

2017
ANNUAL REPORT

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

Stock Code of Preference Shares: 4612

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Company Profile

Postal Savings Bank of China is a leading large retail commercial bank in China, strategically focuses 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, the Bank actively serves large corporate customers and participates in the construction of major projects, making important contributions to China’s economic development.

With approximately 40,000 outlets and services covering over 553 million individual customers, Postal Savings Bank of China has shown its 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, and WeChat banking etc., forming a financial service landscape in which electronic banking connects with physical network and offline physical 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, we completed the initial public offering on the Main Board of the Hong Kong Stock Exchange and gained access to international capital markets, representing a successful implementation of the 3-step reform, namely “transformation of ownership, introduction of strategic investors and initial public offering”. In 2017, we issued offshore preference shares, further optimizing our capital structure and expanding our capital replenishment channels. We ranked 21st in terms of total assets as of the end of 2016 by *The Banker’s* list of “Top 1000 World Banks 2017”, ranked 55th in the *Forbes’* “World’s 2000 Biggest Public Companies 2016” and ranked 34th in the *Fortune’s* “China Top 500 Companies 2016”.

Against the background of transformation and upgrade of China’s economy, deepening advancement of financial reform and thriving development of information technology, Postal Savings Bank of China will seize new strategic opportunities, give full play to its advantages, keep enriching 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 commercial bank.

Definitions

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

“A Share(s)”	domestically listed ordinary shares that are subscribed and traded in Renminbi
“A Share Offering”	the proposed initial public offering of not more than 5,172,164,200 A Shares (excluding over-allotment) in China by the Bank, to be listed on the Shanghai Stock Exchange
“Articles of Association”	the Articles of Association of Postal Savings Bank of China Co., Ltd., approved by the CBRC on August 2, 2017, as amended, supplemented and otherwise modified from time to time
“Bank/Postal Savings Bank of China/PSBC/us/we”	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, including 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 (where the context so requires)
“basis point(s)”	a unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
“Board of Directors/Board”	Board of directors of the Bank
“Board of Supervisors”	Board of supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“central bank/PBOC”	The People’s Bank of China
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report and unless the context otherwise requires, excludes Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“China Post Group”	China Post Group Corporation, an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder
“corporate loans to small enterprises”	the loans provided by the Bank to the enterprises classified as small, micro, and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises

Definitions

“corporate loans to small and micro enterprises”	the loans to small and micro-sized enterprises which comply with the calculation method of the CBRC, including the loans to small-sized enterprises, loans to micro-sized enterprises, loans to self-employed traders and loans to small and micro-sized business owners; the classification standards of enterprises strictly follow the Classification Standards of Small and Medium Enterprises
“County Area(s)”	areas designated as counties or county-level cities under China’s administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions
“CSRC”	China Securities Regulatory Commission
“Director(s)”	our director(s)
“Domestic Shares”	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
“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, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
“industries with high pollution, high energy consumption and overcapacity”	industries with high pollution, high energy consumption and over-capacity
“Large Commercial Banks”	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and our Bank, collectively

“Latest Practicable Date”	April 20, 2018, which is the date of bulk print of this report
“MOF”	Ministry of Finance of the PRC
“One Body Two Wings”	Taking retail banking business as our main body and corporate banking business and financial market business as our two wings
“PSBC Consumer Finance”	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015. As of the date of this annual report, the Bank held 70.5% equity interests in the PSBC Consumer Finance
“qualified tier 2 capital instruments”	debt securities issued by a commercial bank, the claim of which ranks prior to its equity capital and after other debts in respect of repayment of principal and interest in the process of liquidation; qualified subordinated bonds can be recognized as tier 2 capital
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers” (農業、農村和農民)
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	our ordinary shares in the share capital with a nominal value of RMB1.00 each, including Domestic Shares and H Shares
“Shareholder(s)”	the holder(s) of the Shares
“SHIBOR”	Shanghai Interbank Offered Rate
“SMEs”	the enterprises classified as small, micro and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
“Supervisor(s)”	our supervisor(s)
“VIP customers”	Our customer segmentation is primarily based on each customer’s personal financial assets and loan balances with us (collectively “consolidated assets”). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers

Definitions

For the purpose of illustrating our distribution network and presenting certain results of operations and financial conditions in this annual report, our references to the geographical regions of China are defined as follows:

Geographical locations	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 	<ul style="list-style-type: none"> • Ningxia Hui Autonomous Region • Xinjiang Uygur 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

The currency for the amounts included in this annual report, unless otherwise stated, is Renminbi (“RMB”).

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

Important Notice

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

The 2017 results announcement and Annual Report have been reviewed and approved at the meeting of the Board of Directors of the Bank held on March 27, 2018. The Bank has 15 Directors in total, among which 15 Directors attended the meeting in person. The attendance was in compliance with the requirements of Company Law of the People's Republic of China and the Articles of Association.

The Board of Directors of the Bank proposed the distribution of cash dividend of RMB1.471(tax-inclusive) for ten shares of 81,030,574,000 ordinary Shares to all of our holders of ordinary shares for the year ended December 31, 2017, totaling approximately RMB11,920 million (tax-inclusive). The above recommendation of 2017 annual dividend is subject to the approval of the 2017 annual general meeting. Upon consideration and approval of 2017 profit distribution proposal of the Bank by the annual general meeting, it is expected that cash dividends will be distributed on or around Friday, August 17, 2018. The Bank's profits for the reporting period are set out in "Discussion and Analysis-Analysis of Financial Statements".

The 2017 annual financial report prepared by the Bank in accordance with IFRSs has been reviewed by PricewaterhouseCoopers in accordance with the International Standards on auditing with a standard unqualified audit report issued.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
March 27, 2018

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

During the reporting period, the Bank was not aware of any material risk that would adversely affect its future development strategies and business targets. The Bank actively took measures and effectively managed all kinds of risks. Please refer to "Discussion and Analysis — Risk Management" for more details.

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.

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 code:	9111000071093465XC
Financial license institutional code:	B0018H111000001

Stock exchange on which H shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC
Stock code:	1658
Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
Stock exchange on which preference shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC 17USDPREF
Stock code:	4612
Legal Advisor as to PRC laws:	Haiwen & Partners
Legal Advisor as to Hong Kong laws:	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 in this annual report have been prepared in accordance with the IFRS. Unless otherwise specified, they are consolidated data of PSBC and its subsidiary.)

Key Financial Data

Item	<i>In millions of RMB</i>				
	2017	2016	2015	2014	2013
Annual operating results					
Operating income	224,864	189,602	190,633	173,875	145,234
Net interest income	188,115	157,586	179,259	167,816	138,973
Net fee and commission income	12,737	11,498	8,672	6,479	5,965
Operating expenses	147,016	129,772	123,610	114,126	101,466
Impairment losses on assets	26,737	16,902	25,635	20,412	8,674
Profit before income tax	51,111	42,928	41,388	39,337	35,094
Net profit	47,709	39,776	34,857	32,567	29,668
Net profit attributable to					
Shareholders of the Bank	47,683	39,801	34,859	32,567	29,668
Net cash from operating activities	(365,049)	220,457	929,417	680,953	19,781

In millions of RMB

Item	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Data as at the end of the reporting period					
Total assets	9,012,551	8,265,622	7,296,364	6,298,325	5,574,451
Total loans to customers ⁽¹⁾	3,630,135	3,010,648	2,471,853	1,875,748	1,492,605
Allowance for impairment losses on loans	88,564	71,431	59,258	43,681	29,345
Loans to customers, net	3,541,571	2,939,217	2,412,595	1,832,067	1,463,260
Investment securities and other financial assets ⁽²⁾	3,167,033	3,463,841	2,986,667	1,580,222	1,277,441
Cash and deposits with central bank	1,411,962	1,310,273	1,131,231	1,389,759	1,225,708
Total liabilities	8,581,194	7,918,734	7,025,533	6,110,416	5,433,404
Customer deposits	8,062,659	7,286,311	6,305,014	5,802,946	5,206,468
Equity attributable to Shareholders of the Bank	430,973	346,530	270,448	187,909	141,047
Net capital	555,445	444,919	329,848	211,744	160,529
Net core tier 1 capital	381,673	344,817	269,008	186,975	140,232
Additional tier 1 capital, net	47,887	6	1	—	—
Risk-weighted assets	4,440,497	3,995,908	3,153,015	2,214,818	1,816,168

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

(2) Include financial assets at fair value through profit and loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables net of corresponding impairment allowance held by the Bank.

Financial Highlights

Financial Indicators

Item	2017	2016	2015	2014	2013
Profitability (%)					
Return on average total assets ⁽¹⁾	0.55	0.51	0.51	0.55	0.57
Return on weighted average equity ⁽²⁾	13.07	13.44	16.98	20.70	23.64
Net interest margin ⁽³⁾	2.40	2.24	2.78	2.92	2.67
Net interest spread ⁽⁴⁾	2.46	2.34	2.71	2.87	2.66
Net fee and commission income to operating income ratio	5.66	6.06	4.55	3.73	4.11
Cost-to-income ratio ⁽⁵⁾	64.64	66.44	60.71	60.95	65.57
Per share data (in RMB)					
Basic earnings per share ⁽⁶⁾	0.59	0.55	0.61	0.69	0.66
Diluted earnings per share ⁽⁷⁾	0.59	0.55	0.61	0.69	0.66

Item	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Asset quality (%)					
Non-performing loan ratio ⁽⁸⁾	0.75	0.87	0.80	0.64	0.51
Allowance coverage ratio ⁽⁹⁾	324.77	271.69	298.15	364.10	382.94
Allowance to loan ratio ⁽¹⁰⁾	2.44	2.37	2.40	2.33	1.97
Capital adequacy ratio (%)					
Core tier 1 capital adequacy ratio ⁽¹¹⁾	8.60	8.63	8.53	8.44	7.72
Tier 1 capital adequacy ratio ⁽¹²⁾	9.67	8.63	8.53	8.44	7.72
Capital adequacy ratio ⁽¹³⁾	12.51	11.13	10.46	9.56	8.84
Risk-weighted assets to total assets ratio ⁽¹⁴⁾	49.27	48.34	43.21	35.17	32.58
Total equity to total assets ratio	4.79	4.20	3.71	2.98	2.53

-
- (1) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
 - (2) 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.
 - (3) Calculated by dividing net interest income by the daily average balance of interest-earning assets.
 - (4) Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
 - (5) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.
 - (6) Calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period.
 - (7) There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.
 - (8) Calculated by dividing total non-performing loans by the total loans to customers.
 - (9) Calculated by dividing total allowance for impairment losses on loans by total non-performing loans.
 - (10) Calculated by dividing total allowance for impairment losses on loans by total loans to customers.
 - (11) Calculated by dividing core tier 1 capital, net of core tier 1 capital deductions, by risk-weighted assets.
 - (12) Calculated by dividing tier 1 capital, net of tier 1 capital deductions, by risk-weighted assets.
 - (13) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
 - (14) Calculated by dividing risk-weighted assets by total assets.

Financial Highlights

Other Major Indicators

Item	Regulatory Criteria	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Liquidity ratio (%) ⁽¹⁾	≥25	42.10	38.37	33.96	43.66	51.28
Loan exposure to the largest single customer (%) ⁽²⁾	≤10	35.04	44.34	73.70	114.87	151.52

Item		December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Loan migration ratio (%)	Normal	1.61	1.58	2.15	1.83	1.71
	Special mention	21.39	12.95	6.53	3.84	1.47
	Substandard	92.74	88.37	87.94	92.66	92.10
	Doubtful	88.95	80.28	81.94	91.45	97.73

(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 the largest single customer = total loans to the largest customer/net capital×100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2017, China Railway Corporation was our largest single borrower, and the outstanding loan balance with China Railway Corporation was RMB194,633 million, representing 35.04% of our net capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which was approved by the CBRC. As of December 31, 2017, the outstanding loan balance under such credit approved by the CBRC for China Railway Corporation was RMB175.0 billion. After the deduction of this RMB175.0 billion, our loan balance with China Railway Corporation represented 3.53% of our net capital.

Item		2017	2016	2015	2014	2013
Credit rating	Standard & Poor's Rating Services	A (stable)	—	—	—	—
	Moody's Investors Service	A2 (positive)	—	—	—	—
	Fitch Ratings	A+ (stable)	—	—	—	—
	CCXI (中誠信)	AAA	AAA	AAA	—	—

Honors and Awards

Award	Issued by
<p>“Customer Information Platform System of massive data memorized based on unified management and under Open Source Framework” (基於統一管理及開源架構下海量數據內存化的客戶信息平台系統) was awarded the second prize of “2016 Bank Technology Development Award” (2016年度銀行科技發展獎二等獎)</p> <p>Outstanding Institution in Bank Card Business (銀行卡行業優秀成員單位獎)</p>	PBOC
<p>2017 Best Performance Award in the Activity of Popularizing Financial Knowledge by China Banking Industry (2017年度中國銀行業普及金融知識萬里行活動最佳成效獎)</p> <p>Best Livelihood Finance Award (年度社會責任最佳民生金融獎)</p> <p>Best Trade Financial Growth Bank (最佳貿易金融成長銀行)</p>	China Banking Association
<p>“Research and Practice of Finance Cloud Platform of PSBC” (郵儲銀行金融雲平台研究與實踐) was awarded A Class Achievement of 2017 Banking Information and Technology Risk Management Research Project (2017年度銀行業信息科技風險管理課題研究一類成果)</p>	CBRC
<p>2016–2017 China Internet Charity Award (2016–2017年度中國互聯網公益獎)</p>	Internet Society of China
<p>China E-bank Golden Award (中國電子銀行金榜獎)</p> <ul style="list-style-type: none"> – 2017 Best Online Banking Award (2017年最佳網上銀行獎) – 2017 Best Personal Mobile Bank User Experience Award (2017年最佳個人手機銀行用戶體驗獎) 	China Financial Certification Authority
<p>2017 China International Financial Exhibition “Golden Tripod Award” — Excellent Financial Brand of the Year (2017中國國際金融展「金鼎獎」— 年度優秀金融品牌獎)</p>	China International Exhibition on Financial Banking Technologies & Equipment, Organizing Committee of China International Financial Service Exhibition
<p>Triple A Regional House and Deal Awards 2017 — Best Bank Capital Bond (2017年度亞洲最佳銀行資本工具發行)</p> <p>Triple A Country Awards 2017 — China-Best Bank Capital (2017年度中國最佳銀行資本工具發行)</p>	The Asset (《財資》雜誌)
<p>Best Financial Bond in 2017 (2017年度最佳金融債券)</p>	Global Capital Asia

Honors and Awards

Award	Issued by
Best Listed Company for Investor Relation Management (最佳投資者關係管理上市公司)	Hong Kong Ta Kung Wen Wei Media Group (香港大公文匯傳媒集團)
Hong Kong Corporate Governance Excellence Awards 2017 (2017香港公司管治卓越獎)	The Chamber of Hong Kong Listed Companies (香港上市公司商會), Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University (香港浸會大學公司管治與金融政策研究中心)
China Listed Companies of Financing Award 2017 — Best Listed Company Award (2017年中國融資上市公司大獎 — 最佳上市公司大獎)	China Financial Market (《中國融資》雜誌)
Best Transaction Bank for Payment Services in China (最佳支付服務銀行)	Asiamoney
Best SME Banks (最佳中小企業服務銀行)	Global Finance
Digital Transition Forerunner Award 2017 — Operation Transition (2017年數字化轉型領軍者大獎 — 運營模式轉型)	IDC.com (IDC亞太區)
Chinese Outstanding Social Responsibility Award 2017 (2017中國社會責任傑出企業獎)	Xinhua.net (新華網)
Most Reliable Bank of the Year (最值得百姓信賴的銀行機構)	China Comment (半月談)
Special Achievement Award (金龍十年●非凡成就獎)	Financial Times (金融時報)
The Best Risk Management Bank of the Year (年度最佳風險管理銀行)	
Best Bank of Inclusive Finance 2017 (2017年最佳普惠金融銀行)	The Banker (China)
Bank of Inclusive Finance 2017 (2017年度普惠金融銀行)	21 st Century Media (二十一世紀傳媒)
Competitive Consumer Loan Bank 2017 (2017年度競爭力消費信貸銀行)	
Best Strategic Management Award for Boards of Listed Companies 2017 (2017年中國上市公司卓越董事會最佳戰略管理獎)	
Outstanding State-owned Commercial Bank with Competitiveness in 2017 (2017卓越競爭力國有商業銀行)	China Business Journal (中國經營報)
Outstanding Internet financial Bank with Competitiveness in 2017 (2017卓越競爭力網絡金融銀行)	

Award	Issued by
2017 Evergreen Award Best Assets Management Bank (2017長青獎最佳資產管理銀行)	Caijing Magazine (財經)
Top Banks of Green Finance 2017 (2017年度中國TOP金融榜 — 年度綠色金融)	The Paper (澎湃新聞)
Annual Best Credit Card (年度最佳信用卡)	National Business Daily (每日經濟新聞)
Outstanding Retail Bank Award (傑出零售銀行獎) Outstanding Mobile Bank Award (傑出手機銀行獎)	JRJ.com (金融界)
Gold Medal Corporate Bank of the Year (年度金牌公司銀行) Gold Medal Electronic Bank of the Year (年度金牌電子銀行) Gold Medal Bank of Branding of the Year (年度金牌品牌力銀行)	Financial Money (金融理財)



Li Guohua
Chairman

李國華

Message from the Chairman

2017 marks the 10th anniversary of Postal Savings Bank of China. This year, the world economy maintained a mild recovery momentum, while China's economy advanced amid stability. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we focused on the three tasks of "serving the real economy, preventing and managing financial risks and deepening the financial reform", consolidated our traditional strengths and steadily made innovations, presenting brand-new results. The total assets exceeded RMB9 trillion, and the operating income and net profit amounted to RMB224,864 million and RMB47,709 million, respectively. We ranked 21st among *The Bankers* Top 1000 World Banks 2017, ranked 55th among the *Forbes'* World 2000 Biggest Public Companies 2016 and ranked 34th among *The Fortune's* China Top 500 Companies.

We have strived forward persistently in spite of the challenges we faced during the establishment and development of the Bank. Over the past decade, Postal Savings Bank of China has developed from a savings and remittance institution dominated by liability-based business into a full-fledged commercial bank with its total assets exceeding RMB9 trillion. Our credit business has grown from zero to a business of more than RMB3.6 trillion. With an average annual growth of 9% in assets, the Bank has experienced an average annual growth of over 20% in revenue and profit. The Bank has also transformed from a commercial bank solely controlled by a stated-owned shareholder to an international listed bank featuring diversified types of equity and advanced corporate governance, with a market value surpassing HK\$400 billion. Currently, we have nearly 40,000 outlets covering both urban and rural areas, representing more than 1/6 of the total outlets of the banking financial institutions in China, and serve 553 million personal customers across the country, representing more than 1/3 of the China's population. We have embarked on an unique track of development and played an important role in China's financial market, laying a solid foundation for our new development journey in the next decade.

In 2017, we further enhanced the leadership of the Party and improved our corporate governance mechanism.

Adhering to and strengthening Party leadership in all areas of endeavor is concerned with the destiny of the state. As a state-owned enterprise under the leadership of the Party, Postal Savings Bank of China has always consciously adhered to the overall leadership of the Party, fulfilled the mission entrusted by the state and kept strengthening modern corporate governance structure over the past decade. In 2017, giving full play to the Party organization's role of setting the direction, having overall control and ensuring implementation, we have integrated the Party's leadership into the corporate governance, improved the modern financial enterprise system as well as external market constraint and internal control mechanism, and put into effect the management responsibility of the Board of Directors, the supervision responsibility of the Board of Supervisors and implementation responsibility of the senior management, so as to effectively protect the rights and interests of the shareholders, customers and employees.

In 2017, we adhered to the development strategy of "One Body Two Wings", and effectively served the real economy.

Serving the real economy is our founding mission as well as foundation for development. Over the past decade, Postal Savings Bank of China has always maintained its strategic focus as a large retail commercial bank, followed the mission of serving communities, SMEs and "Sannong" customers, focused on national strategy and leveraged on its abundant resources to promote economic transformation and upgrading. In 2017, despite decreases in both the growth and increment of deposits in the banking industry, the Bank's total customer deposits increased by RMB776,348 million or 10.65% compared with the prior year-end; the aggregate loans to customers increased by RMB619,487 million compared with the prior year-end, ranking top among the Large Commercial Banks in China with an increase of 20.58%. We vigorously supported the national strategy of poverty alleviation by making product

Message from the Chairman

and service innovation based on local conditions and enhancing efforts to reduce poverty through financial services. We completed the reform of Sannong Finance Department nationwide, with the balance of agriculture-related loans exceeding RMB1 trillion for the first time. We continued to expand the inclusive financial services, providing money withdrawing services for farmers and improving the rural payment environment, with 143,000 financial service points established for farmers. Focusing on serving the supply-side structural reform as the focus, we supported industrial transformation and upgrading and supported infrastructure construction, with the balance of corporate loans reaching RMB1.39 trillion, representing a year-on-year industry-leading increase of 28.95%. We emphasized the development of green finance and constantly improved our green finance service ability, recording a green credit balance of RMB176.6 billion, representing a year-on-year increase of 134.78%. We focused on supporting the “Belt and Road” initiative and the trade financing scale totaled RMB247.5 billion, representing a year-on-year increase of 20.32%.

In 2017, we adhered to a prudent risk management strategy and maintained good asset quality. Good asset quality is not only the foundation of the Bank but also our core strength. In the past decade, we have combined risk compliance management and business development and have grown from a single and two-dimensional risk management system to a comprehensive and three-dimensional one, maintaining our industry-leading role in terms of asset quality. In 2017, we focused on solving problems and held to the risk bottom line, regarding “ensuring compliance, holding the risk bottom line and controlling risk” as the prerequisite and basis for all works. We thoroughly implemented all the targeted regulatory requirements such as those aiming to crack down on “Three Violations, Three Arbitrages, Four Improper Behaviors and Ten Irregularities”, strengthened the risk management and control in key areas, deepened the construction of the internal control system, and consolidated the foundation for compliance management. In addition, we introduced the economic capital-driven concept in an all-round manner, built an economic capital allocation mechanism linking capital with credits and returns, and struck a dynamic balance between the business, finance, and capital management. As of the end of 2017, the capital adequacy ratio was 12.51%, representing an increase of 1.38 percentage points, compared with the prior year-end. The non-performing loan ratio was 0.75%, representing a decrease of 0.12 percentage point, compared with the prior year-end. The allowance coverage ratio was 324.77%, representing an increase of 53.08 percentage points, compared with the prior year-end.

In 2017, we deepened the reform of systems and mechanisms and made new achievements in innovation and development. Innovation is the primary driving force for development and the source of an enterprise’s core competitiveness. In the past decade, Postal Savings Bank of China has gained strength and made achievements by drawing on traditions and making innovations. It has implemented the three-step development strategy of “transformation of ownership — introduction of strategic investors — initial public offering” and realized successful strategic transformation. In 2017, we further advanced the digital transformation to embrace a future driven by innovation and technology. We continued to promote the implementation of the “13th Five-Year IT Plan”, formulated long-term development outlines and phased goals for internet finance, and comprehensively increased the efficiency of risk management and business and financial operation by promoting deep integration between technology and business relying on IT innovation lab and internet finance innovation lab. We also accelerated the construction of intelligent outlets and the application of new smart devices and gave full play to the advantage of minicomputer clusters, embarking on a distinctive path of cost-effective and self-controllable IT application. By issuing USD7.25 billion offshore preference

shares, the Bank filled its gap under additional tier 1 capital and further consolidated its capital strength, once again creating multiple capital market records and winning the recognition of domestic and international investors as well as three major international rating agencies.

In 2017, there were certain changes in the members of the Board of Directors of Postal Savings Bank of China. Mr. Lai Weiwen and Mr. Yang Songtang no longer served as Directors of the Bank due to job changes. On behalf of the Board, I would like to express my gratitude for their diligence and outstanding contributions during their tenure; and at the same time welcome Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue, Mr. Ding Xiangming and Mr. Hu Xiang to join the Board of Directors of the Bank, and I believe that their joining will further promote the development of the Board of Directors and innovation in operation and management.

The year 2018 is a significant year for Postal Savings Bank of China to practice new ideas, serve the new era and embark on a new journey. With the deepening of supply-side structural reform, the implementation of major strategies such as rural revitalization, targeted poverty alleviation, the “Belt and Road” initiative and Xiongan New Area, as well as the expanding of middle-income groups in a country with the largest population in the world, Postal Savings Bank of China is provided with a vast room for development. We will thoroughly implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, continue to carry forward the tenacious spirit of reform, stay true to the mission of “serving the real economy,” adhere to the mission of “creating values for shareholders”, so as to achieve a high-quality development of Postal Savings Bank of China, make contribution to the building of a moderately prosperous society in all aspects and the building of a modern socialist country. “History looks kindly on those with resolve, with drive and ambition, and with plenty of guts; it won’t wait for the hesitant, the apathetic, or those shy of a challenge.” The young Postal Savings Bank of China will take a more mature stance and embark on the next 10-year journey, making a fresh start of transformation and development and growing into a first-tier large retail commercial bank.



