



中國郵政儲蓄銀行股份有限公司
Postal Savings Bank of China Co., Ltd.
(A joint stock limited liability company incorporated in
the People's Republic of China)
Stock Code: 1658



2017



Interim Report



進步與你同步

Together
We Make it Better

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Profile

Postal Savings Bank of China is a leading large retail bank in China, strategically focusing on providing financial services to communities, SMEs and Sannong customers, and is committed to meeting the financial needs of the most promising customers during China's economic transformation. Meanwhile, Postal Savings Bank of China actively serves large corporate customers, and participates in major projects, making important contributions to China's economic development.

With approximately 40,000 outlets serving over 500 million individual customers, Postal Savings Bank of China boasts superior asset quality and significant development potential. At present, we have established an all-around e-banking system consisting of online banking, mobile banking, self-service banking, telephone banking, television banking and Weibank, etc., forming a financial service landscape in which electronic banking functions connect with physical network and offline banking keeps pace with online virtual banking. In 2015, we introduced ten domestic and foreign strategic investors, which further improved our comprehensive strength. In 2016, Postal Savings Bank of China successfully completed the initial public offering on the Main Board of Hong Kong Stock Exchange and accessed the international capital market, representing a successful completion of the 3-step reform roadmap, namely "transformation of ownership, introduction of strategic investors and initial public offering". According to *The Banker's* list of "Top 1000 World Banks 2017", we ranked 21st in terms of total assets as of the end of 2016.

Against the background of transformation and upgrade of China's economy, in-depth advancement of financial reform and thriving development of information technology, Postal Savings Bank of China will seize new strategic opportunities, give full play to our advantages, keep enriching our business varieties, expand service channels and improve service capabilities so as to provide more comprehensive and convenient financial services to customers and become the most trusted and valuable first-tier large retail bank.

Definitions

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

<p>“Bank/Postal Savings Bank/Postal Savings Bank of China/PSBC/us/we”</p>	<p>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</p>
<p>“CBRC”</p>	<p>China Banking Regulatory Commission</p>
<p>“central bank/PBOC”</p>	<p>The People’s Bank of China</p>
<p>“China” or “PRC”</p>	<p>the People’s Republic of China, but for the purpose of this interim report only and, unless the context otherwise requires, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan</p>
<p>“China Post Group”</p>	<p>China Post Group Corporation, an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder</p>
<p>“County Area(s)”</p>	<p>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 or 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</p>
<p>“Director(s)”</p>	<p>our director(s)</p>
<p>“Domestic Shares”</p>	<p>ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi</p>

Definitions

“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
“industries with high pollution, high energy consumption and overcapacity”	industries with high pollution, high energy consumption and overcapacity
“Large Commercial Banks”	collectively, Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and our Bank
“PSBC Consumer Finance”	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015, in which we own 61.5% equity interests
“Renminbi” or “RMB”	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)
“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
“VIP customers”	our customer segmentation is primarily based on a customer’s personal financial assets and loan balances with us (collectively, “consolidated assets”). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers
“Weibank”	our electronic banking service system, which provides banking services on internet social platforms, including Wechat Bank, Easy Chat Bank and Weibo Bank

Definitions

For the purpose of illustrating our distribution network and presenting certain operating results and financial positions in this interim report, our reference to the geographical regions of China are defined 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
“Western China”	<ul style="list-style-type: none"> • Chongqing Municipality • Sichuan Province • Guizhou Province • Yunnan Province • Shaanxi Province • Gansu Province • Qinghai Province • Ningxia Hui Autonomous Region 	<ul style="list-style-type: none"> • Xinjiang Uyghur Autonomous Region • Tibet Autonomous Region • Inner Mongolia Autonomous Region • Guangxi Zhuang Autonomous Region
“Northeastern China”	<ul style="list-style-type: none"> • Liaoning Province • Heilongjiang Province 	<ul style="list-style-type: none"> • 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 aforementioned figures.

Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and the senior management of Postal Savings Bank of China Co., Ltd. undertake that the information in this interim report does not contain any false record, misleading statement or material omission, and assume individual and joint and several liability for the truthfulness, accuracy and completeness of the information in this interim report.

The 2017 Interim Report and the results announcement have been reviewed and approved at the meeting of the Board of Directors of the Bank held on August 29, 2017. The Bank has 12 Directors in total, among which 11 Directors attended the meeting in person. Ms. Yao Hong has authorised Mr. Lyu Jiajin to attend the meeting on her behalf, which was in compliance with the requirements of Company Law of the People's Republic of China and the Articles of Association of Postal Savings Bank of China Co., Ltd.

Upon the approval at the 2016 annual general meeting held on June 8, 2017, the Bank has distributed cash dividends of RMB0.737 per ten shares (tax inclusive) of an aggregate amount of approximately RMB5,972 million (tax inclusive) for the period from January 1, 2016 to December 31, 2016 to all the ordinary shareholders whose names appeared on the register of members of the Bank on the shareholding registration day. The Bank will not declare or distribute interim dividends for 2017, nor will it convert any capital reserves to share capital.

The 2017 interim financial report prepared by the Bank in accordance with IFRSs has been reviewed by PricewaterhouseCoopers in accordance with International Standards on Review Engagements.

The Board of Directors of Postal Savings Bank of China Co., Ltd.

August 29, 2017

Li Guohua, Legal Representative of the Bank, Lyu Jiajin, President, and Liu Yucheng, General Manager of the Finance Management Department of the Bank, hereby warrant and guarantee that the financial statements contained in the Interim Report are true, accurate and complete.

The report contains certain forward-looking statements on the Bank's financial position, operating results and business development. These statements are made based on existing plans, estimates and forecasts, and are subject to future external events or the Group's future finance, business or performance in other aspects, and may involve future plans which do not constitute substantive commitment to investors. Hence, investors and persons concerned shall be fully aware of the risks and understand the difference between plans, estimates and commitments.

This report is prepared in both Chinese and English. In case of discrepancy between the two versions, the Chinese version shall prevail.

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
Authorized representatives:	Yao Hong, Du Chunye
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
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 Social Credit Number:	9111000071093465XC
Financial license institutional code:	B0018H111000001

Stock exchange on which H Shares are listed:	Hong Kong Stock Exchange
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

* Postal Savings Bank of China Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.

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 PSBC and our subsidiary, and are presented in RMB.)

Key Financial Data

In millions of RMB, except for percentages

Item	For the six months ended June 30,		Increase/ (decrease)	Change (%)
	2017	2016		
Interim operating results				
Operating income	105,973	93,286	12,687	13.60
Net interest income	87,514	81,637	5,877	7.20
Net fee and commission income	7,033	5,866	1,167	19.89
Operating expenses	65,544	62,187	3,357	5.40
Impairment losses on assets	10,366	4,964	5,402	108.82
Profit before income tax	30,063	26,135	3,928	15.03
Net profit	26,592	23,216	3,376	14.54
Net profit attributable to shareholders of the Bank	26,600	23,229	3,371	14.51
Net cash flow from operating activities	(380,300)	420,404	(800,704)	(190.46)

In millions of RMB, except for percentages

Item	June 30, 2017	December 31, 2016	Increase/ (decrease)	Change (%)
Data as at the end of the reporting period				
Total assets	8,543,826	8,265,622	278,204	3.37
Total loans to customers ⁽¹⁾	3,340,454	3,010,648	329,806	10.95
Allowance for impairment on loans	79,018	71,431	7,587	10.62
Loans to customers, net	3,261,436	2,939,217	322,219	10.96
Investment securities and other financial assets, net	3,207,682	3,463,841	(256,159)	(7.40)
Cash and deposits with central bank	1,348,535	1,310,273	38,262	2.92
Total liabilities	8,179,044	7,918,734	260,310	3.29
Customer deposits	7,806,235	7,286,311	519,924	7.14
Equity attributable to shareholders of the Bank	364,432	346,530	17,902	5.17
Net capital	485,775	444,919	40,856	9.18
Net core tier-1 capital	362,899	344,817	18,082	5.24
Additional tier-1 capital, net	27	6	21	350.00
Risk-weighted assets	4,161,826	3,995,908	165,918	4.15

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

Financial Highlights

Financial Indicators

Item	For the six months ended June 30,		Change
	2017	2016	
Profitability (%)			
Return on average total assets ⁽¹⁾⁽²⁾	0.64	0.61	0.03
Return on weighted average net assets ⁽¹⁾⁽³⁾	14.91	16.79	(1.88)
Net interest margin ⁽¹⁾⁽⁴⁾	2.31	2.30	0.01
Net interest spread ⁽¹⁾⁽⁵⁾	2.38	2.34	0.04
Net fee and commission income to operating income ratio	6.64	6.29	0.35
Cost-to-income ratio ⁽⁶⁾	61.10	63.63	(2.53)

Per share data (RMB)

Basic earnings per share ⁽⁷⁾	0.33	0.34	(0.01)
Diluted earnings per share ⁽⁸⁾	0.33	0.34	(0.01)

Item	June 30, 2017	December 31, 2016	Change
Asset quality (%)			
Non-performing loan ratio ⁽⁹⁾	0.82	0.87	(0.05)
Allowance coverage ratio ⁽¹⁰⁾	288.65	271.69	16.96
Allowance to loan ratio ⁽¹¹⁾	2.37	2.37	—
Capital adequacy ratio (%)			
Core tier-1 capital adequacy ratio ⁽¹²⁾	8.72	8.63	0.09
Tier-1 capital adequacy ratio ⁽¹³⁾	8.72	8.63	0.09
Capital adequacy ratio ⁽¹⁴⁾	11.67	11.13	0.54
Risk-weighted assets to total assets ratio ⁽¹⁵⁾	48.71	48.34	0.37
Total equity to total assets ratio	4.27	4.20	0.07

- (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) Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CSRC without deducting non-recurring gains and losses.
- (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 taxes 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 on loans by total non-performing loans.
- (11) Calculated by dividing total allowance for impairment 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.

Financial Highlights

Other Major Indicators

Item	Regulatory requirements	June 30, 2017	December 31, 2016
Liquidity ratio (%) ⁽¹⁾	≥25	41.67	38.37
Loan exposure to a single customer (%) ⁽²⁾	≤10	38.41	44.34

Item		June 30, 2017	December 31, 2016
Loan migration ratio (%)	Normal	0.62	1.58
	Special mention	16.19	12.95
	Substandard	35.19	88.37
	Doubtful	60.86	80.28

- (1) Liquidity ratio = current assets/current liabilities×100%. Current assets include cash, gold, surplus deposit reserve, net placements 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), 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, interest payable 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 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, 2017, China Railway Corporation was our single largest borrower, and the outstanding loan balance with China Railway Corporation was RMB186,563 million, representing 38.41% 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, 2017, the outstanding loan balance under such credit approved by the CBRC for China Railway Corporation was RMB179.3 billion and after the deduction of RMB179.3 billion, our loan balance with China Railway Corporation represented 1.50% of our net capital.

Message from the Chairman

2017 is the first year after the listing of Postal Savings Bank of China. With a diversified shareholding, the Bank has taken a key step forward in further improving its corporate governance, enhancing its comprehensive competitiveness and growing into a leading international large bank. Since listing, we have carried out in-depth cooperation with strategic investors, accelerated transformation and improved quality and efficiency, generating outstanding operating results. Our investment value has been widely recognized.

In the first half of the year, we maintained a steady growth and further enhanced our market competitiveness and risk control. This year, we carefully analyzed the macro-environment, further optimized our business structure, focused on risk control, and delivered outstanding interim results to our shareholders. Our operating income and net profit grew rapidly, and our credit assets remained superior in quality. As of the end of the reporting period, our non-performing loan ratio was 0.82%, and our allowance coverage ratio was 288.65%.

In the first half of the year, we focused on optimizing our operation, with significantly improved development quality. This year, despite complex environment, the Bank defied the downward market trend. Our total assets amounted to RMB8.54 trillion as of the end of the reporting period, representing an increase of RMB278.20 billion as compared to the end of the previous year. Meanwhile, we kept our commitments made to investors upon our listing and was dedicated to optimizing our operation. During the reporting period, we further improved our asset structure, expanded extension of credit assets and raised the proportion of intermediary business. Under our strict control on operating cost, our cost-to-revenue ratio trended downwards continuously. We strengthened refined management, significantly improved our fund pricing power, and the interest cost of deposits recorded a continued decrease.

In the first half of the year, we further propelled reform and innovation and kept vitalizing our operation. We widely rolled out the reform of the Sannong Finance Department and underscored our responsibility and mission of servicing the urban and rural residents. Meanwhile, we began to establish a financial service innovation mode of “big channel + big data” across the country in line with the country’s “Internet+” development strategy. With continued Fintech innovation and cooperation with well-known internet enterprises, our financial ecosystem combining online and offline services has become more mature.

Message from the Chairman

In the first half of the year, we leveraged on the conformity between our own strategies and China's economic development strategies to focus on serving real economy. It is emphasized in the Fifth National Financial Work Conference that finance is the core of real economy and serving real economy is its inherent function. We kept exploring and studying the dialectical relationship between finance and real economy and took serving real economy as the purpose and ultimate goal of our work. On one hand, in strict accordance with the development needs of the weak links of national economy, we adhered to our strategic positioning as a retail bank, and made efforts towards being a provider of basic financial services and an active practitioner of inclusive finance. On the other hand, we adhered to our "barbell" business development strategy. While developing retail business, we, in light of the national key strategies including the Belt and Road Initiative, Xiong'an New Area, etc., position ourselves as a supporter of national strategies and stabilizer of the financial market.

2017 marks the 10th anniversary of the establishment of PSBC. Through our efforts during the past decade, we have successfully transformed ourselves from a savings institution that only operated liability business to a full-function bank and have made both quantitative and qualitative development. At this historical moment, we will continue to maintain confidence and enthusiasm, focus on risk control, lead by innovation and endeavor to serve the real economy, so as to achieve leapfrog development from the new starting point and bring our Bank's accomplishment to the next level.



Li Guohua
Chairman

August 29, 2017

Message from the President

In the first half of the year, amid tough and complex economic and financial situation and the challenging reform and development duties, our Bank adhered to the strategic positioning as a large retail bank, adapted to the new norm of economic development, firmly instilled the philosophy of value creation, accelerated the transformation and improved quality and efficiency, and the development trend was favorable.

First, our assets and liabilities grew steadily and operating efficiency increased continuously. As of the end of June 2017, our Bank's total assets reached RMB8.54 trillion, representing an increase of 3.37% as compared to the end of the previous year; total deposit balance was RMB7.81 trillion, up by RMB519,924 million or 7.14% as compared to the end of the previous year; total loans reached RMB3.34 trillion, up by RMB329,806 million or 10.95% as compared to the end of the previous year. Our Bank's operating income was RMB105,973 million, up by 13.60% year-on-year; net profits reached RMB26,592 million, up by 14.54% year-on-year. Our cost-to-income ratio continued to decline, and return on average assets (ROAA) increased on a year-on-year basis. Amidst an overall slowdown in the growth of the banking industry, our Bank continued to maintain relatively fast growth momentum.

Second, our business structure was optimized, generating notable success in serving real economy. Focusing on providing services to Sannong, the Bank provided more financial support for agricultural supply-side reform, promoted loans to new agriculture operation entities and the pilot program of loans secured against the "two rights" (rights of contracted rural land and farmers' housing property rights) so as to provide quality financial services to the vast rural areas. As of the end of the reporting period, the balance of agriculture-related loans was RMB1.01 trillion, up by RMB88,802 million or 9.68% as compared to the end of the previous year. Committed to serving SMEs, the Bank used big data technology as an important tool to vigorously promote the innovation of financial products for small business. Balance of corporate loans to small enterprises amounted to RMB173,931 million. We also actively supported national major projects, continued to increase credit extension to various sectors such as transportation, electricity and urban infrastructure, etc., actively established our presence in industries such as new energy, medical care and high-end equipment

Message from the President

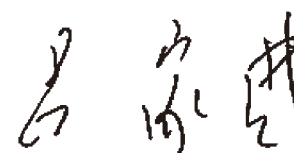
manufacture, and promoted the implementation of national strategies as well as transformation and upgrading of economic structure. The balance of our corporate loans amounted to RMB1.27 trillion, up by RMB189,168 million or 17.53% as compared to the end of the previous year.

Third, operation transformation maintained a good momentum, releasing new development potential. Our intermediary businesses developed rapidly. The number of our Bank's credit cards increased by 3.34 million, or 81.08% year-on-year, and the number of credit cards in circulation amounted to 15 million. While reinforcing our outlet advantage, we made full use of new technologies like big data, cloud computing, blockchain to blaze new trails in Fintech innovation and launched such products as the new generation mobile banking, UnionPay QR code payment and QuickPass, etc. We also promoted the "Internet + Finance + Industry" mode to build a PSBC titled Internet consumer financial products system, with products including "PSBC Prime Loan", "PSBC Wage Earners Loan" and "PSBC Homebuyers Loan". Besides, we launched a pilot program of the new generation retail credit factory and standardized the business process and greatly improved the efficiency of retail credit processing through centralized operations and intelligent examination and approval.

Fourth, we conducted solid and effective internal risk control and kept our assets in good quality. We adhered to prudent operation, accorded priority to risk prevention and control, and strengthened overall risk management persistently. Moreover, we continued to improve credit risk management, strengthened credit access control and "three examinations" for loans as well as credit risk monitoring and early warning, and enforced unified credit management and concentration risk management and control to ensure the asset quality is under control. We continued to maintain a strong liquidity management, effectively broadened financing channels, completed the initial issuance of negotiable certificates of deposit (NCDs), and actively prepared the issuance of certificates of deposit (CDs). As a result, our Bank's liquidity coverage ratio (LCR) reached 135.42%, meeting regulatory requirements. We gradually improved interest rate risk management and established a long-term quota control mechanism for assets with fixed interest rate. Besides, we highly emphasized internal control and compliance as well as case prevention and control, carried out a series of targeted governance checks,

including “Three Violations” (violation of financial laws, regulatory rules and internal regulations), “Three Arbitrages” (regulatory arbitrage, idle funds arbitrage and related entity arbitrage) and “Four Improperities” (improper innovation, improper transactions, improper incentives and improper fees), identified potential risks ahead of time and provided a solid ground for compliance operation. As of the end of June 2017, the non-performing loan balance of the Bank amounted to RMB27,375 million, and the non-performing loan ratio was 0.82%, down by 0.05 percentage point as compared to the beginning of this year.

In the next half of the year, the economic and financial condition at home and abroad will remain complex. Our Bank will carefully implement the guidelines of the National Financial Work Conference, insist on pursuing a stable growth and unswervingly persist in our strategic positioning as a large retail bank. We will also deepen reforms, accelerate transformation, strictly control risks and provide customers with better financial services, thereby delivering excellent results to investors.



Lyu Jiajin
President

August 29, 2017

Discussion and Analysis

Environment and Prospects

In the first half of 2017, global economy continued to recover, aggregate demand edged up, and manufacturing and trade showed recovery growth. However, the Federal Reserve's move to raise rates and reduce balance sheets as well as fluctuations in local financial markets constitute economic downside risks. Looking into the second half of 2017, despite the uncertainty brought by the US macroeconomic policy, Brexit, geopolitical risks and so on, the global economy will maintain a stable recovery momentum as a whole. International Monetary Fund (IMF) and Organization for Economic Co-operation and Development (OECD) predict that the world economic growth will reach 3.5% in 2017, hitting a six-year high.

In the first half of 2017, China's economy was stable and improved, with enhanced stability, coordination and sustainability of economic development. Gross domestic product (GDP) amounted to RMB38.15 trillion, representing a year-on-year growth of 6.9%, which was the same as that of first quarter. Prices maintained moderate growth, and production price hike tended to slow down; the national consumer price index (CPI) increased by 1.4% on a year-on-year basis, and national industrial producer price index (PPI) recorded a year-on-year growth of 6.6%. The economic structure was continuously optimized, and the GDP contribution of the tertiary sector increased to 54.1%, up by 2.5 percentage points as compared with 2016. Consumption contributed 63.4% of economic growth, continuously playing its fundamental role in economic growth. Foreign trades continued to rise, with the pace of export and import growth up by 17.0 and 25.1 percentage points from 2016, respectively. With intensified implementation of supply-side structural reform, effects of administration streamlining and power delegation and the strategy of innovation-driven development gradually came into play.

In the first half of 2017, echoing the change of global monetary policy from "loosening to tightening" as well as the policy of risk prevention and deleveraging, the PBOC implemented prudent and neutral monetary policy, creating a moderate liquidity environment for supply-side structural reform and risk prevention and control. In the circumstances, interest rates in financial markets tended to rise, whereas RMB exchange rate moved steadily. In late June, RMB exchange rate index at China Foreign Exchange Trade System (CFETS) was 93.29, and the central parity rate of RMB was 6.7744 against USD.

In the second half of 2017, we foresee a sustainable and stable growth in China's economy driven by an upbeat international economy and preferential domestic policies. The PBOC will continue to implement a prudent and neutral monetary policy, manage market expectation on liquidity, strengthen financial regulatory coordination, optimize macroprudential policy framework and proactively prevent and resolve systemic financial risks.

Looking into the second half of 2017, we will make every effort to serve the economy and reinforce risk prevention and control comprehensively in line with the spirit of the National Financial Work Conference. First, adhering to the strategic position as a retail bank and the “barbell” lending strategy, we will highlight retail financial business, strengthen corporate business, and develop financial market business in a compliant manner. Second, focusing on “cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening areas of weakness”, we will improve credit resource allocation, leverage on our capital scale and provide strong financial support for national key projects and major infrastructure construction projects. Third, we will rapidly improve our overall risk management capacity, and continuously enhance internal control and compliance management so as to give full play to the key role of large state-owned commercial bank in maintaining financial security.

Discussion and Analysis

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

In the first half of 2017, the Bank took the initiative to adapt to the new norm of economic development, deepen our reform, refine our structure and strengthen risk control. We recorded a net profit of RMB26,592 million, representing an increase of RMB3,376 million, or 14.54%, as compared with the corresponding period of the previous year. Our earnings continued to rise mainly due to our earnest study of and active response to the changes in the financial market and our adjustment to the asset-liability structure in line with the favorable market opportunities, pushing up our net interest income on a steady basis. Meanwhile, our non-interest income also continued to maintain rapid growth under our efforts to further optimize business structure, promote product innovation and streamline service process.

Changes of Key Items in the Comprehensive Income Statement

In millions of RMB, except for percentages

Item	For the six months ended June 30,		Increase/ (decrease)	Change (%)
	2017	2016		
Net interest income	87,514	81,637	5,877	7.20
Net fee and commission income	7,033	5,866	1,167	19.89
Other non-interest income	11,426	5,783	5,643	97.58
Operating income	105,973	93,286	12,687	13.60
Less: Operating expenses	65,544	62,187	3,357	5.40
Impairment losses on assets	10,366	4,964	5,402	108.82
Profit before income tax	30,063	26,135	3,928	15.03
Less: Income tax expense	3,471	2,919	552	18.91
Net profit	26,592	23,216	3,376	14.54
Attributable to shareholders of the Bank	26,600	23,229	3,371	14.51
Attributable to non-controlling interests	(8)	(13)	5	38.46
Other comprehensive income	(2,726)	(1,373)	(1,353)	(98.54)
Total comprehensive income	23,866	21,843	2,023	9.26

Net interest income

During the reporting period, our net interest income was RMB87,514 million, representing an increase of RMB5,877 million, or 7.20%, as compared to the corresponding period of the previous year, mainly due to continuous increase in interest-earning assets. During the reporting period, our net interest margin and net interest spread was 2.31% and 2.38%, respectively, representing increases of 1 basis point and 4 basis points, as compared to the corresponding period of the previous year.

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,					
	2017			2016		
	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾
Assets						
Total loans to customers	3,135,159	75,354	4.85	2,579,404	66,490	5.18
Fixed-income investments ⁽²⁾	2,562,782	46,885	3.69	2,653,908	53,181	4.03
Deposits with central bank ⁽³⁾	1,290,436	10,381	1.62	1,203,605	9,498	1.59
Amounts due from banks and other financial institutions ⁽⁴⁾	635,730	12,728	4.04	689,182	13,107	3.82
Total interest-earning assets	7,624,107	145,348	3.84	7,126,099	142,276	4.02
Allowance for assets impairment	(57,037)	—	—	(48,121)	—	—
Non-interest earning assets ⁽⁵⁾	720,951	—	—	443,155	—	—
Total assets	8,288,021	—	—	7,521,133	—	—
Liabilities						
Customer deposits	7,682,939	53,153	1.40	6,618,866	51,273	1.56
Amounts due to banks and other financial institutions ⁽⁶⁾	251,291	3,388	2.72	624,340	8,805	2.84
Debt securities issued ⁽⁷⁾	65,939	1,293	3.95	25,000	561	4.51
Total interest-bearing liabilities	8,000,169	57,834	1.46	7,268,206	60,639	1.68
Non-interest bearing liabilities ⁽⁸⁾	126,148	—	—	124,728	—	—
Total liabilities	8,126,317	—	—	7,392,934	—	—
Net interest income	—	87,514	—	—	81,637	—
Net interest spread⁽⁹⁾	—	—	2.38	—	—	2.34
Net interest margin⁽¹⁰⁾	—	—	2.31	—	—	2.30

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 investments classified as receivables.
- (3) Consists of statutory deposit reserves, surplus deposit reserves 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 per 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, 2017 vs 2016		
	Increase/(decrease)		Total ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Total loans to customers	13,185	(4,321)	8,864
Fixed-income investments	(1,802)	(4,494)	(6,296)
Deposits with central bank	672	211	883
Amounts due from banks and other financial institutions	(1,108)	729	(379)
Changes in interest income	10,947	(7,875)	3,072
Liabilities			
Customer deposits	7,234	(5,354)	1,880
Amounts due to banks and other financial institutions	(5,053)	(364)	(5,417)
Debt securities issued	801	(69)	732
Changes in interest expense	2,982	(5,787)	(2,805)
Changes in net interest income	7,965	(2,088)	5,877

(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

During the reporting period, the Bank's interest income amounted to RMB145,348 million, representing an increase of RMB3,072 million, or 2.16%, as compared to the corresponding period of the previous year, primarily due to an increase in the average balance of interest-earning assets.

Interest Income from Loans to Customers

During the reporting period, the Bank's interest income from loans to customers amounted to RMB75,354 million, representing an increase of RMB8,864 million, or 13.33%, as compared to the corresponding period of the previous year, primarily due to the Bank's consistent practice of the service concept of inclusive finance and actualization of our strategic positioning as a large retail bank, resulting in an increase of RMB555,755 million in the average balance of loans to customers, but was partially offset by a decrease of 33 basis points in the average yield.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30,					
	2017			2016		
	Average balance	Interest Income	Average yield (%) ⁽¹⁾	Average balance	Interest Income	Average yield (%) ⁽¹⁾
Corporate loans	1,179,503	25,397	4.34	996,403	23,259	4.69
Discounted bills	323,141	5,692	3.55	313,915	5,691	3.65
Personal loans	1,632,515	44,265	5.47	1,269,086	37,540	5.95
Total loans to customers	3,135,159	75,354	4.85	2,579,404	66,490	5.18

(1) On an annualized basis.

In terms of business lines, during the reporting period, the Bank's interest income from corporate loans amounted to RMB25,397 million, representing an increase of RMB2,138 million, or 9.19%, as compared to the corresponding period of the previous year. Interest income from personal loans amounted to RMB44,265 million, representing an increase of RMB6,725 million, or 17.91%, as compared to the corresponding period in the previous year. The increase in the interest income on loans was mainly due to the rapid growth in the average balance of personal loans.

Interest Income from Fixed Income Investments

During the reporting period, the Bank's interest income from fixed income investments amounted to RMB46,885 million, representing a decrease of RMB6,296 million, or 11.84%, as compared to the corresponding period in the previous year, primarily due to the Bank's embrace of the changes in regulatory policies and active adjustment to the structure of assets and liabilities, resulting in a decrease of RMB91,126 million in the average balance of fixed income investments and a decrease of 34 basis points in the average yield.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB10,381 million, representing an increase of RMB883 million, or 9.30%, as compared to the corresponding period of the previous year, primarily due to an increase of RMB86,831 million in the average balance.

