,225	65,844	16,682	263,662	390,683	
Held-to-maturity investments	14,971	56,594	82,082	236,344	294,776	—	684,767	
Investment classified as receivables	33,728	296,184	1,128,726	255,320	169,540	—	1,883,498	
Other financial assets	—	—	—	—	—	32,481	32,481	
Total financial assets	2,815,003	846,710	2,004,119	734,267	492,695	344,743	7,237,537	

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2015						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	
Deposits from banks and other financial institutions	41,799	7,037	41,957	558	—	—	91,351
Placements from banks and other financial institutions	29,151	1,872	39,836	—	—	—	70,859
Financial liabilities at fair value through profit or loss	142	418	3,579	—	—	—	4,139
Derivative financial liabilities	—	—	—	—	—	1,039	1,039
Financial assets sold under repurchase agreements	182,062	50,619	162,136	—	—	—	394,817
Customer deposits	3,116,330	1,008,528	1,713,012	466,367	—	777	6,305,014
Debt securities issued	—	—	—	—	24,973	—	24,973
Other financial liabilities	5	5	13	10	—	119,385	119,418
Total financial liabilities	3,369,489	1,068,479	1,960,533	466,935	24,973	121,201	7,011,610
Interest rate risk gap	(554,486)	(221,769)	43,586	267,332	467,722	223,542	225,927

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Foreign exchange risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at June 30, 2016, and December 31, 2015.

	As at June 30, 2016			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,205,091	1,904	63	1,207,058
Deposits with banks and other financial institutions	141,632	6,599	877	149,108
Placements with banks and other financial institutions	247,889	26,150	—	274,039
Financial assets at fair value through profit or loss	62,373	2,177	—	64,550
Derivative financial assets	24	1,158	153	1,335
Financial assets held under resale agreements	340,305	133	—	340,438
Loans and advances to customers	2,694,933	1,539	272	2,696,744
Available-for-sale financial assets	872,376	3,811	59	876,246
Held-to-maturity investments	743,777	1,171	—	744,948
Investment classified as receivables	1,516,856	—	—	1,516,856
Other financial assets	38,821	77	1	38,899
Total financial assets	7,864,077	44,719	1,425	7,910,221

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at June 30, 2016			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Deposits from banks and other financial institutions	319,532	3,316	—	322,848
Placements from banks and other financial institutions	53,930	947	—	54,877
Financial liabilities at fair value through profit or loss	6,443	—	—	6,443
Derivative financial liabilities	24	1,308	14	1,346
Financial assets sold under repurchase agreements	267,447	—	—	267,447
Customer deposits	6,886,374	9,324	444	6,896,142
Debt securities issued	24,974	—	—	24,974
Other financial liabilities	105,616	40	1	105,657
Total financial liabilities	7,664,340	14,935	459	7,679,734
Net on-balance sheet position	199,737	29,784	966	230,487
Net nominal amount of derivative financial instruments	10,890	(9,782)	(1,063)	45
Credit commitments	363,046	11,258	604	374,908

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(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2015			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,130,700	491	40	1,131,231
Deposits with banks and other financial institutions	319,433	4,066	638	324,137
Placements with banks and other financial institutions	178,561	21,924	—	200,485
Financial assets at fair value through profit or loss	27,527	192	—	27,719
Derivative financial assets	36	1,030	7	1,073
Financial assets held under resale agreements	148,803	65	—	148,868
Loans and advances to customers	2,408,181	3,908	506	2,412,595
Available-for-sale financial assets	390,102	581	—	390,683
Held-to-maturity investments	683,851	916	—	684,767
Investment classified as receivables	1,883,498	—	—	1,883,498
Other financial assets	32,450	30	1	32,481
Total financial assets	7,203,142	33,203	1,192	7,237,537

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(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2015			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Deposits from banks and other financial institutions	87,847	3,504	—	91,351
Placements from banks and other financial institutions	68,240	2,515	104	70,859
Financial liabilities at fair value through profit or loss	4,139	—	—	4,139
Derivative financial liabilities	36	1,000	3	1,039
Financial assets sold under repurchase agreements	394,817	—	—	394,817
Customer deposits	6,297,570	6,824	620	6,305,014
Debt securities issued	24,973	—	—	24,973
Other financial liabilities	119,373	44	1	119,418
Total financial liabilities	6,996,995	13,887	728	7,011,610
Net on-balance sheet position	206,147	19,316	464	225,927
Net nominal amount of derivative financial instruments	(1,611)	2,231	(660)	(40)
Credit commitments	312,191	5,008	491	317,690

42 FINANCIAL RISK MANAGEMENT (continued)

42.5 Fair value of financial instruments

- (1) During the six months ended June 30, 2016, and the year ended December 31, 2015, there was no significant change in the valuation techniques or inputs used to determine fair value measurements as compared to those used in the financial statements.