Lyu Jiajin
President

吕家进

Message from the President

In 2017, facing complicated internal and external business environment, the management of the Bank adhered to its strategic positioning of serving communities, SMEs and “Sannong” customers, remained committed to the underlying principle of making progress while keeping performance stable and gained a strong understanding of value creation philosophy. Taking the acceleration of transformation as an overall requirement, the improvement of quality and efficiency as the general objective, and reform as the impetus to development, we took measures to increase efficiency, reduce costs, manage risks and reinforce IT development, completing tasks, targets and business plans proposed by the Board. As of the end of December 2017, the Bank recorded a net profit of RMB47,709 million, representing an increase of 19.94%, ranking top among Large Commercial Banks in terms of growth rate. The representing ROA and ROE and other performance indicators were further enhanced, indicating better profitability and stronger value creation capability.

Asset and liability structure was further optimized. Against the backdrop of stricter Macro Prudential Assessment (MPA) of the central bank, intensified market competition and a slowdown in asset growth among commercial banks, the Bank’s total assets increased by RMB746,929 million, or 9.04% over the prior year-end, to more than RMB9 trillion. On the asset side, the Bank increased its commitment to the real economy, with total loans to customers increasing by 619,487 million to RMB3.63 trillion, ranking top among Large Commercial Banks in China in terms of growth rate. The loan-to-deposit ratio reached 45.02%, representing an increase of 3.70 percentage points, compared with the prior year-end and the proportion of credit assets to total assets increased by 3.85 percentage points. On the liability side, the Bank steadily developed its core liabilities, with customer deposits increasing by RMB776,348 million, or 10.65% year-on-year, and the cost of interest-bearing liabilities falling by 17 BP.

Encouraging progress was made in deepening reform. In 2017, we successfully issued USD7.25 billion offshore preference shares and RMB20 billion tier 2 capital bonds to supplement capital quickly and effectively at a low cost. In addition, the Bank completed the reform of Sannong Finance Department nationwide, laying a sound foundation for “Sannong” financial services to grow more specialized, better and stronger. Furthermore, we continued to optimize the performance assessment indicators and put into place a strategy-driven performance assessment system with value creation at its core, further strengthening the “baton” role of the performance assessment system.

Notable results were achieved in serving the real economy. We actively responded to the national strategies and policies, devoted itself to serving communities, SMEs, and “Sannong” customers and contributed greatly to major national projects, effectively supporting the development of the real economy. We followed the supply-side structural reform in agriculture and achieved full coverage in the field of “Sannong” financial services by expanding services from granting micro loans “supporting farmers and micro agriculture-related businesses” to serving the industrialization of agriculture and rural infrastructure projects in an all-round way, with the balance of agriculture-related loans exceeding RMB1 trillion, representing an increase of RMB136,764 million, or 14.91% compared with the prior year-end. Seizing opportunities brought by industrialization, urbanization and agricultural modernization, the Bank also reduced the financing cost and improved services for micro and small enterprises with a particular focus on those in emerging fields such as science and technology, medical care and health. Loans to small and micro enterprises for the year amounted to RMB760,752 million and the number of customers with credit extension reached 1,662,500. In addition, the Bank resolutely implemented the state’s real estate regulatory policies and grasped the opportunity brought by consumption

Message from the President

upgrading, with the balance of consumer credit totaling RMB1.41 trillion, representing an increase of RMB309,699 million, compared with the prior year-end, and consumer loans excluding housing loans as a percentage of total personal loans increasing by 0.66 percentage point. Furthermore, we fully supported major national strategies such as the “Belt and Road” initiative and the Beijing-Tianjin-Hebei integration, prioritized key areas such as infrastructure construction, people’s livelihood projects as well as advanced manufacturing, and increased credit supply to major national projects, posting RMB1.39 trillion balance of corporate loans, representing an increase of RMB312,509 million, or 28.95% year-on-year.

New business showed a good momentum. The Bank complied with regulatory requirements in its financial market business, adhered to the principle of compliant and stable business operations, strengthened market research to form better judgment, took the initiative to optimize the structure, and adjusted the pace and amounts of asset allocation in a timely manner, with the scale of local and foreign currency transactions reaching RMB64.97 trillion, the balance of debt securities and negotiable certificates of deposit amounting to RMB2.40 trillion, and the balance of interbank investment totaling RMB719,832 million. In terms of asset management business, we actively explored the transformation towards net worth products, optimized product design strategies, and continuously enriched the two major product lines of “PSBC Fortune” and “PSBC Wisdom” to meet the diverse investment and wealth management needs of customers with different risk appetites. The Bank issued wealth management products of RMB2.25 trillion, representing an increase of RMB223,903 million, or 11.08% year-on-year. We also increased support to credit card business, actively carried out cross-selling, accelerated penetration among existing customers, enriched credit card installment business and new types of payment functions, and fully optimized user experience. The number of newly-issued cards reached 6,871,600, representing an increase of 84% year-on-year, the number of credit cards in circulation reached 17,054,900, the cumulative credit card consumption amounted to RMB569,946 million, representing an increase of 24.80% year-on-year and the increase in installment amount reached RMB27,173 million, representing an increase of 43.46% year-on-year. In addition, the market influence of the investment banking business has been significantly improved, with major breakthroughs in areas such as M&A loans, wealth management and debt securities underwriting.

Solid progress was made in risk prevention and control. The Bank thoroughly implemented various targeted regulatory requirements including measures against “Three Violations, Three Arbitrages, Four Improper Behaviors and Ten Irregularities”, firmly carried out inspection and targeted rectification to prevent and mitigate risks in key areas, constantly optimized policy tools, and enhanced accountability, achieving outstanding results in all kinds of risk management work. The non-performing loan ratio of the Bank was 0.75%, representing a decrease of 0.12 percentage point from the prior year-end; the allowance coverage ratio was 324.77%, representing an increase of 53.08 percentage points, compared with the prior year-end; the liquidity coverage ratio was 145.79%, representing an increase of 17.60 percentage points, compared with the prior year-end; and the capital adequacy ratio was 12.51%, representing an increase of 1.38 percentage points, compared with the prior year-end. The risk profile remained stable as a whole, with sound asset quality, enhanced risk compensation and offsetting capability as well as steadily improved capital strength.

Continued advances were made in capacity building. Centering on performance improvement and cost control, the Bank set up a cost benchmark system, sped up the promotion of zero-based budgeting, and strictly specified and controlled various costs. We adhered to the strategy of strengthening the Bank through talents, managed and controlled the total amount of employment, improved the remuneration distribution mechanism, and continuously improved the labor cost efficiency. Under the guidance of the “13th Five-Year IT Plan”, we strengthened self-control capability, actively applied cutting-edge technologies such as big data, cloud computing, block-chain and artificial intelligence to launch 111 projects including the mobile banking 3.0 and the internal rating platform. We also continuously optimized the business processes and counter operating organizations, basically forming a centralized operating structure.

The year 2018 marks the beginning of the “second decade” of Postal Savings Bank of China and also the starting year of a new journey towards building our Bank into a first-tier large retail commercial bank. The management will fully implement the business objectives and tasks set by the Board of Directors, continue to make progress while maintaining stability, stick to the strategic positioning, hold fast the risk bottom line, deepen reform in key areas, strengthen refined management, improve quality and efficiency, so as to reward our shareholders and all sectors of society with better performance for their trust and support!



Chen Yuejun

Chairman of the Board of Supervisors

陈永军

Discussion and Analysis

Environment and Prospect

In 2017, the global economy continued to recover and expand and inflation was generally moderate. Driven by a series of stimulus measures, major economic indicators in the United States such as manufacturing and employment indicators continued to improve and the economy recovered strongly. The economy in the Eurozone continued to improve and domestic demands, especially investment, were the major driving force behind the economic recovery. The economy of the United Kingdom remained generally stable, but the process and impact of Brexit remained uncertain. Japan's economy recovered moderately and inflation improved to a certain extent. The emerging market economies showed rapid growth in general, yet some economies still faced the pressure of adjustment and transformation. Looking into 2018, the global economy is expected to continue to recover but still faces various unstable and uncertain factors, such as changes brought by major economies' policy adjustments and their spillover effects, intensified protectionism and increasing geopolitical risks. In the *World Economic Outlook* released in January 2018, the IMF forecasts that the global economy will grow by 3.9% in 2018, 0.2 percentage point higher than the estimate made in October 2017.

In 2017, China's economy achieved stable and positive performance. The country's economic structure continued to be optimized, the development of new drivers of growth stepped up, and both the quality and efficiency of the economy were enhanced. China's GDP grew by 6.9% year-on-year, 0.2 percentage point higher than that in 2016, marking the first acceleration in seven years. The added value of the service industry accounted for 51.6% of the GDP and that of the high-tech manufacturing and equipment manufacturing industries increased by 13.4% and 11.3% respectively year-on-year, 6.8 and 4.7 percentage points higher than those of the industries above the designated scale respectively. The contribution of consumption toward economic growth reached 58.8%, 26.7 percentage points higher than the gross capital formation. The monetary policy remained steady and neutral. The interest rates of reverse repurchase, Medium-term Lending Facility (MLF) and Standing Lending Facility (SLF) rose moderately and market liquidity was tight as a whole. The role of window guidance and credit policies in guiding structural adjustment was strengthened, and the credit support for economic restructuring and upgrading steadily increased. The interest rate liberalization was further deepened and the exchange rate of RMB remained basically stable at a reasonable and balanced level. As the financial supervision became more stringent, the CBRC carried out special regulatory work such as those aiming to crack down on "Three Violations, Three Arbitrages, Four Improper Behaviors and Ten Irregularities" as well as special investigation on credit risk. As a result, behaviors disrupting the order in the financial market were basically rectified, and the momentum of "moving away from the real economy toward virtual industries" was initially contained, the awareness of compliance and risk management was strengthened, and strong and strict supervision and regulation basically took shape.

Discussion and Analysis

In 2018, the Chinese economy will show enhanced stability, improved quality and structural optimization with the in-depth promotion of supply side structural reform, reform in fundamental key areas as well as strategies such as innovation-driven development, rural vitalization, and coordinated regional development. The monetary policy will continue to remain steady and neutral, neither too tight nor too loose, with a reasonable growth in the scale of monetary credit and social financing, and the liquidity of the banking system will stay reasonable and stable. The banking industry irregularities will be further rectified, which will impose certain pressure on commercial banks, yet make market competition in the banking industry more fair and orderly and form a virtuous financial and real economic cycle.

Looking into 2018, the Bank will fully implement the decisions made by the 19th National Congress of the CPC, the National Financial Work Conference, the Central Economic Work Conference and the Central Rural Work Conference, adhere to the general principle of pursuing progress while ensuring stability, stick to its strategic positioning, strictly defend the risk bottom line with respect to risks, accelerate the construction of smart bank, deepen reform in key areas, strengthen refined management, improve both the quality and efficiency, and comprehensively strengthen Party building, so as to open a new era of its transformation and development.

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

In 2017, focusing on the target of becoming a first-tier large retail commercial bank, the Bank deepened reform, refined structure and strengthened risk control, recording a net profit of RMB47,709 million, representing an increase of RMB7,933 million, or 19.94%, compared with the prior year. The stable growth in earnings was mainly due to its proactive response to market changes, adjustment in asset and liability structure and a stable growth in net interest income. Meanwhile, the Bank intensively developed its credit card, asset management and electronic payment business, and achieved fast growth in non-interest income.

Changes of Key Items in the Comprehensive Income Statement

In millions of RMB, except for percentages

	2017	2016	Increase/ (decrease)	Change (%)
Net interest income	188,115	157,586	30,529	19.37
Net fee and commission income	12,737	11,498	1,239	10.78
Other non-interest income	24,012	20,518	3,494	17.03
Operating income	224,864	189,602	35,262	18.60
Less: Operating expenses	147,016	129,772	17,244	13.29
Impairment losses on assets	26,737	16,902	9,835	58.19
Profit before income tax	51,111	42,928	8,183	19.06
Less: Income tax expenses	3,402	3,152	250	7.93
Net profit	47,709	39,776	7,933	19.94
Attributable to Shareholders of the Bank	47,683	39,801	7,882	19.80
Attributable to non-controlling interests	26	(25)	51	(204.00)
Other comprehensive income	(5,114)	(4,821)	(293)	6.08
Total comprehensive income	42,595	34,955	7,640	21.86

Net Interest Income

During the reporting period, the Bank's net interest income was RMB188,115 million, representing an increase of RMB30,529 million, or 19.37%, compared with the prior year. The Bank's net interest margin and net interest spread were 2.40% and 2.46%, respectively, representing an increase of 16 basis points and 12 basis points compared with the prior year, respectively. In 2017, the Bank increased loan extension and kept increasing the proportion of loans to total assets, while at the same time optimizing the structure of liabilities, which results in a further decrease in the cost of interest-bearing liabilities.

Discussion and Analysis

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

In millions of RMB, except for percentages

Item	2017			2016		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Assets						
Total loans to customers	3,283,007	160,981	4.90	2,699,198	134,905	5.00
Fixed-income investments ⁽¹⁾	2,567,565	95,259	3.71	2,498,930	98,215	3.93
Deposits with central bank ⁽²⁾	1,313,179	21,258	1.62	1,225,068	19,322	1.58
Deposits and placements with banks and other financial institutions ⁽³⁾	673,594	27,787	4.13	617,569	25,756	4.17
Total interest-earning assets	7,837,345	305,285	3.90	7,040,765	278,198	3.95
Allowance for impairment losses	(59,583)	—	—	(49,290)	—	—
Non-interest earning assets ⁽⁴⁾	818,652	—	—	1,067,416	—	—
Total assets	8,596,414	—	—	8,058,891	—	—
Liabilities						
Customer deposits	7,806,534	107,797	1.38	6,853,286	102,197	1.49
Deposits and placements from banks and other financial institutions ⁽⁵⁾	274,339	6,549	2.39	608,396	17,113	2.81
Debt securities issued ⁽⁶⁾	70,479	2,824	4.01	30,246	1,302	4.30
Total interest-bearing liabilities	8,151,352	117,170	1.44	7,491,928	120,612	1.61
Non-interest bearing liabilities ⁽⁷⁾	180,630	—	—	124,775	—	—
Total liabilities	8,331,982	—	—	7,616,703	—	—
Net interest income	—	188,115	—	—	157,586	—
Net interest spread⁽⁸⁾	—	—	2.46	—	—	2.34
Net interest margin⁽⁹⁾	—	—	2.40	—	—	2.24

- (1) Consists of fixed income investments held by the Bank that are 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.

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- (2) Consists of statutory reserve of deposit and excess reserve with central bank.
 - (3) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.
 - (4) Consists primarily of cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred tax assets and other assets.
 - (5) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.
 - (6) Consists of qualified tier 2 capital instruments issued.
 - (7) Consists primarily of interest payables, payables for agency services, settlement and clearance payables, taxes payable, employee benefits payable and other liabilities.
 - (8) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
 - (9) Calculated by dividing net interest income by the average balance of total interest-earning assets.

Discussion and Analysis

Changes in Net Interest Income Due to Changes in Volume and Interest Rate

In millions of RMB

	2017 vs 2016		
	Reason for increase/ (decrease)		Total ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Total loans to customers	28,627	(2,551)	26,076
Fixed-income investments	2,546	(5,502)	(2,956)
Deposits with central bank	1,426	510	1,936
Deposits and placements with banks and other financial institutions	2,311	(280)	2,031
Changes in interest income	34,910	(7,823)	27,087
Liabilities			
Customer deposits	13,163	(7,563)	5,600
Deposits and placements from banks and other financial institutions	(7,975)	(2,589)	(10,564)
Debt securities issued	1,612	(90)	1,522
Changes in interest expense	6,800	(10,242)	(3,442)
Changes in net interest income	28,110	2,419	30,529

(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.

Interest Income

During the reporting period, the Bank's interest income amounted to RMB305,285 million, representing an increase of RMB27,087 million, or 9.74%, compared with the prior year, primarily due to an increase of RMB796,580 million in the average balance of interest-earning assets, which was partially offset by a decrease of 5 basis points in the average yield.

Interest Income from Loans to Customers

During the reporting period, the Bank's interest income from loans to customers amounted to RMB160,981 million, representing an increase of RMB26,076 million, or 19.33%, compared with the prior year, primarily attributable to an increase of RMB583,809 million in the average balance of loans to customers, but was partially offset by a decrease of 10 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	2017			2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,256,050	55,170	4.39	1,040,431	46,185	4.44
Discounted bills	297,877	11,934	4.01	318,764	10,689	3.35
Personal loans	1,729,080	93,877	5.43	1,340,004	78,031	5.82
Total loans to customers	3,283,007	160,981	4.90	2,699,198	134,905	5.00

In terms of business lines, during the reporting period, the Bank's interest income from corporate loans amounted to RMB55,170 million, representing an increase of RMB8,985 million, or 19.45%, compared with the prior year. Interest income from personal loans amounted to RMB93,877 million, representing an increase of RMB15,846 million, or 20.31%, compared with the prior year. The Bank kept adjusting the portfolio of loans, and increased loan extension into the real economy. The average balances of both corporate loans and personal loans rose steadily, but was partially offset by the decrease in the average yield.

Discussion and Analysis

Interest Income from Fixed Income Investments

During the reporting period, the Bank's interest income from fixed income investments amounted to RMB95,259 million, representing a decrease of RMB2,956 million, or 3.01%, compared with the prior year. The Bank actively implemented regulatory requirements, took the initiative to control the scale of interbank investments and improve the proportion of standardized debt securities, which results in the decrease of average yield.

Interest Income from Deposits with Central Bank

During the reporting period, interest income from deposits with central bank amounted to RMB21,258 million, representing an increase of RMB1,936 million, or 10.02%, compared with the prior year, primarily due to an increase 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 RMB27,787 million, representing an increase of RMB2,031 million, or 7.89%, compared with the prior year. The Bank seized the market opportunities to allocate its assets reasonably. The average balance of the deposits and placements with banks and other financial institutions increased by RMB56,025 million as compared with the prior year. However, the average yield experienced a decrease due to the maturity of the long-term assets.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB117,170 million, representing a decrease of RMB3,442 million, or 2.85%, compared with the prior year, primarily due to a decrease of 17 basis points in the average cost, but was partially offset by an increase of RMB659,424 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 RMB107,797 million, accounting for 92.00% of total interest expense and representing an increase of RMB5,600 million, or 5.48%, compared with the prior 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 primarily because the Bank implemented a more refined management of interest rates.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	2017			2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	359,633	7,796	2.17	323,006	7,525	2.33
Demand	798,080	5,310	0.67	683,353	4,624	0.68
Subtotal	1,157,713	13,106	1.13	1,006,359	12,149	1.21
Personal deposits						
Time	4,305,472	87,450	2.03	3,723,509	83,584	2.24
Demand ⁽¹⁾	2,343,349	7,241	0.31	2,123,418	6,464	0.30
Subtotal	6,648,821	94,691	1.42	5,846,927	90,048	1.54
Total customer deposits	7,806,534	107,797	1.38	6,853,286	102,197	1.49

(1) Inclusive of credit card deposits

Interest Expense on Amounts Due to Banks and Other Financial Institutions

During the reporting period, the Bank's interest expense on amounts due to banks and other financial institutions amounted to RMB6,549 million, representing a decrease of RMB10,564 million, or 61.73%, compared with the prior year, primarily because the Bank actively reduced the deposits and placements from banks and other financial institutions to promote the coordinated development of assets and liabilities and optimize the liability structure. The average balance of deposits and placements from banks and other financial institutions decreased by RMB334,057 million. The Bank also adjusted the term structure and the average cost dropped by 42 basis points.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued amounted to RMB2,824 million, representing an increase of RMB1,522 million, or 116.90%, compared with the prior year, primarily due to its issuance of tier 2 capital bonds of RMB20 billion in 2017.

Net Fee and Commission Income

During the reporting period, the Bank proactively developed fee- and commission-based business. The Bank realized net fee and commission income of RMB12,737 million, representing an increase of RMB1,239 million, or 10.78%, compared with the prior year, and accounting for 5.66% of the operating income.

Discussion and Analysis

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Change (%)
Settlement and clearing fee income	4,751	5,640	(889)	(15.76)
Bank cards and POS fee income	8,625	5,761	2,864	49.71
Wealth management fee income	4,836	4,390	446	10.16
Agency service fee income	3,931	3,870	61	1.58
Custody business fee income	967	957	10	1.04
Others	481	397	84	21.16
Fee and commission income	23,591	21,015	2,576	12.26
Less: Fee and commission expense	10,854	9,517	1,337	14.05
Net fee and commission income	12,737	11,498	1,239	10.78

During the reporting period, settlement and clearing fee income amounted to RMB4,751 million, representing a decrease of RMB889 million, or 15.76%, compared with the prior year. According to regulatory requirements, the Bank has waived fees on intra-bank cross-region cash deposits, withdrawals and remittance since January 1, 2017, thus resulting a decrease in the Bank's income by RMB2,024 million compared with the prior year; the Bank took efforts to promote electronic payment services, which led to an increase in income of RMB1,548 million, or 123.84%, compared with the prior year.

During the reporting period, bank cards and POS fee income amounted to RMB8,625 million, representing an increase of RMB2,864 million, or 49.71%, compared with the prior year. This was primarily due to the rapid increase in consumption and installment amount of credit cards which drives the increase of transaction fees and installment income.

During the reporting period, wealth management fee income amounted to RMB4,836 million, representing an increase of RMB446 million, or 10.16%, compared with the prior year, primarily due to its enhanced investment and comprehensive service ability in wealth management business.

During the reporting period, agency service fee income amounted to RMB3,931 million, representing an increase of RMB61 million, or 1.58%, compared with the prior year, primarily due to the growth of its agency securities and investment banking fees.

During the reporting period, other fee and commission income amounted to RMB481 million, representing an increase of RMB84 million, or 21.16%, compared with the prior year.

During the reporting period, fee and commission expenses amounted to RMB10,854 million, representing an increase of RMB1,337 million, or 14.05%, compared with the prior year, primarily due to an increase in the scale of financial products distributed by China Post Group on behalf of the Bank, which resulted in the increase in commission expenses.

Other Non-Interest Income

During the reporting period, the Bank realized other non-interest income of RMB24,012 million, representing an increase of RMB3,494 million, or 17.03%, compared with the prior year.

Components of Other Non-Interest Income

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Change (%)
Net trading gains	1,875	664	1,211	182.38
Net gains on investment securities	22,255	15,479	6,776	43.78
Net other operating (losses)/gains	(118)	4,375	(4,493)	(102.70)
Total	24,012	20,518	3,494	17.03

During the reporting period, net trading gains amounted to RMB1,875 million, representing an increase of RMB1,211 million, compared with the prior year, primarily due to an increase in gains on trading of the negotiable certificates of deposit.

During the reporting period, net gains on investment securities amounted to RMB22,255 million, representing an increase of RMB6,776 million, compared with the prior year, primarily due to an increase in gains on investments in commercial banks' wealth management products.

During the reporting period, net other operating losses amounted to RMB118 million, representing a decrease of income of RMB4,493 million compared with the prior year, which primarily due to an increase in exchange losses caused by changes in exchange rate.

Operating Expenses

During the reporting period, the Bank's operating expenses amounted to RMB147,016 million, representing an increase of RMB17,244 million, or 13.29%, compared with the prior year. In particular, deposit agency fee costs and others increased by 12.71%, reflecting the increased customer deposits taken through agency outlets; staff costs increased by 14.31%, and other general operating and administrative expenses increased by 1.42%. The increase in other expenses was primarily because the Bank prudently made provisions considering litigations and claims. The Bank's cost-to-income ratio was 64.64%, representing a decrease of 1.8 percentage points from the prior year.

Discussion and Analysis

Composition of the Operating Expenses

In millions of RMB, except for percentages

Item	2017	2016	Increase/ (decrease)	Change (%)
Staff costs	41,812	36,579	5,233	14.31
Deposit agency fee costs and others	68,797	61,038	7,759	12.71
Other general operating and administrative expenses	20,462	20,175	287	1.42
Taxes and surcharges	1,662	3,794	(2,132)	(56.19)
Depreciation and amortization	4,556	4,690	(134)	(2.86)
Others	9,727	3,496	6,231	178.23
Total operating expenses	147,016	129,772	17,244	13.29
Cost-to-income ratio (%) ⁽¹⁾	64.64	66.44	(1.80)	—

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

Impairment Losses on Assets

During the reporting period, the Bank's impairment losses on assets amounted to RMB26,737 million, representing an increase of RMB9,835 million, compared with the prior year. The Bank reviewed and reassessed the risks on investment classified as receivables as well as amounts due from banks and other financial institutions and prudently made provisions for impairment of related assets.

Income Tax Expenses

During the reporting period, the Bank's income tax expenses amounted to RMB3,402 million. The effective tax rate was 6.66%, lower than the statutory tax rate of 25%, primarily reflecting the effect of tax-exempt part of the interest income from PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

Segment Information

The Bank primarily manages its business from the perspectives of business segments and geographical regions.