Interest Income from Amounts Due from Banks and Other Financial Institutions

During the reporting period, the Bank's interest income from amounts due from banks and other financial institutions amounted to RMB12,728 million, representing a decrease of RMB379 million, or 2.89%, as compared to the corresponding period of the previous year, primarily due to a decrease of RMB53,452 million in the average balance of amounts due from banks and other financial institutions, but was partially offset by an increase of 22 basis points in the average yield. The decrease in the average balance was primarily due to the Bank's active response to changes in regulatory and market environments by reducing the average balance of financial assets held under resale agreements; and the increase in the average yield was mainly because the Bank seized the opportunity of market interest rate fluctuation and the return on assets in money market rose by a large extent.

Discussion and Analysis

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB57,834 million, representing a decrease of RMB2,805 million, or 4.63%, as compared to the corresponding period of the previous year, primarily due to a decrease in the average cost by 22 basis points, but was partially offset by an increase of RMB731,963 million in the average balance of interest-bearing liabilities.

Interest Expense on Customer Deposits

During the reporting period, the Bank's interest expense on customer deposits amounted to RMB53,153 million, accounting for 91.91% of total interest expense and representing an increase of RMB1,880 million, or 3.67%, as compared to the corresponding period of the previous year, primarily due to an increase in the average balance of customer deposits, but was partially offset by a decrease in the average cost of customer deposits. The decline in average cost was mainly due to the Bank's strengthening of refined management of interest rates and reasonable adjustment to the interest payment amounts.

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,					
	2017			2016		
	Average balance	Interest expense	Average cost (%) ⁽¹⁾	Average balance	Interest expense	Average cost (%) ⁽¹⁾
Corporate deposits						
Time	352,658	3,885	2.22	303,361	3,703	2.45
Demand	768,587	2,376	0.62	631,774	2,055	0.65
Subtotal	1,121,245	6,261	1.13	935,135	5,758	1.24
Personal deposits						
Time	4,258,001	43,422	2.06	3,610,922	42,369	2.36
Demand ⁽²⁾	2,303,693	3,470	0.30	2,072,809	3,146	0.31
Subtotal	6,561,694	46,892	1.44	5,683,731	45,515	1.61
Total customer deposits	7,682,939	53,153	1.40	6,618,866	51,273	1.56

(1) On an annualized basis.

(2) Inclusive of credit card deposits.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

During the reporting period, interest expense on amounts due to banks and other financial institutions amounted to RMB3,388 million, representing a decrease of RMB5,417 million, or 61.52%, as compared to the corresponding period of the previous year, primarily because the Bank responded to the market environment, made flexible adjustments to the interbank financing strategies and gradually reduced the stock size of borrowing business and the average cost decreased.

Interest Expense on Debt Securities Issued

During the reporting period, interest expense on debt securities issued amounted to RMB1,293 million, representing an increase of RMB732 million, or 130.48%, as compared to the corresponding period of the previous year, primarily because the Bank completed the issuance of qualified tier-2 capital instruments of RMB30.0 billion and RMB20.0 billion on October 28, 2016 and March 24, 2017, respectively.

Net Fee and Commission Income

During the reporting period, the Bank realized net fee and commission income of RMB7,033 million, representing an increase of RMB1,167 million, or 19.89%, as compared to the corresponding period of the previous year. In particular, fee and commission income and expense increased by RMB1,679 million and RMB512 million, respectively, or 16.98% and 12.73%, respectively.

Composition of Fee and Net Commission Income

In millions of RMB, except for percentages

Item	For the six months ended		Increase/ (decrease)	Change (%)
	June 30,			
	2017	2016		
Settlement and clearing fee income	2,094	2,831	(737)	(26.03)
Bank cards and POS fee income	2,857	2,418	439	18.16
Wealth management fee income	2,746	2,135	611	28.62
Agency service fee income	2,580	1,446	1,134	78.42
Custodian business income	479	408	71	17.40
Others	812	651	161	24.73
Fee and commission income	11,568	9,889	1,679	16.98
Less: Fee and commission expense	4,535	4,023	512	12.73
Net fee and commission income	7,033	5,866	1,167	19.89

Discussion and Analysis

During the reporting period, settlement and clearing fee income amounted to RMB2,094 million, representing a decrease of RMB737 million, or 26.03%, as compared to the corresponding period of the previous year, primarily due to the influence of cancelling commission charges for cross-region transactions.

During the reporting period, bank cards and POS fee income amounted to RMB2,857 million, representing an increase of RMB439 million, or 18.16%, as compared to the corresponding period of the previous year. The increase was primarily due to our efforts to meet the market demand, diversify products, and promote consumption upgrading and the development of credit card installment business.

During the reporting period, wealth management fee income amounted to RMB2,746 million, representing an increase of RMB611 million, or 28.62%, as compared to the corresponding period of the previous year, primarily due to the increase in the scale of wealth management business and the improvement in our comprehensive service abilities.

During the reporting period, agency service fee income amounted to RMB2,580 million, representing an increase of RMB1,134 million, or 78.42%, as compared to the corresponding period of the previous year, primarily due to the growth of bancassurance business.

During the reporting period, custodian business income amounted to RMB479 million, representing an increase of RMB71 million, or 17.40%, as compared to the corresponding period of the previous year, primarily due to continuous and steady expansion in the Bank's asset custodian business.

During the reporting period, other fee and commission income amounted to RMB812 million, representing an increase of RMB161 million, or 24.73%, as compared to the corresponding period of the previous year.

During the reporting period, fee and commission expense amounted to RMB4,535 million, representing an increase of RMB512 million, or 12.73%, 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.

Other Non-Interest Income

During the reporting period, the Bank realized other non-interest income of RMB11,426 million, representing an increase of RMB5,643 million, or 97.58%, 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,		Increase/ (decrease)	Change (%)
	2017	2016		
Net trading gains	1,679	559	1,120	200.36
Net gains on securities investment	9,835	4,264	5,571	130.65
Net other operating (losses)/gains	(88)	960	(1,048)	(109.17)
Total	11,426	5,783	5,643	97.58

During the reporting period, net trading gains amounted to RMB1,679 million, representing an increase of RMB1,120 million, as compared to the corresponding period of the previous year, primarily due to an increase in gains on trading of deposit certificates in the interbank market.

During the reporting period, net gains on securities investment amounted to RMB9,835 million, representing an increase of RMB5,571 million, as compared to the corresponding period of the previous year, primarily due to an increase in gains on investments in commercial banks' wealth management products.

During the reporting period, other operating losses amounted to RMB88 million, representing a decrease of income of RMB1,048 million, as compared to the corresponding period of the previous year, primarily due to an increase in exchange losses.

Operating Expenses

The Bank continued to strengthen cost control and optimize expense structure. During the reporting period, our cost-to-income ratio was 61.10%, representing a decrease of 2.53 percentage points as compared to the corresponding period of the previous year.

During the reporting period, our operating expenses amounted to RMB65,544 million, representing an increase of RMB3,357 million, or 5.40%, as compared to the corresponding period of the previous year. Deposit agency fee costs increased by 13.10%, primarily due to the rapid increase in the balance of customer deposits taken through agency outlets. Meanwhile, staff costs increased by 11.96%, and other general operating and administrative expenses decreased by 2.33%.

Discussion and Analysis

Composition of Operating Expenses

In millions of RMB, except for percentages

Item	For the six months ended June 30,		Increase/ (decrease)	Change (%)
	2017	2016		
Staff costs	19,223	17,170	2,053	11.96
Deposit agency fees	33,587	29,697	3,890	13.10
Other general operating and administrative expenses	8,269	8,466	(197)	(2.33)
Taxes and surcharges	797	2,827	(2,030)	(71.81)
Depreciation and amortization	2,334	2,299	35	1.52
Others	1,334	1,728	(394)	(22.80)
Total operating expenses	65,544	62,187	3,357	5.40
Cost-to-income ratio (%)⁽¹⁾	61.10	63.63	(2.53)	—

(1) Calculated by dividing total operating expenses (excluding taxes and surcharges) by operating income.

Impairment Losses on Assets

During the reporting period, our impairment losses on assets amounted to RMB10,366 million, representing an increase of RMB5,402 million, as compared to the corresponding period of the previous year, primarily because the Bank continued to adopt a prudent and robust credit risk management policy, be initiative and forward-looking in risk management, and strengthen risk control over key sectors.

Income Tax Expenses

During the reporting period, our income tax expenses amounted to RMB3,471 million. The effective tax rate was 11.55%, lower than the statutory tax rate of 25%, primarily reflecting the effect of tax reduction and exemption part of the interest income from the 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,			
	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	72,855	68.75	67,246	72.09
Corporate banking	19,354	18.26	17,045	18.27
Treasury business	13,230	12.48	8,797	9.43
Others	534	0.51	198	0.21
Total operating income	105,973	100.00	93,286	100.00

For details of relevant business segment, please refer to “Discussion and Analysis – Business Overview”.

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	For the six months ended June 30,			
	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	14,346	13.54	7,019	7.52
Yangtze River Delta	13,449	12.69	12,682	13.59
Pearl River Delta	10,443	9.85	9,868	10.58
Bohai Rim	13,520	12.76	12,508	13.41
Central China	26,278	24.80	24,562	26.33
Western China	20,283	19.14	19,090	20.46
Northeastern China	7,654	7.22	7,557	8.10
Total operating income	105,973	100.00	93,286	100.00

Discussion and Analysis

Analysis of Balance Sheet

Assets

As of the end of the reporting period, our total assets amounted to RMB8,543,826 million, representing an increase of RMB278,204 million, or 3.37%, as compared to the end of the previous year. Total loans to customers increased by RMB329,806 million, or 10.95%, as compared to the end of the previous year; net investment securities and other financial assets decreased by RMB256,159 million, or 7.40%, as compared to the end of the previous year; cash and deposits with central bank increased by RMB38,262 million, or 2.92%, as compared to the end of the previous year; deposits and placements with banks and other financial institutions increased by RMB98,125 million, or 26.59%, as compared to the end of the previous year; financial assets held under resale agreements increased by RMB56,202 million, or 76.85%, as compared to the end of the previous year.

In terms of asset structure, our Bank took the initiative to embrace the changes of market environment and regulatory policies, made overall arrangements for asset structure and adjusted asset allocation actively. Net loans to customers accounted for 38.17% of total assets, representing an increase of 2.61 percentage points as compared to the end of the previous year; net investment securities and other financial assets accounted for 37.54% of total assets, representing a decrease of 4.37 percentage points as compared to the end of the previous year; cash and deposits with central bank, deposits and placements with banks and other financial institutions, as well as financial assets held under resale agreements accounted for 15.78%, 5.47%, and 1.51% of total assets respectively.

Key Items of Assets

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	3,340,454	—	3,010,648	—
Less: Allowance for impairment on loans	79,018	—	71,431	—
Loans to customers, net	3,261,436	38.17	2,939,217	35.56
Investment securities and other financial assets, net ⁽¹⁾	3,207,682	37.54	3,463,841	41.91
Cash and deposits with central bank	1,348,535	15.78	1,310,273	15.85
Deposits with banks and other financial institutions	251,857	2.95	175,776	2.13
Placements with banks and other financial institutions ⁽²⁾	215,331	2.52	193,287	2.34
Financial assets held under resale agreements	129,333	1.51	73,131	0.88
Other assets ⁽³⁾	129,652	1.53	110,097	1.33
Total assets	8,543,826	100.00	8,265,622	100.00

(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.

Discussion and Analysis

Loans to Customers

Our Bank closely focused on the demand of real economy, seized market and policy opportunities, and extended loans in a reasonable pace. As of the end of the reporting period, our total loans to customers amounted to RMB3,340,454 million, representing an increase of RMB329,806 million, or 10.95%, 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, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,268,560	37.97	1,079,392	35.85
Discounted bills	279,855	8.38	349,081	11.60
Personal loans	1,792,039	53.65	1,582,175	52.55
Total loans to customers	3,340,454	100.00	3,010,648	100.00

Our Bank further enhanced in-depth research on the industry, actively adjusted the credit structure, boosted the implementation of national strategic planning and the transformation and upgrading of economic structure, and focused on sectors including electricity, transportation and urban infrastructure construction, etc. As of the end of the reporting period, total corporate loans were RMB1,268,560 million, representing an increase of RMB189,168 million, or 17.53%, as compared to the end of the previous year.

As of the end of the reporting period, our total discounted bills amounted to RMB279,855 million, representing a decrease of RMB69,226 million, or 19.83%, as compared to the end of the previous year, primarily because our Bank had been proactive and forward-looking in managing the risks of discounted bills and took the initiative to reduce the number of discounted bills issued.

As of the end of the reporting period, our total personal loans amounted to RMB1,792,039 million, representing an increase of RMB209,864 million, or 13.26%, as compared to the end of the previous year, primarily because our Bank supported reasonable housing consumption to promote the steady and sound development of the real estate market.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	334,350	26.36	317,722	29.44
Manufacturing	225,006	17.74	181,917	16.85
Production and supply of electricity, heating, gas and water	163,724	12.91	132,157	12.24
Financial services	156,876	12.37	161,012	14.92
Wholesale and retail	74,595	5.88	56,937	5.27
Construction	66,591	5.25	54,450	5.05
Mining	46,464	3.66	47,631	4.41
Real estate	42,370	3.34	39,881	3.70
Water conservancy, environmental and public facilities management	70,304	5.54	36,751	3.40
Others ⁽¹⁾	88,280	6.95	50,934	4.72
Total	1,268,560	100.00	1,079,392	100.00

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

As of the end of the reporting period, 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 75.26% of total corporate loans in aggregate, representing a decrease of 3.46 percentage points as compared to the end of the previous year.

Discussion and Analysis

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	1,050,479	58.62	903,967	57.13
Other consumer loans	229,586	12.82	197,695	12.50
Personal business loans	294,642	16.44	288,370	18.23
Micro loans	157,224	8.77	139,239	8.80
Credit card overdrafts and others	60,108	3.35	52,904	3.34
Total personal loans	1,792,039	100.00	1,582,175	100.00

As of the end of the reporting period, our Bank's personal loans increased by RMB209,864 million, or 13.26%, as compared to the end of the previous year.

As compared to the end of the previous year, residential mortgage loans increased by RMB146,512 million, or 16.21% as compared to the end of the previous year, primarily due to our strict implementation of differentiated housing credit policies, restraint of the demand for investment loans and support for credit demands of eligible first-time buyers and people who want to improve their housing. Other consumer loans increased by RMB31,891 million, or 16.13%, primarily due to our dynamic adaptation to market changes to steadily promote consumer credit business and contribute to the transformation and upgrading of household consumption.

Personal business loans increased by RMB6,272 million, or 2.17%; micro loans increased by RMB17,985 million, or 12.92%; credit card overdrafts and others increased by RMB7,204 million, or 13.62%.

Distribution of Customer Loans by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	244,394	7.32	246,633	8.19
Yangtze River Delta	602,577	18.04	540,236	17.94
Pearl River Delta	364,531	10.91	321,097	10.67
Bohai Rim	517,272	15.48	460,587	15.30
Central China	765,221	22.91	676,974	22.49
Western China	600,971	17.99	540,762	17.96
Northeastern China	245,488	7.35	224,359	7.45
Total loans to customers	3,340,454	100.00	3,010,648	100.00

Investment Securities and Other Financial Assets

Our investment securities and other financial assets are major components of our total assets. As of the end of the reporting period, our investment securities and other financial assets (net of allowance for impairment) amounted to RMB3,207,682 million, representing a decrease of RMB256,159 million or 7.40%, and 37.54% of our total assets, 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, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	2,650,106	82.62	2,541,586	73.37
Equity instruments	557,576	17.38	922,255	26.63
Total	3,207,682	100.00	3,463,841	100.00

Discussion and Analysis

As of the end of the reporting period, the debt instruments increased by RMB108,520 million, or 4.27%, as compared to the end of the previous year; the equity instruments decreased by RMB364,679 million, or 39.54%, primarily due to our decreased investments in wealth management products issued by commercial banks.

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	2,238,077	69.77	2,099,383	60.61
Government bonds	590,205	18.40	552,222	15.94
Debt securities issued by public institutions and quasi-government bonds	570	0.02	570	0.02
Debt securities issued by financial institutions	1,574,242	49.07	1,473,371	42.54
Corporate debt securities	73,060	2.28	73,220	2.11
Negotiable certificates of deposit	94,890	2.96	46,128	1.33
Commercial banks' wealth management products	422,360	13.17	708,676	20.46
Asset management plans	189,830	5.92	253,370	7.31
Trust investment plans	141,917	4.42	171,152	4.94
Security investment funds	100,084	3.12	172,696	4.99
Others	20,524	0.64	12,436	0.36
Total	3,207,682	100.00	3,463,841	100.00

During the reporting period, from the perspective of the structure of issuers, we optimized investment structure and decreased investments in commercial banks' wealth management products. Meanwhile, we moderately increased our investments in debt securities issued by financial institutions.

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	—	—	—	—
Within 3 months	81,396	3.64	30,865	1.47
3–12 months	204,723	9.15	178,809	8.52
1–5 years	870,154	38.88	748,205	35.64
More than 5 years	1,081,804	48.33	1,141,504	54.37
Total	2,238,077	100.00	2,099,383	100.00

As of the end of the reporting period, our investments in debt securities due within 3 months as a percentage of our total investment in debt securities increased by 2.17 percentage points, investments in debt securities due in over 3 months up to 12 months increased by 0.63 percentage point, and investments in debt securities due in 1–5 years increased by 3.24 percentage points, as compared to the end of the previous year.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	2,222,603	99.31	2,085,377	99.33
Foreign currencies	15,474	0.69	14,006	0.67
Total	2,238,077	100.00	2,099,383	100.00

Discussion and Analysis

Distribution of Investment Securities and Other Financial Assets by Investment Intention

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	123,726	3.86	68,976	1.99
Available-for-sale financial assets	766,353	23.89	1,160,187	33.49
Held-to-maturity investments	826,514	25.77	736,154	21.25
Investment classified as receivables ⁽¹⁾	1,491,089	46.48	1,498,524	43.27
Total	3,207,682	100.00	3,463,841	100.00

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

As of the end of the reporting period, our financial assets at fair value through profit or loss increased by RMB54,750 million, or 79.38%, as compared to the end of the previous year, primarily due to an increase in the investment in certificates of deposit.

Available-for-sale financial assets decreased by RMB393,834 million, or 33.95%, as compared to the end of the previous year, primarily due to a decrease in the investment in commercial banks' wealth management products and money market funds.

Held-to-maturity investments increased by RMB90,360 million, or 12.27%, as compared to the end of the previous year, primarily due to an increase in bonds investment.

Investment classified as receivables decreased by RMB7,435 million as compared to the end of the previous year, primarily due to a decrease in asset-backed securities and other debt instruments, but was partially offset by an increase in securities investment.

Liabilities

As of the end of the reporting period, our Bank's total liabilities amounted to RMB8,179,044 million, representing an increase of RMB260,310 million, or 3.29%, as compared to the end of the previous year. Customer deposits increased by RMB519,924 million, or 7.14%, as compared to the end of the previous year, representing an increase of 3.42 percentage points in the proportion of total liabilities; deposits and placements from banks and other financial institutions decreased by RMB230,459 million, or 77.90%, as compared to the end of the previous year, representing a decrease of 2.94 percentage points in the proportion of total liabilities, primarily due to our gradual decline in the size of interbank borrowing business, which was consistent with changes in market interest rates; financial assets sold under repurchase agreements decreased by RMB49,162 million, or 37.88%, as compared to the end of the previous year, representing a decrease of 0.65 percentage point in the proportion of total liabilities.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	7,806,235	95.43	7,286,311	92.01
Deposits from banks and other financial institutions	55,621	0.68	281,687	3.56
Placements from banks and other financial institutions	9,765	0.12	14,158	0.18
Financial assets sold under repurchase agreements	80,627	0.99	129,789	1.64
Debt securities issued	74,925	0.92	54,943	0.69
Other liabilities ⁽¹⁾	151,871	1.86	151,846	1.92
Total liabilities	8,179,044	100.00	7,918,734	100.00

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

Discussion and Analysis

Customer Deposits

As of the end of the reporting period, the Bank's total customer deposits was RMB7,806,235 million, representing an increase of RMB519,924 million, or 7.14%, 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, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,139,243	14.59	1,075,024	14.75
Time	351,579	4.50	332,644	4.57
Demand	787,664	10.09	742,380	10.18
Personal deposits	6,665,629	85.39	6,210,166	85.23
Time	4,325,933	55.42	3,862,371	53.01
Demand	2,339,696	29.97	2,347,795	32.22
Other deposits ⁽¹⁾	1,363	0.02	1,121	0.02
Total	7,806,235	100.00	7,286,311	100.00

(1) Other deposits consist of remittances outstanding, credit card deposits and outbound remittance, etc.

During the reporting period, the Bank's core liabilities grew steadily. In terms of customer structure, personal deposits increased by RMB455,463 million, or 7.33%; and corporate deposits increased by RMB64,219 million, or 5.97%, 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, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	799	0.01	803	0.01
Yangtze River Delta	1,133,146	14.52	1,086,265	14.91
Pearl River Delta	729,129	9.34	700,766	9.62
Bohai Rim	1,262,927	16.18	1,083,905	14.88
Central China	2,423,041	31.04	2,209,718	30.33
Western China	1,663,684	21.31	1,607,985	22.07
Northeastern China	593,509	7.60	596,869	8.19
Total customer deposits	7,806,235	100.00	7,286,311	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	3,219,887	41.25	3,133,204	43.00
Within 3 months	876,214	11.22	1,568,794	21.53
3–12 months	3,107,663	39.81	2,026,764	27.82
1–5 years	602,471	7.72	557,549	7.65
More than 5 years	—	—	—	—
Total	7,806,235	100.00	7,286,311	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's shareholders' equity was RMB364,782 million, representing an increase of RMB17,894 million, or 5.16%, as compared to the end of the previous year, primarily due to the increase in net profit during the reporting period.

Discussion and Analysis

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	81,031	22.21	81,031	23.36
Capital reserve	74,659	20.47	74,659	21.52
Investment revaluation reserve	(2,542)	(0.70)	143	0.04
Other reserve	(114)	(0.03)	(73)	(0.02)
Surplus reserve	20,395	5.59	20,395	5.88
General risk provisions	93,803	25.71	93,803	27.04
Retained earnings	97,200	26.65	76,572	22.07
Equity attributable to shareholders of the Bank	364,432	99.90	346,530	99.89
Non-controlling interests	350	0.10	358	0.11
Total shareholders' equity	364,782	100.00	346,888	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, issued letters of credit 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 obligations. Bank acceptances consist of the undertakings by the Bank to pay the bills of exchange issued by our customers.

Composition of Off-Balance Sheet Commitments

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	379,599	57.69	286,172	54.52
Bank acceptances	40,144	6.10	41,327	7.87
Guarantees and letters of guarantee	19,495	2.96	25,230	4.81
Letters of credit	12,301	1.87	7,438	1.42
Unused credit card commitments	206,500	31.38	164,742	31.38
Total	658,039	100.00	524,909	100.00

Analysis of Cash Flow Statement

Net cash outflow from operating activities of our Bank amounted to RMB380,300 million. In particular, cash inflow amounted to RMB402,976 million, representing a decrease of RMB649,794 million as compared to the corresponding period of the previous year, primarily due to decreased cash inflow from customer deposits and deposits from banks and other financial institutions; cash outflow amounted to RMB783,276 million, representing an increase of RMB150,910 million as compared to the corresponding period of the previous year, primarily due to increased cash outflow from the deposits in central bank and other financial institutions.

Net cash inflow from investing activities amounted to RMB356,590 million. In particular, cash inflow amounted to RMB806,828 million, representing a decrease of RMB277,352 million as compared to the corresponding period of the previous year, primarily due to the decrease in cash received from disposal of investment instruments; cash outflow amounted to RMB450,238 million, representing a decrease of RMB763,145 million as compared to the corresponding period of the previous year, primarily due to the decrease in cash paid for investment instruments.

Net cash inflow from financing activities amounted to RMB19,979 million. In particular, cash inflow amounted to RMB19,982 million, representing an increase of RMB19,982 million as compared to the corresponding period of the previous year, primarily arising from the issuance of debt securities; cash outflow amounted to RMB3 million, representing a decrease of RMB9,018 million as compared to the corresponding period of the previous year, primarily due to distribution of dividends in the corresponding period of the previous year.

Other Financial Information

Explanation of Changes in Accounting Policies

There was no significant change in accounting policies during the reporting period. For details, please refer to “Notes to Condensed Consolidated Financial Statements — 2 Basis of preparation and significant accounting policies”.

Discussion and Analysis

Business Overview

Personal Banking Business

In response to the new development trend of commercial banks, we developed liability business with equal emphasis on quantity and quality, promoted personal intermediary business transformation and outlet transformation, strengthened building of online channels and intensified business synergy, realizing transformation and upgrading of personal financial business. The Bank initiated pilots of the new generation retail credit factory, standardized business processes by means of centralized operation and smart approval, and substantially improved the efficiency of retail credit business procedures. As of the end of the reporting period, the number of our Bank's personal customers reached 539 million, of which 24.60 million were 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 balance of the Bank's personal loans amounted to RMB1,792,039 million, representing an increase of RMB209,864 million, or 13.26%, as compared with the end of the previous year. Personal loans as a percentage of total loans rose further to 53.65%, further consolidating our strategic positioning as a retail bank. From the perspective of personal loan structure, the balance of our consumer loans was RMB1,280,065 million, representing 71.44% of our total personal loans, the balance of personal business loans was RMB294,642 million, representing 16.44% of our total personal loans, and the balance of micro loans was RMB157,224 million, representing 8.77% of our total personal loans.

Personal Deposits

During the reporting period, our Bank achieved rapid growth in personal deposits by launching integrated marketing activities, expanding payment agency service and intensifying business synergy. The cost of personal deposits continued to decline due to our sustained efforts to enhance interest cost management. As of the end of the reporting period, the total personal deposits were RMB6.67 trillion, representing an increase of RMB455,463 million, or 7.33%, as compared with the end of the previous year. The cost of personal deposits was 1.44%, representing a decrease of 17 basis points as compared to the corresponding period of the previous year.

Bank Card Business

During the reporting period, our Bank continued to enrich the variety of debit card products. We further expanded industrial application of IC cards and secured 18 new industrial cooperation projects on co-branded IC debit cards. Besides, we actively developed new payment methods including QR code payment and integrated payment, and carried out a variety of marketing activities regarding debit card consumption. During the reporting period, our Bank's debit cards increased by 33,398,900 and the number of debit cards in circulation reached 882,191,100, while the consumption amount was RMB1,853.865 billion, representing an increase of 41.82% on a year-on-year basis.

During the reporting period, our Bank continued to diversify credit card products by closely following market demand. We explored existing customer resources, developed online channels for card issuance and extensively carried out integrated marketing, leading to a significant increase in income. As of the end of the reporting period, the number of credit cards in circulation reached 15.817 million, and during the reporting period, the number of newly-issued credit cards reached 3.3415 million, representing a year-on-year growth of 81.08%, and the credit card consumption amount stood at RMB251,695 million, representing a year-on-year growth of 15.07%.

Details of Bank Cards

Item	June 30, 2017	December 31, 2016	Growth rate (%)
Debit cards in circulation (in thousand)	882,191	848,792	3.93
Credit cards in circulation (in thousand)	15,817	12,872	22.88

Item	For the six months ended June 30,		
	2017	2016	Growth rate (%)
Debit card consumption amount (RMB million)	1,853,865	1,307,236	41.82
Credit card consumption amount (RMB million)	251,695	218,734	15.07

Discussion and Analysis

Personal Account Settlement

We provide a variety of collection and payment agency services and various settlement services for retail customers. The collection and payment agency services primarily included payments of payrolls, benefits and allowances and pensions, collection of utility bill payments, etc. as well as collection and payment agency services for the New Rural Endowment Insurance (“NREI”) and the New Rural Cooperative Medical Service (“NRCMS”). As a major channel connecting retail customers with the Bank, collection and payment agency services bring the Bank a huge customer base and capital flows, laying a foundation for in-depth development of customers for the Bank. During the reporting period, the transaction volumes of our Bank’s collection agency services and payment agency services were RMB368,016 million and RMB1,401,654 million, respectively. In particular, we provided collection agency services for 36,215,400 pension transactions with volume at RMB26,339 million, and payment agency services for 339,815,000 pension transactions with volume at RMB393,278 million. We also acted as the collection agency for 9,361,400 NREI transactions with volume at RMB4,565 million, and as the payment agency for 122,872,400 NREI transactions with volume at RMB14,965 million.