(2) ***Fair value hierarchy***

Financial instruments measured at fair value are classified into the following three levels of measurement hierarchy:

Level 1: Fair value is determined based on quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

(3) ***Financial assets and financial liabilities not measured at fair value on the statement of financial position***

	As at June 30, 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	744,948	768,685	1,128	767,557	—
Investments classified as receivables	1,516,856	1,543,959	—	102,231	1,441,728
Total	2,261,804	2,312,644	1,128	869,788	1,441,728
Financial liabilities					
Debt securities issued	24,974	25,592	—	25,592	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.5 Fair value of financial instruments (continued)

(3) ***Financial assets and financial liabilities not measured at fair value on the statement of financial position (continued)***

	As at December 31, 2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	684,767	711,061	925	710,136	—
Investments classified as receivables	1,883,498	1,985,754	—	100,805	1,884,949
Total	2,568,265	2,696,815	925	810,941	1,884,949
Financial liabilities					
Debt securities issued	24,973	25,277	—	25,277	—

Except for the financial assets and liabilities above, the fair value of other financial assets and liabilities not measured at fair value in the balance sheet are determined using discounted future cash flows. There is no significant difference between their fair value and their carrying amounts.

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.5 Fair value of financial instruments (continued)

(4) *Financial assets and financial liabilities measured at fair value on the statement of financial position*

The tables below summarizes the fair values of the financial assets and financial liabilities measured in the balance sheet at their fair value.

	As at June 30, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Debt securities	1,262	12,750	—	14,012
- Certificates of deposits	—	44,026	—	44,026
- Asset management plans	—	—	6,512	6,512
Subtotal	1,262	56,776	6,512	64,550
Derivative financial assets				
- Exchange rate derivatives	—	1,311	—	1,311
- Interest rate derivatives	—	24	—	24
Subtotal	—	1,335	—	1,335
Available-for-sale financial assets				
- Debt securities	3,870	133,646	—	137,516
- Assets-backed securities	—	26,675	—	26,675
- Equity instruments	—	281,555	2,187	283,742
- Debt instruments	—	—	341,987	341,987
Subtotal	3,870	441,876	344,174	789,920
Total	5,132	499,987	350,686	855,805
Financial liabilities at fair value through profit or loss				
- Wealth management products	—	—	(6,443)	(6,443)
Derivative financial liabilities				
- Exchange rate derivatives	—	(1,296)	—	(1,296)
- Interest rate derivatives	—	(50)	—	(50)
Subtotal	—	(1,346)	—	(1,346)
Total	—	(1,346)	(6,443)	(7,789)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.5 Fair value of financial instruments (continued)

(4) **Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)**

	As at December 31, 2015			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Debt securities	159	6,967	—	7,126
- Certificates of deposits	—	16,454	—	16,454
- Asset management plans	—	—	4,139	4,139
Subtotal	159	23,421	4,139	27,719
Derivative financial assets				
- Exchange rate derivatives	—	1,044	—	1,044
- Interest rate derivatives	—	29	—	29
Subtotal	—	1,073	—	1,073
Available-for-sale financial assets				
- Debt securities	581	103,160	—	103,741
- Assets-backed securities	—	23,280	—	23,280
- Equity instruments	—	260,939	2,657	263,596
Subtotal	581	387,379	2,657	390,617
Total	740	411,873	6,796	419,409
Financial liabilities at fair value through profit or loss				
- Wealth management products	—	—	(4,139)	(4,139)
Derivative financial liabilities				
- Exchange rate derivatives	—	(1,009)	—	(1,009)
- Interest rate derivatives	—	(30)	—	(30)
Subtotal	—	(1,039)	—	(1,039)
Total	—	(1,039)	(4,139)	(5,178)

There were no significant movements among levels of the fair value hierarchy for the six months ended June 30, 2016, and the year ended December 31, 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

(All amounts in millions of RMB unless otherwise stated)

42 FINANCIAL RISK MANAGEMENT (continued)

42.6 Capital management

The Group's regulatory capital as calculated according to Administrative Measures for Capital of Commercial Banks (for Trial Implementation) (商業銀行資本管理辦法(試行)) promulgated by CBRC and Accounting Standards for Business Enterprises issued by the MOF as at June 30, 2016 and December 31, 2015 is as follows:

	As at June 30, 2016	As at December 31, 2015
Core tier 1 capital adequacy ratio	8.17%	8.53%
Tier 1 capital adequacy ratio	8.17%	8.53%
Capital adequacy ratio	10.04%	10.46%
Core tier 1 capital - net	281,711	269,008
Tier 1 capital - net	281,716	269,009
Tier 2 capital - net	64,501	60,839
Net capital	346,217	329,848
Risk-weighted assets	3,447,348	3,153,015

43 EVENTS AFTER THE BALANCE SHEET DATE

In September, PBOC approved the Group's application for issuance of qualified tier 2 capital instruments up to RMB50 billion. As at the date of this report, the Bank has not issued such bonds.

On September 28, 2016, the Bank listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code 1658), offering 12,106,588,000 shares (the "Global Offering"). Based on the offer price of HK\$4.76 per share, the net proceeds from the Global Offering received by the Bank, after deduction of the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming no exercise of the over-allotment option, is estimated to be approximately HK\$56,627 million.

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(All amounts in millions of RMB unless otherwise stated)

LIQUIDITY RATIOS AND LEVERAGE RATIO

Liquidity ratios

Item	Average for the six months ended June 30, 2016	Average for the year ended December 31, 2015
Liquidity ratios (RMB and foreign currency)	40.81%	44.78%
Item	As at June 30, 2016	As at December 31, 2015
Liquidity ratios (RMB and foreign currency)	46.69%	33.96%

Leverage ratio

Item	As at June 30, 2016
Leverage ratio	3.46%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Amended) (商業銀行槓杆率管理辦法(修訂)) issued by the China Banking Regulatory Commission (the “CBRC”), systematically important banks shall meet the minimum leverage ratio of 4% since April 1, 2015 (effective date of the Measure); and other banks shall meet the minimum regulatory requirement by the end of 2016.

The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China.

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(All amounts in millions of RMB unless otherwise stated)

CURRENCY CONCENTRATION

	As at June 30, 2016			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	51,519	401	1,553	53,473
Spot liabilities	(21,209)	(134)	(995)	(22,338)
Forward purchases	115,778	1	1,072	116,851
Forward sales	(125,460)	(325)	(1,817)	(127,602)
Net long/(short) position	20,628	(57)	(187)	20,384

	As at December 31, 2015			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	36,808	(944)	1,680	37,544
Spot liabilities	(16,792)	1,001	(1,284)	(17,075)
Forward purchases	76,657	17	1,237	77,911
Forward sales	(74,636)	(181)	(1,750)	(76,567)
Net long/(short) position	22,037	(107)	(117)	21,813

The Bank had no structural position for the six months ended June 30, 2016, and the year ended December 31, 2015.

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(All amounts in millions of RMB unless otherwise stated)

INTERNATIONAL CLAIMS

The Bank regards all claims on third parties outside Mainland China and claims dominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical region 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 June 30, 2016			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	—	30,985	3,442	34,427
of which attributed to				
Hong Kong	—	2,163	22	2,185
North and South America	—	5,384	18	5,402
Europe	—	2,818	—	2,818
	—	39,187	3,460	42,647

	As at December 31, 2015			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	100	24,975	4,648	29,723
of which attributed to				
Hong Kong	—	11,378	37	11,415
North and South America	—	2,384	1	2,385
Europe	—	761	—	761
	100	28,120	4,649	32,869

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(All amounts in millions of RMB unless otherwise stated)

GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	As at June 30, 2016	As at December 31, 2015
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of		
within 3 months (inclusive)	8,991	7,721
between 3 months and 6 months (inclusive)	4,720	4,885
between 6 months and 12 months (inclusive)	7,126	6,651
over 12 months	7,072	5,248
Total	27,909	24,505
As a percentage of total gross loans and advances to customers		
within 3 months (inclusive)	0.33%	0.31%
between 3 months and 6 months (inclusive)	0.17%	0.20%
between 6 months and 12 months (inclusive)	0.26%	0.27%
over 12 months	0.25%	0.21%
Total	1.01%	0.99%

Overdue loans and advances to customers by geographical areas:

	As at June 30, 2016	As at December 31, 2015
Head office	928	857
Yangtze River Delta	3,900	3,391
Pearl River Delta	2,604	2,362
Bohai Rim	3,338	2,871
Central China	6,124	4,984
Western China	7,544	6,344
Northeastern China	3,471	3,696
Total	27,909	24,505