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	148,791	66.17	135,496	71.46
Corporate banking	43,817	19.49	35,347	18.64
Treasury business	31,833	14.16	18,357	9.68
Others	423	0.18	402	0.22
Total operating income	224,864	100.00	189,602	100.00

For further details of business segment information, please refer to “Discussion and Analysis — Business Overview”.

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	31,498	14.01	10,574	5.58
Yangtze River Delta	28,223	12.55	26,256	13.85
Pearl River Delta	22,741	10.11	20,855	11.00
Bohai Rim	28,538	12.69	26,403	13.93
Central China	55,316	24.60	50,232	26.49
Western China	42,864	19.06	40,062	21.13
Northeastern China	15,684	6.98	15,220	8.02
Total operating income	224,864	100.00	189,602	100.00

For the details of geographical region information, please see “Notes to the Consolidated Financial Statements — 43 Segment analysis”.

Discussion and Analysis

Balance Sheet Analysis

Assets

During the reporting period, aligned itself with the state's macro economic regulation, the Bank took the initiative to reduce high-cost active liabilities, constantly optimized the asset and liability structure, and maintained steady, moderate and effective asset growth. As of the end of the reporting period, the Bank's total assets amounted to RMB9,012,551 million, representing an increase of RMB746,929 million, or 9.04%, compared with the prior year-end. In particular, total loans to customers increased by RMB619,487 million, or 20.58%, compared with the prior year-end; net investment securities and other financial assets decreased by RMB296,808 million, or 8.57%, compared with the prior year-end; cash and deposits with central bank increased by RMB101,689 million, or 7.76%, compared with the prior year-end; deposits with banks and other financial institutions increased by RMB120,982 million, or 68.83%, compared with the prior year-end; placements with banks and other financial institutions increased by RMB122,712 million, or 63.49%, compared with the prior year-end; financial assets held under resale agreements increased by RMB68,843 million, or 94.14%, compared with the prior year-end. In terms of asset structure, net loans to customers, investment securities and other financial assets, cash and deposits with central bank, deposits and placements with banks as well as financial assets held under resale agreements accounted for 39.30%, 35.14%, 15.67% and 8.38% of total assets, respectively.

Key Items of Assets

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	3,630,135	—	3,010,648	—
Less: Allowance for impairment on loans	88,564	—	71,431	—
Loans to customers, net	3,541,571	39.30	2,939,217	35.56
Investment securities and other financial assets ⁽¹⁾	3,167,033	35.14	3,463,841	41.91
Cash and deposits with central bank	1,411,962	15.67	1,310,273	15.85
Deposits with banks and other financial institutions ⁽²⁾	296,758	3.29	175,776	2.13
Placements with banks and other financial institutions ⁽²⁾	315,999	3.51	193,287	2.34
Financial assets held under resale agreements	141,974	1.58	73,131	0.88
Other assets ⁽³⁾	137,254	1.52	110,097	1.33
Total assets	9,012,551	100.00	8,265,622	100.00

(1) Include financial assets at fair value through profit and loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables net of corresponding impairment allowance held by Bank.

(2) Net of the related allowance for impairment.

(3) Consist primarily of cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred tax assets and other assets.

Discussion and Analysis

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB3,630,135 million, representing an increase of RMB619,487 million, or 20.58%, compared with the prior year-end.

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,391,901	38.34	1,079,392	35.85
Discounted bills	291,761	8.04	349,081	11.60
Personal loans	1,946,473	53.62	1,582,175	52.55
Total loans to customers	3,630,135	100.00	3,010,648	100.00

As of the end of the reporting period, the Bank's total corporate loans amounted to RMB1,391,901 million, representing an increase of RMB312,509 million, or 28.95%, compared with the prior year-end. In 2017, the Bank actively supported major national projects, concentrated quality resources to contribute to the implementation of national strategies as well as transformation and upgrading of economic structure, and provided strong support for key people's livelihood projects and urban construction development. Meanwhile, the Bank constantly improved its financial services to emerging strategic industries, with a focus on industries such as the new energy and high-end equipment manufacturing industry.

As of the end of the reporting period, the Bank's total discounted bills amounted to RMB291,761 million, representing a decrease of RMB57,320 million, or 16.42% compared with the prior year-end, primarily because the Bank continued to adjust the structure of credit assets and product mix to reduce the scale of discounted bills.

As of the end of the reporting period, the Bank's total personal loans amounted to RMB1,946,473 million, representing an increase of RMB364,298 million, or 23.03%, compared with the prior year-end, primarily because the Bank's actively supported residents' reasonable credit demand and the transformation and upgrading of household consumption, which led to fast growth of personal consumer loans.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	382,006	27.45	317,722	29.44
Manufacturing	223,037	16.02	181,917	16.85
Production and supply of electricity, heating, gas and water	188,518	13.54	132,157	12.24
Financial services	169,855	12.20	161,012	14.92
Water conservancy, environmental and public facilities management	82,676	5.94	36,751	3.40
Wholesale and retail	79,602	5.72	56,937	5.27
Construction	60,851	4.37	54,450	5.05
Leasing and commercial services	58,426	4.20	17,929	1.66
Mining	48,403	3.48	47,631	4.41
Real estate	45,788	3.29	39,881	3.70
Others ⁽¹⁾	52,739	3.79	33,005	3.06
Total	1,391,901	100.00	1,079,392	100.00

(1) Others consists of agriculture, forestry, animal husbandry and fishery, information transmission, computer services and software industries, etc.

As of the end of the reporting period, the top five industries to which the Bank extended corporate loans were transportation, storage and postal services, manufacturing, production and supply of electricity, heating, gas and water, financial services, and water conservancy, environmental and public facilities management. The balance of loans extended to the top five industries accounted for 75.15% of total corporate loans, representing a decrease of 1.7 percentage points, compared with the prior year-end.

Discussion and Analysis

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	1,155,176	59.35	903,967	57.13
Other consumer loans	256,185	13.16	197,695	12.50
Personal business loans	300,990	15.46	288,370	18.23
Personal micro loans	156,427	8.04	139,239	8.80
Credit card overdrafts and others	77,695	3.99	52,904	3.34
Total personal loans	1,946,473	100.00	1,582,175	100.00

During the reporting period, the Bank's personal loans increased by RMB364,298 million, or 23.03%, compared with the prior year-end, primarily because the residential mortgage loans increased by RMB251,209 million, or 27.79%, compared with the prior year and other consumer loans increased by RMB58,490 million, or 29.59%, compared with the prior year-end.

As of the end of the reporting period, the balance of the Bank's residential mortgage loans amounted to RMB1,155,176 million, representing an increase of RMB251,209 million, or 27.79%, compared with the prior year-end, primarily because the Bank implemented differentiated housing credit policies and actively supported residents' reasonable financing demand for owner-occupied housing.

As of the end of the reporting period, the balance of the Bank's other consumer loans amounted to RMB256,185 million, representing an increase of RMB58,490 million, or 29.59%, compared with the prior year-end, primarily due to its continuous efforts in diversifying consumer loan products to meet consumers' multi-level demands.

Distribution of Customer Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	256,498	7.07	246,633	8.19
Yangtze River Delta	651,145	17.94	540,236	17.94
Pearl River Delta	400,766	11.04	321,097	10.67
Bohai Rim	559,898	15.42	460,587	15.30
Central China	838,929	23.10	676,974	22.49
Western China	662,034	18.24	540,762	17.96
Northeastern China	260,865	7.19	224,359	7.45
Total loans to customers	3,630,135	100.00	3,010,648	100.00

Investment Securities and Other Financial Assets

The investment securities and other financial assets are major components of the Bank's total assets. As of the end of the reporting period, the Bank's investment securities and other financial assets (net of allowance for impairment) amounted to RMB3,167,033 million, representing 35.14% of its total assets and a decrease of RMB296,808 million, or 8.57%, compared with the prior year-end.

Investment Structure by Type of Investment Instrument

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	2,727,563	86.12	2,541,586	73.37
Equity instruments	439,470	13.88	922,255	26.63
Total	3,167,033	100.00	3,463,841	100.00

Discussion and Analysis

As of the end of the reporting period, the debt instruments increased by RMB185,977 million, or 7.32%, compared with the prior year-end and the equity instruments decreased by RMB482,785 million, or 52.35%, compared with the prior year-end.

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	2,318,119	73.20	2,099,383	60.61
Government bonds	642,826	20.30	552,222	15.94
Debt securities issued by public institutions and quasi-government	1,270	0.04	570	0.02
Debt securities issued by financial institutions	1,606,927	50.74	1,473,371	42.54
Corporate debt securities	67,096	2.12	73,220	2.11
Negotiable certificates of deposit	85,263	2.69	46,128	1.33
Commercial bank wealth management products	292,545	9.24	708,676	20.46
Asset management plans	164,845	5.21	253,370	7.31
Trust investment plans	156,539	4.94	171,152	4.94
Securities investment funds	105,903	3.34	172,696	4.99
Others	43,819	1.38	12,436	0.36
Total	3,167,033	100.00	3,463,841	100.00

During the reporting period, the Bank deepened the implementation of regulatory requirements, adhered to prudent investment strategies, seized the proper market opportunities, and timely adjusted the investment structure. Its commercial bank wealth management products, asset management plans, trust investment plans and securities investment funds decreased by RMB586,062 million, or 44.88%, compared with the prior year-end. Debt securities and negotiable certificates of deposit increased by RMB257,871 million, or 12.02%, compared with the prior year-end.

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	—	—	—	—
Within 3 months	81,357	3.51	30,865	1.47
3–12 months	109,839	4.74	178,809	8.52
1–5 years	1,157,497	49.93	748,205	35.64
More than 5 years	969,426	41.82	1,141,504	54.37
Total	2,318,119	100.00	2,099,383	100.00

As of the end of the reporting period, the Bank's investments in debt securities due within 3 months as a percentage of its total investment in debt securities increased by 2.04 percentage points, investments in debt securities due in 3 months to 12 months as a percentage of total investment in debt securities decreased by 3.78 percentage points, and investments in debt securities due in 1 year and more as a percentage of total investment in debt securities increased by 1.74 percentage points, compared with the prior year-end.

During the reporting period, the proportion of the Bank's debt security investments with remaining maturities of more than 5 years declined, and that with remaining maturities of 1 to 5 years increased, primarily due to the fact that the Bank proactively adjusted the duration of such assets to prevent interest rate risks.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	2,302,166	99.31	2,085,377	99.33
Foreign currencies	15,953	0.69	14,006	0.67
Total	2,318,119	100.00	2,099,383	100.00

As of the end of the reporting period, the Bank's debt securities denominated in Renminbi increased by RMB216,789 million, or 10.40%, compared with the prior year-end; debt securities denominated in foreign currencies increased by RMB1,947 million, or 13.90%, compared with the prior year-end.

Discussion and Analysis

Distribution of Investment Securities and Other Financial Assets by Acquiring Purpose

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	119,992	3.79	68,976	1.99
Available-for-sale financial assets	686,748	21.68	1,160,187	33.49
Held-to-maturity investments ⁽¹⁾	935,735	29.55	736,154	21.25
Investment classified as receivables ⁽¹⁾	1,424,558	44.98	1,498,524	43.27
Total	3,167,033	100.00	3,463,841	100.00

(1) Net of the related allowance for impairment.

For further details of investment securities and other financial assets, please refer to the “Notes to the Consolidated Financial Statements — 17 Financial assets at fair value through profit or loss” and “Notes to the Consolidated Financial Statements — 21 Investments instruments”.

Liabilities

As of the end of the reporting period, the Bank’s total liabilities amounted to RMB8,581,194 million, representing an increase of RMB662,460 million, or 8.37%, compared with the prior year-end. In particular, customer deposits increased by RMB776,348 million, or 10.65%, compared with the prior year-end; deposits from banks and other financial institutions decreased by RMB233,233 million, or 82.80%, compared with the prior year-end; placements from banks and other financial institutions increased by RMB59,459 million, or 419.97%, compared with the prior year-end; financial assets sold under repurchase agreements decreased by RMB14,646 million, or 11.28%, compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	8,062,659	93.96	7,286,311	92.01
Deposits from banks and other financial institutions	48,454	0.56	281,687	3.56
Placements from banks and other financial institutions	73,617	0.86	14,158	0.18
Financial assets sold under repurchase agreements	115,143	1.34	129,789	1.64
Debt securities issued	74,932	0.87	54,943	0.69
Other liabilities ⁽¹⁾	206,389	2.41	151,846	1.92
Total liabilities	8,581,194	100.00	7,918,734	100.00

(1) Consists primarily of interest payable, liabilities for agency services, settlement and clearance payables, taxes payable, employee benefits payables and other liabilities.

Customer deposits

As of the end of the reporting period, the Bank's balance of customer deposits was RMB8,062,659 million, representing an increase of RMB776,348 million, or 10.65%, compared with the prior year-end.

Distribution of Customer Deposits by Business Line

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,199,781	14.88	1,075,024	14.75
Time	394,165	4.89	332,644	4.57
Demand	805,616	9.99	742,380	10.18
Personal deposits	6,861,404	85.10	6,210,166	85.23
Time	4,337,973	53.80	3,862,371	53.01
Demand	2,523,431	31.30	2,347,795	32.22
Other deposits ⁽¹⁾	1,474	0.02	1,121	0.02
Total	8,062,659	100.00	7,286,311	100.00

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

Discussion and Analysis

As of the end of the reporting period, in terms of customer structure, personal deposits increased by RMB651,238 million, or 10.49%, compared with the prior year-end; corporate deposits increased by RMB124,757 million, or 11.61%, compared with the prior year-end. In terms of product structure, the proportion of demand deposits was 41.29%, representing a decrease of 1.12 percentage points, compared with the prior year-end.

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	971	0.01	803	0.01
Yangtze River Delta	1,182,603	14.67	1,086,265	14.91
Pearl River Delta	778,234	9.65	700,766	9.62
Bohai Rim	1,238,415	15.36	1,083,905	14.88
Central China	2,495,542	30.96	2,209,718	30.32
Western China	1,744,067	21.63	1,607,985	22.07
Northeastern China	622,827	7.72	596,869	8.19
Total customer deposits	8,062,659	100.00	7,286,311	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	3,374,194	41.85	3,133,204	43.00
Within 3 months	1,879,913	23.31	1,568,794	21.53
3-12 months	2,208,916	27.40	2,026,764	27.82
1-5 years	599,636	7.44	557,549	7.65
More than 5 years	—	—	—	—
Total	8,062,659	100.00	7,286,311	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's Shareholders' equity was RMB431,357 million, representing an increase of RMB84,469 million, or 24.35%, compared with the prior year-end, primarily as a result of the issuance of offshore preference shares and the increase in retained earnings during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	81,031	18.79	81,031	23.36
Other equity instruments	47,846	11.09	—	—
Capital reserve	74,659	17.31	74,659	21.52
Other reserves	121,126	28.08	114,268	32.94
Retained earnings	106,311	24.65	76,572	22.07
Equity attributable to Shareholders of the Bank	430,973	99.91	346,530	99.90
Non-controlling interests	384	0.09	358	0.10
Total shareholders' equity	431,357	100.00	346,888	100.00

Off-Balance Sheet Items

The Bank's off-balance sheet items include primarily derivative financial instruments, contingent liabilities and commitments.

The Bank primarily engages in derivative financial instruments related to exchange rate and interest rate for the purposes of transactions, asset and liability management and trading on behalf of clients. For the details of nominal amount and fair value of derivative financial instruments, please refer to "Notes to the Consolidated Financial Statements — 18 Derivative financial assets and liabilities".

The Bank's contingent liabilities and commitments mainly consist of lawsuits and claims, capital commitments, credit commitments, operating lease commitments, mortgage and pledged assets and redemption commitment for government bonds. For details of contingent liabilities and commitments, please refer to "Notes to the Consolidated Financial Statements — 41 Contingent liabilities and commitments".

Credit commitments is a major component of off-balance sheet items, which consists of loan commitments, bank acceptances, issued letters of guarantee and guarantees, issued letters of credit and unused credit card credit line.

Discussion and Analysis

Composition of Credit Commitments

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	429,839	66.74	286,172	54.52
Bank acceptance	32,933	5.11	41,327	7.87
Guarantee and letters of guarantee	18,593	2.89	25,230	4.81
Letters of credit	12,224	1.90	7,438	1.42
Unused credit card credit line	150,409	23.36	164,742	31.38
Total	643,998	100.00	524,909	100.00

Analysis of cash flow statement

The Bank's net cash inflow from operating activities amounted to RMB-365,049 million, representing a decrease of RMB585,506 million compared with the prior year, primarily due to the decrease of RMB628,518 million in the net increase of customer deposits and deposits from banks and other financial institutions compared with the prior year; cash outflow amounted to RMB260,277 million due to the increase in deposits with central bank and banks and other financial institutions, as compared to cash inflow of RMB236,140 million in the prior year.

Net cash inflow from investing activities amounted to RMB445,044 million. In particular, cash inflow amounted to RMB1,476,514 million, representing a decrease of RMB579,798 million compared with the prior year, primarily due to the decrease in cash received from disposal of investment; cash outflow amounted to RMB1,031,470 million, representing a decrease of RMB1,360,198 million compared with the prior year, primarily due to the decrease in cash paid for investment instruments.

Net cash inflow from financing activities amounted to RMB59,730 million. In particular, cash inflow amounted to RMB68,335 million, primarily consisting of cash received from issued preference shares and debt securities; cash outflow amounted to RMB8,605 million, primarily due to dividends distributed and interest paid for issued debt securities.

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 the Consolidated Financial Statements — 2 Significant Accounting Policies".

Business Overview

Personal Banking Business

The Bank has adhered to its positioning as a large retail commercial bank and continued to promote the transformation of retail business. It has actively responded to the rural vitalization strategy, exploited the advantages of the network to develop the county market and consolidated the deposit base. It has also updated the payment methods, accelerated scenario building and enhanced customer experience. It has enriched wealth management products and met customers' multi-level investment needs. It has optimized the personal marketing system, conducted targeted services, and enhanced customer stickiness. It has launched the network layout and planning projects, implemented outlet classification management, promoted the systematic transformation of the outlets, and improved its outlet management capability. As of the end of the reporting period, the number of the Bank's personal customers reached 553 million, of which 25,239,600 were VIP customers.

Personal Loans

The Bank provides a wide variety of personal loan products, such as consumer loans (including residential mortgage loans and other personal consumer loans), personal business loans, personal micro loans and credit card overdrafts, among others.

As of the end of the reporting period, the balance of the Bank's personal loans reached RMB1,946.473 billion, representing an increase of RMB364,298 million, or 23.03%, compared with the prior year-end. Personal loans as a percentage of total loans rose further to 53.62%, further consolidating its strategic positioning as a retail bank. Proactively grasping the feature that consumption has become an important engine of economic growth, the Bank contributed to the transformation and upgrading of residents' consumption. The balance of consumer loans was RMB1,411,361 million, accounting for 72.51% of the total personal loans. In respect of residential mortgage loans, the Bank strictly implemented differentiated housing credit policies, supported credit demands of eligible first-time buyers and people who want to improve their housing, and promoted steady and healthy development of the real estate market. The balance of residential mortgage loans amounted to RMB1,155,176 million, accounting for 81.85% of the total consumer loans. In respect of other consumer loans, the Bank explored individualized and diversified consumer demand, strengthened the application of internal and external big data and scenario embedding and made full use of "online + offline" distribution channels to set up an extensive, in-depth and unique scenario-based consumer financial service ecosystem. The balance of other personal consumer loans amounted to RMB256,185 million, accounting for 18.15% of the total consumer loans. In order to meet the financing demand of various producers and operators, the Bank continuously enriched personal business loans and optimized its process. The balance of personal business loans was RMB300,990 million, accounting for 15.46% of the total personal loans. The Bank continued to enrich its personal micro loans and explored business transformation and upgrading by deepening cooperation with governments, guarantee companies and insurance companies in order to reduce business risks and the cost of financing for customers. The balance of the Bank's personal micro loans was RMB156.427 billion, accounting for 8.04% of the total personal loans, and the average interest rate of the personal micro loans was 8.65%.

Discussion and Analysis

Personal Deposits

During the reporting period, by giving full play to the advantage of a network that expands into counties, providing integrated financial services for customers, promoting the seasonal grain acquiring in agricultural provinces and expanding grant of funds for agriculture, the Bank increased its personal deposits in counties by RMB524,619 million, or 12.25% year-on-year. The Bank expanded its collection and payment agency services for enterprises or institutions, developed rapidly the integrated payment, deepened linkage between corporate and retail businesses and introduced personal certificates of deposits, which helps drive forward the rapid growth of personal deposits, with newly-added deposits ranking among the top in the banking industry. As of the end of the reporting period, the balance of the Bank's personal deposits was RMB6,861,404 million, representing an increase of RMB651,238 million, or 10.49%, compared with the prior year-end. By continually optimizing personal deposit pricing policy, the Bank guided the branches and sub-branches to implement differential pricing for different customers based on regions and strengthened its capacity of refined management of interest rates. Despite the increasingly fierce competition over the deposits in the banking industry, the cost of personal deposits of the Bank continued to decline to 1.42%, representing a decrease of 12 basis points as compared with the prior year.

Bank Card Business

During the reporting period, the Bank launched emerging payment methods such as UnionPay QR code payment and aggregated payment services to further diversify Quick Pass products and consolidate and enhance payment and settlement services. The Bank continued to promote rights and interests of debit card holders and enhance card user experience by introducing services such as VIP card number selection, Green Card (綠卡通) replacement without change of number and transaction safety lock.

During the reporting period, the Bank stepped up its input in credit card business, actively conducted cross-selling to rapidly increase penetration among existing customer base and issued "Dingzhi Platinum Card" (鼎致白金卡), a high-end credit card product, to provide sophisticated services for elite customers. The Bank continued to carry out brand marketing activities, cooperated with well-known e-commerce enterprises, accelerated the construction of online shopping malls and actively expanded overseas consumer markets. The Bank accelerated broader application of new technologies to fully optimize user experience.

As of the end of the reporting period, the number of debit cards in circulation reached 916,426,400, representing an increase of 67,634,100 compared with the prior year-end; debit card consumption amount stood at RMB4,353,416 million, representing a year-on-year increase of 52.77%; the number of newly-issued credit cards was 6,871,600, representing a year-on-year increase of 83.91%; the number of credit cards in circulation reached 17,054,900 and the consumption amount of credit cards stood at RMB569,946 million, representing a year-on-year increase of 24.80%; the increase in installment amount was RMB27,173 million, representing a year-on-year increase of 43.46%.

Details of Bank Cards

	December 31, 2017	December 31, 2016	Growth rate (%)
Debit cards in circulation (in thousand)	916,426	848,792	7.97
Credit cards in circulation (in thousand)	17,055	12,872	32.50
	2017	2016	Growth rate (%)
Debit card consumption amount (RMB million)	4,353,416	2,849,569	52.77
Credit card consumption amount (RMB million)	569,946	456,675	24.80

Personal Settlement Business

The Bank provides a wide range of payment and collection agency services and various settlement services for personal customers. The payment and collection agency services primarily include 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 brought the Bank a huge customer base and capital flows, laying a foundation for in-depth development of customers of the Bank. During the reporting period, the transaction volumes of the Bank’s collection agency services and payment agency services were RMB759,066 million and RMB3,208,645 million, respectively. In particular, the Bank provided collection agency services for 63,577,600 pension transactions with volume at RMB46,964 million, and payment agency services for 668,962,800 pension transactions with volume at RMB796,493 million. The Bank also acted as the collection agency for 13,559,500 “NREI” transactions with volume at RMB6,339 million, and as the payment agency for 244,030,400 “NREI” transactions with volume at RMB30,416 million.

The Bank also provides individual customers with various international settlement services such as cross-border wire transfer, Western Union, and MoneyGram. During the reporting period, the number of international remittance transactions for individual customers was 2,496,800 and the transaction volume was USD3,549 million.

Discussion and Analysis

Personal Wealth Management Services

Personal Wealth Management

During the reporting period, the Bank enhanced its customer experience through newly introduced functions, such as ownership transfer of wealth management products, product changeover and preset redeem. The Bank launched holiday-specific wealth management products and exclusive wealth management products targeting customers such as small and micro-sized enterprises, payroll credit customers and new customers to meet customers' investment needs, which helped the Bank realize a steady growth of its wealth management business. As of the end of the reporting period, the balance of the Bank's RMB wealth management products to individual customers was RMB674,512 million, representing an increase of RMB132,495 million, or 24.44%, compared with the prior year-end.

Bancassurance

During the reporting period, the Bank vigorously expanded its online banking and mobile banking sales channels, focused on the development of guarantee-type products and long-term savings products with embedded value, actively promoted the business of regular-premium insurance, so as to promote the transformation and development of the bancassurance business. As of the end of the reporting period, the Bank had entered into insurance business-related agreements with 60 insurance companies with products covering life, property, health and accident insurance. During the reporting period, the total written premium of new policies of the Bank's bancassurance business amounted to RMB374,709 million, representing an increase of 1.73% year-on-year. The Bank's market share in the bancassurance market ranked in the forefront in the banking industry. In particular, the size of regular-premium insurance was RMB36,384 million, representing an increase of 10.32% year-on-year.