Personal Wealth Management Services

Personal Wealth Management

During the reporting period, we provided diversified wealth management products to our personal customers. As of the end of the reporting period, the balance of our Renminbi wealth management products to retail customers was RMB625,464 million, up by RMB83,446 million, or 15.40%, as compared with the end of the previous year. Online sales of wealth management products accounted for 74.15% of its total volume.

Bancassurance

During the reporting period, we greatly expanded the online sales channels, and focused on the development of regular-premium insurance and guarantee-type insurance business, so as to promote the transformation of bancassurance business. As of the end of the reporting period, our Bank has entered into insurance business-related agreements with 60 insurance companies, while the products of these covered life, property, health, accident and other insurances business. The total written premium of new policies of our bancassurance business during the reporting period amounted to RMB310,993 million. In particular, the size of regular-premium insurance was RMB25,698 million, representing a year-on-year increase of 38.31%.

Distribution of Fund Products

During the reporting period, stock prices fluctuated at a relatively low position. Our Bank focused on the development of monetary and wealth management funds and automatic investment plans, tailored automatic investment plans for the 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 RMB30,046 million, representing a year-on-year growth of 67.71%.

Distribution of PRC Government Bonds

We distribute PRC government savings bonds (certificate and electronic). During the reporting period, the Bank increased marketing for government bond products and actively promoted Internet banking for government bonds sales. We distributed four tranches of government savings bonds (certificate) with total sales of RMB5,026 million and four tranches of government savings bonds (electronic) with total sales of RMB9,309 million.

Distribution of Customer Assets Management Plans of Securities Companies

During the reporting period, the Bank stepped up distribution of customer asset management plans of securities companies by introducing new co-operative institutions and diversifying product categories. During the reporting period, the asset management plans distributed by the Bank amounted to RMB10,869 million.

Precious Metals Business

We traded multiple transaction contracts on the Shanghai Gold Exchange on behalf of customers and distributed gold and silver coins, gold and silver investment products, gold and silver crafts and other precious metal products for professional co-operative institutions. We also sell our own branded precious metals product “PSBC Gold Coin & Bar (郵儲金)”. To satisfy the diversified investment demands of customers, we launched the automatic investment plans for gold. During the reporting period, our precious metals transactions amounted to RMB19,046 million.

Discussion and Analysis

Corporate Banking Business

We provide diversified financial products and services to our corporate banking customers, mainly including corporate loans, corporate deposits, settlement, cash management, investment banking, custody and other products and services. During the reporting period, the Bank strengthened product innovation and expanded customer development. Following the philosophy of serving the real economy, the Bank vigorously promoted transformation of corporate finance business, improving the comprehensive financial service capability. As of the end of the reporting period, our Bank had 634,300 corporate customers, representing an increase of 11,500 as compared to the end of the previous year.

Corporate Loans

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, the Bank actively supported key national projects and promoted implementation of national strategic mapping out and economic structure transformation and upgrading, with lending resources focused on various sectors such as electricity, transportation and urban infrastructure, etc. Besides, the Bank pooled premium resources to serve the country's key strategies such as the Belt and Road Initiative, Coordinated Development of Beijing-Tianjin-Hebei Region and the Yangtze River Economic Belt. The Bank continued to optimize financial services to emerging strategic industries, underpinned development of national strategic emerging industries and primarily supported industries including new energy and high-end equipment manufacturing. As of the end of the reporting period, the Bank saw balance of our corporate loans increase by RMB189,168 million or 17.53% from the end of the previous year to RMB1,268,560 million.

We kept serving SMEs by actualizing our large retail banking strategic positioning to strongly promote the development of small enterprises' finance business. During the reporting period, the small enterprises' finance business of our Bank focused on business priorities and continued to develop the four business segments, namely traditional business, bank-government cooperation, people's livelihood and "popular entrepreneurship and innovation". Our Bank actively established external cooperation platforms and successfully entered into strategic cooperation agreements with the Ministry of Industry and Information of the People's Republic of China and the Shanghai Stock Exchange. As of the end of the reporting period, our Bank's balance of corporate loans to small enterprises was RMB173,931 million, representing an increase of

RMB17,768 million or 11.38% as compared to the end of the previous year, accounting for 13.71% of corporate loans. We focused on big data technology and kept improving refined management. We energetically promoted Bank-Tax Interaction and researched, developed and popularized a series of big data products based on the information such as corporate tax payment, invoice, etc. Based on the microfinance service platform and mobile APP, we used big data technology to integrate and analyse the information of SMEs, so as to realize risk monitoring and early warning and improve post-loan management efficiency.

Corporate Deposits

We offered time and demand deposits to corporate customers in Renminbi and other major foreign currencies. During the reporting period, we kept improving our product and service system in treasury-funded social security and other aspects, consolidated and improved institutional deposits, improved our comprehensive financial service level in the areas of cash management, electronic banking, fund custody, corporate wealth management, etc., so as to achieve stable growth of corporate deposits. As of the end of the reporting period, our Bank's balance of corporate deposits was RMB1,139.243 billion, representing an increase of RMB64,219 million or 5.97%, as compared to the end of the previous year.

Settlement and Cash Management

During the reporting period, we gave full play to our network advantage in transaction settlement and designed customized cash management solutions for customers based on advanced cash settlement products. During the reporting period, we focused on strategic customers, promoted such products as capital pool and bank-corporate direct connection, improved coverage of cash management products and actively pushed forward the building of a transaction banking system. As of the end of the reporting period, we had 159,423 contracted accounts for cash management, representing an increase of 10,761 accounts or 7.24%, as compared to the end of the previous year.

Trade Finance and International Trade Settlement

During the reporting period, we, in light of the actual circumstances, strived to cultivate the customer base and build teams, with constantly expanded business scale. We kept promoting product innovation, substantially participated in construction of real economy for financial services in the free trade zone, accelerated the development of online supply chain finance and successfully carried out the first electronic factoring business.

Discussion and Analysis

During the reporting period, we kept expanding our major businesses. We constantly made breakthroughs in cross-border financing projects, handled businesses such as cross-border special-purpose loans for customers, started Belt and Road project of our Bank, supported enterprises “going global” and kept the stable development of domestic letters of credit and domestic letters of guarantee.

During the reporting period, the trade finance business advanced by RMB204.833 billion, while the volume of international settlement standing at USD12,554 million.

Investment Banking

We provided corporate customers with underwriting and distribution services as well as overseas debt advisory services in respect of debt financing instruments, including short-term commercial papers, medium-term notes, private placement notes and asset-backed securities. Moreover, we were able to provide comprehensive finance services such as structured financing, M&A loans, capital market business and financial advisory service. During the reporting period, we had 24 debt securities underwriting projects and 15 structured financing and M&A loans projects in the phase of execution, amounting to nearly RMB18 billion in total. We have abundant projects in the pipeline, waiting for subsequent implementation.

Custodian Business

During the reporting period, regulation on asset management business was tightened, “channel elimination and deleveraging” helped the asset management industry return back to its real-economy based nature. Following the industry trend, our Bank vigorously developed custodian products in major areas such as publicly offered funds and industry funds and achieved sustained and steady development in asset custodian business.

As of the end of the reporting period, the assets under our custody amounted to RMB4.21 trillion in total. In particular, the publicly offered funds under our custody amounted to RMB110,458 million, and the industry funds under our custody amounted to RMB1.84 trillion. During the reporting period, the accumulated custodian business fee income amounted to RMB479 million, representing a year-on-year increase of 17.40%, maintaining a steady growth trend.

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

With standardized financial products traded in interbank market as underlying trading assets and with fund management, proprietary trading, agency trading and risk hedging as trading purposes, the trading business falls into five categories, namely, monetary market, fixed income, foreign exchange, derivatives and precious metals, covering 11 currencies and 20 product varieties.

During the reporting period, our Bank further strengthened the interactions and communication with regulatory authorities and actively cooperated with relevant regulatory authorities in aspects of open market operation of Renminbi, government bond market making and pre-market trading of pledge-style repo. Moreover, our Bank obtained the formal market-making qualification for interbank foreign exchange swap, enabling our Bank to take a step toward becoming a fully licensed trading institution with a comprehensive product scope.

During the reporting period, the total trading volume of our Bank in the domestic and foreign currency markets reached RMB25.51 trillion with a total number of 54.5 thousand transactions.

Investment Business

Investments in Debt Securities and Negotiable Certificates of Deposit

During the reporting period, our Bank upheld the directions and policies of "Seize Opportunities, Adjust Structure, Increase Returns and Prevent Risks". In the context of financial deleveraging, the bond market yield rose significantly. By enhancing market study and judgment, our Bank seized the opportunity of rate rise to intensify efforts for bond allocation, especially low-risk rate bonds and highly rated credit debts, so as to increase the proportion of credit debts in our portfolio, optimize the structure of bond portfolio and raise the portfolio returns. Meanwhile, we continued to strengthen credit risk management, insisted on pre-investment analysis and regular post-investment management regarding credit debts, so as to effectively prevent credit risk. As of the end of the reporting period, the balance of investments in debt securities and negotiable certificates of deposit amounted to RMB2,332,967 million.

Discussion and Analysis

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 banks' wealth management products, trust investment plans, asset management plans and securities investment funds). During the reporting period, the regulatory authorities rolled out several policies to further regulate interbank investment business and improve the market environment. Our Bank managed and operated the interbank investment business in a compliant and prudent manner in strict accordance with various regulatory policies. As of the end of the reporting period, the balance of our Bank's interbank 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 RMB854,191 million in total.

Interbank Financing

Interbank financing is a business where our Bank has inherent advantages in terms of interbank cooperation, exerting significant influence in the financial market. During the reporting period, the Bank flexibly adjusted our interbank financing strategy, focused on developing the lending business and gradually reduced the stock size of borrowing business in line with the market environment of terminal interest rate rise on the whole. As of the end of the reporting period, the balance of our Bank's deposits and placement with banks and other financial institutions was RMB467,188 million and the balance of deposits and placements from banks and other financial institutions was RMB65,386 million.

Asset Management

We endeavor to provide residential and institutional customers with professional and comprehensive wealth management services. While meeting the general customers' needs for wealth management and investment, we gradually launched high-yield products for high net worth customers and solely exclusive products customized for institutional customers. So far, we have launched two major product lines, namely, "PSBC Fortune" (郵銀財富) for retail customers and "PSBC Wisdom" (郵銀財智) for corporate customers. As of the end of the reporting period, we had issued wealth management products of RMB1,074.607 billion and the wealth management assets under management amounted to RMB780.401 billion.

Sannong Finance Business

During the reporting period, we expanded the scope of Sannong finance services and improved Sannong Finance Services level. To serve farmers and modern agriculture, we intensified efforts to financially support structural reform at the supply side of agriculture, promoted agriculture industrialization and development of rural projects, and offered quality comprehensive financial services to various new-type agriculture operators. During the reporting period, we accelerated service innovation of poverty relief mode according to the general requirements of “targeted poverty alleviation and targeted poverty elimination”. As of the end of the reporting period, the balance of our Bank’s agriculture-related loans was RMB1,006,247 million, up by RMB88,802 million, or 9.68%, as compared to the end of the last year. In particular, the balance of our Bank’s farmers loan was RMB827,129 million, accounting for 82.20%.

According to the requirements of No. 1 Central Document of 2017, we stepped up improving the operation mechanism of Sannong Finance Department, kept promoting reform of Sannong Finance Department. As part of our pilot program in five branches in Inner Mongolia, Jilin, Anhui, Henan and Guangdong, we started to promote reform of Sannong Finance Department nationwide on May 24, 2017. By further integrating internal resources and strengthening vertical management, we enhanced the professionalism of our service in the hope of building a professional service system for agriculture.

Green Finance

During the reporting period, we worked out and implemented differentiated green credit policies and kept improving the system of green finance policies and institutions. We conducted cooperation with International Financial Corporation (IFC) in environmental and social risk advisory, improved the environmental and social risk management mechanism. We actively explored the new ideas in developing green finance, innovated Sannong finance and green credit products and services in the field of small and micro enterprises, energetically developed e-banking services; actively kept improving environmental and social risk management, review and approval technologies for sensitive industries such as “industries with high pollution, high energy consumption and overcapacity”, insisted on the veto rule for securing environment-related interests and strict implementation of differentiated examination and approval procedures and authorization, reinforced post-loan management and risk early warning, and prevented and relieved potential environmental and social risks.

Discussion and Analysis

Distribution Channels

Business Outlets

During the reporting period, in response to interest rate liberalization, financial disintermediation and the rapid development of Internet finance, we further promoted the transformation of outlet management, improved their competitiveness and value-creating capabilities. At present, we give top priority to quality and efficiency improvement during the transformation. Through classification, we implement differentiated and refined management in outlets; further enhance the governance of low-efficiency outlets, and accelerate intelligent construction so as to improve business processing efficiency. As of the end of the reporting period, our Bank had a total of 39,883 outlets, including 8,124 directly-operated outlets, or 20.37% of all outlets, and 31,759 agency outlets, or 79.63% of all outlets, covering all cities and 98.9% of the county areas in the PRC.

Electronic Banking

During the reporting period, under the guidance of Internet finance development plan, we intensified efforts on product innovation, actively promoted intelligent outlet construction, and focused on the building of an Internet finance ecosystem, to improve online and offline service ability in an all-round way.

Business Scale

As of the end of the reporting period, our Bank recorded over 200 million electronic banking customers, including 149 million mobile banking customers, 167 million personal e-banking customers, 3.90 million signed customers of WeChat Bank and 5.54 million customers who followed our WeChat official account. We posted 8,834 million electronic banking transactions, up by 57.27% year on year, with a transaction amount of RMB6.58 trillion, representing a year-on-year growth of 31.08%, including 1,759 million mobile banking transactions, with a transaction amount of RMB1.65 trillion, and 306 million personal e-banking transactions, with a transaction amount of RMB1.06 trillion. The substitution ratio of electronic banking transactions was 84.28%, representing an increase of 2.5 percentage points as compared with the end of the previous year.

Product Innovation

During the reporting period, we accelerated innovation focusing on channels, such as mobile banking and Weibank, launched new products, such as Fortune Overview (財富一覽), ULE QR code payment, Youai charitable fund donation, mobile phone-assisted cardless ATM cash withdrawal and UnionPay QR code payment and further enriched the mobile financial product system, which improved customers' experience. We started construction of new generation personal e-banking system, kept improving the functions of personal e-banking and corporate e-banking, enhanced risk prevention and control ability, and strived to provide customers with convenient and safe online trading channels. The scale of application of mobile business development equipment continued to expand, and more outlets were able to provide on-site services such as account opening, electronic banking, credit card application, and loan application for customers, which accelerated the development of the Bank's Internet finance.

Intelligent Outlets

During the reporting period, we actively promoted the building of intelligent outlets. We promoted and launched the new generation self-service banking system across the country, propelled R&D and application of full-denomination cash handling machine, emphatically promoted the function development and process optimization of intelligent teller machine (ITM), and kept improving the customer service ability and operation management of self-service equipment, so as to facilitate the building of light, self-service and intelligent outlets. As of the end of the reporting period, we had 118,000 sets of self-service equipment, representing an increase of over 4,000 sets as compared with the previous year and recorded 2,573 million transactions, involving a transaction amount of RMB2.55 trillion. The percentage of cash recycling system in the cash handling equipment increased from 56% at the beginning of the year to 60%, with further improved structure.

Construction of Internet Finance Ecosystem

During the reporting period, our Bank leveraged our internal and external resources to build an open Internet finance ecosystem. Through cooperation with China Post Group, we added functions such as online reading via 183read.com in the mobile APP and promoted the cooperation in such aspects as rural e-commerce and ULE.COM-based marketing, so as to create a competitive scenario with PSBC characteristics. We pushed forward external ecosystem building by leveraging social resources. We joined hands with Tencent to explore the application of scenarized big data, cooperated with JD.COM

Discussion and Analysis

in mall resources and collaborated with vertical e-commerce platforms in construction of product finance and consumer finance ecology. In addition, we leveraged our outlet advantage to build a local characteristic ecosystem with focus on QR code payment and O2O life service platforms. As of the end of the reporting period, we cooperated with 678 merchants in total; during the reporting period, we completed 4,250 million transactions and a transaction amount of RMB1.35 trillion.

Information Technology

We put great emphasis on information technology and adhere to the “technology-first” strategy. We will continue to optimize the organizational structure and scientific management system of information technology to steadily promote the implementation of the Thirteenth Five Year IT Plan while focusing on the construction of new platform projects. We have also established technology innovation laboratory and Internet finance laboratory, and increased investment in financial technology and innovation. During the reporting period, our information system ran steadily and no first-class major failure and second-class operation failure occurred.

During the reporting period, we stepped up the transformation and upgrade of big data application, set up the big data application organization and management system; made greater efforts to the R&D of big data products, and enhanced data management to effectively improve data quality. On January 10, 2017, we launched the asset custody system based on blockchain, which was the first successful application of blockchain technology in banks’ physical production among Chinese banks. Such a system has effectively solved the problem of multi-party and real-time sharing of business information and mutual trust, eliminated repeated credit verification, reduced the original business process by 60%, creating more efficient credit exchange and better business risk management. We built a standard system for the service framework of cloud computing technology and an Internet finance cloud, and cloud platform for development and testing, etc. At present, we recorded 37 million transactions on cloud platforms daily, accounting for 46% of the total transaction volume.

Human Resources Management and Institution Management

Human Resources Management

During the reporting period, we insisted on the efficiency orientation and kept deepening human resources reform by focusing on our strategies and major work; optimized labor cost allocation and strengthened the linking between remuneration and value creation; further regulated the salary and welfare management system and improved the middle and long term incentive mechanism.

In talent training, we continued to deepen talent development and training mechanism and promote the building of core talent team. During the reporting period, we enhanced the cooperation with strategic investors, universities and training agencies, cultivated high-end professionals and management personnel via multiple measures; reinforced construction of such resources as teachers, courses and remote training system and multi-dimensionally safeguarded talent development; carried out employee post qualification verification and skill competitions to improve the employees' ability in an all-round way.

Employees

As of the end of the reporting period, our Bank had a total of 167,737 full-time employees.

Bank's Employees by Business Function

Item	Number of employees	Percentage (%)
Management	5,883	3.51
Personal banking	62,490	37.25
Corporate banking	11,827	7.05
Treasury business	1,444	0.86
Financial and accounting	17,096	10.19
Risk management and internal control	11,141	6.64
Others ⁽¹⁾	57,856	34.50
Total	167,737	100.00

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

Discussion and Analysis

Bank's Employees by Age

Item	Number of employees	Percentage (%)
Under 30 (inclusive)	53,201	31.71
31-40	62,565	37.30
41-50	41,828	24.94
Over 51 (inclusive)	10,143	6.05
Total	167,737	100.00

Bank's Employees by Education Level

Item	Number of employees	Percentage (%)
Master's degree and above	8,115	4.84
Bachelor's degree	97,737	58.27
Associate degree	51,435	30.66
Others	10,450	6.23
Total	167,737	100.00

Bank's Employees by Geographical Region

Item	Number of employees	Percentage (%)
Head Office	1,803	1.07
Yangtze River Delta	18,378	10.96
Pearl River Delta	17,771	10.59
Bohai Rim	27,126	16.17
Central region	43,515	25.95
Western region	38,282	22.82
Northeastern region	20,862	12.44
Total	167,737	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 sub-branches in their respective 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, 2017	
	Number of branches and sub-branches	Percentage (%)
Tier-1 branches	36	0.43
Tier-2 branches	322	3.81
Tier-1 sub-branches	2,108	24.95
Tier-2 sub-branches and others	5,984	70.81
Total	8,450⁽¹⁾	100.00

(1) Includes 8,124 outlets.

Discussion and Analysis

Subsidiary

The Bank currently has one subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015 with registered capital of RMB1 billion, of which our Bank holds 61.5%.

Protection of Consumer Interests

During the reporting period, our Bank further strengthened the protection of consumer interests and carried out the comprehensive rectification of service complaints. We strengthened the protection of financial consumers' interests and carried out legal education activities, which has effectively enhanced financial risk awareness and the basic legal knowledge of our employees and customers.

Risk Management

Comprehensive Risk Management System

Following the risk appetite objectives determined by the Board of Directors, our Bank continued to develop a comprehensive risk management system and innovated risk management technologies and solutions, and further enhanced our comprehensive risk management ability. During the reporting period, our Bank actively implemented regulatory requirements thoroughly, improved the system of risk management policies and institutions, optimized risk appetite and policy transmission mechanism, enhanced risk management on a consolidated basis, earnestly carried out internal capital adequacy assessment, continuously promoted the implementation of the advanced capital measurement approach, and accelerated the establishment of a risk management information system.

Risk Management Organizational Structure

The Board of Directors undertakes the ultimate responsibilities and exercises its power in relation to risk management through risk management committee to discuss and review the significant matters of risk management, supervise the operation of risk management system and monitor our risk profile.

As the internal supervising body, the Board of Supervisors is responsible for supervising the Board of Directors in respect of the formulation of our risk management strategies, policies and procedures, and supervising and assessing the performance of the Directors, Supervisors and senior management in carrying out their risk management duties.

Under the Articles of Association of the Bank and the authorization of the Board of Directors, the senior management fulfil risk management responsibilities, to ensure that the implementation of our operation and management is in line with our risk management strategy, risk appetite, risk management policies and procedures formulated and approved by the Board of Directors. The Risk Management Committee under the senior management is responsible for discussing and reviewing the basic policies and institutions of risk management, assessing the risk management profile of the Bank, and reviewing risk management standards, methods and processes for various kinds of risks.

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 loans, treasury business (including amounts due from banks and other financial institutions, financial assets held under resale agreements and investments in corporate bonds and financial bonds) and off-balance sheet credit business (including guarantees and commitments, etc.).

Credit Risk Management

In strict compliance with various regulatory requirements on credit risk, our Bank, under the leadership of the Board of Directors and senior management, earnestly implemented its strategic positioning as a large retail bank and the “barbell” strategy, and adopted a full-process credit risk management mode in the principle of “duties segregated and controlled internally”.

During the reporting period, our Bank continued to adopt sound and prudent credit risk management policies and strengthened the credit risk management system to improve credit risk management ability. In view of the strategic positioning and development objectives of the Bank and the changes in conditions inside and outside the Bank, the Bank optimized credit extension and admission policies, improved customer risk rating

Discussion and Analysis

standards and strengthened unified credit extension and credit risk limit management. Furthermore, the Bank optimized the business procedures and credit screening technique of credit extension, promoted the building of a basic credit management institution, and intensified the differentiation in credit extension and its dynamic management. To facilitate transformation and upgrading of various credit businesses, the Bank diversified credit extension management tools and means, improved the functions of IT system, put into use the internal rating system for non-retail credit, unified rating management for retail credit, and piloted a new generation of retail credit factory operation mode. The Bank also strengthened post-loan management and credit risk monitoring and early warning, strengthened the authenticity management of asset risk classification, paid close attention to the risk profiles of sensitive industries, loss-making enterprises, key areas and key customers, focused on accelerating the disposal of non-performing loans, and continued to enhance the risk compensation and offsetting ability and the effect of asset quality control of the Bank, achieving remarkable results of credit risk management.

Credit Risk Management for Corporate Loans

During the reporting period, the Bank continued to strengthen the risk management and control of corporate loans so as to prevent and dissolve potential credit risks. By closely following the key national strategic plan and in light of the macroeconomic and financial situation, industry policies and the Bank's strategic positioning, our Bank responsively improved the credit extension policies, optimized customers' admission standards, adjusted credit business structure, and enhanced unified credit extension management and concentration risk control to prevent risks at the source. Risk monitoring, warning, management and control in key areas were further strengthened, with risk inspections carried out to prevent and resolve risks in those key industries. In response to the call for financial risk control, our Bank orderly carried out supervision and inspections on corporate loan and bill business to spot, take preventive measures against and handle potential risks in a timely manner.

During the reporting period, our Bank actively improved the credit risk management system for small enterprises' financial business to strengthen risk management and control. Guidelines for extending loans to small enterprises were optimized and customer admission and list management was strengthened. Our Bank improved authorization management of examination and approval of loan extension to small enterprises by following the requirements of dynamic and differentiated authorization, and strengthening the dynamic monitoring and optimization of authorization. Moreover,

our Bank intensified the management of asset quality objectives and the management of limit of non-performing assets related to small business loans, introduced early warning management for the quality of small business loans, strengthened supervision and analysis on loan related risks, identified risks ahead of time and continuously improved our risk handling ability.

Credit Risk Management for Personal Loans

During the reporting period, the Bank proactively explored various forms of cooperation with the top five platforms, namely governments, industry associations, corporations, guarantee companies and insurance companies to realize sharing of customer information, reduce the risk exposure of loans and improve the quality of our loan customers. The Bank continuously explored various ways to provide guarantee for personal operation loans, improved the guarantee system, and responded actively to the national policies to promote the pilot program of loans secured against the “two rights” (rights of contracted rural land and farmers’ housing property rights). By adopting relationship lending technology, the Bank conducted comprehensive assessments as to the operation management capabilities of personal customers. Cross-checking technique was adopted to ensure the rationality, authenticity and accuracy of the information obtained in loan investigation and determine credit limits in a scientific manner. The Bank implemented refined management to optimize the business processes, conducted prior to-, during- and post-credit extension investigation and implemented the mechanism for segregation of duties.

During the reporting period, we continued to refine risk management on personal consumer loans. In strict compliance with the national and regulatory authorities’ policies on real estate control, the Bank formulated and applied differentiated credit policies in the principle of “classified guidance and implementing policies suitable to local conditions”. The Bank enhanced customer admission management and lowered potential credit risks by strengthening the on-boarding process of our cooperative institutions, and personal customers qualification management and screening of regions and projects. The Bank also kept strict control over capital use, checked whether the collateral is worth more than the debt, established a regular risk monitoring and early warning mechanism, and improved the initiative, effectiveness and pertinency of post-loan management and monitoring and early warning. We also enhanced the application of big data in identifying loan risks and promoted data-driven risk model to increase the level of risk management.

Discussion and Analysis

Credit Risk Management for Credit Card Business

During the reporting period, our Bank effectively reduced the overall business risks by strengthening asset quality supervision, predicting potential risks, improving admission criteria for issuing cards and adjusting and optimizing client structure; our Bank also promoted the establishment of its scoring model system, enhanced control over existing clients, intensified management of credit limit and card use, improved risk handling ability, took advantage of the driving effect of data analysis, and effectively improved risk management capacity.

Credit Risk Management for Treasury Business

During the reporting period, we established a stereotactic authorization system and implemented hierarchical authorization and hierarchical monitoring; strictly carried out the requirements of “head office monopoly”, which requires the business to be conducted by the head office centrally and managed uniformly; established hierarchical review and approval system for non-credit business in the head office and departments and conducted business approval according to the principle of “substance over form”; conducted due diligence and investment analysis for underlying assets of capital business according to the principle of “penetration management”; standardized the list-based management for interbank customers and improved the mechanism of admission and withdrawal for cooperative institution lists; strengthened the credit management and central control of counterparties and underlying assets of capital business; closely monitored and tracked material risk events in the market, established daily monitoring mechanism and timely published risk pre-warnings; adopted differentiated allowance provisioning standards over different risk fields and different product types to fully make provision for asset losses.