APPENDIX II

LIQUIDITY COVERAGE RATIO

In millions of RMB, except for percentages

Item	December 31, 2015 After adjustment	June 30, 2016 After adjustment
Qualified quality liquid assets	962,753	1,005,405
Net cash outflow	786,114	543,652
Liquidity coverage ratio (%)	122.47	184.94

APPENDIX III LEVERAGE RATIO

As required in the Measures for the management of leverage ratio of commercial banks (Revision) (2015 No.1) of CBRC, the Bank prepared and disclosed information on leverage ratio as below:

In millions of RMB, except for percentages

Item	June 30, 2016	December 31, 2015
Net tier-1 capital	281,716	269,008
Adjusted asset balance on- and off- the balance sheet	8,143,714	7,433,833
Leverage ratio (%)	3.46	3.62

In millions of RMB, except for percentages

No.	Item	June 30, 2016
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	7,632,702
2	Less: tier-1 capital deduction items	1,632
3	Adjusted asset balance on-balance sheet (excluding derivatives and securities financing transactions)	7,631,070
4	Replace costs of various derivatives (net of qualified deposits)	1,335
5	Potential risk exposures of various derivatives	3,077
6	Aggregate secured and pledged items deducted from balance sheet	-
7	Less: Asset receivables resulting from the provision of qualified deposits	-
8	Less: asset balances of derivatives from transacting with central counterparties in providing liquidation service for customers	-
9	Notional principal of sold credit derivatives	-
10	Less: deductible asset balance of sold credit derivatives	-
11	Asset balance of derivatives	4,412
12	Accounting asset balance of securities financing transactions	340,438
13	Less: deductible asset balance of securities financing transactions	-
14	Credit risk exposures of counterparties in securities financing transactions	-
15	Asset balance of securities financing transactions resulting from agency securities financing transactions	-
16	Asset balance of securities financing transactions	340,438

APPENDIX III LEVERAGE RATIO

No.	Item	June 30, 2016
17	Balance of off- balance sheet items	384,701
18	Less: Balance of off- balance sheet items decreased because of credit conversion	216,907
19	Adjusted balance of off- balance sheet items	167,794
20	Tier-1 capital	281,716
21	Adjusted asset balance on- and off- the balance sheet	8,143,714
22	Leverage ratio (%)	3.46

APPENDIX IV COMPOSITION OF CAPITAL

Composition of Capital Table

In millions of RMB, except for percentages

	June 30, 2016	December 31, 2015
Core tier-1 capital:		
1 Paid-in capital	68,604	68,604
2 Retained earnings	174,198	159,969
2a Surplus reserves	16,411	16,411
2b General reserve	84,754	84,754
2c Retained profits	73,033	58,804
3 Accumulated other comprehensive income (and other public reserves)	40,502	41,875
3a Capital reserve	36,887	36,984
3b Others	3,615	4,891
4 Valid portion to core tier-1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	–
5 Valid portion of minority interest	39	11
6 Core tier-1 capital before regulatory adjustments	283,343	270,459
Core tier-1 capital: Regulatory adjustments		
7 Prudential valuation adjustments	–	–
8 Goodwill (net of deferred tax liabilities)	–	–
9 Other intangible assets other than land use rights (net of deferred tax liabilities)	1,632	1,451
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences	10	2
11 Cash flow hedge reserves that relate to the hedging of items that are not fair valued on the balance sheet	–	–
12 Shortfall of provision for loan impairment	–	–
13 Gain on sale related to asset securitization	–	–
14 Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	–	–
15 Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	–
16 Directly or indirectly holding the own ordinary shares	–	–
17 Reciprocal cross-holdings in core tier-1 capital between banks or between banks and other financial institutions	–	–