Distribution of Fund Products

The Bank acts as an agent to sell fund products through multiple channels. During the reporting period, the total volume of fund products distributed by the Bank amounted to RMB88,931 million, representing an increase of 132.26% year-on-year.

Distribution of PRC Government Bonds

During the reporting period, the Bank distributed 8 tranches of government savings bonds (certificate) with total sales of RMB10,271 million and 10 tranches of government savings bonds (electronic) with total sales of RMB21,866 million.

Distribution of Customer Asset Management Plans of Securities Companies

The Bank acts as an agent to sell asset management plans of securities companies through outlets and online banking channels. During the reporting period, the asset management plans distributed by the Bank amounted to RMB26,441 million, representing an increase of 525.23% year-on-year.

Precious Metals

The Bank trades multiple transaction contracts on the Shanghai Gold Exchange on behalf of customers and distributes gold and silver coins, gold and silver investment products, gold and silver crafts and other precious metal products for professional cooperative institutions. The Bank also sells its own branded precious metals product “PSBC Gold Coin & Bar (郵儲金)”. To satisfy the diversified investment demands of customers, the Bank launched the automatic investment plans for gold in 2017 and offered such services to 322,000 customers as of the end of the reporting period. During the reporting period, its precious metals transactions amounted to RMB33,679 million.

Corporate Banking

The Bank provides diversified financial products and services to its corporate banking customers, mainly including corporate loans, corporate deposits, and intermediary business products and services such as settlement, cash management, investment banking and custody. 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 the transformation of corporate business and improved the comprehensive financial service capability. As of the end of the reporting period, the Bank had 636,600 corporate customers, representing an increase of 13,800, compared with the prior year-end.

Corporate Loans

The Bank provides corporate customers with corporate loan products such as working capital loans, fixed asset loans, trade finance and corporate loans to small enterprises. Against the background of strong financing demand from the real economy and funds returning from the virtual economy to real economy, the Bank grasped the opportunities for the development of corporate loans, vigorously promoted customer marketing and projects implementation, achieving steady growth in business scale. During the reporting period, the Bank actively supported major national projects, concentrated advantageous resources to boost the implementation of national strategies as well as economic restructuring and upgrading, and consistently practiced inclusive finance, providing strong support to shanty area reconstruction, social security housing, heating and water supply, urban construction and other vital people’s livelihood projects and agriculture-related industries. The Bank continuously optimized its financial services to strategic emerging industries, boosting the development of such industries with a focus on new energy and high-end equipment manufacturing. As of the end of the reporting period, the balance of the Bank’s corporate loans amounted to RMB1,391,901 million, representing an increase of RMB312,509 million, or 28.95%, compared with the prior year-end and with the growth rate ranking among the top in China’s banking industry.

Discussion and Analysis

During the reporting period, the Bank continued to focus on SMEs customers in four major areas, i.e., traditional fields, government-bank cooperation, people's livelihood and "entrepreneurship and innovation", and accelerated the transformation and restructuring of its traditional services. The Bank further expanded external cooperation platform and gave full play to the advantages like information exchange, risk sharing and mutual complementarity of platform cooperation between the Bank and governments, associations, enterprises and guarantee companies. It focused on four target groups of customers, namely, the "platform agencies, industrial parks, urban business circles and core enterprises" to achieve the transformation and upgrading to bulk marketing. The Bank actively innovated the small and micro financial service mode, promoted the integration of small and micro finance with the "Internet+", enhanced the application of big data technologies in marketing, and effectively improved its ability to collect and analyze small enterprise information. Based on transaction and operation information of enterprises such as tax payments, invoices as well as water and electricity consumption, the Bank identified quality customers and explored a proactive credit granting modes for whitelist customers, increasing significantly the quality of small enterprise customers. Moreover, the Bank focused on the development of health care, energy conservation, environmental protection, clean energy and other public welfare industries, and promoted a series of loan products pledged by beneficiary rights of sewage treatment and gas supply as well as the right to charge for heat and water supply. As of the end of the reporting period, the balance of the Bank's corporate loans to small enterprises reached a record high of RMB183,071 million.

Corporate Deposits

The Bank provides time and demand deposit in Renminbi and other major foreign currencies to corporate customers. Leveraging on its broad network, the Bank continues to improve the level of its integrated financial services including cash management, fund custody and corporate wealth management to enhance its competitiveness in the deposit market and achieve steady growth in corporate deposits. As of the end of the reporting period, the balance of the Bank's corporate deposits amounted to RMB1,199,781 million, representing an increase of RMB124,757 million, or 11.61%, compared with the prior year-end.

Settlement and Cash Management

During the reporting period, giving full play to its advantage in settlement network and supported by its advanced cash settlement products, the Bank designed customized cash management solutions for customers to help them manage funds effectively and reasonably, increase funds utilization rate and reduce financial risks. As of the end of the reporting period, the Bank had 168,026 contracted customers for cash management business, representing an increase of 19,364 or 13.03% compared with the prior year-end. At the same time, the Bank designed and promoted new settlement products such as escrow services of payment agencies' cash reserves, e-bidding tender deposit management, MIS-POS and bank-lottery services to continuously expand customer coverage and enhance customer service level.

Trade Finance and International Settlement

During the reporting period, based on actual situations, the Bank focused on cultivating its customer base and building a talent team with its business scale continuously expanded. The Bank increased the input into “Belt and Road” projects, successfully implemented key projects such as cross-border working capital loans, overseas sovereign loans, cross-border project loans, further enhancing its international business capability. Focusing on the leading enterprises in the industry, the Bank thoroughly explored the financial values of industrial chains, actively promoted the business mode of cloud-chain and online supply-chain and constantly increased the number of core enterprises cooperating with us. At the same time, key products such as domestic letters of credit, financing and non-financing letters of guarantee grew fast in scale. During the reporting period, the volume of the Bank’s international settlement reached USD23,580 million and the trade finance business increased by RMB436,322 million.

Investment Banking

The Bank provides corporate customers with underwriting and distribution services and overseas debt advisory services in respect of debt financing instruments, including short-term commercial papers, medium-term notes, private placement notes, asset-backed securities and debt financing plans. The Bank also provides comprehensive financial services such as structured financing, M&A loans, capital market business and financial advisory services. The Bank takes the development of investment banking as an important means of strengthening competitiveness of its corporate business and raising fee and commission income. In addition, the Bank boosts the development of its financial advisory businesses through project financing and M&A loans. During the reporting period, the size of debt securities underwritten by the Bank amounted to RMB32.92 billion, increasing by 166.20% year-on-year; the balance of M&A loans was RMB4.77 billion and the contracted value reached RMB9.77 billion while the value of approved projects amounted to RMB15.7 billion and the value of reserve projects exceeded RMB20 billion; the institutional wealth management and financial consulting service made a good start and the Bank had plentiful project reserves which would be implemented gradually.

Discussion and Analysis

Custody Services

During the reporting period, as the asset management industry underwent a stage of transformation and slower growth, the Bank accelerated the restructuring of the custody business, vigorously developed such areas as publicly offered funds and insurance funds, achieving steady growth in business scale. The Bank continued to improve the internal control system of the custody business, enhanced the effectiveness of internal control and obtained the business ISAE 3402 internal control international certification. The Bank continued to deepen the construction of the “1+5” operating and service system and served 541 customers with custody services, including asset custody, valuation assessment, fund clearing, investment monitoring and information disclosure. At the same time, the Bank promoted custody customer service platform, put into operation the custody services of Mutual Fund Connect and FOF by focusing on the development of block-chain technology and designed and launched its “U+” custody service brand, enhancing the influence and popularity of its custody services. As of the end of the reporting period, the total asset under its custody was RMB4.39 trillion, with a CAGR of 39.59% for the past three years. In particular, the amount of publicly offered fund under its custody amounted to RMB131,803 million, representing an increase of 40.21% compared with the prior year. The amount of insurance funds under its custody was RMB466,354 million, representing an increase of 35.93% compared with the prior year. The amount of industrial funds under custody amounted to RMB1.92 trillion, ranking among the top in the industry.

Treasury Business

The Bank’s treasury business mainly includes financial market business such as trading, investment and interbank financing business as well as asset management business.

Financial Market Business

The Bank’s financial market business has obtained various types of licenses and qualifications in China’s interbank market, which allows it to engage in various market transactions. With its broad varieties of products, comprehensive business layout and extensive customer resources, it is able to adapt to market changes and development, meet different customer needs with active market transactions and good returns.

Trading Business

The Bank trades standardized financial products in the interbank market. The financial products traded include money market products, fixed income products, foreign exchange products, derivatives and precious metals, involving 11 currencies and 20 transaction types. The Bank has qualifications and capacity to trade major products in Renminbi and foreign currencies in the interbank markets, plays important roles including primary dealer, market maker and SHIBOR quoting firm and provides quotations and liquidity support to the domestic money and bond market, foreign exchange market and other markets, playing an important role in the interbank market. During the reporting period, the total trading volume of the Bank in the domestic and foreign currency markets reached RMB64.97 trillion with a total of 113,500 transactions.

Investment Business

Investments in Debt Securities and Negotiable Certificates of Deposit

The Bank upheld the guideline of “preventing risks, improving returns and adjusting structure” in debt securities investment. In the context of financial deleveraging, it strengthened market analysis, closely followed the trend of interest rates, grasped investment opportunities, promptly adjusted the pace and amount of investment, refined the investment standard and pre-investment analysis, strengthened post-investment management and strictly prevented credit risk. The new investments in debt securities of the Bank mainly included low-risk rate bonds, highly rated credit debts and publicly offered interbank asset-backed securities. Under the premise of controllable risks, the Bank optimized its investment mix, enhanced the proportion of credit debts in the portfolio and increased the return on investment portfolio. As of the end of the reporting period, the balance of the Bank’s debt securities and negotiable certificates of deposit amounted to RMB2.40 trillion.

Interbank Investment

The Bank complies with regulatory requirements, follows the principle of compliant and steady operation and strictly manages the list of its partner institutions in respect of interbank investment. In addition, based on its risk appetite and market development, the Bank formulates a prudent investment strategy, mainly investing in wealth management products of commercial banks, trust investment plans, asset management plans, securities investment funds and other special purpose vehicles. As of the end of the reporting period, the balance of the Bank’s interbank investment (or investments made through other financial institutions) in commercial banks’ wealth management products, trust investment plans, asset management plans and securities investment funds was RMB719,832 million.

Interbank Financing Business

Interbank financing is a business where the Bank has inherent advantages in terms of interbank cooperation. By seizing business opportunities and actively engaging in such interbank financing business including deposits and placements with banks and interbank borrowings, the Bank has established a close cooperative relationship with various financial institutions to form a sound interbank customer base. As of the end of the reporting period, the total balance of the Bank’s deposits and placements with banks and other financial institutions amounted to RMB612,757 million and the balance of the Bank’s deposits and placements from banks and other financial institutions amounted to RMB122,071 million.

Asset Management Business

During the reporting period, following the guidance of regulatory supervision, the Bank persisted in returning to the source, based its work on serving the real economy and maintained a sound and compliance-based operation in respect of asset management business. The Bank actively explored the transformation of net worth products, optimized product creation and design strategies, increased investment in long-term product, established featured products, such as “anti-inflation” (抗通脹) series, “salary card” (加薪卡) exclusive series, “wealth management/small business owners exclusive” (創富理財小企業主專享), new customer wealth management, and continued to introduce exclusive products for high-net-worth customers and tailored products for institutional customers to meet diversified demands from customers with different risk appetites. At the same time, the Bank endeavored to optimize

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its business system, strengthened risk management and control, consolidated management and continued to enhance the quality of operation and management. During the reporting period, the Bank issued RMB2,245,060 million of wealth management products, representing an increase of RMB223,903 million, or 11.08%, compared with the prior year. As of the end of the reporting period, assets under management amounted to RMB811,309 million, representing a decrease of RMB48,328 million or a slight decrease of 5.62%, compared with the prior year-end.

Sannong Finance

During the reporting period, the Bank achieved full coverage in the field of “Sannong” financial services by expanding its services from extending micro loans “supporting farmers and micro agriculture-related businesses” to serving the industrialization of agriculture and rural infrastructure projects in an all-round way. As of the end of the reporting period, the balance of the agriculture-related loans was RMB1,054,208 million, representing an increase of RMB136,764 million or 14.91%, compared with prior year-end. In particular, the balance of loans to farmers were RMB863,520 million, representing an increase of RMB106,429 million, or 14.06%, compared with the prior year-end.

The Bank continued to strengthen product innovation. It launched small-sized E Convenient Loan (E捷貸), realized simple and convenient operations like online payment and repayment, etc. It also introduced loan products based on UnionPay POS transactions and tax payment information and achieved “online only” and “online + offline” operation modes. It upgraded its online loan product, “Shop Owners Loan” (掌櫃貸), introducing the function of advancing funds for wholesale and forming a closed-loop of capital to reduce business risks.

The Bank improved its business processing efficiency through constant application of new technologies. It vigorously promoted mobile business development and carried out information upload and verification through mobile intelligent terminals. Moreover, it actively built retail credit factories, embedding in it scoring models, effectively utilizing big data to identify risks and making it applicable in merchant guarantee loans, re-employment loans and individual merchant express loans.

During the reporting period, the Bank steadily promoted the Sannong Finance Department nationwide. The 27 branches chosen by the head office have all established corresponding departments at provincial-, city- and county-level.

Green finance

During the reporting period, the Bank actively innovated on its financial practices and set up a leading group for building a green bank. The Bank made efforts to promote green development, increased resource input, introduced differentiated risk pricing mechanisms, incorporated green finance into performance assessment, set aside credit lines for green finance and continuously improved the policy supporting system for green finance. The Bank innovated green finance products and services, gave priority to supporting the top ten green sectors such as green transportation, renewable and clean energy, industrial energy and water conservation as well as environment protection, continuously improving green finance service capabilities. The Bank strictly executed differentiated admission standards, approval process and authorization arrangements for sensitive fields like “industries with high pollution, high energy consumption and overcapacity”, and did not extend loans to non-environmental-friendly industries, effectively controlling the growth

rate and proportion of the said sensitive industries and preventing environmental, social and governance risks. As of the end of the reporting period, the balance of the Bank's green credit was RMB176,631 million, representing a year-on-year increase of 134.78%.

Information Technology

During the reporting period, the Bank attached great importance to IT development, adhered to the "technology-led" strategy and promoted deep integration between technology and business. With the guidance of the "13th Five-Year IT Plan", the Bank continued to deepen IT governance, accelerated the promotion of "9 platforms, 9 project clusters and 2 bus lines", and launched 111 projects including mobile banking 3.0, new-generation self-service banking system, internal rating platform (for corporate clients), and big data platform phase II, strongly supporting business development, risk prevention and control, as well as business management of the Bank.

Based on the Tech Innovation Lab and Internet Finance Innovation Lab, the Bank actively researched and applied technologies such as cloud computing, block-chain, big data, artificial intelligence and biometric identification. It constructed a cloud platform with its own characteristics, through which 60% of the Bank's transactions were completed. In addition, it established a "1+N+36" organizational and management system for big data application, set up a data lab, released seven data products such as "high-end customer analysis" and "loan guarantee network analysis", and promoted the transformation and upgrading of data analysis models. Moreover, by applying deep learning technology, the bank introduced a customer service chatbot, which improved the accuracy of answers and enhanced customer experience. It also realized fingerprinting and face recognition in mobile banking and e-signature and face recognition in mobile business developments.

During the reporting period, the Bank's information system operated smoothly without any internet security incidents. The service availability of crucial information system was over 99.999%, effectively supporting and safeguarding business development. The Bank carried out continuity exercises of various businesses for 187 times throughout the year.

Internet Finance Transformation

The deep integration of internet and finance is the trend of the times. Internet finance has played an active role in promoting the development of small and micro enterprises, serving "Sannong" customers and expanding employment. The Bank actively embraced the development of internet finance and endeavored to explore the transformation path of internet finance so as to better perform its social responsibility of promoting inclusive finance with the help of internet finance.

The Bank formulated the *Internet Finance Development Planning Report of PSBC* during the reporting period, pursuant to which the Bank will create an "open and integrated" internet finance cloud platform in the next few years through online-offline integration based on its advantages in outlets network, customer base, funds and shareholders and build a scenario-based financial ecosystem centering on industry finance and consumption finance. The Bank will vigorously develop three internet finance product systems including payment, finance and investment and build an online-offline integrated mobile internet ecosphere with postal characteristics to provide convenient, safe and efficient financial services for urban and rural consumers and industrial customers. It will give full play to internet technologies, transform

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itself from a digital bank to an agile and smart bank, and actively create a sustainable development mode for the future. During the reporting period, the Bank actively promoted the construction of internet finance platform, made an attempt to launch direct bank services and explored transformation of the internet finance in accordance with its planning report.

Distribution Channels

Business Outlets

During the reporting period, the Bank continued to promote outlet transformation to improve its services and enhance value-creating capabilities. As of the end of the reporting period, the Bank had a total of 39,798 outlets, including 8,040 directly-operated outlets, accounting for 20.20% of all outlets, and 31,758 agency outlets, accounting for 79.80% of all outlets, covering all cities and 98.90% of the county areas in mainland China. All of the Bank's outlets are able to provide financial services for SMEs.

Electronic Banking

During the reporting period, under the guidance of its internet finance development planning and centering on mobile banking, the Bank intensified efforts on product innovation, improved the optimization and iteration speed of product functions, actively promoted intelligent outlet construction and improved both online and offline services, promoting a leapfrog development in internet finance.

Business Scale

As of the end of the reporting period, the Bank recorded over 234 million electronic banking customers. In particular, the number of mobile banking customers reached 175 million, the number of personal online banking customers reached 184 million, the number of signed customers of WeChat banking reached 5,227,700 and the number of customers who followed the Bank's WeChat official account reached 13,179,500. In addition, the Bank posted 20,075 million electronic banking transactions, representing an increase of 64.91% year-on-year, with a transaction amount of RMB14.12 trillion, representing an increase of 35.38% year-on-year. Specifically, the number of mobile banking transactions amounted to 4,070 million, with a transaction amount of RMB3.75 trillion and the number of transactions of personal online banking amounted to 611 million, with a transaction amount of RMB2.15 trillion. The substitution ratio of electronic banking transactions was 86.97%, representing an increase of 5.19 percentage points, compared with the prior year-end.

Product Innovation

During the reporting period, the Bank continued to make innovations in channels such as mobile banking channel. It launched mobile banking 3.0, which applies face and fingerprint recognition technology and expands the application of QR code. It also set up and promoted the WeChat banking platform and created a new marketing model which enables relationship managers to reach, maintain relations and interact with customers online. Moreover, the Bank saw a fast growth in mobile business development and introduced the one-stop contracting service to enhance service efficiency. The Bank also continued to optimize the corporate online banking system, improved its business processing procedure and enhanced user experience for corporate clients.

Intelligent Outlets

During the reporting period, the Bank followed the internet finance development trend and pushed forward the transformation and upgrading of traditional outlets. It promoted the application of intelligent teller machine (ITM) to enhance counter substitution and improve business transaction efficiency. It optimized ATM operation interface and transaction flow and launched functions such as ATM cash withdrawal by QR code and deposit SMS notification, enhancing service capabilities of traditional equipment. Moreover, the Bank developed a self-service equipment configuration and exit standard, promoting standardized and compliant-based operation and management. A centralized national self-service equipment operation monitoring center was established to improve equipment utilization efficiency. During the reporting period, the Bank had 119,200 sets of self-service equipment, representing an increase of over 6,000 sets compared with the prior year. In particular, the number of new type of intelligent equipment reached 6,100. The self-service equipment posted 5,061 million transactions, with a transaction amount of RMB4.95 trillion. The percentage of cash recycling system in the cash handling equipment increased from 56% at the beginning of the year to 64%, indicating further improved structure.

Construction of Internet Finance Ecosystem

During the reporting period, the Bank leveraged internal and external resources to build an open internet finance ecosystem. It strengthened cooperation with China Post Group, introduced resources with postal characteristic, and enhanced construction of nationwide mobile scenarios with postal characteristics. The Bank joined hands with well-known domestic large merchants and provided quality resources for construction of ecological scenarios. The Bank promoted cooperation with national and group merchants in Postal E Payment (邮E付) (integrated payment) to accelerate promotion of the Bank's Postal E Payment in key industries. The Bank also increased scenario expansion at branch level, and built life service platform scenarios with outlets at its core. As of the end of the reporting period, the Bank cooperated with 1,016 merchants in total. During the reporting period, the Bank completed 10.33 billion transactions with an amount of RMB3.27 trillion.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent training, the Bank continued to deepen talent development and training and strengthened building of talent teams in an all-around way. During the reporting period, the Bank closely followed business management and development trend and cultivated inter-disciplinary high-quality talents through comprehensive methods, such as face-to-face group teaching, training in universities and colleges, and on-the-job training with mentors; it put extra efforts in overseas trainings and cooperated with strategic investors to reserve and cultivate professionals with global vision. It also carried out qualification acknowledgement, curriculum education and learning competitions to improve employees' overall quality and competence in all dimensions. Moreover, the Bank strengthened the building of the team of trainers and mobile learning to enhance the role of training in supporting and ensuring business development.

In terms of remuneration and benefits management, the Bank strictly complied with the decision-making procedures of the remuneration policies; emphasized efficiency and value orientation and continued to improve the input and output efficiency of resources; improved job value-based and performance-oriented remuneration allocation system;

Discussion and Analysis

improved key performance indicator assessment system of branches and sub-branches and gave consideration to both operation performance and risk management; continued to promote basic insurance, enterprise annuity and supplementary medial insurance systems, and improved the middle and long term incentive mechanism; as well as enhanced the Bank's IT-based remuneration management to improve the standardized and intensive management.

Employees

As of the end of the reporting period, the Bank had a total of 171,551 full-time employees.

The Bank's Employees by Business Function

Item	Number of employees	Percentage (%)
Management	5,886	3.43
Personal banking	63,639	37.10
Corporation banking	11,690	6.81
Treasury business	1,443	0.84
Financial and accounting	16,689	9.73
Risk management and internal control	11,154	6.50
Others ⁽¹⁾	61,050	35.59
Total	171,551	100.00

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

The Bank's Employees by Age

Item	Number of employees	Percentage (%)
Under 30 (inclusive)	57,723	33.65
31-40	62,977	36.71
41-50	41,282	24.06
Over 51 (inclusive)	9,569	5.58
Total	171,551	100.00

The Bank's Employees by Education Level

Item	Number of employees	Percentage (%)
Master's degree and above	9,042	5.27
Bachelor's degree	104,740	61.05
Associate degree	48,579	28.32
Others	9,190	5.36
Total	171,551	100.00

The Bank's Employees by Geographical Region

Item	Number of employees	Percentage (%)
Head Office	2,130	1.24
Yangtze River Delta	18,863	11.00
Pearl River Delta	18,088	10.54
Bohai Rim	27,302	15.91
Central region	44,844	26.14
Western region	39,239	22.87
Northeastern region	21,085	12.29
Total	171,551	100.00

Institution Management

The Bank-wide management and operation are directed by its head office located in Beijing. The Bank has 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 the 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. The tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. The tier-2 sub-branches primarily undertake the function of business operation.

Discussion and Analysis

In terms of institutional reform and organizational restructuring, insisting on its strategic positioning of serving “Sannong”, the Bank successfully carried out the reform of Sannong Finance Department in China and further improved its operation and management mechanisms. Moreover, it adhered to the retail banking strategy, further improved and strengthened institutional setup of the Credit Card Departments and Small Enterprise Finance Departments at the head office and branches, so as to provide powerful organizational support for business development and more convenient financial services for customers.

The table below sets forth the number of the branches and sub-branches as of December 31, 2017.

Number of Branches and Sub-branches of the Bank

Item	December 31, 2017	
	Number of branches and sub-branches	Percentage (%)
Tier-1 branches	36	0.43
Tier-2 branches	322	3.86
Tier-1 sub-branches	2,080	24.92
Tier-2 sub-branches and others	5,909	70.79
Total	8,347	100.00

The Bank's Branches and Sub-branches by Geographical Region

Region	December 31 2017	
	Number of branches and sub-branches	Percentage (%)
Yangtze River delta	956	11.45
Pearl River Delta	778	9.32
Bohai Rim	1,160	13.90
Central region	2,430	29.11
West region	2,134	25.57
Northeast region	889	10.65
Total	8,347	100.00

Majority-owned Subsidiary

The Bank currently has one majority-owned subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015, which mainly provides unsecured loan service (excluding mortgage and auto loans) to domestic residents for consumption purposes. At the end of 2017, PSBC Consumer Finance had a registered capital of RMB1 billion, of which the Bank held 61.5%. At the end of 2017, it had total assets of RMB13,494 million, net assets of RMB998 million and recorded a net profit of RMB67.75 million for the year.

On March 16, 2018, a capital injection of RMB2 billion was completed by PSBC Consumer Finance, of which RMB1.5 billion was contributed by the Bank. Further to the capital injection, PSBC Consumer Finance has a registered capital of RMB3 billion, of which the Bank holds 70.5%.