Credit Risk Analysis

Maximum Credit Risk Exposure without Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	June 30, 2017	December 31, 2016
Deposits with central bank	1,302,390	1,259,035
Deposits with banks and other financial institutions	251,857	175,776
Placements with banks and other financial institutions	215,331	193,287
Financial assets at fair value through profit or loss	123,726	68,976
Derivative financial assets	3,304	6,179
Financial assets held under resale agreements	129,333	73,131
Release of loans and advances payment	3,261,436	2,939,217
Available-for-sale financial assets — debt instruments	208,777	237,932
Held-to-maturity investments	826,514	736,154
Investment classified as receivables	1,491,089	1,498,524
Other financial assets	44,240	36,490
Total of on-balance-sheet items	7,857,997	7,224,701
Credit commitments	658,039	524,909
Total	8,516,036	7,749,610

Discussion and Analysis

Non-performing Loan Structure by Collateral

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Loans secured by mortgages ⁽²⁾⁽³⁾	15,519	56.69	14,674	55.81
Loans secured by pledges ⁽²⁾⁽⁴⁾	4,624	16.89	4,671	17.77
Guaranteed loans ⁽²⁾	5,606	20.48	5,571	21.19
Unsecured loans	1,626	5.94	1,374	5.23
Discounted bills	—	—	1	0.00
Total	27,375	100.00	26,291	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 moveable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.
- (4) Represents security interests in certain assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

As of the end of the reporting period, the balance of non-performing loans under the Bank's loans secured by mortgages amounted to RMB15,519 million, representing an increase of RMB845 million as compared to the end of the previous year; the balance of non-performing loans under our loans secured by pledges amounted to RMB4,624 million, representing a decrease of RMB47 million as compared to the end of the previous year; the balance of non-performing loans under our guaranteed loans amounted to RMB5,606 million, representing an increase of RMB35 million as compared to the end of the previous year; the balance of non-performing loans under our unsecured loans amounted to RMB1,626 million, representing an increase of RMB252 million as compared to the end of the previous year.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for less than 90 days	8,092	0.24	8,352	0.28
Overdue for 91 days to 360 days	13,332	0.40	11,462	0.38
Overdue for 361 days to 3 years	10,722	0.32	8,660	0.28
Overdue for more than 3 years	817	0.03	526	0.02
Total	32,963	0.99	29,000	0.96

As of the end of the reporting period, our balance of overdue loans amounted to RMB32,963 million, representing an increase of RMB3,963 million as compared to the end of the previous year. Among them, loan balance overdue for less than 90 days were RMB8,092 million; loan balance overdue for 91 days to 360 days amounted to RMB13,332 million; loan balance overdue for 361 days to 3 years were RMB10,722 million; loan balance overdue for more than 3 years were RMB817 million.

Discussion and Analysis

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	186,563	5.58	38.41
Borrower B	Management of water conservancy, environmental and public facilities	15,000	0.45	3.09
Borrower C	Transportation, storage and postal services	9,478	0.28	1.95
Borrower D	Financial services	8,985	0.27	1.85
Borrower E	Mining	8,410	0.25	1.73
Borrower F	Financial services	7,382	0.22	1.52
Borrower G	Manufacturing	6,330	0.19	1.30
Borrower H	Transportation, storage and postal services	6,275	0.19	1.29
Borrower I	Management of water conservancy, environmental and public facilities	6,237	0.19	1.28
Borrower J	Production and supply of electricity, heating, gas and water	5,615	0.17	1.16

(1) Represents loan balance as a percentage of our net capital, calculated in accordance with 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)》).

(2) China Railway Corporation was our largest single borrower. As of June 30, 2017, the outstanding loan with China Railway Corporation, our largest single borrower, was RMB186,563 million, representing 38.41% 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, 2017, the outstanding loan under such credit approved by the CBRC for China Railway Corporation was RMB179.3 billion, and after deducting this RMB179.3 billion, our loan balance with China Railway Corporation represented 1.50% of our net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	3,293,960	98.61	2,960,105	98.32
Special mention	19,119	0.57	24,252	0.81
Non-performing loans	27,375	0.82	26,291	0.87
Substandard	5,758	0.17	7,728	0.26
Doubtful	9,697	0.29	6,965	0.23
Loss	11,920	0.36	11,598	0.38
Total	3,340,454	100.00	3,010,648	100.00

During the reporting period, our Bank 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 RMB27,375 million, representing an increase of RMB1,084 million as compared to the end of the previous year. Non-performing loan ratio was 0.82%, representing a decrease of 0.05 percentage point as compared to the end of the previous year. The balance of special mention loans amounted to RMB19,119 million, representing a decrease of RMB5,133 million as compared to the end of the previous year. Special mention loans ratio was 0.57%, representing a decrease of 0.24 percentage point as compared to the end of the previous year.

Discussion and Analysis

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2017			December 31, 2016		
	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	7,482	27.33	1.44	7,109	27.04	1.78
Fixed asset loans	160	0.58	0.03	114	0.43	0.02
Trade finance loans	865	3.16	0.47	917	3.49	0.55
Others ⁽²⁾	36	0.13	1.64	37	0.14	4.67
Subtotal	8,543	31.20	0.67	8,177	31.10	0.76
Discounted bills	—	—	—	1	0.00	0.00
Personal loans						
Consumer loans						
Residential mortgage loans	1,999	7.30	0.19	1,711	6.51	0.19
Other consumer loans	1,258	4.60	0.55	983	3.74	0.50
Personal business loans	10,336	37.76	3.51	10,027	38.14	3.48
Micro loans	4,354	15.91	2.77	4,468	16.99	3.21
Credit card overdrafts and others	885	3.23	1.47	924	3.51	1.75
Subtotal	18,832	68.80	1.05	18,113	68.89	1.14
Total	27,375	100.00	0.82	26,291	100.00	0.87

(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 and advances of bill acceptance our Bank purchased from a PRC commercial bank in 2010.

During the reporting period, the increase in the balance of our non-performing corporate loans mainly concentrated in working capital loans to small enterprises, and increase in the balance of our Bank's non-performing personal loans mainly concentrated in personal business loans and consumer loans. In the current background of slowdown and restructuring of the economy, small and medium enterprises, individual businesses and owners of small and micro enterprises with small scale and weak risk resilience, were vulnerable to tighten capital shortage and operational difficulties caused by the economic downturn, which led to further deteriorated financial situation and loss of repayment ability.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	887	3.24	926	3.52
Yangtze River Delta	2,663	9.73	2,869	10.91
Pearl River Delta	2,100	7.67	2,119	8.06
Bohai Rim	2,977	10.87	2,966	11.28
Central China	4,563	16.67	4,518	17.18
Western China	10,835	39.58	9,755	37.10
Northeastern China	3,350	12.24	3,138	11.95
Total	27,375	100.00	26,291	100.00

During the reporting period, Western China and Northeastern China experienced a greater increase in our Bank's balance of non-performing loans by RMB1,080 million and RMB212 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 and individual businesses attributable to the economic slowdown, giving rise to non-performing loans.

Discussion and Analysis

Structure of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	112	1.31	93	1.14
Manufacturing	4,221	49.41	3,879	47.44
Production and supply of electricity, heating, gas and water	14	0.16	4	0.05
Financial services	1	0.01	2	0.02
Wholesale and retail	2,741	32.08	2,867	35.06
Construction	440	5.15	399	4.88
Real estate	12	0.14	11	0.14
Mining	97	1.13	96	1.17
Management of water conservancy, environmental and public facilities	48	0.56	49	0.60
Leasing and commercial services	151	1.77	120	1.47
Agriculture, forestry, animal husbandry and fishery	373	4.37	316	3.87
Information transmission, computer services and software	47	0.55	50	0.61
Hotels and catering	192	2.25	184	2.25
Residential services and other services	62	0.73	67	0.82
Culture, sports and entertainment	17	0.20	26	0.32
Others ⁽¹⁾	15	0.18	13	0.16
Total	8,543	100.00	8,177	100.00

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

During the reporting period, the increase in the balance of our non-performing corporate loans was principally attributable to the manufacturing industry. Currently due to the slowdown of economic growth, the small and micro enterprises in low-end manufacturing industry faced significant challenges, resulting in downsized business, lengthened turnover days of receivables and tightened cash flows, giving rise to non-performing loans.

Movements of Allowance for Impairment Losses

In millions of RMB

Items	Allowance for loans and advances not identified impaired which are collectively assessed	Allowances for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As of January 1, 2017	50,784	18,208	2,439	71,431
Net provision in current period	6,493	2,862	147	9,502
Write-off and transfer out	—	(2,971)	(128)	(3,099)
Recovery of loans and advances written off	—	1,165	98	1,263
Unwinding of discount on allowance	—	(64)	(15)	(79)
As of June 30, 2017	57,277	19,200	2,541	79,018

The increase in our net provision for allowance for impairment on loans was primarily due to the overall increase in our loan portfolio and the growth in our balance of non-performing loans. Meanwhile, we increased provision for allowance for impairment on loans in key risk areas, further enhancing our capability to offset risks.

Market Risk

Market risk refers to the risk of losses to the on- and off-balance sheet businesses as a result of unfavourable changes in the market prices (including interest rate, exchange rate, commodity price and stock price, etc.). The major types of market risks that our Bank is exposed to include interest rate risk and exchange rate risk (including gold).

Discussion and Analysis

Our Bank has established a market risk management institution covering market risk identification, measurement, monitoring and control, which manages market risk by exercising daily monitoring and 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 challenges posed by changes in the market environment and the business line expansion in the banking industry, formulated annual market risk management policies and limit scheme, strengthened limit monitoring analysis, as well as proactively carried out stress testing, leading to relatively stable market risk with 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 in measuring 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.

Market Risk Management of Trading Book

The trading book risk arises from price fluctuations of products in the trading book due to changes of market interest rates and exchange rates, which affects our current profit or loss. We utilize limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing to manage the market risk of trading book and keep the risk exposure within an acceptable range. During the reporting period, our Bank actively tracked the market changes and the new trend of regulation, optimized limit setting scientifically, controlled the risk exposure of the trading book on a reasonable basis and proactively carried out stress testing.

Market Risk Management of Banking Book

Market risk of the banking book of our Bank refers to the risk of loss incurred on the overall revenue and economic value of the banking book due to adverse changes in essential factors such as interest rates, exchange rates and maturity structure. Interest rate risk in our Bank's banking book arises primarily from the mismatch in the maturity or re-pricing dates of our interest rate-sensitive assets and liabilities in the banking book and inconsistencies in the change of the benchmark interest rates on which our assets and liabilities are based. Our Bank managed the market risk of banking book by the integrated application of various technical methods including limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

During the reporting period, the Bank actively responded to the impact of the continued deepening of interest rate liberalization. Under the background of a prudent and neutral monetary policy and stricter regulatory requirements, the Bank grasped the trend of interest rate changes in a scientific manner and timely adjusted the maturity structure to stabilize the net interest spread of the Bank. Furthermore, the Bank fully implemented the interest rate target management mechanism, promoted the application of assessment results, timely adjusted differentiated pricing strategies, urged branches and sub-branches at all levels to take the initiative to adapt to market changes and to enhance differentiated pricing ability. The Bank also continuously improved the internal funds transfer pricing mechanism, promoted the concept of cost constraint, improved the interest rate risk management system, and conducted limit control over long-term fixed interest rate business to ensure that the overall interest rate risk level was controlled within an acceptable range.

Exchange Rate Risk Management

Exchange rate risk refers to the risk of loss in foreign exchange exposure arising from unbalanced currency structure of the foreign exchange assets and liabilities due to adverse changes of exchange rates.

We avert exchange rate risk primarily by measures such as limit management. During the reporting period, our Bank closely followed the changes of external markets and the trend of exchange rates, performed foreign exchange risk exposure monitoring and sensitivity analysis on a regular basis, and flexibly adjusted the risk exposure of trading exchange rate. As a result, the overall risk exposure of exchange rate of our Bank remained within an acceptable range.

Discussion and Analysis

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

Item	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest earning
June 30, 2017	(1,511,828)	722,300	(59,495)	119,581	493,283	532,142
December 31, 2016	(499,618)	(12,894)	(711,864)	101,374	526,430	887,050

Interest Rate Sensitivity Analysis

In millions of RMB

Item	June 30, 2017 Movements in net interest income	December 31, 2016 Movements in net interest income
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Movements in yield rate basis points

Increased by 100 basis points

(subject to adjustment based on the situation of the Bank)

(8,850)

(7,695)

Decreased by 100 basis points

(subject to adjustment based on the situation of the Bank)

8,850

7,695

Exchange Rate Risk Analysis

For analysis of our exchange rate risk, please refer to “Notes to Condensed Consolidated Financial Statements— 42.4 Market risk”.

Liquidity Risk

Liquidity risk refers to the risk of failure to obtain sufficient funds at a reasonable cost in a timely manner to repay maturing debts, fulfill other payment obligations and meet other financial needs in our ordinary course of business despite our solvency.

Liquidity risks include financing liquidity risk and market liquidity risk. Financing liquidity risk refers to the risk of failure to satisfy the funding needs in a timely and effective manner without affecting the daily operation or financial position of the Bank, while market liquidity risk refers to the risk of failure to raise funds through the disposal of assets at a reasonable market price as a result of market illiquidity or volatility.

Liquidity risk of our Bank may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, over-mismatch of maturity between assets and liabilities, difficulties in asset realization, operating losses, derivatives trading risk and risk associated with its affiliates.

Liquidity Risk Management

The objective of liquidity risk management of our Bank is to meet the liquidity needs arising from assets, liabilities and off-balance sheet business and fulfil its payment obligation to external parties during the normal operation or at a highly stressed condition which is achieved through the establishment of a scientific and comprehensive liquidity risk management mechanism and information system, through which liquidity risk can be timely and effectively identified, measured and controlled, so as to maintain the balance among liquidity, security and profitability. At the same time, the Bank continued to strengthen the liquidity risk management and monitoring on its branches and sub-branches, affiliates and various business lines to effectively prevent liquidity risk.

During the reporting period, the People's Bank of China implemented a prudent and neutral monetary policy, controlled monetary spigots, strengthened forward guidance, provided liquidity with various terms through comprehensive application of various tools, and kept market liquidity fairly stable. The growth of funds outstanding for foreign exchange has slowed down, and the means of issuance of monetary base have changed slightly, which increased the uncertainty of market expectations. In such a scenario, our Bank continued to monitor the monetary policy and market liquidity, strengthened internal communication and coordination mechanism, and improved the proceeds from use of funds and the capacity to respond to liquidity risks on the premise of keeping liquidity safe. During the reporting period, all liquidity indicators of our Bank met regulatory requirements, with the liquidity kept in a sound condition and under control.

Discussion and Analysis

Our Bank, based on changes in the market and the objective of liquidity risk management, timely adjusted and optimized the structure of assets and liabilities, stabilized the source of capital, ensured an open market financing channel and maintained the proportion of high-quality liquidity reserve assets. Relying on a centralized management system of capital position featuring “single-point access, single-point liquidation”, our Bank strengthened the management of capital position, realized real-time monitoring and control over capital surplus and deficiency, saved cash reserves while meeting the payment needs of customers, and increased the efficiency of funds utilization. In addition, the Bank strictly observed relevant requirements of the Management Measures on the Liquidity Risk of Commercial Banks (Provisional) (《商業銀行流動性風險管理辦法(試行)》), improved the system of liquidity risk management institutions, promoted the establishment of an asset and liability management system, increased the IT application in liquidity risk management, strengthened liquidity indicator and limit monitoring, improved the liquidity risk management reporting mechanism, and regularly carried out liquidity risk stress testing.

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

Item	Overdue	On demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
June 30, 2017	13,484	(3,115,201)	(45,708)	(140,961)	(1,209,845)	1,233,504	2,275,071	1,285,639	295,983
December 31, 2016	10,167	(2,958,929)	(239,961)	(639,401)	(353,294)	1,093,857	2,177,654	1,200,385	290,478

For details of our Bank’s liquidity coverage ratio as of the end of the reporting period, please refer to Appendix II.

Operational Risk

Operational risk refers to the risk arising from inadequate or defective internal procedures, personnel misconduct and malfunction of information technology systems, or external events. The operational risks which we may be exposed to mainly include internal and external fraud, employment system and workplace safety, customer, product and business activities, damage of physical assets, malfunction of information technology system, and execution, delivery and process management.

During the reporting period, our Bank strictly complied with regulatory requirements and continuously improved the operational risk management system, the internal control management system, the legal and compliance risk management system and the compliance management level of anti-money laundering and anti-terrorism financing in compliance with the requirements for listed banks. In the meantime, we made a medium and long-term plan for prevention and control of risk cases, revised and implemented all institutions for case management; actively inspected operational risks in various businesses and management lines, continued to strengthen operational risk management, fostered operational risk management culture as well as compliance awareness; and actively carried out trainings relating to operational risks to maintain our Bank's operational risks and operational risk losses at a low level.

Legal Risk

Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights of others caused by operation and management behaviors of our Bank or otherwise in connection with any contract or business activity in which our Bank is involved.

During the reporting period, our Bank continuously improved the work system and procedures of legal risk management and built a legal risk prevention mechanism with full coverage throughout the process to prevent and resolve various legal risks as well as improve its support for bank-wide business transformation and innovative development. Moreover, standardization of business contracts was adopted, and the standards of legal inspection were improved to effectively enhance the refined management level of legal inspection within our Bank. In addition, we optimized the litigation management process, strengthened litigation management 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. Furthermore, our Bank continued to optimize authorization procedures and improve standardization of authorization in branches and sub-branches to ensure compliance of its operations with laws and regulations.

Anti-Money Laundering

During the reporting period, we carried out anti-money laundering work smoothly. We continuously promoted the construction of our internal control system for anti-money laundering and started piloting centralized processing of suspicious transactions.

Discussion and Analysis

Meanwhile, we optimized anti-money laundering system, improved anti-money laundering model and further enhanced the quality of anti-money laundering data submitted to meet the requirements of regulatory authorities for anti-money laundering.

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 failures arising from our use of information technology. During the reporting period, based on requirements for prevention and control of information technology risks, we constructed a complete information technology risk management and control system by various means such as putting plans into practice, institutional building, system security reinforcement, risk inspection and monitoring and alerting. As a result, the operation of our information system was stable and all monitoring indicators of information technology risk were within normal ranges.

Reputational Risk

Reputational risk refers to the risk incurred by negative reports or evaluation in relation 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 the reputation risk prevention system, and strengthened system construction. Moreover, we actively carried out trainings to continuously enhance our capability for managing and controlling reputational risk.

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, we continued to intensify the consolidated management of PSBC Consumer Finance and continuously enhanced our consolidated risk management level through improving the governance structure and system of institutions for consolidated management, strengthening consolidated capital management, and improving the firewall, risk prevention mechanism as well as risk information reporting system.

Capital Management

During the reporting period, we aimed to maintain our capital, risk profile and return at a level commensurate with each other and adhered to a risk preference of “appropriate risk-taking, support for development and prudent operations”, kept building the system of capital management institutions, and proactively explored a capital-efficient business model by optimizing the structure of assets and liabilities and improving capital utilization. Thus, we realized an efficient development featuring low capital consumption and intensification. We also continued to reinforce the capital planning, the planning management of capital adequacy ratio and leverage ratio, capital limit control and daily monitoring of capital adequacy ratios, continuously improved the capital constraint mechanism in respect of capital measurement, deployment, monitoring and assessment, to ensure that the capital adequacy ratio and leverage ratio constantly meet the risk coverage and regulatory requirements. The Bank issued tier-2 capital bonds with an aggregate amount of RMB20 billion in the national interbank bond market on March 24, 2017. The proceeds from the bonds were used to replenish the tier-2 capital of the Bank in accordance with the applicable laws and the approval of the regulatory authorities.

During the reporting period, we continuously promoted the implementation of advanced capital measurement method and disclosed capital management information in compliance with the regulatory requirements in order to meet the requirements of regulatory compliance continuously.

Capital Adequacy Ratio

During the reporting period, the calculation of the Group’s capital adequacy ratio covered our Bank and the subsidiaries thereof, and that of our Bank covered the head office and all branches and sub-branches at home and abroad. As of the end of the reporting period, PSBC Consumer Finance is the only subsidiary within the scope of consolidated capital management of our Group.

As required in the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) of the CBRC, the Bank prepared and disclosed information on capital adequacy ratio as below:

Discussion and Analysis

Capital Adequacy

In millions of RMB, except for percentages

Item	June 30, 2017		December 31, 2016	
	The Group	The Bank	The Group	The Bank
Net core tier-1 capital	362,899	362,174	344,817	344,852
Net tier-1 capital	362,926	362,174	344,823	344,852
Net capital	485,775	484,935	444,919	444,861
Total risk-weighted assets	4,161,826	4,159,133	3,995,908	3,995,120
Credit risk-weighted assets	3,871,288	3,868,665	3,718,006	3,717,288
Market risk-weighted assets	47,673	47,673	35,037	35,037
Operational risk-weighted assets	242,865	242,795	242,865	242,795
Core tier-1 capital adequacy ratio	8.72%	8.71%	8.63%	8.63%
Tier-1 capital adequacy ratio	8.72%	8.71%	8.63%	8.63%
Capital adequacy ratio	11.67%	11.66%	11.13%	11.14%

Market Risk Capital Requirements

In millions of RMB

Item	June 30, 2017	December 31, 2016
Interest rate risk	1,563	943
Exchange rate risk	2,250	1,860

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 the senior management of the Bank is as follows:

The Board of Directors of the Bank has 12 Directors in total, including Mr. Li Guohua, Chairman of the Board of Directors and non-executive Director; three executive Directors, namely, Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong; five non-executive Directors, namely, Mr. Li Guohua, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong 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, including Mr. Chen Yuejun, Chairman of the Board of Supervisors; three shareholders representative Supervisors, namely, Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang; three external Supervisors, namely, Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; and three employee Supervisors, namely, Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng.

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

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On March 2, 2017, our first extraordinary shareholders' general meeting of 2017 reappointed Mr. Ma Weihua and Ms. Bi Zhonghua as independent non-executive Directors of the Bank and elected Mr. Han Wenbo and Mr. Liu Yaogong as non-executive Directors of the Bank. The term of office of Mr. Ma Weihua and Ms. Bi Zhonghua started from March 2, 2017. For details, please refer to the circular of the Bank dated January 13, 2017. The job qualifications of Mr. Han Wenbo and Mr. Liu Yaogong were approved by the CBRC on May 19, 2017, with the term of office starting from May 19, 2017. For details, please refer to the announcement of the Bank dated May 24, 2017 regarding the approval of qualifications of Directors by the CBRC.

Directors, Supervisors and Senior Management

On June 8, 2017, our 2016 annual general meeting elected Mr. Liu Yue and Mr. Ding Xiangming as non-executive Directors of the Bank and elected Mr. Hu Xiang as an independent non-executive Director of the Bank. The qualifications of Mr. Liu Yue and Mr. Ding Xiangming as non-executive Directors and Mr. Hu Xiang as an independent non-executive Director are still subject to approval of the CBRC. For details, please refer to the circular of the Bank dated April 24, 2017.

On February 13, 2017, Mr. Gan Peizhong applied to resign as an independent Director of Beyondsoft Corporation, a company listed on the Shenzhen Stock Exchange (Stock Code: 002649). On April 13, 2017, such resignation became formally effective.

On June 2, 2017, Mr. Ma Weihua resigned as an independent non-executive Director of China Resources Land Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1109).

On June 22, 2017, Mr. Fu Tingmei resigned as an independent non-executive Director of Beijing Enterprises Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 392).

Mr. Lai Weiwen and Mr. Yang Songtang resigned as non-executive Directors of the Bank on January 12, 2017 and January 23, 2017, respectively, due to change of job. For details, please refer to the announcements of the Bank dated January 12, 2017 and January 23, 2017 regarding the resignation of the Directors.

Changes in Supervisors

Mr. Guo Tianyong was reappointed as an external Supervisor at our first extraordinary shareholders' general meeting of 2017 on March 2, 2017, with the term of office starting from March 2, 2017. For details, please refer to the circular of the Bank dated January 13, 2017.

On May 9, 2017, our first employee representative general meeting of 2017 elected Mr. Bu Dongsheng as an employee Supervisor, with the term of office starting from May 9, 2017. For details, please refer to the announcement of the Bank dated May 9, 2017 regarding change of the employee representative supervisors.

Due to change of job, Mr. Dang Junzhang resigned from his post as an employee Supervisor and the chairman of the Finance and Internal Control Risk Supervision Committee under the Board of Supervisors of the Bank on May 9, 2017. For details, please refer to the announcement of the Bank dated May 9, 2017 regarding change of the employee representative supervisors.

Changes in Senior Management

On January 26, 2017, Mr. Liu Hucheng was appointed as the secretary of the Disciplinary Committee of the Communist Party of China of Postal Savings Bank of China.

On January 9, 2017, Mr. Du Chunye was appointed to replace Mr. Xu Xueming as the secretary to the Board of Directors and the company secretary at the first meeting of the Board of Directors of the Bank in 2017. The appointment of Mr. Du Chunye as the secretary to the Board of Directors and the company secretary of the Bank shall be effective from the date of approval by the CBRC and the date of the relevant waiver granted by the Hong Kong Stock Exchange, respectively. On March 21, 2017, the Bank was granted with the waiver regarding the qualification of company secretary by the Hong Kong Stock Exchange. For details, please refer to the announcement of the Bank dated March 21, 2017 regarding the change of joint company secretary. The qualification of Mr. Du Chunye as the secretary to the Board of Directors was approved by the CBRC on April 11, 2017.

Significant Events

Interests and Short Positions held by Substantial Shareholders and Other Persons

As of the end of the reporting period, the Bank received notifications from the following persons regarding their interests or short positions in the Shares and underlying Shares of the Bank. Such interests or short positions were recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance, details of which are set out below:

Name	Capacity	Class of shares	Number of shares held	Nature	Percentage of total issued shares (%)	Percentage of all issued class shares (%)
China Post Group	Legal and beneficial owner	Domestic Shares	55,847,933,782	Long position	68.92	91.29
UBS Group AG ⁽¹⁾	Guaranteed interests and interests of a controlled corporation	H Shares	5,111,878,237	Long position	6.31	25.74
	Interests of a controlled corporation	H Shares	3,370,914,734	Short position	4.16	16.98
CSIC Investment One Limited ⁽²⁾	Legal and beneficial owner	H Shares	3,423,340,000	Long position	4.22	17.24
Shanghai International Port Group (HK) Co., Limited ⁽³⁾	Legal and beneficial owner	H Shares	3,349,490,000	Long position	4.13	16.87
Li Ka-Shing ⁽⁴⁾	Interests of a controlled corporation	H Shares	2,267,364,000	Long position	2.80	11.42
Li Tzar Kuoi, Victor ⁽⁴⁾	Interests of a controlled corporation	H Shares	2,267,364,000	Long position	2.80	11.42
Li Ka Shing (Canada) Foundation ⁽⁴⁾	Legal and beneficial owner	H Shares	1,108,228,000	Long position	1.37	5.58
China Life Insurance Company Limited ⁽⁵⁾	Legal and beneficial owner	Domestic Shares	3,341,900,000	Long position	4.12	5.46
Hainan Province CiHang Foundation ⁽⁶⁾	Interests of a controlled corporation	H Shares	1,703,004,000	Long position	2.10	8.58
Victory Global Group Limited ⁽⁶⁾	Legal and beneficial owner	H Shares	1,629,579,000	Long position	2.01	8.21
China National Tobacco Corporation	Legal and beneficial owner	H Shares	1,296,000,000	Long position	1.60	6.53

- (1) UBS Group AG holds 100% shares of UBS and UBS Securities LLC, and is therefore deemed to be interested in the H Shares held by UBS and UBS Securities LLC under the SFO.
- (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 under the SFO.
- (4) Consist of only unlisted derivatives that are physically settled. Mr. Li Ka-Shing and Mr. Li Tzar Kuoi, Victor each controls 33.33% of the interests of Li Ka Shing (Canada) Foundation, respectively and are therefore deemed to be interested in the 1,108,228,000 H Shares held by Li Ka Shing (Canada) Foundation.
- (5) 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 Insurance Company Limited under the SFO.
- (6) HNA Capital (Hong Kong) Holdings Company Limited holds 100% of the equity interests in Victory Global Group Limited and BL Capital Holdings Limited. HNA Capital Group Co., Ltd holds 100% of the equity interests in HNA Capital (Hong Kong) Holdings Company Limited. HNA Group Co., Ltd holds 100% of the interests of HNA Capital Group Co., Ltd. Hainan Traffic Administration Holding Co., Ltd. holds 70% of the interests of HNA Group Co., Ltd. Shengtang Development (Yangpu) Co., Ltd. holds 50% of the interests of Hainan Traffic Administration Holding Co., Ltd., Hainan Province CiHang Foundation 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

During the reporting period, in order to satisfy the relevant requirements regarding corporate governance and operation in a compliant manner following the issuance and listing of the offshore preference shares, the Bank has amended the Articles of Association of Postal Savings Bank of China Co., Ltd. and the Rules of Procedures of Shareholders' General Meetings according to domestic and overseas regulatory requirements. For details, please refer to the circular of the Bank dated April 24, 2017.