APPENDIX IV COMPOSITION OF CAPITAL

	June 30, 2016	December 31, 2015	
18	Deductible amount of insignificant minority investment in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation	–	–
19	Deductible amount of significant minority investment in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation	–	–
20	Mortgage servicing rights	Not applicable	Not applicable
21	Deductible amount in deferred tax assets arising from temporary differences	–	–
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences	–	–
23	<i>Including: Deductible amount of significant minority investments in core tier-1 capital instruments issued by financial institutions</i>	–	–
24	<i>Including: Deductible amount of mortgage servicing rights</i>	Not applicable	Not applicable
25	<i>Including: Deductible amount in deferred tax assets arising from temporary differences</i>	–	–
26a	Investment in core tier-1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–
26b	Shortfall in core tier-1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–
26c	Others that should be deducted from core tier-1 capital	–	–
27	Undeducted shortfall that should be deducted from additional tier-1 capital and tier-2 capital	–	–
28	Total regulatory adjustments to core tier-1 capital	1,632	1,451
29	Core tier-1 capital	281,711	269,008
Additional tier-1 capital:			
30	Additional tier-1 capital instruments and related premium	–	–
31	<i>Including: Portion classified as equity</i>	–	–
32	<i>Including: Portion classified as liabilities</i>	–	–
33	Invalid instruments to additional tier-1 capital after the transition period	–	–
34	Qualifying non-controlling interests	5	1
35	<i>Including: invalid portion to additional tier-1 capital excluded after the transition period</i>	–	–
36	Additional tier-1 capital before regulatory adjustments	5	1

	June 30, 2016	December 31, 2015
Additional tier-1 capital: Regulatory adjustments		
37 Directly or indirectly holding additional tier-1 capital of the Bank	–	–
38 Reciprocal cross-holdings in additional tier-1 capital between banks or between banks and other financial institutions	–	–
39 Deductible amount of non-significant minority investment in additional tier-1 capital instruments issued by financial institutions that are not subject to consolidation	–	–
40 Significant minority investments in additional tier-1 capital instruments issued by financial institutions that are not subject to consolidation	–	–
41a Investment in additional tier-1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–
41b Shortfall in additional tier-1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–	–
41c Others that should be deducted from additional tier-1 capital	–	–
42 Undeducted shortfall that should be deducted from tier-2 capital	–	–
43 Total regulatory adjustments to additional tier-1 capital	–	–
44 Additional tier-1 capital	5	1
45 Tier-1 capital (core tier 1 capital + additional tier-1 capital)	281,716	269,009
Tier 2 capital:		
46 Tier-2 capital instruments and related premium	25,000	25,000
47 Invalid instruments to tier-2 capital after the transition period	–	–
48 Valid portion of minority interests	11	3
49 <i>Including: Invalid portion to tier-2 capital after the transition period</i>	–	–
50 Valid portion of surplus provision for loan impairment	39,490	35,836
51 Tier-2 capital before regulatory adjustments	64,501	60,839

APPENDIX IV COMPOSITION OF CAPITAL

	June 30, 2016	December 31, 2015
Tier-2 capital: Regulatory adjustments		
52	–	–
53	–	–
54	–	–
55	–	–
56a	–	–
56b	–	–
56c	–	–
57 Total regulatory adjustments to tier-2 capital	–	–
58 Tier-2 capital	64,501	60,839
59 Total capital (tier-1 capital + tier-2 capital)	346,217	329,848
60 Total risk-weighted assets	3,447,348	3,153,015
Requirements for capital adequacy ratio and reserve capital (%)		
61	8.17	8.53
62	8.17	8.53
63	10.04	10.46
64	1.7	1.3
65	1.7	1.3
66	–	–
67	–	–
68	1.47	2.23
Domestic minimum requirements for regulatory capital (%)		
69	6.7	6.3
70	7.7	7.3
71	9.7	9.3

	June 30, 2016	December 31, 2015
Amounts below the thresholds for deduction		
72 Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	10,378	10,392
73 Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	–	–
74 Mortgage servicing rights (net of deferred tax liabilities)	Not applicable	Not applicable
75 Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	9,913	9,197
Valid caps of surplus provision for loan impairment to tier-2 capital		
76 Provision for loan impairment under the weighted approach	62,722	59,190
77 Valid cap of surplus provision for loan impairment in tier-2 capital under the weighted approach	39,490	35,836
78 Surplus provision for loan impairment under the internal ratings-based approach	–	–
79 Valid cap of surplus provision for loan impairment in tier-2 capital under the internal ratings-based approach	–	–
Capital instruments subject to phase-out arrangements		
80 Valid cap to core tier-1 capital instruments for the current period due to phase-out arrangements	–	–
81 Excluded from core tier-1 capital due to cap	–	–
82 Valid cap to additional tier-1 capital instruments for the current period due to phase-out arrangements	–	–
83 Excluded from additional tier-1 capital due to cap	–	–
84 Valid cap to tier-2 capital instruments for the current period due to phase-out arrangements	–	–
85 Excluded from tier-2 capital for the current period due to cap	–	–