Protection of Consumer Rights and Interests

During the reporting period, the Bank further improved the policy system of consumer rights and interests protection and improved relevant working mechanism, promoting systematic and standardized operation of consumer interests protection. It intensified efforts in protection of consumers rights and interests before, during and after consumption and improved financial products and services from the perspective of consumer protection, promoting the coordinated development of business operations and consumer protection, and building a more harmonious and stable consumption environment. Adhering to the idea of “reaching both urban and rural areas and bringing benefits to people” and fully utilizing its advantages of wide geographic coverage and large network of outlets, the Bank kept launching promotional and educational events on consumer protection to educate the public and our employees about basic financial knowledge, prevention of financial security incidents and legal knowledge, thus enhancing the awareness of financial risk prevention among the public and the employees of the Bank. Moreover, the Bank strengthened complaint management and focused on improving customer experience from the source to improve its services constantly. During the reporting period, customer complaints of the Bank decreased by 37% year-on-year, the timeliness ratio of consumer complaints handling reached 99.13%, and the satisfaction ratio of complaint handling was 97.32%.

Discussion and Analysis

Risk Management

Comprehensive Risk Management System

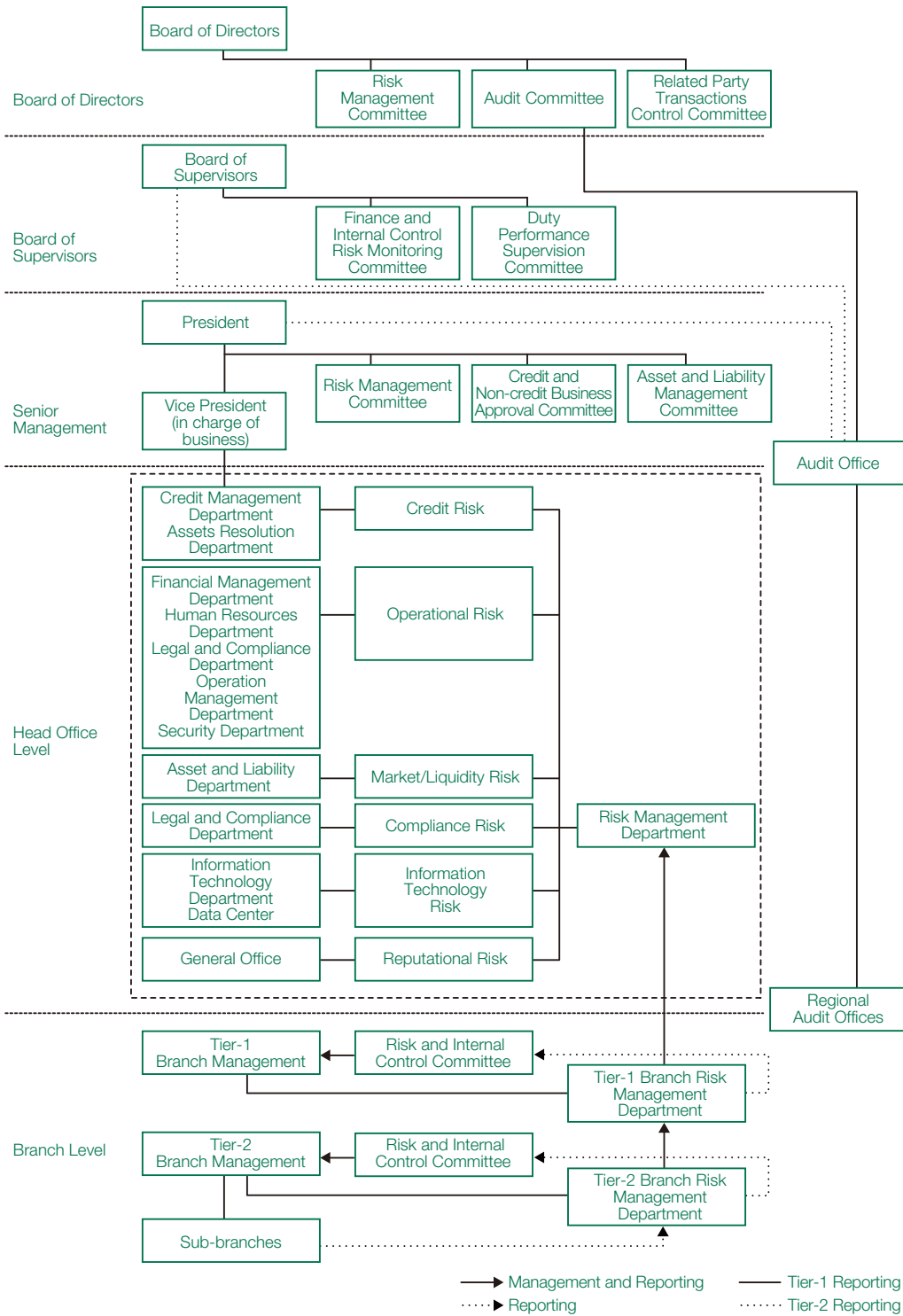
During the reporting period, the Bank continued to improve its comprehensive risk management system, carefully implemented regulatory requirements to continuously enhance the initiative and effectiveness of risk management. The Bank strengthened the guidance of risk appetite and policy quota, improved requirements for risk report, developed regulations of risk management for consolidated statements, asset risk classification, risk assessment for branches, etc., and strengthened risks prevention and defusing in key areas. The Bank actively promoted implementation of the internal ratings-based approaches in New Basel Capital Accord and the construction of risk quantitative management tools, and launched the internal rating platform (for corporate clients), further improving the comprehensive risk management capability.

Risk Management Organizational Structure

The Board undertakes the ultimate responsibilities and exercises its power in relation to risk management through the risk management committee to deliberate significant matters of risk management and supervise the Bank's operation of risk management system and its risk profile.

As the internal supervising body, the Board of Supervisors is responsible for supervising the Board in respect of the formulation of the Bank's 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 and the authorization of the Board, the senior management execute risk management responsibilities to ensure the Bank's operation and management are in line with the risk management strategies and risk appetite formulated and approved by the Board. The risk management committee under senior management is responsible for deliberating basic policies and systems of risk management, assessing the risk management profile of the Bank and reviewing the standards, methods and processes for managing various kinds of risks.



Discussion and Analysis

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. The Bank is exposed to credit risk primarily through loans, treasury business (including deposits with banks, placements with banks, 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

The Bank strictly followed national policies and various regulatory requirements on credit risk. Under the leadership of the Board and senior management, the Bank adopted a full-process credit risk management mode under the principle of “segregation of duties and internal control”.

During the reporting period, the Bank continued to adopt sound and prudent risk appetite and credit risk management policies and strengthened the credit risk management system to improve credit risk management ability. According to the national strategic planning, the Bank dynamically adjusted and improved credit extension policies and optimized the structure of credit assets. It strengthened the full-process management of credit extension, improved the approval and management framework for non-credit business, and strengthened unified credit extension and concentration risk management and control. The Bank upgraded the functions of credit IT system, improved the risk rating of corporate customers and risk limit management level, promoted the internal rating of retail customers and risk data mart project, piloted and promoted the operation mode of the new generation retail credit factory, and enriched credit risk management tools and means. The bank strengthened post-loan management as well as credit risk monitoring and early warning, conscientiously implemented targeted requirements of the regulatory authorities, and timely inspected and handled potential risks. The Bank accelerated 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.

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. The Bank earnestly implemented the national macro-control policies, actively supported green credit, and strictly prevented the risks in areas such as steel, coal and “industries with high pollution, high energy consumption and over capacity” as well as key industries through quota management and strict access control. The Bank upgraded the corporate credit management system to further standardize the working process of corporate credit extension. It strengthened post-loan management as well as risk monitoring and early warning, set up a risk screening and monitoring mechanism of key industries, actively conducted risk inspection and follow-up management on key corporate credit customers in areas such as financing platform and those with overcapacity or acute environmental problems, so as to prevent risks of substantial amount, as well as systematic and regional risks.

During the reporting period, the Bank actively improved its credit risk management system for small enterprise finance business and increased its risk management and control efforts. The Bank improved the credit extension policy system for small enterprises to further optimize the standards for customer access. The Bank improved authorization

management of examination and approval of loan extension to small enterprises by following the requirements of differentiated authorization, and strengthening the dynamic monitoring and optimization after authorization. Moreover, the Bank strengthened the post-loan supervision and management, implemented classified early warning on asset quality, kept the implementation of removing customers with high risk and fully improved risk handling ability.

Credit Risk Management for Personal Loans

During the reporting period, the Bank implemented an all-round personal business credit risk management, actively carried out policy revisions, improved policy systems, and prevented and controlled risks from the source. It strengthened the application of information technology, optimized business processes and promoted the “standardized and paperless” operation mode. The Bank steadily promoted internet loans, actively cooperated with third-party platforms to reduce the risks of information asymmetry. It continued to promote the application of data-driven risk models, further promoted the pilot project of the new generation retail credit factory, proactively established a retail credit internal rating system, and adopted big data risk control technology to achieve intelligent decision-making and effectively identify and prevent risks. It strengthened the customer admission requirements for personal housing loans and strictly implemented the minimum down payment ratio. The Bank carried out off-site targeted analysis and on-site inspection so as to detect and mitigate potential risks in a timely manner.

Credit Risk Management for Credit Card Business

During the reporting period, the Bank continuously strengthened the risk management of credit card business in order to prevent the credit risks brought about by credit cards effectively. It developed new ways of policy management and system upgrading, optimized customer eligibility criteria for card issuance, and improved customer structure. It improved the effectiveness of credit limit management and struck a balance between risks and returns. The Bank promoted the construction of quantitative risk system and enhanced the ability to identify risks before, during and after loan approval. The Bank intensified efforts to handle risk alerts and improved its ability to predict and handle risks. It improved fraud control rules, expanded means to identify fraud and effectively prevented and controlled application fraud and transaction fraud. The Bank enriched means and tools of overdue payment collection and implemented differentiated collection management to increase the efficiency and effect of collection.

Credit Risk Management for Treasury Business

During the reporting period, the Bank continued to optimize the working process of its treasury business, reinforced unified credit management and concentration risk management, strengthened penetration management, actively carried out pre-investment investigation, investment review and approval and post-investment management so as to cover the entire process of risk management. With a view to enhancing the risk prevention and maintaining risk at an expectable and controllable level, the Bank strictly followed the admission standards for interbank customers, clarified the standards for customer classification and stratification and maintained a list of qualified cooperation institution, The Bank refined the review and deliberation mechanism, enhanced the management of loan review, specified the standards for the process of loan extension, strictly managed data of underlying assets and strengthened the authorization review. The Bank focused on the enhancement of post-investment management, conducted regular special risk screening and on-site inspections and improved the work of risk alerts, risk monitoring and risk reporting. It regularly carried out risk classification for assets and made prudent provision for assets impairment.

Discussion and Analysis

Credit Risk Analysis

Maximum Credit Risk Exposure without Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	December 31, 2017	December 31, 2016
Deposits with central bank	1,364,392	1,259,035
Deposits with banks and other financial institutions	296,758	175,776
Placements with banks and other financial institutions	315,999	193,287
Financial assets at fair value through profit or loss	119,992	68,976
Derivative financial assets	6,584	6,179
Financial assets held under resale agreements	141,974	73,131
Loans and advances to customers	3,541,571	2,939,217
Available-for-sale financial assets — debt instruments	247,278	237,932
Held-to-maturity investments	935,735	736,154
Investment classified as receivables	1,424,558	1,498,524
Other financial assets	56,356	36,490
Total of on-balance-sheet items	8,451,197	7,224,701
Credit commitments	643,998	524,909
Total	9,095,195	7,749,610

Non-performing Loan Structure by Collateral

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Unsecured loans	2,075	7.61	1,374	5.23
Guaranteed loans ⁽²⁾	6,255	22.94	5,571	21.19
Loans secured by pledges ⁽²⁾⁽³⁾	691	2.53	4,671	17.77
Loans secured by mortgages ⁽²⁾⁽⁴⁾	18,249	66.92	14,674	55.81
Discounted bills	—	—	1	0.00
Total	27,270	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 the Bank's non-performing loans secured by mortgages amounted to RMB18,249 million, representing an increase of RMB3,575 million compared with the prior year-end; the balance of the Bank's non-performing loans secured by pledges amounted to RMB691 million, representing a decrease of RMB3,980 million compared with the prior year-end; the balance of the Bank's non-performing guaranteed loans amounted to RMB6,255 million, representing an increase of RMB684 million compared with the prior year-end; the balance of the Bank's non-performing unsecured loans amounted to RMB2,075 million, representing an increase of RMB701 million compared with the prior year-end.

Discussion and Analysis

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	December 31, 2017	
	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	12,716	0.35
Overdue for 91 days to 1 year	9,471	0.26
Overdue for 1 to 3 years	11,754	0.32
Overdue for over 3 years	1,332	0.04
Total	35,273	0.97

As of the end of the reporting period, the balance of the Bank's overdue loans amounted to RMB35,273 million, representing an increase of RMB6,273 million compared with the prior year-end. Specifically, overdue for 1 to 90 days amounted to RMB12,716 million; loans overdue for 91 days to 1 year amounted to RMB9,471 million; loans overdue for 1 to 3 years amounted to RMB11,754 million; and loans overdue for over 3 years amounted to RMB1,332 million.

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	194,633	5.36	35.04
Borrower B	Water conservancy, environmental and public facilities management	14,600	0.40	2.63
Borrower C	Transportation, storage and postal services	9,180	0.25	1.65
Borrower D	Mining	8,385	0.23	1.51
Borrower E	Water conservancy, environmental and public facilities management	8,030	0.22	1.45
Borrower F	Financial services	7,325	0.20	1.32
Borrower G	Transportation, storage and postal services	6,170	0.17	1.11
Borrower H	Manufacturing	5,830	0.16	1.05
Borrower I	Production and supply of electricity, heating, gas and water	5,760	0.16	1.04
Borrower J	Leasing and commercial services	5,534	0.15	1.00

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

- (2) Loan exposure to the largest single customer = total loans to the largest customer/net capital×100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2017, China Railway Corporation was the Bank's largest single borrower, and the outstanding loan balance with China Railway Corporation was RMB194,633million, accounting for 35.04% of the Bank's net capital. The credit the Bank extended to China Railway Corporation included RMB240 billion approved by the CBRC. As of December 31, 2017, the outstanding loan balance under such credit approved by the CBRC for China Railway Corporation was RMB175 billion. After the deduction of this RMB175 billion, the Bank's loan balance with China Railway Corporation represented 3.53% of the Bank's net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	3,578,275	98.57	2,960,105	98.32
Special mention	24,590	0.68	24,252	0.81
Non-performing loans	27,270	0.75	26,291	0.87
Substandard	4,606	0.13	7,728	0.26
Doubtful	5,585	0.15	6,965	0.23
Loss	17,079	0.47	11,598	0.39
Total	3,630,135	100.00	3,010,648	100.00

During the reporting period, the Bank strengthened risk management, optimized the credit structure, earnestly implemented the special regulatory requirements, and responded to and handled potential risks in a timely manner, ensuring a stable asset quality. As of the end of the reporting period, the balance of the Bank's non-performing loans amounted to RMB27,270 million, representing an increase of RMB979 million compared with the prior year-end. Non-performing loan ratio was 0.75%, representing a decrease of 0.12 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB24,590 million, representing an increase of RMB338 million compared with the prior year-end. Special mention loan ratio was 0.68%, representing a decrease of 0.13 percentage point compared with the prior year-end.

Discussion and Analysis

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 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	8,285	30.38	1.47	7,109	27.04	1.78
Working capital loans						
Fixed asset loans	205	0.75	0.03	114	0.43	0.02
Trade finance loans	771	2.83	0.38	917	3.49	0.55
Others ⁽²⁾	20	0.07	0.26	37	0.14	4.67
Subtotal	9,281	34.03	0.67	8,177	31.10	0.76
Discounted bills	—	—	—	1	0.00	0.00
Personal loans						
Consumer loans:						
residential mortgage loans	2,693	9.87	0.23	1,711	6.51	0.19
Other consumer loans	1,671	6.13	0.65	983	3.74	0.50
Personal business loans	8,203	30.08	2.73	10,027	38.14	3.48
Micro loans	4,294	15.75	2.75	4,468	16.99	3.21
Credit card overdrafts and others	1,128	4.14	1.45	924	3.51	1.75
Subtotal	17,989	65.97	0.92	18,113	68.89	1.14
Total	27,270	100.00	0.75	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 the Bank purchased from a PRC commercial bank in 2010, and additional advances on letters of credit, merger and acquisition loans and sovereign loans in 2017.

As of the end of the reporting period, the balance of the Bank's non-performing corporate loans amounted to RMB9,281 million, representing an increase of RMB1,104 million compared with the prior year-end; non-performing corporate loan ratio was 0.67%, representing a decrease of 0.09 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB17,989 million, representing a decrease of RMB124 million; non-performing personal loan ratio was 0.92%, representing a decrease of 0.22 percentage point, compared with the prior year-end.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	1,131	4.15	926	3.52
Yangtze River Delta	3,012	11.05	2,869	10.91
Pearl River Delta	2,330	8.54	2,119	8.06
Bohai Rim	3,341	12.25	2,966	11.28
Central China	5,274	19.34	4,518	17.18
Western China	8,729	32.01	9,755	37.10
Northeastern China	3,453	12.66	3,138	11.94
Total	27,270	100.00	26,291	100.00

During the reporting period, Central China and Bohai Rim experienced a greater increase in the Bank's balance of non-performing loans by RMB756 million and RMB375 million respectively, compared with the prior year-end.

Discussion and Analysis

Structure of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	4,983	53.69	3,879	47.44
Wholesale and retail	2,745	29.58	2,867	35.06
Agriculture, forestry, animal husbandry and fishery	438	4.72	316	3.87
Construction	355	3.83	399	4.88
Hotels and catering	207	2.23	184	2.25
Leasing and commercial services	140	1.51	120	1.47
Transportation, storage and postal services	107	1.15	93	1.14
Residential services and other services	69	0.74	67	0.82
Mining	57	0.61	96	1.17
Information transmission, computer services and software	41	0.44	50	0.61
Water conservancy, environmental and public facilities management	39	0.42	49	0.60
Production and supply of electricity, heating, gas and water	21	0.23	4	0.05
Real estate	18	0.19	11	0.14
Culture, sports and entertainment	16	0.17	26	0.32
Financial services	8	0.09	2	0.02
Others ⁽¹⁾	37	0.40	13	0.16
Total	9,281	100.00	8,177	100.00

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

During the reporting period, the increase of the balance of the Bank's non-performing corporate loans was mainly caused by the manufacturing industry. As of the end of the reporting period, the balance of the Bank's non-performing corporate loans from the manufacturing industry amounted to RMB4,983 million, representing an increase of RMB1,104 million as compared with the prior year-end.

Movements of Allowance for Impairment Losses

In millions of RMB

Item	Loans and advances not identified as impaired and assessed collectively	Allowance 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 year	14,295	5,710	1,122	21,127
Write-off and transfer out	—	(6,024)	(471)	(6,495)
Recovery of loans and advances written off	—	2,570	70	2,640
Unwinding of discount on allowance	—	(115)	(24)	(139)
As of December 31, 2017	65,079	20,349	3,136	88,564

The increase in the Bank's net provision for allowance for impairment on loans was primarily due to the increase in the Bank's scale of loans. Meanwhile, the Bank also increased its provision for allowance for impairment on loans for key risk areas such as the coal and steel industries in order to further enhance its 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 unfavorable changes in the market prices (including interest rate, exchange rate, stock prices and commodity price). The principal market risks that the Bank is exposed to include interest rate risk and exchange rate risk (including gold). The Bank has established a market risk management system covering market risk identification, measurement, monitoring and control, which manages market risk by exercising daily monitoring and risk limit management, thereby controlling the potential losses arising from market risk at an acceptable level and striving to increase the risk-adjusted return.

During the reporting period, the Bank strengthened research on the financial market trend, enhanced risk monitoring and reporting, optimized market risk limit indicator, continued to improve market risk management system, as well as proactively promoted construction of market risk management information system. With sound implementation of key risk limits, market risk of the Bank remained relatively stable.

Discussion and Analysis

Separation of Trading Book and Banking Book

In order to take targeted market risk management measures and accurately measure regulatory capital required for market risk, the Bank classifies all the on- and off-balance sheet assets and liabilities into either the trading book or the banking book according to the nature and characteristics of the different books. The trading book refers to financial instruments and commodities positions held by the Bank for trading or hedging purposes. Any other positions are classified into the banking book.

Market Risk Management of Trading Book

The Bank utilizes limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing to manage the market risk of trading book. During the reporting period, the Bank actively and properly responded to market changes, carried out a tracking study on the new trend of market risk regulation, controlled the risk exposure of the trading book on a reasonable basis, proactively carried out stress testing, and continued to control market risk of trading book of the Bank within a tolerable range.

Market Risk Management of Banking Book

The Bank utilizes limit management, stress test and gap analysis to manage the market risk of banking book.

Interest Rate Risk Management

Interest rate risk includes gap risk, basis risk and optional risk. During the reporting period, the Bank accurately grasped the trend of interest rate and adjusted the scale, maturity structure and interest rate structure of asset and liability business in a timely manner to stabilize the net interest margin, ensuring a stable growth in its net interest income and economic value. The Bank optimized the product pricing authorization system, adjusted its differentiated authorization strategies in consistence with the changes of market price, guided departments at various levels to enhance their own pricing capabilities. In response to the changes in the market, the Bank improved its internal funds transfer pricing mechanism on a continuous basis in order to maximize its performance. The Bank enhanced its awareness about interest rate risk management, gradually improved its interest rate risk management system and refined the risk limit indicator system, ensuring the overall interest rate risk was controlled under an acceptable level.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest earning/ bearing
December 31, 2017	42,213	(164,549)	(704,986)	274,389	523,202	411,283
December 31, 2016	(499,618)	(12,894)	(711,864)	101,374	526,430	887,050

Interest Rate Sensitivity Analysis

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant yield curves on the Group's net interest income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements and the actions that would be taken by management to mitigate the impact of interest rate risk.

In millions of RMB

Item	December 31, 2017 Movements in net interest income	December 31, 2016 Movements in net interest income
Increased by 100 basis points	(3,686)	(7,695)
Decreased by 100 basis points	3,686	7,695

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. The objective of exchange rate risk management is to ensure the impact of exchange rate changes on the Bank's financial situation and shareholders' equity is controlled within an acceptable range.

The exchange rate risk for the Bank is mainly the risk arising from the US dollar against RMB exchange rate. During the reporting period, the Bank closely followed the changes of external markets and internal funds situation, performed exchange rate risk exposure monitoring and sensitivity analysis on regular basis, and adjusted and optimized the quantity and structure of foreign exchange assets. As a result, the exchange rate risk of the Bank remained within a controllable range.

Exchange Rate Risk Analysis

For analysis of the Bank's exchange rate risk, please refer to "Notes to the Consolidated Financial Statements — 44.5 Market Risk".

Discussion and Analysis

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 the Bank's ordinary course of business.

Liquidity risk of the 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 the Bank is to meet the liquidity needs and fulfill 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, through which liquidity risk can be timely identified, measured and effectively controlled.

During the reporting period, the Bank timely grasped the monetary policy orientation, closely monitored market liquidity conditions, continued to optimize the structure of assets and liabilities, strictly carried out the policy on risk limits, and actively broadened the source of funds, so as to improve capacity to respond to liquidity risk and effectively balance the safety, liquidity and profitability of the Bank. The liquidity of the Bank is in good condition, with all liquidity regulatory indicators in stable operation and meeting the regulatory requirements.

Liquidity Risk Analysis

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

Item	Overdue	Payable	Within 1 month	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Undated	Total
		on demand							
December 31, 2017	12,169	(3,239,882)	(244,126)	(908,607)	(386,319)	1,498,476	2,316,303	1,333,538	381,552
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

As of the end of the reporting period, the negative gap in liquidity of on demand deposit increased as compared with the prior year-end, mainly due to the increase in on demand liabilities as a result of the increase in total deposits. Meanwhile, the negative gap in liquidity of deposit due in one year increased by RMB587,349 million compared with the prior year-end, primarily due to the increase in customer deposits of such period, the positive gap in liquidity of deposit due in one to five years increased by RMB404,619 million compared with the prior year-end, primarily due to the increase in loans of such period and the positive gap in liquidity of deposit due in over five years increased by RMB138,649 million compared with the prior year-end, primarily due to the increase in loans of such period.

For details of the liquidity coverage ratio of the Bank as of the end of the reporting period, please refer to “Appendix II – Liquidity Coverage Ratio”.