Significant Events

The amendments to the Articles of Association of Postal Savings Bank of China Co., Ltd. were approved by the CBRC on August 2, 2017 and became effective from August 2, 2017. For details, please refer to the announcement of the Bank dated August 4, 2017 regarding the approval from the CBRC concerning the non-public issuance of offshore preference shares and amendments to the Articles of Association.

During the reporting period, the Bank complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules.

Internal Control and Internal Audit

Internal Control

The Bank has established and improved the 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 engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP to offer consultation services for promoting the construction of the internal control system in an all-round manner.

During the reporting period, the Bank kept improving the internal control system. The Board of Directors is responsible for establishing and ensuring the effective implementation of the internal control system; the Board of Supervisors is responsible for improving the supervision mechanism and effectively supervising the performance of duties; the senior management is responsible for implementing decisions of the Board of Directors and effectively performing internal control-related responsibilities; the branches and departments are responsible for participating in the development of business practices and operating procedures relating to their own responsibilities, and strictly enforcing the rules of internal control; the legal and compliance department, as the lead for internal control management, is responsible for taking the lead to organize and carry out the construction of internal control system; the audit department is responsible for supervising and evaluating the implementation of internal control. The branches set up risk and internal control committees to be responsible for the organization, supervision, evaluation and review of their internal control.

During the reporting period, the Bank, centering on internal control objectives, strengthened the internal control measures and promoted the institutional building of internal control; organized trainings on internal control compliance management to improve the duty performing ability of legal compliance team; continued to strengthen the compliance monitoring, and established a unified and authoritative institution library.

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. Our Bank has established an independent and relatively vertical internal audit system that adapts to the development needs of the Bank, and also has set up an internal audit reporting system and reporting lines consistent with the internal audit system. The Audit Office at our head office shall be accountable to the Board of Directors and the Audit Committee under it, and shall report, on a regular basis, to the Board of Directors, the Audit Committee under it, the Board of Supervisors, and notify the senior management.

The Audit Office at our head office shall be responsible for the management of the audit work and overall coordination of audit resources of the Bank, and shall focus on auditing the head office and key areas of the Bank according to the requirements of the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management; there are 7 regional audit offices under the Audit Office, which are vital parts of the Audit Office at our head office as local offices thereof and are mainly responsible for the audit work of tier-1 branches within the authority; the audit departments of tier-1 branches, which are under the dual leadership of the Audit Office at our head office and their respective presidents, are responsible for the audit work of institutions affiliated with them.

Profit and Dividend Distribution

The 2016 annual general meeting held on June 8, 2017 considered and approved the profit distribution plan of 2016, specifically distributing cash dividends of RMB0.737 per ten shares (tax inclusive) of an aggregate amount of approximately RMB5,972 million (tax inclusive) to all the ordinary shareholders whose names appeared on the register of members of the Bank on the shareholding registration day, based on 81,030,574,000 Ordinary Shares.

The Bank has no interim profit distribution plan in 2017.

Material Legal Proceedings and Arbitration

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

Significant Events

As of June 30, 2017, 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 RMB1,852 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

During the reporting period, the Bank did not carry out any major asset acquisition, disposal and merger activities.

Related Transactions

Please refer to “Notes to Condensed Consolidated Financial Statements — 37 Transactions with related parties” for details of related transactions during the reporting period.

Non-Public Offering of Offshore Preference Shares

The 2016 annual general meeting held on June 8, 2017, the 2016 First Domestic Shareholders’ Class Meeting and the 2016 First H Shareholders’ Class Meeting of the Bank reviewed and approved the proposal of non-public issuance of offshore preference shares, pursuant to which the Bank shall conduct a non-public issuance of not more than 500 million offshore preference shares (inclusive) to raise total proceeds not exceeding RMB50 billion or its equivalent (inclusive) to replenish the Bank’s additional tier-1 capital.

The Bank has disclosed the relevant issues relating to the Bank’s proposal to issue offshore preference shares in the circular dated April 24, 2017 and the announcement dated June 8, 2017.

The plan for non-public issuance of offshore preference shares of the Bank has been approved by the CBRC. For details, please refer to the announcement of the Bank dated August 4, 2017 regarding the approval from the CBRC concerning the non-public issuance of offshore preference shares and amendments to the Articles of Association.

The Bank is currently pushing forward matters relating to the non-public issuance of offshore preference shares pursuant to our plan.

Pledge of Assets

For information relating to the pledge of assets of the Bank, please refer to “Notes to Condensed Consolidated Financial Statements – 39.5 Collateral”.

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 during the reporting period.

Directors’, Supervisors’ and Chief Executive’s Rights to Subscribe for Shares or Debentures

During the reporting period, no rights to acquire benefits by means of acquisition of shares or debentures of the Bank were granted to any of the Directors, Supervisors, chief executive or their respective spouse or minor children, and none of them exercised such rights; neither the Bank nor any of its subsidiaries made any arrangement that enabled the Directors, Supervisors and chief executive or their respective spouse or minor children to acquire such rights in any other body corporate.

Significant Events

Interests of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures

As of the end of the reporting period, none of the Directors, Supervisors or chief executive 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 2017 Interim Financial Report of the Group has not been audited. The 2017 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

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 98 to 203, 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, 2017 and the related condensed consolidated statement of comprehensive income, changes in equity and 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 information 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". 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

August 29, 2017

Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2017 (unaudited)	2016 (unaudited)
Interest income	3	145,348	142,276
Interest expense	3	(57,834)	(60,639)
Net interest income	3	87,514	81,637
Fee and commission income	4	11,568	9,889
Fee and commission expense	4	(4,535)	(4,023)
Net fee and commission income	4	7,033	5,866
Net trading gains	5	1,679	559
Net gains on investment securities	6	9,835	4,264
Net other operating (losses)/gains	7	(88)	960
Operating income		105,973	93,286
Operating expenses	8	(65,544)	(62,187)
Impairment losses on assets	9	(10,366)	(4,964)
Profit before income tax		30,063	26,135
Income tax expense	10	(3,471)	(2,919)
Net profit		26,592	23,216
Net profit attributable to			
Shareholders of the Bank		26,600	23,229
Non-controlling interests		(8)	(13)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2017 (unaudited)	2016 (unaudited)
Profit for the period		26,592	23,216
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		(41)	—
Subtotal		(41)	—
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of available-for-sale financial assets		(3,531)	(1,782)
Amortization of unrealized fair value changes after reclassification to held-to-maturity investments		(48)	(48)
Less: related income tax impact		894	457
Subtotal		(2,685)	(1,373)
Total comprehensive income for the period		23,866	21,843
Total comprehensive income attributable to:			
Shareholders of the Bank		23,874	21,856
Non-controlling interests		(8)	(13)
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	11	0.33	0.34

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

Condensed Consolidated Statement of Financial Position

As at June 30, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2017 (unaudited)	As at December 31, 2016 (audited)
Assets			
Cash and deposits with central bank	12	1,348,535	1,310,273
Deposits with banks and other financial institutions	13	251,857	175,776
Placements with banks and other financial institutions	14	215,331	193,287
Financial assets at fair value through profit or loss	15	123,726	68,976
Derivative financial assets	16	3,304	6,179
Financial assets held under resale agreements	17	129,333	73,131
Loans and advances to customers	18	3,261,436	2,939,217
Investment instruments			
Available-for-sale financial assets	19	766,353	1,160,187
Held-to-maturity investments	19	826,514	736,154
Investment classified as receivables	19	1,491,089	1,498,524
Property and equipment	21	39,899	39,282
Deferred tax assets	22	15,781	13,465
Other assets	23	70,668	51,171
Total assets		8,543,826	8,265,622
Liabilities			
Deposits from banks and other financial institutions	25	55,621	281,687
Placements from banks and other financial institutions	26	9,765	14,158
Financial liabilities at fair value through profit or loss	27	18,486	10,623
Derivative financial liabilities	16	3,162	6,404
Financial assets sold under repurchase agreements	28	80,627	129,789
Customer deposits	29	7,806,235	7,286,311
Debt securities issued	30	74,925	54,943
Other liabilities	31	130,223	134,819
Total liabilities		8,179,044	7,918,734

Condensed Consolidated Statement of Financial Position

As at June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

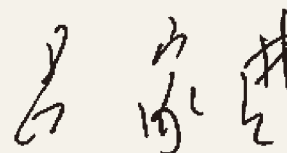
	Note	As at June 30, 2017 (unaudited)	As at December 31, 2016 (audited)
Equity			
Share capital	32	81,031	81,031
Capital reserve	33	74,659	74,659
Other reserves	34	111,542	114,268
Retained earnings		97,200	76,572
Equity attributable to shareholders of the Bank		364,432	346,530
Non-controlling interests		350	358
Total equity		364,782	346,888
Total equity and liabilities		8,543,826	8,265,622

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

Approved and authorized for issue by the Board of Directors on August 29, 2017.



(On behalf of Board of Directors)



(On behalf of Board of Directors)

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	Other reserves			Retained earnings	Total		
					General reserve	Investment revaluation reserve	Other				
As at January 1, 2017		81,031	74,659	20,395	93,803	143	(73)	76,572	346,530	358	346,888
Profit for the period		—	—	—	—	—	—	26,600	26,600	(8)	26,592
Other comprehensive income		—	—	—	—	(2,685)	(41)	—	(2,726)	—	(2,726)
Total comprehensive income for the period		—	—	—	—	(2,685)	(41)	26,600	23,874	(8)	23,866
Appropriations to surplus reserve	34	—	—	—	—	—	—	—	—	—	—
Appropriations to general reserve	34	—	—	—	—	—	—	—	—	—	—
Dividends	35	—	—	—	—	—	—	(5,972)	(5,972)	—	(5,972)
As at June 30, 2017 (unaudited)		81,031	74,659	20,395	93,803	(2,542)	(114)	97,200	364,432	350	364,782
As at January 1, 2016		68,604	36,984	16,411	84,754	4,988	(97)	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		—	—	—	—	—	—	—	—	—	—
Appropriations to general reserve		—	—	—	—	—	—	—	—	—	—
Dividends		—	—	—	—	—	—	(9,000)	(9,000)	—	(9,000)
As at June 30, 2016 (unaudited)		68,604	36,984	16,411	84,754	3,615	(97)	73,033	283,304	370	283,674

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank								Non-controlling interests	Total equity	
		Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Investment revaluation reserve	Other	Retained earnings			Total
As at January 1, 2016		68,604	36,984	16,411	84,754		4,988	(97)	58,804	270,448	383	270,831
Profit for the year		—	—	—	—		—	—	39,801	39,801	(25)	39,776
Other comprehensive income		—	—	—	—		(4,845)	24	—	(4,821)	—	(4,821)
Total comprehensive income for the year		—	—	—	—		(4,845)	24	39,801	34,980	(25)	34,955
Appropriations to surplus reserve		—	—	3,984	—		—	—	(3,984)	—	—	—
Appropriations to general reserve		—	—	—	9,049		—	—	(9,049)	—	—	—
Share issuance		12,427	37,675	—	—		—	—	—	50,102	—	50,102
Dividends		—	—	—	—		—	—	(9,000)	(9,000)	—	(9,000)
As at December 31, 2016 (audited)		81,031	74,659	20,395	93,803		143	(73)	76,572	346,530	358	346,888

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, 2017 (All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	30,063	26,135
Adjustments for:		
Amortization of intangible assets and other assets	535	601
Depreciation of property and equipment and investment properties	1,799	1,698
Impairment losses on assets	10,366	4,964
Interest income arising from investment instruments	(46,569)	(53,032)
Interest expense arising from debt securities issued	1,293	561
Net gains on investment securities	(9,835)	(4,257)
Unrealized exchange losses/(income)	1,197	(45)
Net losses from disposal of property, equipment and other assets	8	4
	(11,143)	(23,371)
NET CHANGES IN OPERATING ASSETS AND OPERATING LIABILITIES		
Net (increase)/decrease in deposits with central bank, banks and other financial institutions	(157,731)	111,474
Net increase in placements with banks and other financial institutions	(12,368)	(21,226)
Net decrease in placements from banks and other financial institutions	(4,393)	(15,982)
Net (increase)/decrease in financial assets held under resale agreements	(27,542)	16,679
Net decrease in financial assets sold under repurchase agreements	(49,162)	(127,369)
Net increase in loans and advances to customers	(331,679)	(292,146)
Net increase in customer deposits and deposits from banks and other financial institutions	293,858	824,739
Net increase in other operating assets	(60,126)	(30,116)
Net decrease in other operating liabilities	(16,202)	(16,312)
	(376,488)	426,370
CASH FROM OPERATIONS	(376,488)	426,370
Income tax paid	(3,812)	(5,966)
	(380,300)	420,404
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(380,300)	420,404

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2017 (unaudited)	2016 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal of investment instruments		753,068	1,032,157
Cash received from interest income arising from investment instruments and gains on investment securities		53,745	51,889
Cash paid for purchase of investment instruments		(447,470)	(1,211,002)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		(2,768)	(2,381)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		15	134
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		356,590	(129,203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		—	(9,000)
Cash received from issuing debt securities		19,982	—
Cash paid relating to other financing activities		(3)	(21)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		19,979	(9,021)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,731)	282,180
Balance of cash and cash equivalents at the beginning of period		184,893	227,361
Effect of foreign exchange rate changes		(1,188)	559
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	36	179,974	510,100

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, 2017 (All amounts in millions of RMB unless otherwise stated)

1 General information

Postal Savings Bank of China Co., Ltd. (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 (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 (the “MOF”) of the People’s Republic of China (“China” or the “PRC”) and China Banking Regulatory Commission (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.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited.

The Bank and its subsidiary (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.

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 29, 2017.

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, 2017 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 Group’s consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

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 these 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 Group's consolidated financial statements for the year ended December 31, 2016.

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 2017 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2016. The condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2016.

New and revised IFRSs effective by January 1, 2017 adopted by the Group

		Effective date
Amendment to IAS 7	Statement of cash flows — additional disclosure requirement	January 1, 2017
Amendment to IAS 12	Income taxes — recognition of deferred tax assets for unrealised losses	January 1, 2017

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, 2017

(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.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(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)

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. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The new general hedge accounting requirements retain three types of hedge accounting mechanism 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.

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 and measurement of financial instruments, the calculation, amount and timing of its allowances for impairment losses for financial assets as well as the nature and extent of financial instruments disclosure. Implementation of IFRS 9 will also have an impact on the management organization, various processes and key functions, budgeting and performance review, as well as the information technology systems. The Group is analyzing the classification of its existing financial assets in accordance with the criteria in IFRS 9, and is currently in the process of designing and developing the expected credit loss model and continuously updating related policies and management system. The Group does not expect a significant impact from IFRS 9 since the Group has not adopted hedge accounting yet.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(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 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.

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, 2017, the Group has non-cancellable operating lease commitments of RMB10.2 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 information.

Except the above mentioned impact of IFRS 9, IFRS 15 and IFRS 16, the adoption of the new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group’s operating results, financial position or other comprehensive income.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

3 Net interest income

	Six months ended June 30	
	2017	2016
Interest income		
Deposits with central bank	10,381	9,498
Deposits with banks and other financial institutions	3,445	4,880
Placements with banks and other financial institutions	5,524	5,256
Financial assets at fair value through profit or loss	316	149
Financial assets held under resale agreements	3,759	2,971
Loans and advances to customers		
Including: Corporate loans and advances	31,089	28,950
Personal loans and advances	44,265	37,540
Available-for-sale financial assets	4,028	2,858
Held-to-maturity investments	14,279	12,755
Investment classified as receivables	28,262	37,419
Subtotal	145,348	142,276
Interest expense		
Deposits from banks and other financial institutions	(1,474)	(3,124)
Placements from banks and other financial institutions	(341)	(950)
Financial assets sold under repurchase agreements	(1,573)	(4,731)
Customer deposits	(53,153)	(51,273)
Debt securities issued	(1,293)	(561)
Subtotal	(57,834)	(60,639)
Net interest income	87,514	81,637
Including: Interest income accrued on impaired financial assets	79	181
Included in interest income		
Interest income from listed investments	19,922	16,044
Interest income from unlisted investments	26,647	37,137

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

	Note	Six months ended June 30	
		2017	2016
Bank cards and POS fee income		2,857	2,418
Wealth management fee income		2,746	2,135
Agency service fee income	(1)	2,580	1,446
Settlement and clearing fee income	(2)	2,094	2,831
Custodian business fee income		479	408
Others		812	651
Fee and commission income		11,568	9,889
Fee and commission expense		(4,535)	(4,023)
Net fee and commission income		7,033	5,866

- (1) 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.
- (2) 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-region transactions and remittance 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 to the Bank to China Post Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

5 Net trading gains

	Six months ended June 30	
	2017	2016
Debt securities	1,346	595
Derivative financial instruments	333	(36)
Total	1,679	559

6 Net gains on investment securities

	Six months ended June 30	
	2017	2016
Net gains from available-for-sale financial assets	9,645	3,994
Net re-valuation gains reclassified from other comprehensive income	93	154
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	48	48
Net gains from investment classified as receivables	49	68
Total	9,835	4,264

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

7 Net other operating (losses)/gains

	Six months ended June 30	
	2017	2016
Precious metal sales income	335	239
Government subsidies	311	389
Net exchange (losses)/gains	(961)	113
Leasing income	72	75
Others	155	144
Total	(88)	960

8 Operating expenses

	Note	Six months ended June 30	
		2017	2016
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	19,223	17,170
Deposit agency fee costs	(2)	33,587	29,697
Other general operating and administrative expenses		8,269	8,466
Depreciation and amortization		2,334	2,299
Taxes and surcharges	(3)	797	2,827
Auditors' remuneration		9	8
Others		1,325	1,720
Total		65,544	62,187

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

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

	Six months ended June 30	
	2017	2016
Short-term employee benefits		
Wages and salaries, bonuses, allowances and subsidies	13,880	12,501
Staff welfare	593	469
Social security contributions	872	717
Including: Medical insurance	800	654
Work injury insurance	26	26
Maternity insurance	46	37
Housing funds	1,144	1,118
Labour union funds and employee education funds	408	379
Subtotal	16,897	15,184
Defined contribution benefits		
Basic pensions	1,803	1,535
Unemployment insurance	61	77
Annuity scheme	455	366
Subtotal	2,319	1,978
Supplementary retirement benefits (Note 31(1))	7	8
Total	19,223	17,170

- (2) Deposit agency fee costs are payments to the Bank to China Post Group and its provincial branches for the agency services (Note 37.3(1)).
- (3) Taxes and surcharges mainly include urban construction tax, educational surcharges, property tax, land use tax, vehicle and vessel use taxes, stamp duty, etc.

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Tax Reform" (Cai Shui [2016] No. 36) (財政部、國家稅務總局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 Group is required to pay value added tax instead of business tax from May 1, 2016. According to different types of business, tax rates are 6%, 11% and 17%.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

9 Impairment losses on assets

	Six months ended June 30	
	2017	2016
Loans and advances to customers	9,502	8,116
Placements with banks and other financial institutions	133	(1,491)
Investment classified as receivables	654	(1,731)
Others	77	70
Total	10,366	4,964

10 Income tax expense

	Six months ended June 30	
	2017	2016
Current income tax	4,893	3,186
Deferred income tax (Note 22)	(1,422)	(267)
Total	3,471	2,919

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

10 Income tax expenses (continued)

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

	Note	Six months ended June 30	
		2017	2016
Profit before income tax		30,063	26,135
Income tax expense calculated at the statutory tax rate of 25%		7,516	6,534
Tax effect of items not deductible for tax purpose	(1)	52	11
Less: Tax effect of deductible and non-taxable income	(2)	(4,097)	(3,626)
Income tax expense		3,471	2,919

- (1) Non-deductible expenses primarily include losses resulting from write-off of loans, staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.
- (2) Interest income from government bonds, local government bonds and micro loans to farmers is not subject to income tax; and interest income from railway construction bonds and long term special financial bonds enjoys tax reduction in accordance with the relevant PRC tax regulations.

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	
	2017	2016
Net profit attributable to shareholders of the Bank (in RMB millions)	26,600	23,229
Weighted average number of ordinary shares in issue (in millions)	81,031	68,604
Basic earnings per share (in RMB Yuan)	0.33	0.34

- (2) For the six months ended June 30, 2017 and 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

12 Cash and deposits with central bank

	Note	As at June 30, 2017	As at December 31, 2016
Cash on hand		46,145	51,238
Statutory reserve with central bank	(1)	1,284,288	1,198,987
Surplus reserve with central bank	(2)	16,817	58,716
Fiscal deposits with central bank		1,285	1,332
Total		1,348,535	1,310,273

(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, 2017, the ratio for RMB deposits statutory reserve was 16.5% (December 31, 2016: 16.5%), whereas the ratio for foreign currency deposits was 5% (December 31, 2016: 5%).

(2) Surplus reserve with the central bank represents deposits placed with the central bank for settlement and clearing of interbank transactions.

13 Deposits with banks and other financial institutions

	As at June 30, 2017	As at December 31, 2016
Deposits with:		
Domestic banks	238,790	165,239
Other domestic financial institutions	71	69
Overseas banks	12,996	10,468
Total	251,857	175,776

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

14 Placements with banks and other financial institutions

	As at June 30, 2017	As at December 31, 2016
Placements with:		
Domestic banks	23,663	20,462
Other domestic financial institutions	189,599	169,536
Overseas banks	2,342	3,429
Gross amount	215,604	193,427
Allowance for impairment losses (Note 24)	(273)	(140)
Carrying amounts	215,331	193,287

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

15 Financial assets at fair value through profit or loss

	Note	As at June 30, 2017	As at December 31, 2016
Financial assets held for trading			
Debt securities:			
– Listed in Hong Kong		654	1,106
– Listed outside Hong Kong		9,601	11,062
– Unlisted		—	56
Subtotal		10,255	12,224
Certificates of deposits			
– Listed outside Hong Kong		85,395	46,128
– Unlisted		9,495	—
Subtotal		94,890	46,128
Total of financial assets held for trading	(1)	105,145	58,352
Financial assets designated at fair value through profit or loss			
Asset management plans			
– Unlisted		9,270	6,576
Placement with other financial institutions			
– Unlisted		6,670	—
Beneficiary certificates			
– Unlisted		2,641	4,048
Total of financial assets designated at fair value through profit or loss	(2)	18,581	10,624
Total		123,726	68,976

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, 2017

(All amounts in millions of RMB unless otherwise stated)

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

Analyzed by types of issuers:

	Note	As at June 30, 2017	As at December 31, 2016
Financial assets held for trading			
Debt securities:			
Issuers from Hong Kong			
– Financial institutions		47	48
Issuers from Mainland China			
– Government		227	539
– Financial institutions		5,676	6,640
– Corporates		3,986	4,664
Subtotal		9,889	11,843
Issuers from other countries and regions			
– Government		33	100
– Financial institutions		286	233
Subtotal		319	333
Total of debt securities		10,255	12,224
Certificates of deposits			
– Financial institutions from Mainland China		94,890	46,128
Total of financial assets held for trading	(1)	105,145	58,352
Financial assets designated at fair value through profit or loss			
Asset management plans			
– Financial institutions from Mainland China		9,270	6,576
Placement with other financial institutions			
– Financial institutions from Mainland China		6,670	—
Beneficiary certificates			
– Financial institutions from Mainland China		2,641	4,048
Total of financial assets designated at fair value through profit or loss	(2)	18,581	10,624
Total		123,726	68,976

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(All amounts in millions of RMB unless otherwise stated)

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

- (1) There are no significant constraints on the ability of the Group to convert its financial assets held for trading into cash.
- (2) The Group designates its investment proceeds from principal-guaranteed wealth management products as financial assets at fair value through profit or loss. As at June 30, 2017 and December 31, 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.

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, 2017		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	561,921	3,226	(3,088)
Interest rate contracts	19,314	78	(74)
Total	581,235	3,304	(3,162)

	As at December 31, 2016		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	498,317	6,098	(6,346)
Interest rate contracts	17,126	81	(58)
Total	515,443	6,179	(6,404)

As at June 30, 2017 and December 31, 2016, the Group did not have any netting arrangements or similar agreements with counterparties.

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(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, 2017	As at December 31, 2016
Credit risk-weighted amount for counterparty		
Exchange rate contracts	1,997	2,435
Interest rate contracts	35	27
Subtotal	2,032	2,462
Credit value adjustments	1,302	1,234
Total	3,334	3,696

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, 2017	As at December 31, 2016
By collateral:		
Bills	88,276	50,227
Debt securities	41,057	21,904
Loans and others	—	1,000
Total	129,333	73,131

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, 2017 and December 31, 2016, 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, 2017

(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, 2017	As at December 31, 2016
Corporate loans and advances		
— Loans	1,268,560	1,079,392
— Discounted bills	279,855	349,081
Subtotal	1,548,415	1,428,473
Personal loans and advances		
Consumer loans	1,280,065	1,101,662
— Residential mortgage loans	1,050,479	903,967
— Other consumer loans	229,586	197,695
Personal business loans	294,642	288,370
Micro loans	157,224	139,239
Credit cards overdrafts and others	60,108	52,904
Subtotal	1,792,039	1,582,175
Gross loans and advances	3,340,454	3,010,648
Less: Allowance for impairment losses		
— Individual assessment	(2,541)	(2,439)
— Collective assessment	(76,477)	(68,992)
Net loans and advances	3,261,436	2,939,217

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

Notes to the Condensed Consolidated Financial Statements

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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, 2017					
Gross loans and advances	3,313,079	24,273	3,102	3,340,454	0.82%
Allowances for impairment losses	(57,277)	(19,200)	(2,541)	(79,018)	
Loans and advances to customers, net	3,255,802	5,073	561	3,261,436	
As at December 31, 2016					
Gross loans and advances	2,984,357	23,424	2,867	3,010,648	0.87%
Allowances for impairment losses	(50,784)	(18,208)	(2,439)	(71,431)	
Loans and advances to customers, net	2,933,573	5,216	428	2,939,217	

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 (continued)

18.4 Movements of the allowance for impairment losses by assessment results

	Allowances for loans and advances not identified impaired which are collectively assessed	Allowances for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at January 1, 2017	50,784	18,208	2,439	71,431
Net provision in current period	6,493	2,862	147	9,502
Write-off and transfer out	—	(2,971)	(128)	(3,099)
Recovery of loans and advances written off	—	1,165	98	1,263
Unwinding of discount on allowance	—	(64)	(15)	(79)
As at June 30, 2017	57,277	19,200	2,541	79,018

	Allowances for loans and advances not identified impaired 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 year	6,857	11,824	1,630	20,311
Write-off and transfer out	—	(8,871)	(700)	(9,571)
Recovery of loans and advances written off	—	1,779	49	1,828
Unwinding of discount on allowance	—	(359)	(36)	(395)
As at December 31, 2016	50,784	18,208	2,439	71,431

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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, 2017	33,999	37,432	71,431
Net provision in current period	5,136	4,366	9,502
Write-off and transfer out	(1,135)	(1,964)	(3,099)
Recovery of loans and advances written off	359	904	1,263
Unwinding of discount on allowance	(15)	(64)	(79)
As at June 30, 2017	38,344	40,674	79,018

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2016	28,643	30,615	59,258
Net provision in current year	8,663	11,648	20,311
Write-off and transfer out	(3,634)	(5,937)	(9,571)
Recovery of loans and advances written off	524	1,304	1,828
Unwinding of discount on allowance	(197)	(198)	(395)
As at December 31, 2016	33,999	37,432	71,431

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19 Investment instruments

19.1 Available-for-sale financial assets

	Note	As at June 30, 2017	As at December 31, 2016
Debt securities			
– Listed in Hong Kong		8,342	7,245
– Listed outside Hong Kong		172,507	198,128
– Unlisted		682	839
Subtotal		181,531	206,212
Asset-backed securities			
– Listed outside Hong Kong		27,246	30,549
– Unlisted		—	1,171
Subtotal		27,246	31,720
Equity instruments	(1)		
– Unlisted		557,576	922,255
Total		766,353	1,160,187

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

While the fair value of a number of the Group's available-for-sale financial assets had fallen below cost as at June 30, 2017 and December 31, 2016, the Group determined that none of these declines in fair value were expected to be significant or prolonged and hence no impairment needed to be recognized.