APPENDIX IV COMPOSITION OF CAPITAL

Detailed Description of Related Items

	June 30, 2016	December 31, 2015	Code
Goodwill	–	–	a
Deferred income tax liabilities	(1,297)	(1,667)	
Including: Deferred tax liabilities related to goodwill	–	–	b
Including: Deferred tax liabilities related to other intangible assets other than land use rights	–	–	c
Paid-in capital	68,604	68,604	
Including: Amount included in core tier-1 capital	68,604	68,604	d
Including: Amount included in additional tier-1 capital	–	–	e
Capital reserve	36,887	36,984	f
Other comprehensive income	3,615	4,891	g
Surplus reserve	16,411	16,411	h
General reserve	84,754	84,754	i
Undistributed profits	73,033	58,804	j

Correspondence between All the Items Disclosed in the Second Step and Item in the Disclosure Template of Capital Composition

	June 30, 2016	December 31, 2015	Code
Core tier-1 capital:			
1 Paid-in capital	68,604	68,604	d+e
2 Retained earnings	174,198	159,969	h+i+j
2a Surplus reserve	16,411	16,411	h
2b General reserve	84,754	84,754	i
2c Undistributed profits	73,033	58,804	j
3 Accumulated other comprehensive income and disclosed reserve	40,502	41,875	f+g
3a Capital reserve	36,887	36,984	f
3b Others	3,615	4,891	g

Main Features of Capital Instruments

Main features of regulatory capital instruments

1	Issuer	POSTAL SAVINGS BANK OF CHINA CO., LTD.
2	Identification code	1528007.IB
3	Applicable laws	Capital Administrative Measures (Provisional) and Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market
	Regulatory process	CBRC and PBC are in charge of consideration and approval
4	Including: Applicable to rules for the transitional period of Measures for Capital Management of Commercial Bank (Trial) are applicable	Tier-2 capital
5	Including: Applicable to rules after the transitional period of Measures for Capital Management of Commercial Bank (Trial) are applicable	Tier-2 capital
6	Including: Applicable to legal representatives/groups	legal representatives/groups
7	Instrument type	Tier-2 capital instruments
8	Amount that can be included in regulatory capital (in millions; on the latest reporting date)	25,000
9	Instrument book value	RMB100
10	Accounting treatment	Debt securities issued
11	Initial issuance date	09/09/2015
12	Whether there is a deadline (terminable or continuous)	Terminable
13	Including: Original deadline	09/09/2025
14	Redeemed by issuer (to be approved by regulators)	Yes
15	Including: Redemption date (or convenient redemption date) and limit	09/09/2020
16	Including: Subsequent redemption date (if any)	Not applicable
	Bonuses or dividends	
17	Including: Fixed or floating bonuses/dividends	Fixed

APPENDIX IV COMPOSITION OF CAPITAL

18	Including: Book interest rate and relevant indices	4.50%
19	Including: Whether there is a dividend brake mechanism	No
20	Including: Whether bonuses or dividends can be cancelled independently	No discretion right
21	Including: Whether there is a redemption incentive mechanism	No
22	Including: Accumulation or non-accumulation	Non-accumulation
23	Whether shares are transferable	No
24	Including: Clarifying trigger events for transferring if shares are transferable	Not applicable
25	Including: Clarifying whether shares are wholly or partially transferable if shares are transferable	Not applicable
26	Including: Clarifying how to confirm the transfer price if shares are transferable	Not applicable
27	Including: Clarifying whether shares are compulsorily transferred if shares are transferable	Not applicable
28	Including: Clarifying instrument type after transferring if shares are transferable	Not applicable
29	Including: Clarifying instrument issuer after transferring if shares are transferable	Not applicable
30	Whether write-down shall be committed	Yes
31	Including: Clarifying write-down trigger points if write-down shall be committed	1. Issuer is deemed unable to exist by CBRC provided it doesn't commit write-down; 2. issuer is deemed unable to exist by relevant authorities provided it doesn't get capital injection or support of equal effect from public sectors
32	Including: Clarifying whether it's partially or wholly written down if write-down shall be committed	All
33	Including: Clarifying whether the write-down is permanent or temporary if write-down shall be committed	Permanent
34	Including: Clarifying book value recovery mechanism if the write-down is temporary	Not applicable
35	Liquidation priority during settlement (clarifying instrument type with higher liquidation priority)	After depositors and general creditors, and before equity capital and other tier-1 capital instruments
36	Whether there are temporary ineligible features	No
	Including: Clarifying such features if they exist	Not applicable

Note: There is no difference between the balance sheet in our group level and the regulatory consolidated balance sheet.

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