Operational Risk

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

During the reporting period, the Bank complied with relevant regulatory requirements including the *Guidelines on the Operational Risk Management of Commercial Banks* promulgated by the CBRC to implement the operational risk management and control mode characterized by “centralized management, multi-level control” under the leadership of the Board and senior management. The Bank continued to improve operational risk management mechanism, carried out practical and effective operational risk management policy, strengthened the prevention and control capability for operational risk by virtue of information and technology and set up electronic seal and compliance management systems, and implemented operational risk management throughout each link of its operation and management so as to minimize the operational risk events and reduce the losses on operational risk to the largest extent. The Bank strengthened the prevention and control system for internal cases and carried out targeted rectification on weak links and key business segments based on various targeted regulatory requirements in 2017, so as to improve the compliance of business operation. The Bank enhanced security measures and further promoted the establishment of qualified and standardized safety management of operating premises and network surveillance center. The Bank expanded the scope of business that carries out centralized operation and authorization as well as audit and supervision, optimized management procedure and system, and formed a restriction mechanism between positions and among the front, middle and back offices, comprehensively enhancing its operational risk control capability.

Legal and Compliance Risk

Legal risk refers to the risk of bearing disadvantageous legal consequence including legal liability, loss of rights and reputational damage due to violation of laws and regulations, administrative rules, regulatory provisions and agreement of contract, non-application of laws and breach of contracts of others including the other party of the contract, and significant changes in the external legal environment, in connection with any business activity in which commercial banks are involved. Compliance risk refers to the possible risk of legal sanctions, regulatory penalties, significant financial losses and reputational damage due to commercial banks’ inconformity with laws, rules and guidelines.

During the reporting period, based on the objective to ensure legal and compliant operation, the Bank continuously improved the legal risk management mechanism and procedures and built a legal risk prevention mechanism with full coverage throughout the business process. Moreover, the Bank comprehensively improved its contract management, strengthened risk prevention and control of cases in which the Bank was the defendant and minimized the losses of cases to the largest extent. Through the construction of supervision and control system, the Bank improved its efficiency of supervision and control. The Bank also attached great importance to authorization management and intellectual property management and steadily improved the level of legal risk management.

Discussion and Analysis

During the reporting period, the Bank continued to consolidate the foundation of compliance management, thoroughly carried out various special regulatory activities including those against “Three Violations, Three Arbitrages, Four Improper Behaviors and Ten Irregularities”, strengthened compliance risk monitoring and conducted policy and regulation review and evaluation and standardized the compliance review process. Off-site data analysis was used effectively to strengthen inspections on key institutions, businesses and areas; problem rectification mechanism was improved to intensify rectification and accountability enforcement; compliance management system was utilized to continuously improve compliance management level, so as to provide effective support for the steady and compliant development of various businesses and management activities.

Anti-Money laundering

During the reporting period, by actively fulfilling anti-money laundering obligations, revising and improving systems relevant to anti-money laundering, intensifying management on suspicious transaction reports, optimizing anti-money laundering working mechanism, building anti-money laundering team, conducting internal anti-money laundering inspections and organizing anti-money laundering promotions, the Bank continuously improved its employees’ ability to carryout anti-money laundering work and increased the awareness of anti-money laundering among the public.

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 or management failures arising from the use of information technology of the Bank. During the reporting period, various works were carried out around prevention and control of information technology risk. Through various means including planning and implementation, institutional improvement, reinforcement of the security system as well as inspection and risk warning, the Bank progressively formed a set of effective information technology risk control system and steadily improved its ability to identify, measure, monitor and handle information technology risks. During the reporting period, the operation of our information system was stable and all monitoring indicators of information technology risk were within normal range.

Reputational Risk

Reputational risk refers to the risk incurred by negative reports or evaluation in relation to the Bank’s business, operation, management, human resources and other actions that it takes, as well as external events relating to it. During the reporting period, the Bank continued to improve the development of reputational risk system and identified, monitored, assessed and reported reputational risk-related events on a 24-hour basis. Meanwhile, by means of improving emergency plan for public opinion disposal, strengthening construction of public opinion management system, intensifying assessment of public opinion management and continuously carrying out positive publicity, the Bank effectively strengthened the management and control capabilities of reputational risk, enhanced social influence and promoted its brand image continuously.

Strategic Risk

Strategic risk refers to the risk on banks' profits, capital and reputation arising from improper business strategy and management policy, implementation deviation of strategy or failure to respond to external environmental changes in a timely manner. The Bank has formulated strategic risk management policy and a series of systems and established the strategic risk management system that matches its business scale and product complexity. With continuous improvement of its strategic risk management capability, the Bank incorporated strategic risk management into the comprehensive risk management system and the whole process of strategic management of the Bank. During the reporting period, the Bank effectively identified, assessed, monitored, controlled and reported strategic risks by means of scientific strategic planning, effective implementation and assessment of strategic plans, etc.

Consolidated Risk Management

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

During the reporting period, the Bank continued to strengthen consolidated management of PSBC Consumer Finance, improved consolidated management policy system, enhanced consolidated capital management, strengthened firewall and risk isolation mechanism, and improved risk information reporting system, so as to continuously improve its consolidated risk management level.

Capital Management

During the reporting period, the Bank proactively adapted to the "strict regulation" requirements and took the initiative to respond to stringent capital constraint. With capital as the lead, the Bank optimized the strategic layout for business development, continued to improve the self-balancing mechanism of organic capital replenishment and explored ways of expanding external capital replenishment channels; strengthened its capital management capabilities, optimized capital monitoring methods, increased allocation efficiency for scarce resources, and gradually formed a business system with organic balance between income, risk, and capital occupation.

The Bank continued to strengthen the capital plan and the capital adequacy planning management, and intensified capital limit control and daily monitoring of capital adequacy ratios to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements.

During the reporting period, the Bank actively promoted the construction of RWA system and risk data mart project, standardized and improved assessment on internal capital adequacy on a continuous basis. In addition, the Bank continued to optimize business structure, improved the level of refined capital management as well as reduced the inefficient uses of capital, so as to continuously improve the capital utilization efficiency and capital management capability and meet the requirements of regulatory compliance of capital.

Discussion and Analysis

Capital Financing Management

On the basis of organic capital replenishment through retained earnings, the Bank utilizes external financing methods to replenish its capital.

According to the proposal on the issuance of write-down type qualified tier 2 capital instruments not exceeding RMB50 billion deliberated and approved by the second extraordinary Shareholders' meeting in April, 2016, the Bank issued tier 2 capital bonds totaling RMB20 billion in national interbank bond market in March, 2017. At the second meeting of the Board in March, 2017, the Bank deliberated and approved the proposal on the overseas non-public issuance of preference shares with the total fund-raising scale not exceeding the equivalent of RMB50 billion by Postal Savings Bank of China Co., Ltd. The proposal was subsequently deliberated and approved by the Shareholders meeting in June, 2017. On September 27, 2017, the Bank issued non-public preference shares totaling USD7.25 billion in the offshore market. According to the central parity rate of RMB against USD published by China Foreign Exchange Trade System on September 27, 2017, the total fund-raising scale in this issuance of overseas preference shares amounted to about RMB48 billion.

In August, 2017, at the fifth meeting of the Board of 2017, the Bank deliberated and approved the proposal on plan for initial public offering and listing of RMB ordinary shares (A-share) of Postal Savings Bank of China Co., Ltd. The proposal was subsequently deliberated and approved by the extraordinary Shareholders meeting in October, 2017. The Bank is currently promoting A-share listing in an orderly manner.

For specific information about financing, please refer to "Report of the Board of Directors — Changes in Share Capital and Shareholdings of Shareholders".

Economic Capital Management

During the reporting period, the Bank continuously improved economic capital management in respect of measurement, deployment, monitoring, examination and assessment as well as system construction. With the help of the economic capital management system, the Bank made improvement in its economic capital management on a continuous basis by strengthening the requirements of rigid capital constraint, optimizing the economic capital deployment mechanism, identifying examinees for economic capital assessment, refining assessment standards for economic capital, and hierarchically transmitting the ideas of capital constraint and value return management.

Capital Adequacy

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

Pursuant to the requirements of the *Administrative Measures for the Capital of Commercial Banks (Provisional)* and coupled with the Bank's development, the weighted approach was practically adopted for the measurement of credit risk weighted assets, the standardized approach was adopted for the measurement of market risk weighted assets, the basic indicator approach was adopted for the measurement of operational risk weighted assets and the Bank had

strictly complied with the threshold requirements of capital adequacy. During the reporting period, the Bank continued to carry out financing work in domestic and foreign markets prudently. The Bank successfully raised RMB48 billion by issuing offshore preference shares in Hong Kong, so as to effectively supplement additional tier 1 capital; and issued tier 2 capital instruments of RMB20 billion in capital market at a favorable time window, so as to effectively supplement its net capital. As of the end of the reporting period, the Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 12.51%, 9.67% and 8.60%, respectively.

Capital Adequacy

In millions of RMB, except for percentages

Item	December 31, 2017		December 31, 2016	
	The Group	The Bank	The Group	The Bank
Net core tier 1 capital	381,673	380,800	344,817	344,852
Net tier 1 capital	429,560	428,646	344,823	344,852
Net capital	555,445	554,400	444,919	444,861
Risk-weighted assets	4,440,497	4,434,942	3,995,908	3,995,120
Credit risk-weighted assets	4,116,135	4,111,059	3,718,006	3,717,288
Market risk-weighted assets	65,823	65,823	35,037	35,037
Operational risk-weighted assets	258,539	258,060	242,865	242,795
Core tier 1 capital adequacy ratio (%)	8.60	8.59	8.63	8.63
Tier 1 capital adequacy ratio (%)	9.67	9.67	8.63	8.63
Capital adequacy ratio (%)	12.51	12.50	11.13	11.14

Market Risk Capital Requirements

In millions of RMB

Item	December 31, 2017	December 31, 2016
Interest rate risk	2,161	943
Exchange rate risk	3,104	1,860

Leverage Ratio

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

Composition of Capital

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

Directors, Supervisors and Senior Management*

Basic Information

Name	Title	Gender	Age	Date of Appointment ⁽¹⁾
Directors				
Li Guohua	Chairman of the Board	Male	58	December 2011
	Non-executive Director			March 2007
Lyu Jiajin	Executive Director	Male	50	March 2007
	President			December 2012
Zhang Xuewen	Executive Director	Male	56	December 2012
	Vice President			December 2012
Yao Hong	Executive Director	Female	52	May 2016
	Vice President			March 2007
Han Wenbo	Non-executive Director	Male	52	March 2017
Tang Jian	Non-executive Director	Male	58	December 2012
Liu Yaogong	Non-executive Director	Male	51	March 2017
Chin Hung I David	Non-executive Director	Male	50	May 2016
Liu Yue	Non-executive Director	Male	56	June 2017
Ding Xiangming	Non-executive Director	Male	50	June 2017
Ma Weihua	Independent Non-executive Director	Male	70	December 2013
Bi Zhonghua	Independent Non-executive Director	Female	66	December 2013
Fu Tingmei	Independent Non-executive Director	Male	52	May 2016
Gan Peizhong	Independent Non-executive Director	Male	62	May 2016
Hu Xiang	Independent Non-executive Director	Male	43	June 2017
Supervisors				
Chen Yuejun	Chairman of the Board of Supervisors	Male	53	December 2012
Li Yujie	Shareholders Representative Supervisor	Male	57	May 2016
Zhao Yongxiang	Shareholders Representative Supervisor	Male	54	May 2016
Zeng Kanglin	External Supervisor	Male	80	May 2016
Guo Tianyong	External Supervisor	Male	50	December 2013
Wu Yu	External Supervisor	Male	52	May 2016
Li Yue	Employee Supervisor	Male	46	December 2012
Song Changlin	Employee Supervisor	Male	53	March 2016
Bu Dongsheng	Employee Supervisor	Male	53	May 2017
Senior Management				
Lyu Jiajin	See "Directors" above			
Zhang Xuewen	See "Directors" above			
Yao Hong	See "Directors" above			
Qu Jiawen	Vice President	Male	55	December 2012
Xu Xueming	Vice President	Male	51	December 2012
Shao Zhibao	Vice President	Male	56	December 2012
Liu Hucheng	Secretary to the Party	Male	52	January 2017
	Discipline Committee			
Du Chunye	Secretary to the Board of Directors	Male	41	January 2017
	Company Secretary			January 2017

(1) The actual dates of appointment of our Directors, Supervisors and senior management are the dates when they are formally elected or appointed and the actual terms shall start from the date of approval by regulatory authorities (if approval is needed).

For details about emolument of Directors and Supervisors, please see "Notes to the Consolidated Financial Statements – 10 Emoluments of directors and supervisors" to this annual report.

* This section sets forth the information about our Directors, Supervisors and senior management as of the date of this annual report.

Resumes of Directors, Supervisors and Senior Management

Profile of Directors

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

Li Guohua, male, obtained an MBA degree from Nanchang University and University of Poitiers, France and is qualified as a senior economist. He was appointed as a non-executive Director in March 2007 and the Chairman of the Board of Directors of the Bank in December 2011. He served successively as a deputy chief of the Jiangxi Posts and Telecommunications Administration Bureau, a deputy chief (presiding over work) and the chief of the Jiangxi Post Bureau, a deputy post master general of the State Post Bureau, a deputy president of China Post Group, etc. Mr. Li currently works as the president of China Post Group.

Lyu Jiajin, Executive Director, President

Lyu Jiajin, male, obtained a doctor's degree in economics from Southwestern University of Finance and Economics and is qualified as a senior economist, and he has also been entitled to special government allowance granted by the State Council. Mr. Lyu was appointed as an executive Director in March 2007 and the president of the Bank in December 2012. He served successively as a deputy section chief and the chief of Henan Postal Savings and Remittance Bureau, the chief of the Henan Xinjiang Municipal Post Bureau, a deputy chief of the Henan Post Bureau, and a deputy chief of the Liaoning Post Bureau, a deputy director general at the Postal Savings and Remittance Bureau of the State Post Bureau, etc. Mr. Lyu currently works as the deputy president of China Post Group. He also holds concurrent posts of deputy chairman of the Standing Council of the China Banking Association, the standing director of the China Finance 40 Forum, an industry mentor of the PBC School of Finance, University of Tsinghua and a vice president of the World Savings and Retail Banking Institute.

Zhang Xuewen, Executive Director, Vice President

Zhang Xuewen, male, obtained a doctor's degree in economics from Dongbei University of Finance and Economics and is qualified as a senior economist. Mr. Zhang was appointed as an executive Director and a vice president of the Bank in December 2012. He served successively as a deputy director of the internal trade division II of the trade finance department of the MOF, a deputy director of the grain division of the economy and trade department of the MOF, a deputy director and the director of the grain division of the economic development department of the MOF, a deputy chief of the economic development department of the MOF, etc. Mr. Zhang has also been serving as a deputy chairman of the Rural Social Insurance Commission of China Social Insurance Association and a deputy chairman of the Banking Accounting Society of China.

Directors, Supervisors and Senior Management

Yao Hong, Executive Director, Vice President

Yao Hong, female, obtained a master's degree in management from Hunan University and is qualified as a senior economist. Ms. Yao was appointed as a vice president of the Bank in March 2007 and an executive Director in May 2016. She served successively as a deputy director of the savings business division under the Postal Savings and Remittance Bureau of the Ministry of Posts and Telecommunications, the director of the savings business division and an associate director general of the Postal Savings and Remittance Bureau of the State Post Bureau, etc. Ms. Yao has also been a director of China Post Life Insurance Company Limited and a director of China UnionPay Co., Ltd.

Han Wenbo, Non-Executive Director

Han Wenbo, male, received a doctorate in management from Northeast Agricultural University and the qualification of Chinese lawyer, and is an economist. Mr. Han was appointed as a non-executive Director of the Bank in March 2017. He worked as deputy director and assistant commissioner of the Heilongjiang Finance Ombudsman Office of the MOF, assistant commissioner of the Financial Ombudsman Office of the MOF in Beijing, deputy commissioner of the Financial Ombudsman Office of the MOF in Sichuan Province, deputy commissioner of the Financial Ombudsman Office of the MOF in Beijing, deputy chief inspector (deputy director-level), the director (chief director-level) of the Inspection Work Leading Group Office of the MOF, etc.

Tang Jian, Non-executive Director

Tang Jian, male, obtained a master's degree in economics from Dongbei University of Finance and Economics and is qualified as a senior economist. Mr. Tang was appointed as a non-executive Director of the Bank in December 2012. He served successively as a deputy director of the general business division and a deputy director of the management division II of the financial institution of foreign capital regulatory department under the PBOC, an associate consultant and a deputy director of the policy bank regulatory division, a deputy director of the policy bank regulatory division I, a deputy director and a consultant of the postal savings institutions supervision division of the bank regulatory department I of the PBOC, the director of the postal savings institutions supervision division of the banking regulatory department III, the director of the postal savings institution on-site supervision division of the banking regulatory department IV, the director of the on-site supervision division of the banking regulatory department IV, an associate counsel of the banking regulatory department IV of the CBRC, etc.

Liu Yaogong, Non-executive Director

Liu Yaogong, male, obtained a master's degree in economics from the Minzu University of China. Mr. Liu was appointed as a non-executive Director of the Bank in March 2017. He served successively in the Administration and Politics and Law Department of the MOF as an associate consultant of the administration division II, a deputy director of the administration division II, a deputy director of the general division, a consultant of the general division, the director of politics and law division, the secretary (director level), an associate counsel, etc.

Chin Hung I David, Non-executive Director

Chin Hung I David, male, graduated from University of Cambridge with a master's degree of arts, and is qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales. Mr. Chin was appointed as a non-executive Director of the bank in May 2016. He has successively served at UBS Investment Bank as the head of financial institutions group Asia, the head of investment banking Asia, the head and a senior advisor of corporate client solutions Asia, an alternate chief executive officer of UBS Hong Kong Branch, a member of the UBS Asia Pacific Executive Committee, etc. He is now the head of corporate client solutions division of UBS Asia Pacific.

Liu Yue, Non-executive Director

Liu Yue, male, obtained a doctor's degree in Engineering from Harbin Engineering University, and is a senior engineer. He was appointed as a non-executive Director of the Bank in June 2017. He used to serve as engineer and deputy director of comprehensive planning bureau of CSSC, deputy director of Department of Science, Technology and Quality Control of CNSA, assistant director and deputy director of the planning and development department of CSIC, board secretary, director, executive director and other positions of CSIC SCIE-TECH Investment & Development Co., Ltd. Mr. Liu now works as chief economist, director of the planning and development department of CSIC and chairman of China Shipbuilding Capital Co., Ltd.

Ding Xiangming, Non-executive Director

Ding Xiangming, male, received an MBA degree from the Shanghai Maritime University, and is qualified as a senior economist and engineer. He was appointed as a non-executive Director of the Bank in June 2017. Mr. Ding worked as technical management director of SCT military road wharf technology department, director of Baoshan wharf technical equipment, technical support director of engineering technical department, business management director of general manager office, assistant manager of the investment management of Shanghai Port Container Co., Ltd., project development manager of the investment and development department, deputy general manager and general manager of the investment and development department of Shanghai International Port (Group) Co., Ltd., etc. He is now vice president and secretary to the board of directors of Shanghai International Port (Group) Co., Ltd.

Directors, Supervisors and Senior Management

Ma Weihua, Independent Non-executive Director

Ma Weihua, male, graduated from the Southwestern University of Finance and Economics with a doctor's degree in economics. Mr. Ma was appointed as an independent non-executive Director of the Bank in December 2013. He has successively served as the president, chief executive officer and executive director of China Merchants Bank, chairman of China Merchants Signa Life Insurance Co., Ltd., chairman of China Merchants Fund (CMF) Management Co., Ltd., chairman of Wing Lung Bank Ltd., independent non-executive director of China Petroleum and Chemical Corporation, independent non-executive director of Winox Holdings Limited, an independent director of Guotai Junan Securities Co., Ltd, an independent non-executive director of China Resources Land Limited, etc. Currently, he works as managing director of China Society for Finance and Banking, independent non-executive director of China Eastern Airlines Co., Ltd., independent director of China International Trade Center Co., Ltd., independent non-executive director of Legend Holdings Corporation, the chairman of board of supervisors from the Taikang Insurance Group Inc and non-executive director of Roadshow Holdings Limited.

Bi Zhonghua, Independent Non-executive Director

Bi Zhonghua, female, graduated from Xiamen University and is qualified as a senior economist. Ms. Bi was appointed as an independent non-executive Director of the Bank in December 2013. She has successively served as the section chief and a deputy director at Fuzhou branch of Bank of China Limited, a deputy general manager and the general manager of international business department, the general manager of the operations department, an associate president and a vice president, and the chairwoman of the board of supervisors of Industrial Bank Co., Ltd., a deputy director (serving temporary position) of the research office under the Central Financial Work Commission of the Communist Party of China, etc. She currently works as an independent director of COFCO trust Co., Ltd.

Fu Tingmei, Independent Non-executive Director

Fu Tingmei, male, graduated from University of London with a doctor's degree in philosophy. He was appointed as an independent non-executive Director of the Bank in May 2016. He has successively served as a director of Peregrine Capital Limited, a managing director of BNP Paribas Peregrine Capital Limited, a member to the Central Policy Unit of the Government of the Hong Kong Special Administrative Region (part time), an independent non-executive director of Beijing Enterprises Holdings Limited, etc. Currently, Mr. Fu is an independent non-executive director of CPMC Holdings Limited, Guotai Junan International Holdings Limited, COFCO Meat Holdings Limited and China Resources Pharmaceutical Group Limited.

Gan Peizhong, Independent Non-executive Director

Gan Peizhong, male, graduated from Peking University with a doctor's degree in law. He was appointed as an independent non-executive Director of the Bank in May 2016. He has successively served as an independent director of Beijing North Star Co., Ltd., Chuying Agro-pastoral Group Co., Ltd., Foxit Software Incorporated, Hebei Xiaojin Machinery Manufacturing Inc, Beijing Beyondsoft Corporation; and an arbitrator at the China International Economic and Trade Arbitration Commission; an independent director of Inly Media Co., Ltd., etc. He currently serves as a professor at Peking University Law School. He also holds concurrent posts of an independent director of Beijing Tongtech Co., Ltd., an independent director of Beijing Thunisoft Corporation Limited, a deputy chairman of the PRC Securities Law Research Association, a member of the Expert Advisory Commission of the Second Branch of People's Procuratorate of Beijing Municipality, an arbitrator at South China International Economic and Trade Arbitration Commission, a member of the Case Guidance Expert Commission of the Supreme People's Court of the People's Republic of China, a fourth-term special advisor to the Supreme People's Court of China and a member and an adjunct professor of the Expert Consultation Commission of the Second Intermediate People's Court of Beijing Municipality, and chairman of the China Association of Business Law.

Hu Xiang, Independent Non-executive Director

Hu Xiang, male, obtained a master's degree in economics from the Graduate School of the People's Bank of China. He was appointed as an independent non-executive Director of the Bank in June 2017. Mr. Hu worked as a principal staff member of commissioned investment division of investment department, a shares-shifting deputy director (presiding over the work) of overseas investment department of National Council for Social Security Fund (NCSSF), a deputy general manager and other positions of Penghua Fund Management Co., Ltd. He currently works as the chairman and general manager of Zhejiang Dajun Assets Management Company Ltd. He also holds concurrent posts of a director of WORLDTECH Transmission Technology (Tianjin) Co., Ltd. and a director of Shanghai Zhitong Construction development Co., Ltd.

Profiles of Supervisors

Chen Yuejun, Chairman of the Board of Supervisors

Chen Yuejun, male, graduated from the Southwestern University of Finance and Economics with a doctor's degree in economics and is qualified as a senior economist. Mr. Chen was appointed as the chairman of the Board of Supervisors of the Bank in December 2012. He has successively served as a deputy director of the bank division I of the audit supervision bureau, a deputy director and the director of the policy bank supervision division, the director of the policy bank supervision division I, the director of policy bank supervision division II of bank supervision department I of the PBOC, the chief of policy bank supervision division II of bank regulatory department III, a deputy chief of the Sichuan regulatory bureau and a deputy director of the banking regulatory department IV of the CBRC, the director of the finance department (department level) of the People's Government of Sichuan Province, etc.

Directors, Supervisors and Senior Management

Li Yujie, Shareholders Representative Supervisor

Li Yujie, male, graduated from Henan University and is qualified as a senior accountant. Mr. Li was appointed as a shareholder representative Supervisor of the Bank in May 2016. He has successively served as a deputy director of the audit division of Henan Posts and Telecommunications Administration Bureau, a deputy director and the director of the audit office and the director of the audit division of Henan Post Bureau, the chief of Henan Kaifeng Municipal Post Bureau, the director of the planning and finance division of Henan Post Bureau, the manager of the planning and finance department and a deputy general manager of Henan Post Company, the general manager of Shanxi Post Company, the chairman of Shanxi Postal Express & Logistics Company, etc. He currently serves as the general manager of the finance department of China Post Group. He also holds a concurrent post of a director of Hunan Copote Science & Technology Co., Ltd.