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

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(All amounts in millions of RMB unless otherwise stated)

19 Investments instruments (continued)

19.1 Available-for-sale financial assets (continued)

Analyzed by types of issuers

	As at June 30, 2017	As at December 31, 2016
Debt securities		
Issuers from Hong Kong		
– Financial institutions	923	852
Issuers from Mainland China		
– Government	82,165	91,688
– Financial institutions	81,334	96,751
– Corporates	15,359	15,481
Subtotal	178,858	203,920
Issuers from other countries and regions		
– Financial institutions	1,750	1,440
Total of debt securities	181,531	206,212
Asset-backed securities		
– Financial institutions from Mainland China	27,246	31,720
Equity instruments		
– Financial institutions from Mainland China	557,576	922,255
Total	766,353	1,160,187

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19 Investments instruments (continued)

19.1 Available-for-sale financial assets (continued)

Movement of available-for-sale financial assets:

	January 1, 2017	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	June 30, 2017
Amortized cost	1,161,208	332,427	(722,730)	—	—	770,905
Fair value	(1,021)	—	—	(93)	(3,438)	(4,552)
Total	1,160,187					766,353

	January 1, 2016	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	December 31, 2016
Amortized cost	385,340	2,419,547	(1,643,679)	—	—	1,161,208
Fair value	5,343	—	—	(903)	(5,461)	(1,021)
Total	390,683					1,160,187

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19 Investments instruments (continued)

19.2 Held-to-maturity investments

	As at June 30, 2017	As at December 31, 2016
Debt securities		
– Listed in Hong Kong	1,641	1,381
– Listed outside Hong Kong	822,168	732,057
– Unlisted	407	416
Subtotal	824,216	733,854
Asset-backed securities		
– Listed outside Hong Kong	2,298	2,300
Total	826,514	736,154
Fair value of listed held-to-maturity investments	819,831	750,261

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

As at June 30, 2017 and December 31, 2016, none of the held-to-maturity investments are either past due or impaired.

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For the six months ended June 30, 2017

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19 Investments instruments (continued)

19.2 Held-to-maturity investments (continued)

Analyzed by types of issuers

	As at June 30, 2017	As at December 31, 2016
Debt securities		
Issuers from Mainland China		
– Government	495,115	451,082
– Public institutions and quasi-government	570	570
– Financial institutions	278,957	232,930
– Corporates	49,135	48,825
Subtotal	823,777	733,407
Issuers from other countries and regions		
– Financial institutions	439	447
Total of debt securities	824,216	733,854
Asset-backed securities		
– Financial institutions from Mainland China	2,298	2,300
Total	826,514	736,154

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19 Investments instruments (continued)

19.3 Investment classified as receivables

	Note	As at June 30, 2017	As at December 31, 2016
Debt securities			
– Listed outside Hong Kong		117,803	113,007
– Unlisted	(1)	1,104,272	1,034,086
Subtotal		1,222,075	1,147,093
Asset-backed securities			
– Unlisted		30,062	47,001
Other debt instruments			
– Unlisted	(2)	241,427	306,251
Allowance for impairment losses		(2,475)	(1,821)
Carrying amount		1,491,089	1,498,524

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

- (1) Debt securities included long term special financial bonds of RMB778 billion 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

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

19 Investments instruments (continued)

19.3 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at June 30, 2017	As at December 31, 2016
Debt securities		
Issuers from Mainland China		
– Government	12,665	8,813
– Financial institutions	1,204,830	1,134,030
– Corporates	4,580	4,250
Subtotal	1,222,075	1,147,093
Asset-backed securities		
– Financial institutions from Mainland China	30,062	47,001
Other debt instruments		
– Financial institutions from Mainland China	241,427	306,251
Allowance for impairment losses	(2,475)	(1,821)
Carrying amounts	1,491,089	1,498,524

20 Investment in subsidiary

	As at June 30, 2017	As at December 31, 2016
Investment cost	615	615

On November 20, 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; authorised issuance of financial bonds; lending to domestic financial institutions; and investments in fixed income securities.

As at June 30, 2017, the Bank owns 61.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2016: 61.50%).

Notes to the Condensed Consolidated Financial Statements

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(All amounts in millions of RMB unless otherwise stated)

21 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost	35,934	9,748	1,259	5,027	8,088	60,056
As at January 1, 2017						
Add: Additions	137	69	5	40	2,275	2,526
Transfer-in from investment properties	7	—	—	—	—	7
Transfer-in from construction in progress	274	48	—	84	(406)	—
Less: Disposals	(26)	(60)	(13)	(11)	—	(110)
Transfer-out to investment properties	(3)	—	—	—	—	(3)
Transfer-out from construction in progress	—	—	—	—	(124)	(124)
As at June 30, 2017	36,323	9,805	1,251	5,140	9,833	62,352
Accumulated depreciation						
As at January 1, 2017	(9,414)	(7,139)	(1,180)	(3,041)	—	(20,774)
Add: Charge for the period	(891)	(554)	(9)	(310)	—	(1,764)
Transfer-in from investment properties	(2)	—	—	—	—	(2)
Less: Disposals	5	57	13	11	—	86
Transfer-out to investment properties	1	—	—	—	—	1
As at June 30, 2017	(10,301)	(7,636)	(1,176)	(3,340)	—	(22,453)
Carrying value						
As at June 30, 2017	26,022	2,169	75	1,800	9,833	39,899
As at January 1, 2017	26,520	2,609	79	1,986	8,088	39,282

Notes to the Condensed Consolidated Financial Statements

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(All amounts in millions of RMB unless otherwise stated)

21 Property and equipment (continued)

	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	598	502	329	257	5,743	7,429
Transfer-in from investment properties	17	—	—	—	—	17
Transfer-in from construction in progress	3,329	873	2	276	(4,480)	—
Less: Disposals	(188)	(196)	(3)	(28)	—	(415)
Transfer-out to investment properties	(202)	—	—	—	—	(202)
Transfer-out from construction in progress	—	—	—	—	(695)	(695)
As at December 31, 2016	35,934	9,748	1,259	5,027	8,088	60,056
Accumulated depreciation						
As at January 1, 2016	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Add: Charge for the year	(1,664)	(1,016)	(366)	(677)	—	(3,723)
Transfer-in from investment properties	(5)	—	—	—	—	(5)
Less: Disposals	59	183	2	26	—	270
Transfer out to investment properties	60	—	—	—	—	60
As at December 31, 2016	(9,414)	(7,139)	(1,180)	(3,041)	—	(20,774)
Carrying value						
As at December 31, 2016	26,520	2,609	79	1,986	8,088	39,282
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, 2017

(All amounts in millions of RMB unless otherwise stated)

21 Property and equipment (continued)

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 RMB0.5 billion as at June 30, 2017 (December 31, 2016: RMB 0.6 billion).

In addition, as at June 30, 2017, 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 RMB2.3 billion (December 31, 2016: RMB1.8 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.

The cost and carrying amount of property and equipment held under finance leases as at June 30, 2017 and December 31, 2016 are not significant.

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, 2017	As at December 31, 2016
Deferred tax assets	15,781	13,465

(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, 2017	13,320	130	(9)	24	13,465
Credit to profit or loss	1,697	11	(286)	—	1,422
Credit to other comprehensive income	—	—	894	—	894
June 30, 2017	15,017	141	599	24	15,781

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

22 Deferred taxation (continued)

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

	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 to profit or loss	2,595	2	32	22	2,651
Credit to other comprehensive income	—	—	1,615	—	1,615
December 31, 2016	13,320	130	(9)	24	13,465

- (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, 2017		As at December 31, 2016	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	60,073	15,017	53,282	13,320
Fair value changes of financial instruments	4,457	1,114	174	43
Staff cost accrued but not paid	561	141	517	130
Deductible losses	96	24	96	24
Total	65,187	16,296	54,069	13,517
Deferred tax liabilities				
Fair value changes of financial instruments	(2,059)	(515)	(208)	(52)
Total	(2,059)	(515)	(208)	(52)
Net carrying amount	63,128	15,781	53,861	13,465

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

23 Other assets

	Note	As at June 30, 2017	As at December 31, 2016
Interest receivable		39,366	33,448
Accounts receivable and temporary payments		6,779	5,343
Land use rights	(1)	1,804	1,822
Intangible assets	(2)	1,726	1,744
Long-term prepaid expenses	(3)	1,061	1,252
Investment properties		778	816
Low-value consumables		489	542
Others		19,030	6,540
Gross amount		71,033	51,507
Allowances for impairment losses (Note 24)		(365)	(336)
Net value		70,668	51,171

- (1) 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.
- (2) Intangible assets of the Group mainly include computer software which is amortized over 10 years.
- (3) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating leases and prepaid rental fees.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

24 Movements of allowances for impairment losses

	Balance at the beginning of the period	Six months ended June 30, 2017			Balance at the end of the period
		Current period provision	Increase/(Decrease) in current period		
			Transferred in	Written off	
Allowance for impairment losses of placements with banks and other financial institutions	140	133	—	—	273
Allowance for impairment losses of investment classified as receivables	1,821	654	—	—	2,475
Allowance for impairment losses of loans and advances to customers	71,431	9,502	1,184	(3,099)	79,018
Allowance for impairment losses of other assets	336	56	—	(27)	365
Total	73,728	10,345	1,184	(3,126)	82,131

	Balance at the beginning of the year	Current period (write-back)/ provision	2016		Balance at the end of the year
			Increase/(Decrease) in current period		
			Transferred in	Written off	
Allowance for impairment losses of placements with banks and other financial institutions	1,642	(1,502)	—	—	140
Allowance for impairment losses of investment classified as receivables	3,940	(2,119)	—	—	1,821
Allowance for impairment losses of loans and advances to customers	59,258	20,311	1,433	(9,571)	71,431
Allowance for impairment losses of other assets	231	170	—	(65)	336
Total	65,071	16,860	1,433	(9,636)	73,728

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

25 Deposits from banks and other financial institutions

	As at June 30, 2017	As at December 31, 2016
Deposits from:		
Domestic banks	23,939	183,382
Other domestic financial institutions	31,682	98,305
Total	55,621	281,687

26 Placements from banks and other financial institutions

	As at June 30, 2017	As at December 31, 2016
Placements from:		
Domestic banks	9,652	9,770
Other domestic financial institutions	—	400
Overseas banks	113	3,988
Total	9,765	14,158

27 Financial liabilities at fair value through profit or loss

	As at June 30, 2017	As at December 31, 2016
Principal-guaranteed wealth management products	18,486	10,623

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, 2017 and December 31, 2016, 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, 2017, and the year ended December 31, 2016, 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

28 Financial assets sold under repurchase agreements

	As at June 30, 2017	As at December 31, 2016
Analyzed by type of collateral:		
Debt securities	77,439	123,712
Bills	3,188	6,077
Total	80,627	129,789

The collateral pledged under repurchase agreement is disclosed in “Note 39.5 Contingent liabilities and commitments — Collateral”.

29 Customer deposits

	As at June 30, 2017	As at December 31, 2016
Demand deposits		
Corporates	787,664	742,380
Personal	2,339,696	2,347,795
Subtotal	3,127,360	3,090,175
Time deposits		
Corporates	351,579	332,644
Personal	4,325,933	3,862,371
Subtotal	4,677,512	4,195,015
Other deposits	1,363	1,121
Total	7,806,235	7,286,311

As at June 30, 2017, customer deposits received by the Group included pledged deposits of RMB37.5 billion (December 31, 2016: RMB33.9 billion).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

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30 Debt securities issued

	As at June 30, 2017	As at December 31, 2016
Subordinated debts	74,925	54,943

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 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face 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 4.50% from September 2020 onward.

In October 2016, upon the approval from CBRC and PBOC, the Group issued RMB30 billion of 10-year tier-2 capital bonds of at a fixed interest rate of 3.30%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in October 2021 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 3.30% from October 2021 onward.

In March 2017, upon the approval from CBRC and PBOC, the Group issued RMB20 billion of 10-year tier-2 capital bonds of at a fixed interest rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2022 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 4.50% from March 2022 onward.

The tier-two 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-two capital bonds meet the relevant criteria of CBRC and are qualified as tier-two capital instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

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31 Other liabilities

	Note	As at June 30, 2017	As at December 31, 2016
Interest payable		77,676	89,558
Payables for agency services		9,730	18,520
Settlement and clearance payables		8,297	4,203
Employee benefits payable	(1)	7,117	5,996
Dividends payable		5,972	—
Corporate income tax payable		2,798	1,717
Value added taxes and other taxes payable		1,765	1,305
Payables to China Post Group		1,134	1,711
Exchange transaction payables		1,067	1,198
Payable for construction cost		685	743
Business tax, other taxes and surcharges payable		443	681
Others		13,539	9,187
Total		130,223	134,819

(1) Employee benefits payable

	Note	As at June 30, 2017	As at December 31, 2016
Short-term employee benefits	(i)	5,910	4,601
Defined contribution benefits	(ii)	692	914
Supplementary retirement benefits	(iii)	515	481
Total		7,117	5,996

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(All amounts in millions of RMB unless otherwise stated)

31 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits

	Six months ended June 30, 2017			
	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	4,001	13,880	(12,754)	5,127
Staff welfare	—	593	(589)	4
Social security contributions	55	872	(822)	105
Including: Medical insurance	52	800	(754)	98
Work injury insurance	1	26	(23)	4
Maternity insurance	2	46	(45)	3
Housing funds	25	1,144	(1,112)	57
Labour union funds and employee education funds	520	408	(311)	617
Total	4,601	16,897	(15,588)	5,910

	2016			
	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	4,517	26,085	(26,601)	4,001
Staff welfare	4	1,490	(1,494)	—
Social security contributions	25	1,577	(1,547)	55
Including: Medical insurance	22	1,447	(1,417)	52
Work injury insurance	1	50	(50)	1
Maternity insurance	2	80	(80)	2
Housing funds	16	2,309	(2,300)	25
Labour union funds and employee education funds	401	902	(783)	520
Total	4,963	32,363	(32,725)	4,601

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31 Other liabilities (continued)

- (1) Employee benefits payable (continued)
 (ii) Defined contribution benefits

	Six months ended June 30, 2017			
	Balance at the beginning of the period	Increase in current period	Decrease in current period	Balance at the end of the period
Basic pensions	67	1,803	(1,792)	78
Unemployment insurance	5	61	(59)	7
Annuity scheme	842	455	(690)	607
Total	914	2,319	(2,541)	692

	2016			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Basic pensions	66	3,319	(3,318)	67
Unemployment insurance	5	145	(145)	5
Annuity scheme	670	732	(560)	842
Total	741	4,196	(4,023)	914

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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 income statement using the projected unit credit method as follows:

	As at June 30, 2017	As at December 31, 2016
Balance at the beginning of period/year	481	515
Interest expenses	8	16
Gain or loss from actuarial calculation	40	(20)
— Charge to profit or losses	(1)	4
— Charge to other comprehensive income	41	(24)
Benefits paid	(14)	(30)
Balance at the end of period/year	515	481

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

	As at June 30, 2017	As at December 31, 2016
Discount rate — retirement benefit plan	3.90%	3.50%
Discount rate — early retirement benefit plan	3.50%	3.00%
Annual growth rate of average medical expenses	8%	8%
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 (2010-2013), which is the statistical information publicly available in China.

As at June 30, 2017 and December 31, 2016, 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:

	Six months ended June 30, 2017	As at December 31, 2016
Number of shares, issued and fully paid at par value (in millions)		
– At beginning of period/year	81,031	68,604
– Addition in current period/year	—	12,427
At end of period/year	81,031	81,031

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited, and completed initial issuance of 12,106,588,000 overseas initial public offering foreign shares ("H share") with a par value of RMB1 each at an offer price of HKD4.76 per share. On October 27, 2016, the Bank completed issuance of 319,986,000 over-allotment H shares with a par value of RMB1 each at an offer price of HKD4.76 per share. The gross proceeds from the share issuance amounted to HKD59,150,492,240.00. Share premium (net of issuance expenses) in the amount of RMB37,675,425,775.91 was recorded in capital reserve.

33 Capital reserve

	As at June 30, 2017	As at December 31, 2016
Asset revaluation appreciation from the Bank's joint stock restructuring	3,448	3,448
Capital premium	33,536	33,536
Share premium arising from the Bank's initial public offering of H shares (net of listing expenses)	37,675	37,675
Total	74,659	74,659

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34 Other reserves

34.1 Surplus reserve

	Six months ended June 30, 2017	As at December 31, 2016
At the beginning of the period/year	20,395	16,411
Appropriations	—	3,984
At the end of the period/year	20,395	20,395

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.

34.2 General reserve

	Six months ended June 30, 2017	As at December 31, 2016
At the beginning of the period/year	93,803	84,754
Appropriations	—	9,049
At the end of the period/year	93,803	93,803

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.

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34 Other reserves (continued)

34.3 Investment revaluation reserve

	Gross amount	Taxation effect	Net carrying amount
January 1, 2017	189	(46)	143
Changes in fair value of available-for-sale financial assets	(3,438)	859	(2,579)
Transferred to profit or loss			
– Upon disposal of available-for-sale financial assets	(93)	23	(70)
– Others	(48)	12	(36)
June 30, 2017	(3,390)	848	(2,542)

	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	(5,461)	1,365	(4,096)
Transferred to profit or loss			
– Upon disposal of available-for-sale financial assets	(903)	226	(677)
– Others	(96)	24	(72)
December 31, 2016	189	(46)	143

35 Dividends

Upon the approval of the annual shareholders' meeting on June 8, 2017, the Bank distributed RMB5,972 million (tax included) of cash dividends for the year ended 31 December 2016 to all the ordinary shareholders whose names appeared on the register of members with RMB0.737 per ten shares (tax included). The Bank has distributed the cash dividends in July, 2017.

Notes to the Condensed Consolidated Financial Statements

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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, 2017	As at December 31, 2016
Cash	46,145	51,238
Surplus reserve with central bank	16,817	58,716
Deposits with banks and other financial institutions	17,769	14,165
Placements with banks and other financial institutions	19,023	9,214
Financial assets held under resale agreements	80,220	51,560
Total	179,974	184,893

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, 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, 2017, and December 31, 2016, China Post Group held 68.92% and 68.92% of the equity shares and voting rights in the Bank respectively.

Notes to the Condensed Consolidated Financial Statements

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37 Transactions with related parties (continued)

37.2 Information of major related parties

Name of enterprises	Relationship with the Group
China Postal Express & Logistics Company Limited and its subsidiaries	Under the common control of China Post Group
China Post Life Insurance Company 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 *Framework Agreement on Entrusted and Agency Banking Services of agency outlets* 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 fee cost rates are applicable to savings deposits with different maturity. The formula of calculating the scaled fees is as follows:

Monthly deposit agency fee costs 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.

The Group pays deposit agency fee costs 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.

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(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 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	
	2017	2016
Deposit agency fee costs	33,587	29,697
Fees for agency savings settlement	1,622	2,138
Fees for agency sales and other commissions	1,971	899
Total	37,180	32,734

(2) Operating lease with related parties

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

As lessor

	Six months ended June 30	
	2017	2016
Buildings	39	40
Others	10	16
Total	49	56

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

37 Transactions with related parties (continued)

37.3 Related party transactions (continued)

(2) Operating lease with related parties (continued)

As lessee

	Six months ended June 30	
	2017	2016
Buildings	459	467
Others	19	20
Total	478	487

(3) Comprehensive services and goods transactions with related parties

Rendering services and selling general office materials to related parties

	Note	Six months ended June 30	
		2017	2016
Comprehensive services rendered to related parties	(i)	14	23
General office materials sold to related parties		1	2
Total		15	25

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

37 Transactions with related parties (continued)

37.3 Related party transactions (continued)

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

Receiving services or purchasing products from related parties

	Note	Six months ended June 30	
		2017	2016
Comprehensive services received from related parties	(ii)	367	277
Marketing services received from related parties		222	878
Goods purchased from related parties		23	16
Total		612	1,171

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

(4) Credit facilities granted to related parties

- (i) As at June 30, 2017, no loans and advance was granted to related parties by the Group (as at December 31, 2016, nil).
- (ii) As at June 30, 2017, performance guarantee was RMB0.5 million provided by the Group to related parties (as at December 31, 2016, nil).
- (iii) As at June 30, 2017, no acceptance credit was provided by the Group to related parties (as at December 31, 2016, nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

37 Transactions with related parties (continued)

37.3 Related party transactions (continued)

(5) Deposits from related parties

	As at June 30, 2017	As at December 31, 2016
China Post Group	12,593	10,593
China Postal Express & Logistics Company Limited and its subsidiaries	1,533	1,644
Other related parties	3,449	2,997
Total	17,575	15,234
Interest rates per annum	0.30%~4.75%	0.30%~3.42%

During the six months ended June 30, 2017, and the year ended December 31, 2016, 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	
	2017	2016
Insurance agency sales for		
China Post Life Insurance Company Limited	71	34
Fund agency sales for		
China Post & Capital Fund Management Co., Ltd.	7	15

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

37 Transactions with related parties (continued)

37.4 Balance with related parties

(1) Accounts receivable

	As at June 30, 2017	As at December 31, 2016
China Post Group	306	295

(2) Accounts payable

	As at June 30, 2017	As at December 31, 2016
China Post Group (Note 31)	1,134	1,711

37.5 Commitments

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

	As at June 30, 2017	As at December 31, 2016
China Post Group	1,384	1,172

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

37 Transactions with related parties (continued)

37.6 The Group and other government related entities (continued)

The Group 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.

37.7 Key management personnel compensation

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended June 30, 2017 and for the year ended December 31, 2016, there were no material transactions and balances with key management personnel.

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, 2017, and December 31, 2016, the Group’s maximum risk exposure to these wealth management products was its fee and commission income from these products. The Group earned fee and commission of RMB2.7 billion from these WMPs for the six months ended June 30, 2017 (for the six months ended June 30, 2016: RMB2.1 billion). As at June 30, 2017, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB726.9 billion (December 31, 2016: RMB809.3 billion).

As at June 30, 2017, and December 31, 2016, 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. As at June 30, 2017 and December 31, 2016, the WMP Vehicles did not incur any losses, or experience any difficulties in financing their activities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017 and December 31, 2016, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2017			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Equity instruments	557,576	—	—	557,576
Asset-backed securities	27,246	2,298	29,912	59,456
Other debt instruments	—	—	239,102	239,102
Total	584,822	2,298	269,014	856,134

	As at December 31, 2016			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Equity instruments	922,255	—	—	922,255
Asset-backed securities	31,720	2,300	46,766	80,786
Other debt instruments	—	—	304,665	304,665
Total	953,975	2,300	351,431	1,307,706

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

38 Structured entities (continued)

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

For the six months ended June 30, 2017 and 2016, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six months ended June 30	
	2017	2016
Interest income	9,701	19,815
Net gain arising from investment securities	9,739	4,284
Other comprehensive income	20	515
Total	19,460	24,614

(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, 2017 and 2016, 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

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017	As at December 31, 2016
Contracts signed but not executed	1,201	1,842

39.3 Credit commitments

	As at June 30, 2017	As at December 31, 2016
Loan commitments		
— With an original maturity of less than 1 year	27,941	6,191
— With an original maturity of 1 year or above	351,658	279,981
Subtotal	379,599	286,172
Bank acceptance	40,144	41,327
Guarantee and letters of guarantee	19,495	25,230
Letters of credit	12,301	7,438
Unused credit card commitments	206,500	164,742
Total	658,039	524,909

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

39 Contingent liabilities and commitments (continued)

39.4 Operating lease commitments

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, 2017	As at December 31, 2016
Within 1 year	2,782	3,846
1 to 2 years	2,407	3,126
2 to 3 years	1,815	2,421
3 to 5 years	1,982	2,969
Over 5 years	1,217	1,582
Total	10,203	13,944

39.5 Collateral

Assets pledged

The carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at June 30, 2017	As at December 31, 2016
Debt securities	79,447	123,894
Bills	3,212	6,151
Total	82,659	130,045

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collateral. As at June 30, 2017, the carrying amount of debt securities pledged as collateral amounted to RMB37.5 billion (December 31, 2016: RMB36.1 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, 2017

(All amounts in millions of RMB unless otherwise stated)

39 Contingent liabilities and commitments (continued)

39.5 Collateral (continued)

Collateral received

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

As at June 30, 2017 and December 31, 2016, the Group obtained no debt securities from counterparties which could be resold or repledged as collaterals for financial assets held under resale agreements.

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, 2017, the nominal value of treasury bonds the Group was obligated to redeem was RMB97.6 billion (December 31, 2016: RMB94.7 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, 2017	As at December 31, 2016
Financial guarantees and credit commitments	246,183	190,427

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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(All amounts in millions of RMB unless otherwise stated)

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. (Note 28)

	As at June 30, 2017 Held-to-maturity investments	As at December 31, 2016 Held-to-maturity investments
Carrying amount of the collateral	508	2,081
Financial assets sold under repurchase agreements	(515)	(2,001)

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 other asset and other liabilities of 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

40 Transfer of financial assets (continued)

40.2 Securitization transactions (continued)

As at June 30, 2017 and December 31, 2016, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at June 30, 2017	As at December 31, 2016
ABS issued-par value	6,800	6,800
Assets retained by the Group, net	273	273

As at June 30 2017, the original carry amount of the issued asset-backed securities that had been derecognized through the asset-backed securities at all levels of the trust fund for specific purposes was RMB3,817 million and the balance of related assets was RMB130 million (December 31, 2016: RMB145 million). The Group acts as a credit service provider for the specific purpose trust, manages the credit assets transferred to the specific purpose trust, and collects the corresponding fee as the loan asset manager. In the first half year of 2017, the Group did not provide financial support to the above-mentioned specific purpose trust (2016: Nil).

40.3 Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at June 30 2017, the carrying amount of debt securities lent to counterparties was RMB1.34 billion. These debt securities are included in available-for-sale financial assets (Note 19.1) and held-to-maturity investment (Note 19.2). (31 December 2016: Nil).

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(All amounts in millions of RMB unless otherwise stated)

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 personal 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 banking 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 can not be allocated on a reasonable basis.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

41 Segment analysis (continued)

41.1 Business segment (continued)

	Six months ended June 30, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	46,837	33,307	65,204	—	145,348
Interest expense to external customers	(46,822)	(6,331)	(4,681)	—	(57,834)
Intersegment net interest income/(expense)	67,356	(8,307)	(59,049)	—	—
Net interest income	67,371	18,669	1,474	—	87,514
Net fee and commission income	5,253	780	1,000	—	7,033
Net trading gains	—	—	1,679	—	1,679
Net gains from investment securities	—	—	9,835	—	9,835
Net other operating (losses)/gains	231	(95)	(758)	534	(88)
Operating expenses	(54,285)	(5,002)	(6,170)	(87)	(65,544)
Impairment losses on assets	(4,444)	(5,135)	(787)	—	(10,366)
Profit before income tax	14,126	9,217	6,273	447	30,063
	As at June 30, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,186,738	1,802,366	4,538,941	—	8,528,045
Deferred tax assets					15,781
Total assets					8,543,826
Segment liabilities	(6,769,916)	(1,164,893)	(244,235)	—	(8,179,044)
Supplementary information					
Depreciation and amortization	1,955	339	40	—	2,334
Capital expenditures	2,318	403	47	—	2,768
Credit commitments	206,500	451,539	—	—	658,039

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

41 Segment analysis (continued)

41.1 Business segment (continued)

	Six months ended June 30, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	39,491	30,842	71,943	—	142,276
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
Net other operating gains	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 December 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,931,129	1,665,926	4,655,102	—	8,252,157
Deferred tax assets					13,465
Total assets					8,265,622
Segment liabilities	(6,316,949)	(1,098,593)	(503,192)	—	(7,918,734)
Supplementary information					
Depreciation and amortisation	3,675	928	87	—	4,690
Capital expenditures	5,802	1,465	138	—	7,405
Credit commitments	164,742	360,167	—	—	524,909

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(All amounts in millions of RMB unless otherwise stated)

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;
- “Central China” region: Shanxi Province, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province and Anhui Province;
- “Western China” region: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region, Inner Mongolia Autonomous Region and Guangxi Zhuang Autonomous Region; and
- “Northeastern China” region: Liaoning Province, Jilin Province, Heilongjiang Province and Dalian.

	Six months ended June 30, 2017								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	73,460	12,877	8,722	11,233	18,488	14,806	5,762	—	145,348
Interest expense to external customers	(4,072)	(9,199)	(4,265)	(8,364)	(16,916)	(11,141)	(3,877)	—	(57,834)
Intersegment net interest (expense)/income	(66,245)	8,502	5,055	9,461	23,054	15,096	5,077	—	—
Net interest income	3,143	12,180	9,512	12,330	24,626	18,761	6,962	—	87,514
Net fee and commission income	710	1,164	824	1,056	1,412	1,258	609	—	7,033
Net trading gains	1,686	—	—	(3)	—	(4)	—	—	1,679
Net gains from investment securities	9,789	—	—	46	—	—	—	—	9,835
Net other operating (losses)/gains	(982)	105	107	91	240	268	83	—	(88)
Operating expenses	(3,582)	(8,970)	(7,078)	(8,480)	(17,458)	(14,069)	(5,907)	—	(65,544)
Impairment losses on assets	(2,445)	(1,172)	(781)	(1,254)	(1,848)	(2,238)	(628)	—	(10,366)
Profit before income tax	8,319	3,307	2,584	3,786	6,972	3,976	1,119	—	30,063

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

41 Segment analysis (continued)

41.2 Geographical segment (continued)

	As at June 30, 2017								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	8,361,001	1,220,034	803,586	1,370,280	2,557,492	1,762,489	630,367	(8,177,204)	8,528,045
Deferred tax assets									15,781
Total assets									8,543,826
Segment liabilities	(8,062,170)	(1,211,347)	(795,586)	(1,362,814)	(2,541,068)	(1,754,713)	(628,550)	8,177,204	(8,179,044)
Supplementary information									
Depreciation and amortization	431	339	195	251	433	500	185	—	2,334
Capital expenditure	387	668	159	418	439	439	258	—	2,768
Credit commitments	206,500	67,861	61,071	109,760	117,814	84,225	10,808	—	658,039

	Six months ended June 30, 2016								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	80,332	10,992	7,614	9,480	15,448	13,322	5,088	—	142,276
Interest expense to external customers	(8,247)	(8,796)	(4,183)	(8,514)	(16,054)	(10,832)	(4,013)	—	(60,639)
Intersegment net interest (expense)/income	(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	641	868	717	819	1,216	1,000	605	—	5,866
Net trading gains	557	2	—	—	—	—	—	—	559
Net gains from investment securities	4,248	16	—	—	—	—	—	—	4,264
Net other operating gains	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	5,483	3,228	2,493	3,690	6,071	3,707	1,463	—	26,135

Notes to the Condensed Consolidated Financial Statements

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(All amounts in millions of RMB unless otherwise stated)

41 Segment analysis (continued)

41.2 Geographical segment (continued)

	As at December 31, 2016								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	7,974,481	1,146,868	742,914	1,359,200	2,285,513	1,660,562	615,355	(7,532,736)	8,252,157
Deferred tax assets									13,465
Total assets									<u>8,265,622</u>
Segment liabilities	(7,668,552)	(1,141,605)	(737,587)	(1,355,714)	(2,276,294)	(1,656,999)	(614,719)	7,532,736	<u>(7,918,734)</u>
Supplementary information									
Depreciation and amortization	683	690	437	548	928	992	412	—	4,690
Capital expenditures	978	1,286	460	1,240	1,684	1,310	447	—	7,405
Credit commitments	164,742	64,915	62,370	68,439	85,311	65,314	13,818	—	524,909

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, 2017 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2016.

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017	As at December 31, 2016
Deposits with central bank	1,302,390	1,259,035
Deposits with banks and other financial institutions	251,857	175,776
Placements with banks and other financial institutions	215,331	193,287
Financial assets at fair value through profit or loss	123,726	68,976
Derivative financial assets	3,304	6,179
Financial assets held under resale agreements	129,333	73,131
Loans and advances to customers	3,261,436	2,939,217
Available-for-sale financial assets-debt instruments	208,777	237,932
Held-to-maturity investments	826,514	736,154
Investment classified as receivables	1,491,089	1,498,524
Other financial assets	44,240	36,490
Subtotal	7,857,997	7,224,701
Credit commitments	658,039	524,909
Total	8,516,036	7,749,610

The table above presents the Group's maximum credit risk exposures before considering any collateral, netting agreements or other credit enhancements as June 30, 2017, and December 31, 2016. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017		As at December 31, 2016	
	Amount	Proportion	Amount	Proportion
Head Office	244,394	7%	246,633	8%
Central China	765,221	23%	676,974	23%
Western China	600,971	18%	540,762	18%
Yangtze River Delta	602,577	18%	540,236	18%
Bohai Rim	517,272	16%	460,587	15%
Pearl River Delta	364,531	11%	321,097	11%
Northeastern China	245,488	7%	224,359	7%
Total	3,340,454	100%	3,010,648	100%

(b) Loans and advances by types:

	As at June 30, 2017		As at December 31, 2016	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	1,268,560	38%	1,079,392	35%
Discounted bills	279,855	8%	349,081	12%
Personal loans and advances	1,792,039	54%	1,582,175	53%
Total	3,340,454	100%	3,010,648	100%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017		As at December 31, 2016	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services (i)	334,350	10%	317,722	10%
Manufacturing	225,006	7%	181,917	6%
Financial services	156,876	5%	161,012	5%
Production and supply of electricity, heating, gas and water	163,724	5%	132,157	4%
Wholesale and retail	74,595	2%	56,937	2%
Construction	66,591	2%	54,450	2%
Mining	46,464	1%	47,631	2%
Real estate	42,370	1%	39,881	1%
Management of water conservancy, environmental and public facilities	70,304	2%	36,751	1%
Other industries	88,280	3%	50,934	2%
Subtotal	1,268,560	38%	1,079,392	35%
Discounted bills	279,855	8%	349,081	12%
Personal loans and advances				
Consumer loans				
— Residential mortgage loans	1,050,479	31%	903,967	29%
— Other consumer loans	229,586	7%	197,695	7%
Personal business loans	294,642	9%	288,370	10%
Micro loans	157,224	5%	139,239	5%
Credit card overdraft and others	60,108	2%	52,904	2%
Subtotal	1,792,039	54%	1,582,175	53%
Total	3,340,454	100%	3,010,648	100%

(i) As at June 30 2017, the balance included loans to China Railway Corporation of RMB186,563 million (December 31, 2016: RMB197,263 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017		As at December 31, 2016	
	Amount	Proportion	Amount	Proportion
Unsecured loans	844,738	26%	729,884	24%
Guaranteed loans	268,525	8%	227,942	8%
Loans secured by mortgages	1,675,279	50%	1,507,326	49%
Loans secured by pledges	272,057	8%	196,415	7%
Discounted bills	279,855	8%	349,081	12%
Total	3,340,454	100%	3,010,648	100%

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

	As at June 30, 2017	As at December 31, 2016
Corporate loans and advances		
– Neither overdue nor impaired	1,538,564	1,418,971
– Overdue but not impaired	1,308	1,324
– Impaired	8,543	8,178
Subtotal	1,548,415	1,428,473
Personal loans and advances		
– Neither overdue nor impaired	1,768,320	1,560,143
– Overdue but not impaired	4,887	3,919
– Impaired	18,832	18,113
Subtotal	1,792,039	1,582,175
Total	3,340,454	3,010,648

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017		
	Normal	Special mention	Total
Corporate loans and advances	1,529,257	9,307	1,538,564
Personal loans and advances	1,764,560	3,760	1,768,320
Total	3,293,817	13,067	3,306,884

	As at December 31, 2016		
	Normal	Special mention	Total
Corporate loans and advances	1,404,277	14,694	1,418,971
Personal loans and advances	1,555,802	4,341	1,560,143
Total	2,960,079	19,035	2,979,114

(b) Loans and advances overdue but not impaired

The overdue status are as follows:

	As at June 30, 2017			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	821	487	—	1,308
Personal loans and advances	3,299	1,588	—	4,887
Total	4,120	2,075	—	6,195

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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 (continued)

	As at December 31, 2016			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	615	709	—	1,324
Personal loans and advances	2,251	1,668	—	3,919
Total	2,866	2,377	—	5,243

(c) Impaired loans and advances

Impaired loans and advances by geographical region are as follows:

	As at June 30, 2017			As at December 31, 2016		
	Amount	Proportion	NPL ratio	Amount	Proportion	NPL ratio
Head Office	887	3%	0.36%	926	4%	0.38%
Central China	4,563	17%	0.60%	4,518	17%	0.67%
Western China	10,835	39%	1.80%	9,755	37%	1.80%
Yangtze River Delta	2,663	10%	0.44%	2,869	11%	0.53%
Bohai Rim	2,977	11%	0.58%	2,966	11%	0.64%
Pearl River Delta	2,100	8%	0.58%	2,119	8%	0.66%
Northeastern China	3,350	12%	1.36%	3,138	12%	1.40%
Total	27,375	100%	0.82%	26,291	100%	0.87%

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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)

Concentration of impaired loans and advances are as follows:

	As at June 30, 2017			As at December 31, 2016		
	Amount	Proportion	NPL ratio	Amount	Proportion	NPL ratio
Corporate loans and advances	8,543	31%	0.55%	8,178	31%	0.57%
Personal loans and advances						
Consumer loans						
— Residential mortgage loans	1,999	7%	0.19%	1,711	6%	0.19%
— Other consumer loans	1,258	5%	0.55%	983	4%	0.50%
Personal business loans	10,336	38%	3.51%	10,027	38%	3.48%
Micro loans	4,354	16%	2.77%	4,468	17%	3.21%
Credit card overdraft and others	885	3%	1.47%	924	4%	1.75%
Total	27,375	100%	0.82%	26,291	100%	0.87%

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(4) Overdue loans and advances

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

	As at June 30, 2017					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	482	819	533	33		1,867
Guaranteed loans	1,536	2,003	2,059	438		6,036
Loans secured by mortgages	5,636	6,879	7,503	278		20,296
Loans secured by pledges	417	3,631	627	68		4,743
Discounted bills	21	—	—	—		21
Total	8,092	13,332	10,722	817		32,963

	As at December 31, 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	519	645	335	23		1,522
Guaranteed loans	1,235	2,160	1,908	307		5,610
Loans secured by mortgages	5,275	7,629	5,829	156		18,889
Loans secured by pledges	1,296	1,028	588	40		2,952
Discounted bills	27	—	—	—		27
Total	8,352	11,462	8,660	526		29,000

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017, rescheduled loans and advances of the Group was RMB940 million (December 31, 2016: RMB1,012 million).

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

As at June 30, 2017, and December 31, 2016, 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

The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and investment classified as receivables:

		As at June 30, 2017	As at December 31, 2016
Neither past due nor impaired	(a)	2,317,878	2,236,499
Impaired	(b)	2,200	—
Subtotal		2,320,078	2,236,499
Individually assessed		(880)	—
Collectively assessed		(1,595)	(1,821)
Allowance for impairment losses		(2,475)	(1,821)
Total held-to-maturity investments and investment classified as receivables, net		2,317,603	2,234,678

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

Credit quality of debt instruments (continued)

(a) *Debt instruments neither overdue nor impaired*

	As at June 30, 2017				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	Total
Government bonds	260	82,165	495,115	12,665	590,205
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	6,009	84,007	279,396	1,204,830	1,574,242
Corporate bonds	3,986	15,359	49,135	4,580	73,060
Certificates of deposits	94,890	—	—	—	94,890
Asset-backed securities	—	27,246	2,298	30,062	59,606
Asset management plans	9,270	—	—	—	9,270
Placements with other financial institutions	6,670	—	—	—	6,670
Beneficiary certificates	2,641	—	—	—	2,641
Other debt instruments	—	—	—	239,227	239,227
Total	123,726	208,777	826,514	1,491,364	2,650,381

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

Credit quality of debt instruments (continued)

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

	As at December 31, 2016				Total
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Government bonds	639	91,688	451,082	8,813	552,222
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	6,921	99,043	233,377	1,134,030	1,473,371
Corporate bonds	4,664	15,481	48,825	4,250	73,220
Certificates of deposits	46,128	—	—	—	46,128
Asset-backed securities	—	31,720	2,300	47,001	81,021
Asset management plans	6,576	—	—	—	6,576
Beneficiary certificates	4,048	—	—	—	4,048
Other debt instruments	—	—	—	306,251	306,251
Total	68,976	237,932	736,154	1,500,345	2,543,407

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

Credit quality of debt instruments (continued)

(b) Impaired debt instruments

	As at June 30, 2017		
	Held-to-maturity investments	Investment classified as receivables	Total
Other debt instruments	—	2,200	2,200
Allowance for impairment losses	—	(880)	(880)
Impaired held-to-maturity investments and investment classified as receivables, net	—	1,320	1,320

As at December 31, 2016, the Group had no impaired debt instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

Credit quality of debt instruments (continued)

(c) Debt instruments analyzed by credit rating

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

	As at June 30, 2017					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	453,049	137,122	—	34	—	590,205
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,532,753	28,713	3,935	3,387	5,454	1,574,242
Corporate bonds	8,578	56,062	3,601	4,057	762	73,060
Certificates of deposits	94,890	—	—	—	—	94,890
Asset-backed securities	30,297	21,424	7,885	—	—	59,606
Assets management plans	9,270	—	—	—	—	9,270
Placements with other financial institutions	6,670	—	—	—	—	6,670
Beneficiary certificates	2,641	—	—	—	—	2,641
Other debt instruments	241,427	—	—	—	—	241,427
Total	2,380,145	243,321	15,421	7,478	6,216	2,652,581

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.2 Credit risk (continued)

(7) Debt instruments (continued)

Credit quality of debt instruments (continued)

(c) Debt instruments analyzed by credit rating (continued)

	As at December 31, 2016					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	417,557	134,631	—	34	—	552,222
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,444,008	16,433	3,901	5,055	3,974	1,473,371
Corporate bonds	9,227	58,829	2,585	1,823	756	73,220
Certificates of deposit	46,128	—	—	—	—	46,128
Asset-backed securities	48,350	24,984	7,687	—	—	81,021
Asset management plans	6,576	—	—	—	—	6,576
Beneficiary certificates	4,048	—	—	—	—	4,048
Other debt instruments	306,251	—	—	—	—	306,251
Total	2,282,715	234,877	14,173	6,912	4,730	2,543,407

- (i) Unrated debt instruments held by the Group are bonds issued by policy banks and the Chinese government, and other debt instruments such as trust investment plans, asset management plans and wealth management plans issued by financial institutions, which the principal and income are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

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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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	62,962	—	—	—	—	—	1,285,573	1,348,535
Deposits with banks and other financial institutions	—	17,769	260	6,600	176,680	50,548	—	—	251,857
Placements with banks and other financial institutions	—	—	59,658	21,793	32,718	101,162	—	—	215,331
Financial assets at fair value through profit or loss	—	—	17,105	40,169	49,103	17,212	137	—	123,726
Derivative financial assets	—	—	761	821	1,649	73	—	—	3,304
Financial assets held under resale agreements	—	—	51,843	57,999	19,491	—	—	—	129,333
Loans and advances to customers	11,146	—	133,694	270,573	1,020,835	622,485	1,202,703	—	3,261,436
Available-for-sale financial assets	—	100,084	14,723	9,892	392,363	150,907	98,318	66	766,353
Held-to-maturity investments	—	—	22,323	49,520	62,663	369,042	322,966	—	826,514
Investment classified as receivables	1,320	—	12,419	19,892	187,974	543,612	725,872	—	1,491,089
Other financial assets	1,018	22	12,234	15,324	14,723	919	—	—	44,240
Total financial assets	13,484	180,837	325,020	492,583	1,958,199	1,855,960	2,349,996	1,285,639	8,461,718
Deposits from banks and other financial institutions	—	51,836	49	343	1,707	1,686	—	—	55,621
Placements from banks and other financial institutions	—	—	659	2,153	6,953	—	—	—	9,765
Financial liabilities at fair value through profit or loss	—	—	3,743	6,749	7,994	—	—	—	18,486
Derivative financial liabilities	—	—	649	847	1,600	66	—	—	3,162
Financial assets sold under repurchase agreements	—	—	78,245	1,568	814	—	—	—	80,627
Customer deposits	—	3,219,887	266,241	609,973	3,107,663	602,471	—	—	7,806,235
Debt securities issued	—	—	—	—	—	—	74,925	—	74,925
Other financial liabilities	—	24,315	21,142	11,911	41,313	18,233	—	—	116,914
Total financial liabilities	—	3,296,038	370,728	633,544	3,168,044	622,456	74,925	—	8,165,735
Net liquidity	13,484	(3,115,201)	(45,708)	(140,961)	(1,209,845)	1,233,504	2,275,071	1,285,639	295,983

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(All amounts in millions of RMB unless otherwise stated)

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, 2016								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	109,954	—	—	—	—	—	1,200,319	1,310,273
Deposits with banks and other financial institutions	—	13,415	12,903	23,010	69,800	56,648	—	—	175,776
Placements with banks and other financial institutions	—	—	4,754	22,912	84,468	81,153	—	—	193,287
Financial assets at fair value through profit or loss	—	—	8,903	19,934	33,530	5,410	1,199	—	68,976
Derivative financial assets	—	—	881	1,273	3,929	96	—	—	6,179
Financial assets held under resale agreements	—	—	25,699	41,897	5,535	—	—	—	73,131
Loans and advances to customers	9,482	—	157,396	295,282	879,417	565,183	1,032,457	—	2,939,217
Available-for-sale financial assets	—	172,696	55,391	243,278	430,446	166,153	92,157	66	1,160,187
Held-to-maturity investments	—	—	10,200	4,249	94,953	299,709	327,043	—	736,154
Investment classified as receivables	—	—	21,837	17,628	179,448	499,870	779,741	—	1,498,524
Other financial assets	685	64	9,905	11,932	13,545	359	—	—	36,490
Total financial assets	10,167	296,129	307,869	681,395	1,795,071	1,674,581	2,232,597	1,200,385	8,198,194
Deposits from banks and other financial institutions	—	103,233	26,406	84,134	66,280	1,634	—	—	281,687
Placements from banks and other financial institutions	—	—	4,450	275	9,433	—	—	—	14,158
Derivative financial liabilities	—	—	888	1,084	4,358	74	—	—	6,404
Financial assets sold under repurchase agreements	—	—	107,351	14,334	8,104	—	—	—	129,789
Financial liabilities at fair value through profit or loss	—	—	3,559	5,657	1,407	—	—	—	10,623
Customer deposits	—	3,133,204	380,193	1,188,601	2,026,764	557,549	—	—	7,286,311
Debt securities issued	—	—	—	—	—	—	54,943	—	54,943
Other financial liabilities	—	18,621	24,983	26,711	32,019	21,467	—	—	123,801
Total financial liabilities	—	3,255,058	547,830	1,320,796	2,148,365	580,724	54,943	—	7,907,716
Net liquidity	10,167	(2,958,929)	(239,961)	(639,401)	(353,294)	1,093,857	2,177,654	1,200,385	290,478

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	—	62,962	—	582	—	—	—	1,285,573	1,349,117
Deposits with banks and other financial institutions	—	17,787	261	9,220	182,290	51,161	—	—	260,719
Placements with banks and other financial institutions	—	—	59,846	23,732	37,323	105,295	—	—	226,196
Financial assets at fair value through profit or loss	—	—	17,288	40,587	50,738	18,289	138	—	127,040
Financial assets held under resale agreements	—	—	52,284	58,811	20,154	—	—	—	131,249
Loans and advances to customers	11,758	—	146,293	295,956	1,112,058	934,638	1,612,987	—	4,113,690
Available-for-sale financial assets	—	100,084	15,827	11,636	397,244	170,835	109,046	66	804,738
Held-to-maturity investments	—	—	24,181	56,081	84,057	452,573	414,651	—	1,031,543
Investment classified as receivables	1,320	—	14,356	30,175	231,838	694,221	870,248	—	1,842,158
Other financial assets	—	3	—	2,601	2,094	176	—	—	4,874
Total non-derivative financial assets	13,078	180,836	330,336	529,381	2,117,796	2,427,188	3,007,070	1,285,639	9,891,324
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	51,836	50	351	1,761	1,851	—	—	55,849
Placements from banks and other financial institutions	—	—	667	2,195	7,179	—	—	—	10,041
Financial liabilities at fair value through profit or loss	—	—	3,749	6,787	8,137	—	—	—	18,673
Financial assets sold under repurchase agreements	—	—	78,342	1,580	822	—	—	—	80,744
Customer deposits	—	3,221,825	271,778	619,909	3,171,890	659,126	—	—	7,944,528
Debt securities issued	—	—	—	1,125	1,890	12,060	88,950	—	104,025
Other financial liabilities	—	21,827	15,700	612	685	447	—	—	39,271
Total non-derivative financial liabilities	—	3,295,488	370,286	632,559	3,192,364	673,484	88,950	—	8,253,131
Net liquidity	13,078	(3,114,652)	(39,950)	(103,178)	(1,074,568)	1,753,704	2,918,120	1,285,639	1,638,193

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(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.3 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 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	—	109,954	—	609	—	—	—	1,200,319	1,310,882
Deposits with banks and other financial institutions	—	13,434	12,973	24,592	73,358	58,129	—	—	182,486
Placements with banks and other financial institutions	—	—	4,783	25,157	89,328	85,133	—	—	204,401
Financial assets at fair value through profit or loss	—	—	8,969	20,146	34,553	6,015	1,749	—	71,432
Financial assets held under resale agreements	—	—	25,805	42,254	5,731	—	—	—	73,790
Loans and advances to customers	10,175	—	168,240	316,535	955,558	803,436	1,370,909	—	3,624,853
Available-for-sale financial assets	—	172,696	56,071	244,521	436,835	186,254	101,722	66	1,198,165
Held-to-maturity investments	—	—	11,775	7,317	117,072	377,107	421,798	—	935,069
Investment classified as receivables	—	—	23,786	28,446	223,667	660,053	937,390	—	1,873,342
Other financial assets	—	45	—	1,294	1,541	162	—	—	3,042
Total non-derivative financial assets	10,175	296,129	312,402	710,871	1,937,643	2,176,289	2,833,568	1,200,385	9,477,462
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	103,232	27,258	85,405	68,382	1,795	—	—	286,072
Placements from banks and other financial institutions	—	—	4,484	275	9,556	—	—	—	14,315
Financial assets sold under repurchase agreements	—	—	108,233	14,716	8,335	—	—	—	131,284
Financial liabilities at fair value through profit or loss	—	—	3,560	5,683	1,431	—	—	—	10,674
Customer deposits	—	3,135,540	388,124	1,216,833	2,082,448	615,589	—	—	7,438,534
Debt securities issued	—	—	—	—	2,115	8,460	64,450	—	75,025
Other financial liabilities	—	16,285	15,704	1,051	745	458	—	—	34,243
Total non-derivative financial liabilities	—	3,255,057	547,363	1,323,963	2,173,012	626,302	64,450	—	7,990,147
Net liquidity	10,175	(2,958,928)	(234,961)	(613,092)	(235,369)	1,549,987	2,769,118	1,200,385	1,487,315

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42 Financial risk management (continued)

42.3 Liquidity risk (continued)

Cash flow of derivative financial instruments

Derivative financial instruments settled on a net basis

The fair values of the Group's derivative financial instruments that will be settled on a net basis are primarily related to changes in for exchange rates and interest rate. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	As at June 30, 2017					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	1	(2)	—	13	—	12

	As at December 31, 2016					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	2	2	9	21	—	34

Derivative financial instruments settled on a gross basis

The fair values of the Group's derivative financial instrument that will be settled on a gross basis are primarily related to changes in foreign exchange rates and interest rate. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	As at June 30, 2017					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Derivative financial instruments settled on a gross basis						
— Cash inflow	154,024	143,159	264,992	1,207	—	563,382
— Cash outflow	(153,892)	(143,177)	(264,934)	(1,206)	—	(563,209)
Total	132	(18)	58	1	—	173

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(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.3 Liquidity risk (continued)

Cash flow of derivative financial instrument (continued)

Derivative financial instruments settled on a gross basis (continued)

	As at December 31, 2016					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Derivative financial instruments settled on a gross basis						
— Cash inflow	154,836	74,444	267,645	2,671	—	499,596
— Cash outflow	(154,844)	(74,255)	(268,085)	(2,671)	—	(499,855)
Total	(8)	189	(440)	—	—	(259)

Credit commitments

The tables below summarize the amounts of these off-balance sheet items by remaining contractual maturity:

	As at June 30, 2017			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	84,719	269,812	25,068	379,599
Bank acceptance	40,144	—	—	40,144
Guarantee and letters of guarantee	9,711	9,779	5	19,495
Letters of credit	12,301	—	—	12,301
Unused credit card commitments	206,500	—	—	206,500
Total	353,375	279,591	25,073	658,039

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For the six months ended June 30, 2017

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42 Financial risk management (continued)

42.3 Liquidity risk (continued)

Credit commitments (continued)

	As at December 31, 2016			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	58,835	206,762	20,575	286,172
Bank acceptance	41,327	—	—	41,327
Guarantee and letters of guarantee	18,104	7,121	5	25,230
Letters of credit	7,438	—	—	7,438
Unused credit card commitments	164,742	—	—	164,742
Total	290,446	213,883	20,580	524,909

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, 2017	As at December 31, 2016
Upward parallel shift of 100 bps for yield curves	(8,850)	(7,695)
Downward parallel shift of 100 bps for yield curves	8,850	7,695

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.4 Market risk (continued)

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, 2017						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	
Cash and deposits with central bank	1,300,170	—	—	—	—	48,365	1,348,535
Deposits with banks and other financial institutions	18,029	52,620	169,860	11,348	—	—	251,857
Placements with banks and other financial institutions	59,658	48,986	33,411	73,276	—	—	215,331
Financial assets at fair value through profit or loss	19,786	42,511	48,026	13,243	—	160	123,726
Derivative financial assets	—	—	—	—	—	3,304	3,304
Financial assets held under resale agreements	51,843	57,999	19,491	—	—	—	129,333
Loans and advances to customers	470,773	401,778	2,334,556	46,826	7,503	—	3,261,436
Available-for-sale financial assets	7,014	9,829	14,417	115,645	61,872	557,576	766,353
Held-to-maturity investments	25,371	81,998	65,537	332,531	321,077	—	826,514
Investment classified as receivables	154,809	647,344	380,311	130,869	177,756	—	1,491,089
Other financial assets	—	—	—	—	—	44,240	44,240
Total financial assets	2,107,453	1,343,065	3,065,609	723,738	568,208	653,645	8,461,718
Deposits from banks and other financial institutions	51,885	343	1,707	1,686	—	—	55,621
Placements from banks and other financial institutions	659	2,153	6,953	—	—	—	9,765
Financial liabilities at fair value through profit or loss	3,727	6,727	7,967	—	—	65	18,486
Derivative financial liabilities	—	—	—	—	—	3,162	3,162
Financial assets sold under repurchase agreements	78,245	1,568	814	—	—	—	80,627
Customer deposits	3,484,765	609,973	3,107,663	602,471	—	1,363	7,806,235
Debt securities issued	—	—	—	—	74,925	—	74,925
Other financial liabilities	—	1	—	—	—	116,913	116,914
Total financial liabilities	3,619,281	620,765	3,125,104	604,157	74,925	121,503	8,165,735
Interest rate risk gap	(1,511,828)	722,300	(59,495)	119,581	493,283	532,142	295,983

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For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

42 Financial risk management (continued)

42.4 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 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	1,256,826	—	—	—	—	53,447	1,310,273	
Deposits with banks and other financial institutions	26,318	74,880	60,730	13,848	—	—	175,776	
Placements with banks and other financial institutions	4,754	54,105	81,161	53,267	—	—	193,287	
Financial assets at fair value through profit or loss	9,303	21,902	32,342	4,185	1,199	45	68,976	
Derivative financial assets	—	—	—	—	—	6,179	6,179	
Financial assets held under resale agreements	25,699	41,897	5,535	—	—	—	73,131	
Loans and advances to customers	1,749,147	419,111	720,080	39,751	11,128	—	2,939,217	
Available-for-sale financial assets	12,690	15,348	22,694	122,197	65,003	922,255	1,160,187	
Held-to-maturity investments	13,751	31,120	108,577	261,783	320,923	—	736,154	
Investment classified as receivables	159,148	621,727	369,003	165,526	183,120	—	1,498,524	
Other financial assets	—	—	—	—	—	36,490	36,490	
Total financial assets	3,257,636	1,280,090	1,400,122	660,557	581,373	1,018,416	8,198,194	
Deposits from banks and other financial institutions	129,639	84,134	66,280	1,634	—	—	281,687	
Placements from banks and other financial institutions	4,450	275	9,433	—	—	—	14,158	
Derivative financial liabilities	—	—	—	—	—	6,404	6,404	
Financial assets sold under repurchase agreements	107,351	14,334	8,104	—	—	—	129,789	
Financial liabilities at fair value through profit or loss	3,538	5,638	1,403	—	—	44	10,623	
Customer deposits	3,512,276	1,188,601	2,026,764	557,549	—	1,121	7,286,311	
Debt securities issued	—	—	—	—	54,943	—	54,943	
Other financial liabilities	—	2	2	—	—	123,797	123,801	
Total financial liabilities	3,757,254	1,292,984	2,111,986	559,183	54,943	131,366	7,907,716	
Interest rate risk gap	(499,618)	(12,894)	(711,864)	101,374	526,430	887,050	290,478	

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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, 2017, and December 31, 2016.