Zhao Yongxiang, Shareholders Representative Supervisor

Zhao Yongxiang, male, graduated from Beijing University of Posts and Telecommunications with a master's degree in engineering and is qualified as a senior economist. Mr. Zhao was appointed as a shareholder representative Supervisor of the Bank in May 2016. He has successively served as a deputy chief of Hebei Shijiazhuang Municipal Post Bureau, a deputy director of the planning and finance department of the State Post Bureau, a deputy chief (presiding over the work) and the chief of Hebei Shijiazhuang Municipal Post Bureau, an associate counsel of Hebei Post Bureau and Hebei Post Company, a deputy general manager of the finance department of China Post Group, etc. He is currently the director general of the audit bureau of China Post Group. He also holds concurrent posts of the chairman of the board of supervisors of Hunan Copote Science & Technology Co., Ltd. and the chairman of the board of supervisors of China Post & Capital Fund Management Co., Ltd.

Zeng Kanglin, External Supervisor

Zeng Kanglin, male, graduated from Sichuan Finance and Economics College, professor. He was appointed as an external Supervisor of the Bank in May 2016. He has successively served as a doctoral tutor, the dean of the finance department, the director of financial research institute and the chairman of academic committee and other positions at Southwestern University of Finance and Economics. Mr. Zeng is currently the honorary chairman of Institute of Chinese Financial Studies and independent director of China Film Group Corporation.

Guo Tianyong, External Supervisor

Guo Tianyong, male, graduated from the Financial Research Institute of the PBOC with a doctor's degree in economics and is a professor. Mr. Guo was appointed as an external Supervisor of the Bank in December 2013. Mr. Guo is currently a professor and doctoral tutor of the School of Finance of the Central University of Finance and Economics, an independent non-executive director of Bank of Tianjin Co., Ltd., and an independent director of DigiwinSoft Co., Ltd. and Hundsun Technologies Inc. and Zhejiang Orient Holdings Co., Ltd.

Wu Yu, External Supervisor

Wu Yu, male, graduated from Renmin University of China with a bachelor's degree in law and is qualified as a senior editor. He was appointed as an external Supervisor of the Bank in May 2016. He has successively served as the chief editor of entrepreneurship weekly publication, a deputy director of chief editor office, and the director of the finance news department (deputy chief level and other positions) at Economic Daily Society. He currently serves as a senior vice president and director of China National Chemical Assets Corporation. He is also the chairman of Zhongan (Beijing) Venture Capital Investment Limited, the deputy chairman of Beijing Central Enterprise Investment Association, a director of Sichuan Tianyi Science & Technology Co., Ltd. and the chairman of Beijing Zhong'an Investment Co., Ltd.

Li Yue, Employee Supervisor

Li Yue, male, graduated from Heilongjiang University with a bachelor's degree in arts and is qualified as a senior corporate culture officer. Mr. Li was appointed as an employee Supervisor of the Bank in December 2012. He has successively served as project manager of the investment attraction bureau of Jiangsu Nantong Economic & Technological Department Area, deputy director and director of Beijing Liaison office, deputy director of Beijing Liaison Office of Jiangsu Nantong Municipal People's Government, deputy director (presiding over the work) of party-mass work department and deputy director of inspection department of the Bank, etc. He currently serves as a director of the party construction and party committee work department, chairman of the institutional labor union and secretary of the discipline inspection commission.

Song Changlin, Employee Supervisor

Song Changlin, male, graduated from Party School of Beijing Municipal Committee of the Communist Party with a diploma of undergraduate. He was appointed as an employee Supervisor of the Bank in March 2016. He has successively served as a deputy director of the remittance business management division, the director of the audit division of the Postal Savings Remittance Bureau of the State Post Bureau, general manager of the audit department, chief of Audit Office of the Bank, etc. Mr. Song concurrently serves as the general manager of office of the Board of Supervisors of the Bank, a member of the discipline inspection commission. He also holds a concurrent post of a director of PSBC Consumer Finance.

Bu Dongsheng, Employee Supervisor

Bu Dongsheng, male, graduated from the Party School of the CPC Liaoning Provincial Committee. In May 2017, he was appointed as employee Supervisor of the Bank. He has successively served as deputy director and director of the financial ombudsman office business division II of Liaoning Province, director of division IV, deputy director of Liaoning Branch of the Bank, Head of audit bureau of Liaoning Province, and other positions. He concurrently serves as the president of Hubei branch of the Bank.

Directors, Supervisors and Senior Management

Profiles of Senior Management

See the “Profiles of Directors” for resumes of Lyu Jiajin, Zhang Xuewen and Yao Hong. Resumes of other senior management personnel are set out below:

Qu Jiawen, Vice President

Qu Jiawen, male, graduated from Harbin Institute of Technology with a doctor’s degree in engineering. He is qualified as a senior engineer of professor-level and entitled to special government allowance granted by the State Council. Mr. Qu was appointed as the vice president of the Bank in December 2012. He has successively served as a deputy director of planning and construction division under Heilongjiang Posts and Telecommunications Administration Bureau, a deputy director and the director of engineering construction division, the director of the network planning and cooperation division, the director of science & technology division, an associate chief and a deputy chief of Heilongjiang Post Bureau, a deputy general manager of Heilongjiang Post Company, the president of Heilongjiang Branch of the Bank, etc. He is concurrently a deputy chairman of the Internet Society of China and an executive council member of the Payment & Clearing Association of China.

Xu Xueming, Vice President

Xu Xueming, male, obtained an executive master of business administration degree from Peking University and is qualified as a senior economist. Mr. Xu was appointed as the vice president of the Bank in December 2012. He has successively served as a deputy chief of the Beijing Postal Savings and Remittance Bureau, the director of the public service division of the Beijing Postal Administration Bureau, the chief of Beijing Western Post Bureau, a deputy chief of Beijing Postal Administration Bureau, a deputy general manager of Beijing Post Company, the president of Beijing Branch of the Bank, the secretary to the Board of Directors of the Bank, etc. He holds a concurrent post of a director of China Post Securities Company Limited.

Shao Zhibao, Vice President

Shao Zhibao, male, graduated from Jinan University with an executive master of business administration degree and is qualified as a senior accountant. Mr. Shao was appointed as the vice president of the Bank in December 2012 and the president of the Sannong Finance Department in September 2016. He has successively served as an associate general manager and a deputy general manager of Guangdong Southern Communication Group Company, a deputy director and the director of the planning and finance division, an associate chief and a deputy chief of Guangdong Post Bureau, a deputy general manager of Guangdong Post Company, the president of Guangdong Branch of the Bank, etc. He holds concurrent posts of an executive member and the vice chairman of the council of China Institute of Rural Finance.

Liu Hucheng, Secretary to the Party Discipline Inspection Committee

Liu Hucheng, male, received a master's degree in business administration from Liaoning University and is qualified as a senior accountant. In January 2017, he was appointed as a member of the discipline inspection team of the China Post Group Corporation, head of the discipline inspection team stationed in the Bank and secretary to the Party Discipline Committee of Postal Savings Bank of China of the Communist Party of China. He has successively served as deputy director, deputy director (presiding over the work) and director of the planning and finance department of the Post Bureau of Hebei Province, chief and general manager of the financial and accounting department of the Bank, general manager of the planning and finance department, president of Henan branch of the Bank, etc.

Du Chunye, Secretary to the Board of Directors, Company Secretary

Du Chunye, male, graduated from Beijing University of Posts and Telecommunications with an MBA degree, and is qualified as a senior economist. Mr. Du was appointed as the secretary to the Board of Directors and company secretary of the Bank in January 2017. He has successively served as a vice manager and manager of the general manager's office of China Post Group, the general manager of the Bank's general office, a vice president of Beijing Branch and the president of Shenzhen Branch of the Bank, etc.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On March 2, 2017, Mr. Han Wenbo and Mr. Liu Yaogong were elected as non-executive Directors, and Mr. Ma Weihua and Ms. Bi Zhonghua as independent non-executive Directors at the first extraordinary shareholders' general meeting of 2017 of the Bank. The job qualifications of Mr. Han Wenbo and Mr. Liu Yaogong have been approved by the CBRC on May 19, 2017 for a term commencing from the same day. For details, please refer to the Bank's announcement dated May 24, 2017 on approval of qualification of director by the CBRC. The terms of office of Mr. Ma Weihua and Ms. Bi Zhonghua have commenced from March 2, 2017. For details, please refer to the circular of the shareholders of the Bank dated January 13, 2017.

On June 8, 2017, Mr. Liu Yue and Mr. Ding Xiangming were elected as non-executive Directors of the Bank and Mr. Hu Xiang was elected as independent non-executive Director of the Bank at the 2016 annual general meeting of the Bank. Mr. Liu Yue's qualification has been approved by the CBRC on December 23, 2017 for the term of office commenced from December 23, 2017. For details, please refer to the Bank's announcement dated December 26, 2017 on director qualifications approval by the CBRC. Mr. Hu Xiang's and Mr. Ding Xiangming's qualifications have been approved by the CBRC on October 20, 2017 and their terms of office were from October 20, 2017 onwards. For details, please refer to the Bank's announcement dated October 20, 2017 on approval of qualifications of director by the CBRC.

Directors, Supervisors and Senior Management

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

Changes in Supervisors

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

On May 9, 2017, Mr. Bu Dongsheng was elected as an employee Supervisor of the Bank at the Bank's first employee representative meeting in 2017 for a term commencing on May 9, 2017. For details, please refer to the announcement of the Bank dated May 9, 2017 on the changes of employee representative Supervisors.

Due to the change of job, Mr. Dang Junzhang resigned from the position of employee Supervisor of the Bank and chairman of the Finance and Internal Control Risk Monitoring Committee on May 9, 2017. For details, please refer to the announcement of the Bank dated May 9, 2017 on the changes of employee representative Supervisors.

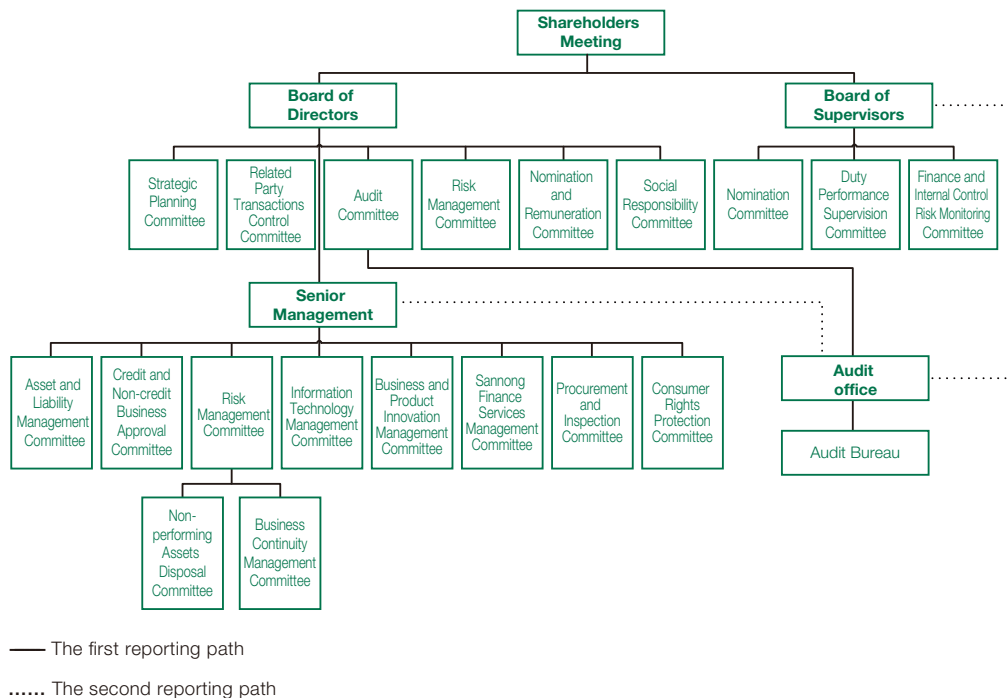
Changes in Senior Management

On January 26, 2017, Mr. Liu Hucheng was appointed as a secretary to the Party Discipline Commission of the Postal Saving Bank of China of the Communist Party of China.

On January 9, 2017, a resolution was made at the 1st meeting of the board of directors in 2017 to appoint Mr. Du Chunye as the secretary to the Board of Directors and company secretary as the successor of Mr. Xu Xueming. The appointment of Mr. Du Chunye as the secretary to the Board of Directors and company secretary of the Bank took effect on the date of the approval by the CBRC (i.e. April 11, 2017) and on the date of relevant waiver granted by the Hong Kong Stock Exchange (i.e. March 21, 2017) respectively.

Corporate Governance

The Bank considers a well performed corporate governance as the core component of the stable operation and sustainable development of a commercial bank. Adhering to the governance principles of a modern commercial bank, the Bank strives to optimize and improve its corporate governance structure and enhances the corporate governance mechanism as well as its standardization and effectiveness, so as to further refine the corporate governance.



Corporate Governance Code

During the reporting period, the Bank complied with the principles and code provisions of the *Corporate Governance Code* as set out in Appendix 14 of the Hong Kong Listing Rules, except for the specific code provisions as set out below. The Board of Directors has actively performed the function of corporate governance and been responsible for amending the Articles of Association, the Rules of Procedures for the Shareholders' General Meeting and the Rules of Procedure for the Board of Directors. The Board of Directors has also established corporate governance system and assessed and improved the Bank's corporate governance on an ongoing basis. We have set up special committees under the Board of Directors, and operated strictly under the various corporate governance requirements.

Board of Directors and Its Special Committees

Composition of the Board of Directors

As of the end of the reporting period, the Board of Directors consists of 15 directors in total, including one chairman and non-executive director, namely Li Guohua, 3 executive directors, namely Mr. Lyu Jiabin, Mr. Zhang Xuewen, Ms Yao Hong, 6 non-executive directors, namely Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Chin Hung I David, Mr. Liu Yue, Mr. Ding Xiangming, 5 independent non-executive directors, namely Mr. Ma Weihua, Ms. Bi Zhonghua, Mr. Fu Tingmei, Mr. Gan Peizhong, and Mr. Hu Xiang. See "Directors, Supervisors and Senior Management" for details on the incumbent directors.

Corporate Governance

Duties and Powers of the Board of Directors

The Board of Directors is the policy-making body of the Bank and reports to the Shareholders' general meeting. The Board shall perform the following duties and powers:

- (1) to convene and report its performance at the Shareholders' general meetings;
- (2) to implement resolutions adopted at the Shareholders' general meetings;
- (3) to make decisions on the Bank's development strategies, business plans and investment plans;
- (4) to consider and approve capital management plans and risk-based capital allocation plans of the Bank;
- (5) to formulate the Bank's annual financial budget and final account; the Bank's profit distribution plans and loss recovery plans; proposals on the increase or reduction of the Bank's registered capital; the Bank's plans of issuance of bonds or other marketable securities and listing plans; plans for merger, division, dissolution, liquidation or other changes in the corporate form of the Bank; plans for repurchase of the Bank's shares; plans for material change in equity interest or financial reorganization; capital replenishment plans;
- (6) to formulate the general management policies, risk management and internal control policies of the Bank and supervise the implementation of such policies; to consider and approve the internal audit rules of the Bank;
- (7) to review the risk management report presented by the senior management and evaluate the effectiveness of risk management in the Bank in order to improve the Bank's risk management;
- (8) to formulate proposals for amendments to the Articles of Association, rules of procedures of Shareholders' general meeting and rules of procedures of the Board meetings;
- (9) to consider and approve the terms of reference proposed by the president;
- (10) to decide on matters, including the establishment of major legal entities of the Bank, major corporate mergers and acquisitions, major external investments, major asset acquisitions, major asset disposals, major asset write-offs and major external guarantees within the scope authorized by the Shareholders' general meeting;
- (11) to decide on or authorize the president to decide on matters within the terms of reference of the Board, including other external investments of the Bank, asset acquisitions, asset disposals, asset write-offs and external guarantees;
- (12) to appoint and dismiss the president and the secretary to the Board according to the proposals of the chairman of the Board;

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- (13) to appoint and dismiss the vice president and other members of senior management according to the nomination of the president;
 - (14) to elect the chairman and members of the Nomination and Remuneration Committee proposed by requesting Shareholders, the chairman of the Board, and one-third or more of Directors or half of more (at least two) of the independent Directors; to elect the chairman and members of other special committees (excluding the chairman of Strategic Planning Committee) proposed by the Nomination and Remuneration Committee;
 - (15) to propose the performance appraisal system for Directors and remuneration packages for Directors and Supervisors (opinions of the Board of Supervisors on the remuneration packages for Supervisors shall be sought) to the Shareholders' general meeting for approval;
 - (16) to decide on the remuneration, performance appraisal, incentive and punishment of members of senior management;
 - (17) to decide on the establishment of internal departments, tier-1 domestic and overseas branches, other branches and divisions directly under the head office and any overseas entities of the Bank;
 - (18) to evaluate and improve the Bank's corporate governance regularly;
 - (19) to formulate stock incentive schemes;
 - (20) to manage the Bank's information disclosure;
 - (21) to propose the engagement, dismissal and discontinuance of engagement of accounting firm for approval by the Shareholders' general meeting;
 - (22) to consider and approve the proposals submitted by the Board committees;
 - (23) to consider and approve or to authorize the Related Party Transactions Control Committee of the Board to approve related party transactions (other than those which shall be considered and approved by the Shareholders' general meeting as required by laws), and report to the Shareholders' general meeting on the implementation status of related party transactions management systems and the particulars of related party transactions;
 - (24) to listen to the work reports of the president of the Bank in accordance with the relevant regulatory requirements to ensure that all Directors are timely and fully informed of relevant information for the performance of their duties, and to examine the work of the senior management to monitor and ensure the effective performance of their management responsibilities;

Corporate Governance

(25) to consider execution and rectification of regulatory suggestions from the banking regulatory authority of the State Council to the Bank;

(26) to perform other duties required by laws, administrative regulations, department rules and the Articles of Association or authorized by the Shareholders' general meeting.

Meetings of the Board of Directors

During the reporting period, the Bank held a total of 9 board meetings, mainly reviewing 96 proposals including the 2016 work report of the Board of Directors, the 2016 financial final accounts plan and the 2016 profit distribution plan, and listened to 11 reports including reports on comprehensive risk management for 2016. During the reporting period, the Bank held a meeting attended by the chairman and non-executive Directors only (including independent non-executive Directors) in January 2017.

Meetings of the Board of Directors and Its Committees

During the reporting period, the attendance of Directors at Shareholders' general meetings, meetings of the Board of Directors and the Board committees is listed below:

Number of attendance in person*/meetings requiring attendance

Directors	Shareholders'	Board of Directors	Strategic	Related Party	Audit	Risk	Nomination	Social	
	general meeting		Planning Commission	Transactions Control Commission		Management Committee	and Remuneration Committee		Responsibility Committee
Chairman and Non-executive Director									
Li Guohua	7/7	7/9	6/7	—	—	—	—	—	
Executive Directors									
Lyu Jiajin	6/7	8/9	7/7	—	—	6/6	3/4	2/2	
Zhang Xuewen	7/7	9/9	7/7	2/2	—	—	4/4	—	
Yao Hong	7/7	7/9	5/7	2/2	—	—	—	2/2	
Non-executive Directors									
Han Weibo	3/6	5/6	4/5	—	—	3/3	—	—	
Tang Jian	7/7	9/9	—	—	—	5/6	—	2/2	
Liu Yaogong	6/6	6/6	—	—	3/3	3/3	—	—	
Chin Hung I David	4/7	8/9	—	—	7/7	—	—	2/2	

Directors	Shareholders'	Board of Directors	Strategic	Related Party	Audit	Risk	Nomination	Social
	general meeting		Planning Commission	Transactions Control Commission		Management Committee	and Remuneration Committee	Responsibility Committee
Liu Yue	0/0	0/0	0/0	—	0/0	—	—	—
Ding Xiangming	0/3	3/3	—	—	—	1/1	—	0/0
Independent Non-executive Directors								
Ma Weihua	4/7	7/9	7/7	2/2	4/7	—	—	—
Bi Zhonghua	7/7	9/9	—	2/2	7/7	—	4/4	2/2
Fu Tingmei	7/7	9/9	—	2/2	—	—	4/4	—
Gan Peizhong	4/7	8/9	—	—	6/7	5/6	4/4	—
Hu Xiang	3/3	3/3	2/2	—	2/2	—	—	—
Directors off post								
Yang Songtang	—	1/1	1/1	—	—	1/1	—	—
Lai Weiwen	—	1/1	—	—	1/1	1/1	—	—

* Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference. During the reporting period, Directors who did not attend the meetings of the Board of Directors or special committees thereof in person had appointed other Directors as proxies to attend and to vote at the meetings on their behalf.

Independence and Performance of Duties by Independent Non-executive Directors

During the reporting period, the qualification, number and proportion of the Bank's independent non-executive Directors were in compliance with the requirements of regulatory authority. Independent non-executive Directors are not involved in any business or financial interests of the Bank and do not take any managerial position in the Bank. The Bank has received annual independence confirmations from all independent non-executive Directors and confirmed their independence.

During the reporting period, the independent non-executive Directors duly attended the meetings of the Board of Directors and the special committees, and provided independent and objective advice on various material decisions (including the profit distribution plan and the nomination of our Directors) by taking advantage of their professional capabilities and industrial experiences. The independent non-executive Directors strengthened the communication with the senior management, specialized departments and external auditors and thoroughly studied the operation and management of the Bank by attending meetings on important matters of the Bank, listening to the special reports and discussing with external auditors. They earnestly fulfilled the duty of honesty and diligence, complied with the work measures for independent non-executive directors, provided strong support to the Board of Directors for making rational decisions, protected the interests of the Bank and the Shareholders as a whole and worked for the Bank for more than 15 workdays. The Bank highly valued the relevant opinions and advice from the independent non-executive Directors and adopted such opinions and advice based on its actual situation.

Corporate Governance

During the reporting period, independent non-executive Directors did not provide dissenting opinions to the resolution of the Board and the special committees.

The Board Committees and Meetings

As of the end of the reporting period, 6 special committees have been established under the Board of Directors, namely the Strategic Planning Committee, Related Party Transactions Control Committee, Audit Committee, Risk Management Committee, Nomination and Remuneration Committee and Social Responsibility Committee. During the reporting period, the Board of Directors made the following adjustments to the composition of the special committees of the Board of Directors:

On March 24, 2017, the Board of Directors convened the second extraordinary meeting in 2017 to consider and approve the Proposal on Adjusting the Composition of the Special Committees under the Board of Directors of Postal Savings Bank of China Co., Ltd., thereby appointing non-executive Director Mr. Han Wenbo as a member of the Strategic Planning Committee and a member and the chairman of the Risk Management Committee; appointing the non-executive Director Mr. Liu Yaogong as a member of the Audit Committee and Risk Management Committee, the non-executive Director Mr. Liu Yue as a member of the Strategic Planning Committee and the Audit Committee, the non-executive Director Mr. Ding Xiangming as a member of the Risk Management Committee and the Social Responsibility Committee, the independent non-executive Director Mr. Hu Xiang as a member of the Strategic Planning Committee and the Audit Committee. The appointment of a chairman or a member shall take effect on the date of qualifications approval by the CBRC. Please refer to “Directors, Supervisors and Senior Management – Changes in Directors” for the approval time.

Strategic Planning Committee

As of the end of the reporting period, our Strategic Planning Committee comprised 8 Directors, including Mr. Li Guohua as the chairman of the Board of Directors, Mr. Lyu Jiajin, Mr. Zhang Xuewen, and Ms Yao Hong as executive Directors, Mr. Han Wenbo and Mr. Liu Yue as non-executive Directors, and Mr. Ma Weihua and Mr. Hu Xiang as independent non-executive Director. The Strategic Planning Committee is chaired by Mr. Li Guohua. The Strategic Planning Committee primarily performs such duties as considering the Bank’s business objectives, overall strategic development plan, major investment and financing plans and other matters significant to the development of the Bank.

During the reporting period, the Strategic Planning Committee convened 7 meetings and considered and discussed 24 proposals, including “Belt and Road” construction and development plan, the “13th Five-Year” IT plan, annual operating plan, annual fixed assets investment budget, etc. It also proposes constructive opinions and suggestions to the Board of Directors in the aspects of research of the developing strategy planning, annual operating plan, annual fixed assets investment budget and other aspects.

Related Party Transactions Control Committee

As of the end of the reporting period, our Related Transactions Control Committee comprised 5 Directors, including Mr. Zhang Xuewen and Ms Yao Hong as executive Directors, Mr. Ma Weihua, Ms. Bi Zhonghua and Mr. Fu Tingmei as independent non-executive Directors. The Related Party Transactions Control Committee is primarily chaired by Mr. Ma Weihua. The Committee primarily performs such duties as verifying our related parties, reviewing and filing the related party transactions, reviewing the management system for related party transactions, supervising its implementing and making recommendations to the Board.

During the reporting period, the Committee convened 2 meetings and considered 7 proposals, including the Bank's special report on related party transactions list of related parties. The Committee provided constructive opinions and recommendations to the Board of Directors on strengthening the management over the Bank's related parties and related party transactions.