	As at June 30, 2017			
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	Total
Cash and deposits with central bank	1,347,049	1,219	267	1,348,535
Deposits with banks and other financial institutions	235,301	13,096	3,460	251,857
Placements with banks and other financial institutions	202,226	13,105	—	215,331
Financial assets at fair value through profit or loss	113,258	10,468	—	123,726
Derivative financial assets	64	3,229	11	3,304
Financial assets held under resale agreements	129,333	—	—	129,333
Loans and advances to customers	3,246,632	14,711	93	3,261,436
Available-for-sale financial assets	752,669	13,684	—	766,353
Held-to-maturity investments	823,991	2,523	—	826,514
Investment classified as receivables	1,491,089	—	—	1,491,089
Other financial assets	43,969	271	—	44,240
Total financial assets	8,385,581	72,306	3,831	8,461,718

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For the six months ended June 30, 2017

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42 Financial risk management (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at June 30, 2017			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Deposits from banks and other financial institutions	55,621	—	—	55,621
Placements from banks and other financial institutions	3,920	5,845	—	9,765
Financial liabilities at fair value through profit or loss	18,486	—	—	18,486
Derivative financial liabilities	73	3,066	23	3,162
Financial assets sold under repurchase agreements	80,627	—	—	80,627
Customer deposits	7,786,897	18,769	569	7,806,235
Debt securities issued	74,925	—	—	74,925
Other financial liabilities	116,751	162	1	116,914
Total financial liabilities	8,137,300	27,842	593	8,165,735
Net on-balance sheet position	248,281	44,464	3,238	295,983
Net notional amount of derivative financial instruments	10,487	(9,569)	(816)	102
Credit commitments	643,192	10,139	4,708	658,039

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42 Financial risk management (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2016			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,309,142	1,065	66	1,310,273
Deposits with banks and other financial institutions	163,422	8,984	3,370	175,776
Placements with banks and other financial institutions	173,470	19,817	—	193,287
Financial assets at fair value through profit or loss	67,537	1,439	—	68,976
Derivative financial assets	63	6,112	4	6,179
Financial assets held under resale agreements	73,131	—	—	73,131
Loans and advances to customers	2,927,732	11,211	274	2,939,217
Available-for-sale financial assets	1,146,427	13,760	—	1,160,187
Held-to-maturity investments	733,870	2,284	—	736,154
Investment classified as receivables	1,498,524	—	—	1,498,524
Other financial assets	36,279	211	—	36,490
Total financial assets	8,129,597	64,883	3,714	8,198,194

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For the six months ended June 30, 2017

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42 Financial risk management (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2016			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Deposits from banks and other financial institutions	278,213	3,474	—	281,687
Placements from banks and other financial institutions	8,330	5,828	—	14,158
Financial liabilities at fair value through profit or loss	10,623	—	—	10,623
Derivative financial liabilities	56	6,345	3	6,404
Financial assets sold under repurchase agreements	129,789	—	—	129,789
Customer deposits	7,270,222	15,562	527	7,286,311
Debt securities issued	54,943	—	—	54,943
Other financial liabilities	123,700	100	1	123,801
Total financial liabilities	7,875,876	31,309	531	7,907,716
Net on-balance sheet position	253,721	33,574	3,183	290,478
Net notional amount of derivative financial instruments	(473)	1,019	(808)	(262)
Credit commitments	506,299	14,326	4,284	524,909

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42 Financial risk management (continued)

42.4 Market risk (continued)

Foreign exchange risk (continued)

Exchange Rate Sensitivity Analysis

The table below indicates the potential effect of an appreciation or depreciation of USD spot and forward exchange rate against RMB by 5% on net profit.

Exchange rate changes	As at June 30, 2017	As at December 31, 2016
5% of appreciation of USD against RMB	(355)	132
5% of depreciation of USD against RMB	355	(132)

The impact on the net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities. The effect on the net profit is based on the assumption that the Group's net foreign currency at the end of the reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ to the actual situation.

42.5 Fair value of financial instruments

(1) During the six months ended June 30, 2017, and the year ended December 31, 2016, 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.

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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

	As at June 30, 2017				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	826,514	820,240	2,540	817,700	—
Investment classified as receivables	1,491,089	1,451,991	—	62,625	1,389,366
Total	2,317,603	2,272,231	2,540	880,325	1,389,366
Financial liabilities					
Debt securities issued	74,925	72,634	—	72,634	—
As at December 31, 2016					
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	736,154	750,681	2,293	748,388	—
Investment classified as receivables	1,498,524	1,486,383	—	58,632	1,427,751
Total	2,234,678	2,237,064	2,293	807,020	1,427,751
Financial liabilities					
Debt securities issued	54,943	53,637	—	53,637	—

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.

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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, 2017			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
— Debt securities	974	9,281	—	10,255
— Certificates of deposits	9,495	85,395	—	94,890
— Asset management plans	—	—	9,270	9,270
— Placements with other financial institutions	—	—	6,670	6,670
— Beneficiary certificates	—	—	2,641	2,641
Subtotal	10,469	94,676	18,581	123,726
Derivative financial assets				
— Exchange rate derivatives	—	3,226	—	3,226
— Interest rate derivatives	—	78	—	78
Subtotal	—	3,304	—	3,304
Available-for-sale financial assets				
— Debt securities	11,978	169,553	—	181,531
— Assets-backed securities	—	27,246	—	27,246
— Equity instruments	—	101,875	1,878	103,753
Subtotal	11,978	298,674	1,878	312,530
Total of financial assets	22,447	396,654	20,459	439,560
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(18,486)	(18,486)
Derivative financial liabilities				
— Exchange rate derivatives	—	(3,088)	—	(3,088)
— Interest rate derivatives	—	(74)	—	(74)
Subtotal	—	(3,162)	—	(3,162)
Total of financial liabilities	—	(3,162)	(18,486)	(21,648)

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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, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
— Debt securities	1,439	10,785	—	12,224
— Certificates of deposits	—	46,128	—	46,128
— Asset management plans	—	—	6,576	6,576
— Beneficiary certificates	—	—	4,048	4,048
Subtotal	1,439	56,913	10,624	68,976
Derivative financial assets				
— Exchange rate derivatives	—	6,098	—	6,098
— Interest rate derivatives	—	81	—	81
Subtotal	—	6,179	—	6,179
Available-for-sale financial assets				
— Debt securities	10,283	195,929	—	206,212
— Assets-backed securities	—	31,720	—	31,720
— Equity instruments	—	184,130	1,746	185,876
Subtotal	10,283	411,779	1,746	423,808
Total of financial assets	11,722	474,871	12,370	498,963
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(10,623)	(10,623)
Derivative financial liabilities				
— Exchange rate derivatives	—	(6,346)	—	(6,346)
— Interest rate derivatives	—	(58)	—	(58)
Subtotal	—	(6,404)	—	(6,404)
Total of financial liabilities	—	(6,404)	(10,623)	(17,027)

There were no significant movements among levels of the fair value hierarchy for the six months ended June 30, 2017, and the year ended December 31, 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

(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 the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法(試行)) promulgated by the CBRC and Accounting Standards for Business Enterprises as issued by the MOF at June 30, 2017 and December 31, 2016 is as follows:

	As at June 30, 2017	As at December 31, 2016
Core tier 1 capital adequacy ratio	8.72%	8.63%
Tier 1 capital adequacy ratio	8.72%	8.63%
Capital adequacy ratio	11.67%	11.13%
Core tier 1 capital	364,638	346,574
Deductions of core tier 1 capital	(1,739)	(1,757)
Core tier 1 capital — net	362,899	344,817
Other tier 1 capital	27	6
Tier 1 capital — net	362,926	344,823
Tier 2 capital		
— Excess provision for loan loss	47,794	45,084
— Directly issued qualifying tier 2 instruments including related stock surplus	75,000	55,000
— Non-controlling interest given recognition in tier 2 capital	55	12
Net capital	485,775	444,919
Risk-weighted assets	4,161,826	3,995,908

43 Events after the balance sheet date

At the Annual General Shareholder's Meeting, the 2017 First Domestic Shareholders' Class Meeting and the 2017 First H Shareholders' Class Meeting of the Bank held on June 8, 2017, the resolutions in relation to the proposed non-public issuance of offshore Preference Shares were considered and approved respectively. On August 2, 2017, CBRC approved the Bank's non-public issuance of not more than 500 million offshore Preference shares (inclusive) to raise total proceeds not exceeding RMB50 billion or its equivalent (inclusive). The gross proceeds from the issuance of the offshore preference shares after deduction of the relevant expenses, will be used to replenish the Bank's Additional Tier 1 Capital. As at the date of this report, the Bank has not issued such Preference shares.

44 Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2017 (All amounts in millions of RMB unless otherwise stated)

1 Liquidity ratios and leverage ratio

(1) Liquidity ratios

	Average for the six months ended June 30, 2017	Average for the year ended December 31, 2016
Liquidity ratios (RMB and foreign currency)	42.10%	44.63%

	As at June 30, 2017	As at December 31, 2016
Liquidity ratios (RMB and foreign currency)	41.67%	38.37%

(2) Leverage ratio

	As at June 30, 2017	As at December 31, 2016
Leverage ratio	4.09%	4.05%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Amended) (商業銀行槓桿率管理辦法(修訂)) issued by the CBRC since April, 2015 (effective date of the Measures). 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 MOF.

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

2 Currency concentration

	As at June 30, 2017			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	77,357	2,844	1,587	81,788
Spot liabilities	(32,220)	(1,582)	(999)	(34,801)
Forward purchases	277,791	756	20	278,567
Forward sales	(287,335)	(751)	(862)	(288,948)
Net long/(short) position	35,593	1,267	(254)	36,606

	As at December 31, 2016			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	70,253	2,790	1,595	74,638
Spot liabilities	(35,062)	(1,498)	(1,031)	(37,591)
Forward purchases	255,714	27	923	256,664
Forward sales	(255,416)	(9)	(1,742)	(257,167)
Net long/(short) position	35,489	1,310	(255)	36,544

The Bank had no structural position for the six months ended June 30, 2017, and the year ended December 31, 2016.

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

3 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, 2017			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	1,167	38,974	12,830	52,971
of which attributed to Hong Kong	—	4,939	1,399	6,338
North and South America	—	7,243	4,742	11,985
Europe	—	7,077	542	7,619
	1,167	53,294	18,114	72,575

	As at December 31, 2016			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	878	33,387	8,728	42,993
of which attributed to Hong Kong	—	4,146	2,484	6,630
North and South America	—	3,752	5,029	8,781
Europe	—	8,236	—	8,236
	878	45,375	13,757	60,010

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2017

(All amounts in millions of RMB unless otherwise stated)

4 Gross amount of overdue loans and advances to customers

	As at June 30, 2017	As at December 31, 2016
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods within 3 months (inclusive)	8,092	8,352
from 3 months to 6 months (inclusive)	5,340	4,700
from 6 months to 12 months (inclusive)	7,992	6,762
over 12 months	11,539	9,186
Total	32,963	29,000
As a percentage of total gross loans and advances to customers for periods within 3 months (inclusive)	0.24%	0.28%
from 3 months to 6 months (inclusive)	0.16%	0.16%
from 6 months to 12 months (inclusive)	0.24%	0.22%
over 12 months	0.35%	0.30%
Total	0.99%	0.96%

Overdue loans and advances to customers by geographical areas:

	As at June 30, 2017	As at December 31, 2016
Head office	1,037	1,056
Yangtze River Delta	3,426	3,346
Pearl River Delta	2,687	2,555
Bohai Rim	3,472	3,354
Central China	5,901	5,785
Western China	12,580	9,470
Northeastern China	3,860	3,434
Total	32,963	29,000

Appendix II: Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2017 After adjustment	December 31, 2016 After adjustment
Qualified quality liquid assets	1,075,473	1,080,184
Net cash outflow	794,177	842,675
Liquidity coverage ratio (%)	135.42	128.19

Appendix III: Leverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2017	December 31, 2016
Net tier-1 capital	362,926	344,823
Adjusted asset balance on- and off-the balance sheet	8,879,061	8,518,775
Leverage Ratio (%)	4.09	4.05

No.	Item	June 30, 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,499,979
2	Less: tier-1 capital deduction items	1,739
3	Adjusted asset balance on-balance sheet (excluding derivatives and securities financing transactions)	8,498,240
4	Replacement costs of various derivatives (net of qualified deposits)	3,304
5	Potential risk exposures of various derivatives	9,028
6	Aggregative secured and pledged items deducted from balance sheet	—
7	Less: Receivables resulting from the provision of qualified deposits	—
8	Less: asset balances of derivatives from transacting with central counterparties in providing clearing service for customers	—
9	Notional principal of sold credit derivatives	—
10	Less: deductible asset balance of sold credit derivatives	—
11	Asset balance of derivatives	12,332
12	Accounting asset balance of securities financing transactions	41,057
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	41,057
17	Balance of off-balance sheet items	994,758
18	Less: Balance of off-balance sheet items decreased because of credit conversion	667,326
19	Adjusted balance of off-balance sheet items	327,432
20	Net Tier-1 capital	362,926
21	Adjusted asset balance on- and off-the balance sheet	8,879,061
22	Leverage ratio (%)	4.09

Appendix IV: Composition of Capital

Composition of Capital Table

In millions of RMB, except for percentages

	June 30, 2017	December 31, 2016
Core tier-1 capital:		
1 Paid-in capital	81,031	81,031
2 Retained earnings	211,398	190,770
2a Surplus reserves	20,395	20,395
2b General reserve	93,803	93,803
2c Retained profits	97,200	76,572
3 Accumulated other comprehensive income (and other public reserves)	72,003	74,729
3a Capital reserve	74,659	74,659
3b Others	(2,656)	70
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	206	44
6 Core tier-1 capital before regulatory adjustments	364,638	346,574
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)	1,725	1,744
10 Deferred tax assets that rely on future profitability and arise from operating loss	14	13
11 Reserves that relate to the cash flow 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 fair value of liabilities caused by changes in self credit risk	—	—
15 Defined-benefit pension fund net assets (net of deferred tax liabilities)	—	—
16 Directly or indirectly holding the Bank's ordinary shares	—	—

Appendix IV: Composition of Capital

	June 30, 2017	December 31, 2016
17 Reciprocal cross-holdings in core tier-1 capital between banks or between banks and other financial institutions	—	—
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 Other deductible amount in deferred tax assets dependent on future profitability	—	—
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 Including: Deductible amount of significant minority investments in core tier-1 capital instruments issued by financial institutions	—	—
24 Including: Deductible amount of mortgage servicing rights	Not applicable	Not applicable
25 Including: Deductible amount in deferred tax assets arising from temporary differences	—	—
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	1,739	1,757
29 Core tier-1 capital	362,899	344,817

Appendix IV: Composition of Capital

	June 30, 2017	December 31, 2016
Additional tier-1 capital:		
30 Additional tier-1 capital instruments and related premium	—	—
31 Including: Portion classified as equity	—	—
32 Including: Portion classified as liabilities	—	—
33 Invalid instruments to additional tier-1 capital after the transition period	—	—
34 Qualifying non-controlling interests	27	6
35 Including: Invalid portion to additional tier-1 capital excluded after the transition period	—	—
36 Additional tier-1 capital before regulatory adjustments	27	6
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	27	6
45 Tier-1 capital (core tier-1 capital + additional tier-1 capital)	362,926	344,823
Tier-2 capital:		
46 Tier-2 capital instruments and related premium	75,000	55,000
47 Invalid tier-2 instruments to capital after the transition period	—	—

Appendix IV: Composition of Capital

	June 30, 2017	December 31, 2016
48 Valid portion of minority interests	55	12
49 Including: Invalid portion after the transition period	—	—
50 Valid portion of surplus provision for loan impairment	47,794	45,084
51 Tier-2 capital before regulatory adjustments	122,849	100,096
Tier-2 capital: Regulatory adjustments		
52 Directly or indirectly holding tier-2 capital of the Bank	—	—
53 Reciprocal cross-holdings in tier-2 capital between banks or between banks and other financial institutions	—	—
54 Deductible portion of insignificant minority investment in tier-2 capital instruments issued by financial institutions that are not subject to consolidation	—	—
55 Significant minority investments in tier-2 capital instruments issued by financial institutions that are not subject to consolidation	—	—
56a Investment in tier-2 capital instruments issued by financial institutions that are under control but not subject to consolidation	—	—
56b Shortfall in tier-2 capital instruments issued by financial institutions that are under control but not subject to consolidation	—	—
56c Others that should be deducted from tier-2 capital	—	—
57 Total regulatory adjustments to tier-2 capital	—	—
58 Tier-2 capital	122,849	100,096
59 Total capital (tier-1 capital + tier-2 capital)	485,775	444,919
60 Total risk-weighted assets	4,161,826	3,995,908
Requirements for capital adequacy ratio and reserve capital (%)		
61 Core tier-1 capital adequacy ratio	8.72	8.63
62 Tier-1 capital adequacy ratio	8.72	8.63
63 Capital adequacy ratio	11.67	11.13
64 Institution specific capital requirement	2.10	1.70
65 Including: Capital conservation buffer requirement	2.10	1.70
66 Including: Counter cyclical buffer requirement	—	—
67 Including: Additional buffer requirement of global systematically important banks	—	—
68 Percentage of core tier-1 capital meeting buffers to risk-weighted assets	1.62	1.93

Appendix IV: Composition of Capital

	June 30, 2017	December 31, 2016
Domestic minimum requirements for regulatory capital		
69 Core tier-1 capital adequacy ratio	7.10	6.70
70 Tier-1 capital adequacy ratio	8.10	7.70
71 Capital adequacy ratio	10.10	9.70
Amounts below the thresholds for deduction		
72 Undeducted amount of insignificant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	13,565	11,598
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)	15,781	13,465
Valid caps of surplus provision for loan impairment to tier-2 capital		
76 Provision for loan impairment under the weighted approach	79,018	71,431
77 Valid cap of surplus provision for loan impairment in tier-2 capital under the weighted approach	47,794	45,084
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 phase-out arrangements	—	—
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 phase-out arrangements	—	—
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 phase-out arrangements	—	—

Appendix IV: Composition of Capital

Detailed Description of Related Items

In millions of RMB

	June 30, 2017	December 31, 2016	Code
Goodwill	—	—	a
Deferred income tax liabilities	515	52	b
Including: Deferred tax liabilities related to goodwill	—	—	c
Including: Deferred tax liabilities related to other intangible assets other than land use rights	—	—	d
Paid-in capital			
Including: Amount included in core tier-1 capital	81,031	81,031	e
Including: Amount included in additional tier-1 capital	—	—	f
Capital reserve	74,659	74,659	g
Surplus reserve	20,395	20,395	h
General reserve	93,803	93,803	i
Undistributed profits	97,200	76,572	j
Other comprehensive income	(2,656)	70	k

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

In millions of RMB

	June 30, 2017	December 31, 2016	Code
Core tier-1 capital:			
1 Paid-in capital	81,031	81,031	e
2 Retained earnings	211,398	190,770	h+i+j
2a Surplus reserve	20,395	20,395	h
2b General reserve	93,803	93,803	i
2c Undistributed profits	97,200	76,572	j
3 Accumulated other comprehensive income and disclosed reserve	72,003	74,729	g+k
3a Capital reserve	74,659	74,659	g
3b Others	(2,656)	70	k

Appendix IV: Composition of Capital

Main Features of Capital Instruments

Main features of regulatory capital instruments		Ordinary shares (H Shares)	Tier-2 capital instruments	Tier-2 capital instruments	Tier-2 capital instruments
1	Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.
2	Identification code	1658.HK	1528007.IB	1628016.IB	1528007.IB
3	Applicable laws	Hong Kong, PRC/ Hong Kong laws	PRC laws	PRC laws	PRC laws
Regulatory process					
4	Including: Applicable to rules for the transitional period of Measures for Capital Management of Commercial Bank (Trial)	Core tier-1 capital	Tier-2 capital	Tier-2 capital	Tier-2 capital
5	Including: Applicable to rules after the transitional period of Measures for Capital Management of Commercial Bank (Trial)	Core tier-1 capital	Tier-2 capital	Tier-2 capital	Tier-2 capital
6	Including: Applicable to legal representatives/groups	Legal representatives and groups	Legal representatives and groups	Legal representatives and groups	Legal representatives and groups
7	Instrument type	Ordinary shares	Tier 2 capital instruments	Tier 2 capital instruments	Tier-2 capital instruments

Appendix IV: Composition of Capital

Main features of regulatory capital instruments		Ordinary shares (H Shares)	Tier-2 capital instruments	Tier-2 capital instruments	Tier-2 capital instruments
8	Amount that can be included in regulatory capital (in RMB millions; on the latest reporting date)	50,102	25,000	30,000	20,000
9	Instrument book value	RMB1	RMB100	RMB100	RMB100
10	Accounting treatment	Equity and capital reserve	Debt securities issued	Debt securities issued	Debt securities issued
11	Initial issuance date	September 28, 2016	September 7, 2015	October 26, 2016	March 22, 2017
12	Whether there is a deadline (terminable or continuous)	Continuous	Terminable	Terminable	Terminable
13	Including: Original deadline	No expiration date	September 9, 2025	October 28, 2026	March 24, 2027
14	Redeemed by issuer (to be approved by regulators)	No	Yes	Yes	Yes
15	Including: Redemption date (or convenient redemption date) and limit	Not applicable	September 9, 2020 Partial or full	October 28, 2021 Partial or full	March 24, 2022 Partial or full
16	Including: Subsequent redemption date (if any bonuses or dividends)	Not applicable	Not applicable	Not applicable	Not applicable
17	Including: Fixed or floating bonuses/dividends	Floating	Fixed	Fixed	Fixed
18	Including: Book interest rate and relevant indices	Not applicable	4.50%	3.30%	4.50%
19	Including: Whether there is a dividend brake mechanism	Not applicable	No	No	No
20	Including: Whether bonuses or dividends can be cancelled independently	Complete discretion right	No	No	No
21	Including: Whether there is a redemption incentive mechanism	No	No	No	No
22	Including: Accumulation or non-accumulation	Non-accumulation	Not applicable	Not applicable	Not applicable

Appendix IV: Composition of Capital

Main features of regulatory capital instruments	Ordinary shares (H Shares)	Tier-2 capital instruments	Tier-2 capital instruments	Tier-2 capital instruments
23 Whether shares are transferable	No	No	No	No
24 Including: Clarifying trigger events for transferring if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
25 Including: Clarifying whether shares are wholly or partially transferable if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
26 Including: Clarifying how to confirm the transfer price if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
27 Including: Clarifying whether shares are compulsorily transferred if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
28 Including: Clarifying instrument type after transferring if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
29 Including: Clarifying instrument issuer after transferring if shares are transferable	Not applicable	Not applicable	Not applicable	Not applicable
30 Whether write-down shall be committed	No	Yes	Yes	Yes

Appendix IV: Composition of Capital

Main features of regulatory capital instruments	Ordinary shares (H Shares)	Tier-2 capital instruments	Tier-2 capital instruments	Tier-2 capital instruments
31 Including: Clarifying write-down trigger points if write-down shall be committed	Not applicable	Trigger events refer to the following two events whichever is earlier: 1. the CBRC has determined that, if there is no write-down, the issuers will not be able to survive, or 2. relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the issuers will not be able to survive.	Trigger events refer to the following two events whichever is earlier: 1. the CBRC has determined that, if there is no write-down, the issuers will not be able to survive, or 2. relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the issuers will not be able to survive.	Trigger events refer to the following two events whichever is earlier: 1. the CBRC has determined that, if there is no write-down, the issuers will not be able to survive, or 2. relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the issuers will not be able to survive.
32 Including: Clarifying whether it's partially or wholly written down if write-down shall be committed	Not applicable	Wholly	Wholly	Wholly
33 Including: Clarifying whether the write-down is permanent or temporary if write-down shall be committed	Not applicable	Permanent	Permanent	Permanent
34 Including: Clarifying book value recovery mechanism if the write-down is temporary	Not applicable	Not applicable	Not applicable	Not applicable

Appendix IV: Composition of Capital

Main features of regulatory capital instruments	Ordinary shares (H Shares)	Tier-2 capital instruments	Tier-2 capital instruments	Tier-2 capital instruments
<p>35 Liquidation priority during settlement (clarifying instrument type with higher liquidation priority)</p>	<p>Ranking after depositors, general creditors, and subordinated creditors</p>	<p>The liquidation order of the principal of the bonds and the payment order of the interest are after depositors and general creditors and before equity capital, other tier-1 capital instruments and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds, and are in the same repayment order as other subordinated debts which may be issued in the future and in the same repayment order as current bonds.</p>	<p>The liquidation order of the principal of the bonds and the payment order of the interest are after depositors and general creditors and before equity capital, other tier-1 capital instruments and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds, and are in the same repayment order as other subordinated debts which may be issued in the future and in the same repayment order as current bonds.</p>	<p>The liquidation order of the principal of the bonds and the payment order of the interest are after depositors and general creditors and before equity capital, other tier-1 capital instruments and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds, and are in the same repayment order as other subordinated debts which may be issued in the future and in the same repayment order as current bonds.</p>
<p>36 Whether there are temporary ineligible features Including: Clarifying such features if they exist</p>	<p>No Not applicable</p>	<p>No Not applicable</p>	<p>No Not applicable</p>	<p>No Not applicable</p>

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POSTAL SAVINGS BANK OF CHINA