Audit Committee

As of the end of the reporting period, our Audit Committee comprised 7 Directors, including Mr. Liu Yaogong, Mr. Chin Hung I David, and Mr. Liu Yue as non-executive Directors, Ms. Bi Zhonghua, Mr. Ma Weihua, Mr. Gan Peizhong, and Mr. Hu Xiang as independent non-executive Directors. The Audit Committee is chaired by Ms. Bi Zhonghua. The Audit Committee primarily performs such duties as supervising the Bank's internal control, considering the Bank's basic audit management system, supervising and evaluating the work of our internal audit department, reviewing the annual audit report, annual financial statements and other financial information to be disclosed, and proposing the engagement or dismissal of the accounting firm.

During the reporting period, the Audit Committee convened 7 meetings and considered 21 proposals, including the engagement of accounting firm for 2017, audit work report for 2016, and 2017 audit work plan. The Audit Committee liaised closely with the external auditor in respect of the auditing of our financial statements and reviewed our financial statements in conjunction with the external auditor, exercising judgments on the authenticity, completeness and accuracy of the audited financial statements, supervising and assessing the work of the internal audit department, and communicating sufficiently with the external auditor, to ensure the independence of the external auditor and review the effectiveness of the Bank's internal control measures.

The Audit Committee reviewed the financial statements and audit reports 9 times a year and reviewed relevant report on internal control twice a year.

Corporate Governance

Risk Management Committee

As of the end of the reporting period, the Risk Management Committee comprised 6 Directors, including Mr. Lyu Jiajin the executive Director, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, and Mr. Ding Xiangming as non-executive Directors, and Mr. Gan Peizhong as independent non-executive Director. The Committee is chaired by Mr. Han Wenbo. It primarily performs such duties as reviewing the Bank's risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management system and principal procedures and systems for risk management, listening to the risk management reports, considering plans for risk capital allocation, supervising and assessing the risk management work of the senior management and risk management department, and making recommendations to the Board.

During the reporting period, the Risk Management Committee convened 6 meetings and considered 18 proposals, including annual risk management strategies and risk preference schemes, internal capital sufficiency evaluation reports, and anti-money laundering reports. The Risk Management Committee kept watching on the effectiveness of the overall risk management system on regular basis, and provided suggestions on the enhancement of overall risk management, case control, anti-money laundering, etc.

During the reporting period, the Risk Management Committee considered the comprehensive risk management profile report of the Bank 4 times a year and reviewed the work report on internal control and compliance administration, as well as the case-prevention work summary and plan regularly.

Nomination and Remuneration Committee

As of the end of the reporting period, our Nomination and Remuneration Committee comprised 5 Directors, including Mr. Lyu Jiajin and Mr. Zhang Xuwen as executive-Directors, and Mr. Gan Peizhong, Ms. Bi Zhonghua, and Mr. Fu Tingmei as independent non-executive Directors. The Committee is chaired by Mr. Gan Peizhong. The Nomination and Remuneration Committee primarily performs such duties as conducting annual review on the structure, size and composition of the Board, and making suggestions in respect of the size and composition of the Board, developing the standards and procedures for the appointment of Directors, chairman and members of each Board committee and of senior management members, performing preliminary review on the qualifications and conditions of candidates for Directors and senior management, making suggestions to the Board, formulating remuneration policies for Directors, Supervisors and senior management personnel, making suggestions on allocation of remuneration and submitting proposals to the Board.

The Articles of Association set out the procedures and methods of nomination of Directors and have specific requirements for the appointment of independent non-executive Directors.

When reviewing the qualification of candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications as Directors, compliance with laws, administrative regulations, departmental rules and the Articles of Association, fiduciary duty, understanding of the Bank's operation and management and willingness to accept supervision of their performance by the Board of Supervisors and the diversity requirements of the Board of Directors. Candidates of Directors shall be passed by more than half of votes of all members of the Nomination and

Remuneration Committee, and shall be nominated by the Board of Directors in written proposals to the general meeting after reviewed by the Board of Directors, and then voted at the Shareholders' general meeting. For details, please refer to the Articles of Association and Rules of Procedures for Nomination and Remuneration Committee of Postal Savings Bank of China Co., Ltd. on the website of the Hong Kong Stock Exchange or the website of the Bank.

During the reporting period, the Nomination and Remuneration Committee convened 4 meetings, considered 14 proposals including the adjustment of the Board Committee members, new directors' remuneration recommendation proposals, structure, member number, composition and member of the board of directors, and implementation of the diversity requirement of the Board of Directors.

The Nomination and Remuneration Committee studied such matters as personnel structural adjustment and optimization plan for special committees under the Board of Directors, and review and approval of the qualifications and conditions of the newly appointed and reappointed Directors, and provided constructive opinions and advice to the Board of Directors in relation to issues such as the personnel structural optimization for Board committees and the remuneration of senior management.

Social Responsibility Committee

As of the end of the reporting period, our Social Responsibility Committee comprised 6 Directors, including Mr. Lyu Jiajin and Ms. Yao Hong as executive Directors, Mr. Tang Jian, Mr. Chin Hung I David, and Mr. Ding Xiangming as non-executive Directors, and Ms. Bi Zhonghua as independent non-executive Director. The Committee is chaired by Mr. Lyu Jiajin. The Social Responsibility Committee primarily performs such duties as developing the Bank's social responsibility strategies and policies that are consistent with the development strategies and actual situation, developing its basic management systems for social responsibility, supervising, inspecting and evaluating the implementation and effectiveness of the Bank's strategies, policies, and basic management systems for social responsibility, reviewing its credit extension policies relating to environment and sustainable development, supervising and evaluating the comprehensiveness, promptness and effectiveness of its consumer interests protection work as well as duty performance of senior management, and approving matters in relation to external donation, as authorized by the Board.

During the reporting period, the Social Responsibility Committee convened 2 meetings, considered four proposals including 2016 social responsibility report, environment, society and governance reports, green bank construction, green credit development planning and other work reports. It also gave importance guidance on the Bank's social responsibility and construction of a green bank.

Responsibilities of Directors on Financial Statements

The Directors are responsible for supervising the preparation of financial statements of each accounting period so that financial statements can give a true and fair view of the financial position, operating results and cash flows of the Bank. In the course of preparation of the financial statements for the year ended on December 31, 2017, the Directors have adopted and applied appropriate accounting policies consistently, and made judgment and estimation prudently and reasonably.

Corporate Governance

During the reporting period, the Bank complied with the requirements of relevant laws and regulations and the Hong Kong Listing Rules, and disclosed the interim results report and the interim report of 2017.

Training of Directors and Company Secretary

Training of Directors

During the reporting period, the Bank made overall plans for the training of Directors and actively encouraged and organized Directors to attend various training to help Directors improve their professional performance ability. During the reporting period, in compliance with the Hong Kong Listing Rules and relevant regulatory requirements, the directors of the Bank actively participated in a series of trainings organized by the Bank, IFC, UBS AG, JP Morgan, Merrill Lynch, and Davis Polk & Wardwell, as well as a series of on-line training courses for Directors on the website of the Hong Kong Stock Exchange. The trainings include a wide range of topics such as duties of directors, the roles and functions of special committees of the Board, corporate governance, risk management, management of connected transactions and innovation in financial technology. During the reporting period, all Directors attended the training organized by the Bank. The Directors also comprehensively promoted the improvement of their professional standards by writing and publishing professional articles, participating in seminars, conducting on-the-spot research, exchanging and studying various domestic and foreign counterparts such as JP Morgan and Canada Pension Plan Investment Board.

Training of Company Secretary

As of the end of the reporting period, Mr. Du Chunye and Dr. Ngai Wai Fung as the director and chief executive officer of SW Corporate Services Group Limited were joint company secretaries of the Bank. During the reporting period, they took no less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Hong Kong Listing Rules. The primary contact of Mr. Ngai Wai Fung at the Bank is Mr. Du Chunye.

Board of Supervisors and Committees

Composition of Board of Supervisors

As at the end of the reporting period, the Board of Supervisors of the Bank has 9 Supervisors in total, namely Mr. Chen Yuejun the Chairman, Shareholders representative Supervisors Mr. Li Yujie and Mr. Zhao Yongxiang; external Supervisors Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; employee representative Supervisors Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng. For the details of current Supervisors, please refer to “Directors, Supervisors, and Senior Management”.

Meetings of Board of Supervisors

During the reporting period, meetings were held by the Board of Directors and its special committees in strict accordance with the relevant laws and regulations, the Articles of Association and Supervisor meeting rules. 8 Board of Supervisors meetings were held with 29 proposals reviewed and 18 reports heard. 2 meetings were held by the Nomination Committee; 3 meetings were held by the Duty Performance Supervision Committee; and

2 meetings were held by the Finance and Internal Control Risk Monitoring Committee. The meetings mainly reviewed the 2016 financial accounting plan, 2016 profit distribution plan, 2016 Results Announcement and 2016 Annual Report, and report by the Board of Supervisors on performance evaluation of the Board of Directors, senior management and its members in 2016, 2016 work report, 2016 internal control evaluation report, and other topics.

During the reporting period, the attendance of Supervisors of the Bank at meetings of the Board of Supervisors and its special committees is listed below:

Supervisors	Number of attendance in person*/meetings requiring attendance			
	Board of Supervisors	Nomination Committee	Duty Performance Supervision Committee	Finance and Internal Control Risk Monitoring Committee
Current supervisors				
Chen Yuejun	8/8	—	—	—
Li Yujie	8/8	2/2	—	—
Zhao Yongxiang	8/8	—	3/3	—
Zeng Kanglin	6/8	2/2	—	—
Guo Tianyong	6/8	—	3/3	—
Wu Yu	8/8	—	—	2/2
Li Yue	8/8	—	3/3	2/2
Song Changlin	8/8	2/2	3/3	2/2
Bu Dongsheng	3/4	—	—	2/2
Supervisor off post				
Dang Junzhang	3/4	—	—	—

* Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference. During the reporting period, Supervisors who did not attend the meetings of the Board of Supervisors or special committees thereof in person had appointed other Supervisors as proxies to attend and to vote at the meetings.

Duties, Status and Operation of the Special Committees under the Board of Supervisors

There are 3 special committees under the Board of Supervisors, namely Nomination Committee, Duty Performance Supervision Committee and Finance and Internal Control Risk Monitoring Committee.

The Nomination Committee is responsible for formulation of procedures and standards for the election of Shareholders representative Supervisors and external Supervisors, the preliminary vetting of their eligibility for appointment and qualifications, as well as other matters authorized by the Board of Supervisors. The Nomination Committee consists of 3 members, namely Mr. Zeng Kanglin, Mr. Li Yujie and Mr. Song Changlin, chaired by Mr. Zeng Kanglin.

Corporate Governance

The Duty Performance Supervision Committee is responsible for supervising and evaluating the performance of duties of the Board of Directors, senior management and its members, and providing advice to the Board of Supervisors, as well as other matters authorized by the Board of Supervisors. The Committee consists of 4 members, namely Mr. Guo Tianyong, Mr. Zhao Yongxiang, Mr. Li Yue, and Mr. Song Changlin, chaired by Mr. Guo Tianyong.

The Finance and Internal Control Risk Monitoring Committee is responsible for the checking and supervision of financial activities of the Bank, and offers advice to the Board of Supervisors. The Committee is also responsible for the supervision of matters such as operation decisions, risk management and internal control, and offers advice to the Board of Supervisors and handles other matters authorized by the Board of Supervisors. The Committee consists of 4 members, namely Mr. Wu Yu, Mr. Li Yue, Mr. Song Changlin, and Mr. Bu Dongsheng, chaired by Mr. Wu Yu.

Responsibility of Senior Management

The Senior Management is our executive body, which shall be accountable to the Board of Directors and is supervised by the Board of Supervisors. The division of authority between the senior management and the Board of Directors is clearly prescribed under the Articles of Association and other corporate governance documents of the Bank.

According to the Articles of Association, the president shall exercise the following duties and powers:

- (1) to take charge of the operation and management of the Bank, to make arrangements to implement Board resolutions, and to report his or her work to the Board;
- (2) to establish specific rules and regulations of the Bank (other than internal audit rules and regulations);
- (3) to formulate operational plans and investment plans of the Bank, and to make arrangements for their implementation upon approval by the Board;
- (4) to formulate policies and basic management systems of the Bank, and to make proposals to the Board;
- (5) to formulate annual financial budget plans and annual accounts, capital management plans, risk capital allocation plans, profit distribution plans, loss recovery plans, plans for increase or reduction of registered capital, plans for issuance of bonds or other marketable securities and listing plans, and share repurchase plans of the Bank, and to make proposals to the Board;
- (6) to formulate plans for establishing internal organization of the Bank, and plans for establishing domestic and overseas tier-1 branches, other branches and divisions directly under the head office and any overseas institutions of the Bank, and make recommendations to the Board;
- (7) to propose the appointment or dismissal of vice presidents or other members of the senior management (other than secretary to the Board) to the Board;

-
- (8) to appoint or dismiss officers-in-charge of internal organization of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the tier-1 domestic and overseas branches directly under the head office, and overseas institutions of the Bank;
 - (9) within the scope of authority granted by the Board, to authorize vice presidents and other members of the senior management, and the officers-in-charge of the internal organization and the officers-in-charge of the tier-one domestic and overseas branches, other branches and divisions directly under the head office and overseas institutions of the Bank to carry out day-to-day management and operation activities;
 - (10) to decide on plans for the remuneration and performance appraisal of the officers-in-charge of internal departments of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the domestic and overseas branches, other branches and divisions directly under the head office and overseas institutions of the Bank, and to appraise the levels of their remuneration and performance;
 - (11) to decide on or authorize lower-level managers to appoint or dismiss the staff of the Bank;
 - (12) to decide on plans for the wages, welfare and punishment of the staff of the Bank;
 - (13) to propose to convene an extraordinary Board meeting;
 - (14) to take contingency measures in the interests of the Bank where there is a bank run or any other material emergencies relating to the business operation of the Bank, and to immediately report to the banking regulatory authority under the State Council, the Board and the Board of Supervisors;
 - (15) Other duties and powers to be exercised by the president, as prescribed in laws, administrative regulations, department rules and the Articles of Association or determined by the Shareholders' general meeting or the Board.

Shareholders' General Meeting

During the reporting period, we held 3 shareholders' general meetings, 2 domestic Shareholders' class meetings and 2 H Shareholders' class meetings at which 32 proposals were deliberated and approved. These general meetings of the Bank were convened and held in accordance with relevant laws and regulations, ensuring the Shareholders' rights to attend and exercise their rights at the meeting. The Bank's auditor attended the 2017 annual general meeting to answer questions in relation to the auditing work and the preparation of auditor's report.

Corporate Governance

Division of Responsibilities between the Chairman and the President

Pursuant to code provision A.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the roles of Chairman and president of the Bank are separate with clear division of responsibilities.

Mr. Li Guohua, as the Chairman of the Bank, is responsible for material matters such as overall strategic development of the Bank.

Mr. Lyu Jiajin, as the president of the Bank, is responsible for the daily management of business operation of the Bank. The president shall be appointed by, and is accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted a code of conduct for securities transactions by Directors, Supervisors and senior management on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Hong Kong Listing Rules. The Directors, the Supervisors and the senior management of the Bank confirm that they have complied with such code of conduct during the reporting period.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules and the Articles of Association, and the Directors shall be elected by the Shareholders' general meetings with a term of three years. A Director may serve consecutive terms if re-elected upon the expiration of the term of office, and the consecutive term shall commence from the date of approval by the Shareholders' general meetings. The term of office of the independent non-executive Directors shall be no more than six years.

Appraisal and Incentive Mechanisms for Senior Management

The Bank has established clear standards in relation to the remunerations of Directors, Supervisors and senior management, and continued to improve the performance appraisal system and incentive and disciplinary mechanism for them. The Bank determined performance-based annual remunerations of Directors, Supervisors and senior management according to the performance assessment results, and established the system for deferred payment of performance-based annual remunerations.

Auditor's Engagement and Remuneration

Pursuant to the proposal approved by the Shareholders' general meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2017, respectively. The Bank did not change auditor in any of the preceding three years.

In 2017, the fee payable to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for auditing related services provided to the Bank amounted to RMB51,500,000 in total. Save for this, the fee payable to PricewaterhouseCoopers Zhong Tian LLP for other services provided to us amounted to RMB nil in total during the reporting period.

Shareholders' Rights

Convening of Extraordinary Shareholders' General Meetings

The Bank protects Shareholders' rights strictly in compliance with the regulatory requirements and the Articles of Association. Shareholders who individually or jointly hold in aggregate 10% or more of the total voting shares of the Bank (the "requesting Shareholders") may propose to the Board of Directors to convene an extraordinary general meeting in writing. The Board shall reply in writing as to whether it agrees or refuses to convene such extraordinary general meeting within 10 days upon receipt of the proposal in accordance with the laws, administrative regulations, departmental rules and the Articles of Association.

If the Board agrees to convene an extraordinary general meeting, a notice of such meeting shall be issued within 5 days after the relevant resolution of the Board is passed. Consent of the requesting Shareholders must be sought if there are any changes to the original proposal in the notice.

If the Board does not agree to convene an extraordinary general meeting, or fails to reply within 10 days upon receipt of the proposal, the requesting Shareholders have the right to propose to the Board of Supervisors to convene an extraordinary general meeting, and shall make such proposal to the Board of Supervisors in writing.

If the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of such meeting shall be issued within 5 days upon receipt of the proposal. Consent of the requesting Shareholders must be sought if there are any changes to the original proposal in the notice.

If the Board of Supervisors does not issue the notice of the general meeting within the prescribed period, it shall be deemed that the Shareholders' general meeting will not be convened and presided over by the Board of Supervisors, and shareholders individually or jointly holding 10% or more of the Bank's shares for 90 consecutive days or more may convene and preside over the meeting on their own initiative.

Enquiries to the Board of Directors

The Shareholders of the Bank may put enquiries to the Board of Directors and have the right to obtain the relevant information pursuant to the Articles of Association. Shareholders may inspect copies of the Shareholder's general meeting minutes during the Bank's business hours free of charge. If any Shareholder requests for a copy of such meeting minutes from the Bank, the Bank shall send the copy within seven days upon receipt of the payment of reasonable charges. Where a Shareholder requests to inspect the relevant information or obtain such materials, such Shareholder shall provide the Bank with written documents evidencing the class and number of shares held by them in the Bank, and the Bank shall provide the Shareholder with such information or materials according to their requirements after verifying his /her identity. The office of the Board shall be responsible for the daily matters of the Board. If Shareholders have any enquiries, please contact the Office of the Board of Directors.

Corporate Governance

Proposals to the Shareholders' General Meetings

Pursuant to the Articles of Association, Shareholders who individually or jointly hold more than 3% of the total voting shares of the Bank (the "Proposing Shareholders") shall have the right to submit interim proposals in writing ten days before the Shareholders' general meeting to the convener. The convener shall within two days upon receiving such proposals give supplemental notice of the Shareholders' general meeting. The office of the Board of Directors is responsible for organizing Shareholders' general meetings, preparing documents and taking minutes of the meetings.

Significant Changes to the Articles of Association during the Reporting Period

During the reporting period, in order to meet the requirements of relevant corporate governance and regulatory operations after the issuance of offshore preference shares, in accordance with the regulatory requirements at home and abroad, the Bank reviewed and approved the Resolution on Amendments to the Articles of Association of Postal Savings Bank of China at the shareholders' general meeting held on June 8, 2017. Please refer to the circular of Shareholders dated April 24, 2017 and the announcement of the voting results dated June 8, 2017 for details. Such amendments were approved to take effect by the CBRC on August 2, 2017. For details, please refer to the Bank's announcement dated August 4, 2017 regarding the approval by the CBRC regarding the non-public offering of offshore preference shares and the amendments to the Articles of Association. The currently valid Articles of Association of the Bank were published on the website of the Hong Kong Stock Exchange and the Bank on August 4, 2017.

During the reporting period, in accordance with the regulatory requirements such as "Commercial Bank Corporate Governance Guidelines" issued by the CBRC and the general requirements for writing the work of Party building in the Articles of Association of the Company, and in light of the Bank's intention to apply for A Share Offering, the Board of Directors recommended to include the work of Party building in the general requirements of the Articles of Association, Relevant Regulations of the Securities Law, Commercial Bank Corporate Governance Guidelines, Guidelines on the Articles of Association of Listed Companies, Listing Rules of Shanghai Stock Exchange and other relevant laws, regulations and regulatory documents, as well as relevant provisions of the CSRC on listed companies. Also, the current applicable Articles of Association shall be revised. For details, please refer to the circular of the shareholders of the Bank dated September 12, 2017 and the announcement of the voting results dated October 27, 2017. The aforesaid amendments are yet to be reviewed by the CBRC. The amendments will further enhance the Bank's corporate governance and better meet the relevant requirements of the regulatory authorities and stock exchanges for the corporate governance and standardized operation of the Bank after the A Share Offering and listing.

Revision of the rules of procedure of the Shareholders' General Meeting, Board of Directors, and Board of Supervisors

During the reporting period, at the 2016 shareholders' general meeting, the Bank reviewed and adopted the Proposal on Amending the Rules of Procedure of the Shareholders' General Meeting of Postal Savings Bank of China Co., Ltd.; deliberated and approved the Proposal on Amending the Rules of Procedure of Shareholders' General Meeting of Postal Savings Bank of China Co., Ltd., the Proposal on Amending Rules of Procedure of the Board of Directors of Postal Savings Bank of China Co., Ltd., and the Proposal on Amending Rules of Procedure of the Board of Supervisors of Postal Savings Bank of China Co., Ltd. at the second extraordinary shareholders' meeting in 2017.

Risk Management and Internal Monitoring

The Board of Directors supervises the Bank's risk management and internal monitoring systems on an ongoing basis, and reviews annually the effectiveness and sufficiency of the risk management and internal monitoring systems of the Bank and its subsidiaries.

The Bank has established internal audit mechanism, and reviewed the Bank's risk management and internal monitoring system during the reporting period. The Bank believes that its risk management and internal monitoring systems are sufficient to effectively reduce various risks in the Bank's operations within a reasonable range. For details of our risk management, internal control and the operation of the system during the reporting period, please refer to "Discussion and Analysis — Risk Management".

The Board of Directors acknowledges that it shall be accountable to the risk management and internal monitoring systems, and shall be liable to reviewing the effectiveness of such systems. However, such systems are designed to manage but not eliminate the risk of failing to achieve the business objectives, and can only provide reasonable but not absolute assurance against non-material misrepresentation or loss.

Policy for Board Member Diversification

The Nomination and Remuneration Committee has adopted the policy of diversity of Board members in accordance with the code provision A.5.6 of the Corporate Governance Code set out in Appendix 14 of Hong Kong Listing Rules. The Bank believes that the diversity of Board members is a key factor to maintain the Bank's sound corporate governance, achieving sustainable development and reach the strategic goals. While determining the composition of the Board members, the Bank takes into account various factors for the diversification of the Board, including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge and term of services of the Directors and other regulatory requirements. The Board members are appointed based on skills and experiences required for the Boards' overall sound operation under the talent-oriented principle, with full consideration of the purpose and requirements for the diversity of Board members as mentioned above.

The Nomination and Remuneration Committee supervises the implementation of the policy for diversification of Board members, and will review such policy where appropriate, to ensure it is effective. The Nomination and Remuneration Committee will discuss any revisions where necessary, and provide revision suggestions for the Board to consider and approve and then implement it.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank faithfully and diligently performed its duty of disclosure, accomplished disclosure in an authentic, accurate, complete and timely manner according to regulatory requirements, disclosed periodic reports and other announcements in compliance with laws and regulations and enhanced its voluntary information disclosure by focusing on the concerns of the market and investors.

Corporate Governance

The Bank continues to strengthen the management of inside information and enhance the compliance awareness of insiders. The Bank has formulated the *Administrative Measures on the Information Disclosure by Postal Savings Bank of China Co., Ltd.*, defining the responsibilities of the Board of Directors, the Board of Supervisors, the senior management and each department on information disclosure, prescribing information disclosure processes, disciplines and requirements and strictly managing the confidentiality of inside information and insiders.

During the reporting period, no rectification was required for any material accounting errors and no material omission was found.

Investor Relationship

In 2017, the Bank actively strengthened the close exchange with the capital market, established an effective internal and external coordination mechanism, built diversified communication channels and promptly delivered the investment value to capital markets. The senior management of the Bank directly participated in the communication of hot issues in capital markets and gained wide market recognition and laid a solid shareholder base.

During the reporting period, the Bank held the annual performance promotion and senior management roadshow of 2016 results, phone promotion of the 2017 first quarter results and 2017 interim results, and the Opening Day of Capital Market in conjunction with the 2017 third quarter results. The Bank attended 9 investment summits, arranged for and accepted more than 50 calls or onsite research with investors and analysts, received a total of more than 300 investors and analysts, and conveyed its unique competitive advantages to the potential investors in Chinese mainland, Asia Pacific, Europe, North America and other countries and regions, having established a positive and proactive image and enhanced investor confidence.

During the reporting period, on the basis of maintaining frequent communication with capital market, investors and analysis, the Bank provided timely feedback to management on the key focuses of the capital market through mutual communication which conducted in various levels and forms, demonstrating the bridging role of investor relations management between the Bank and capital market.

If investors have any enquiries of relevant questions, or Shareholders have any aforesaid proposals, enquiries or resolutions, please contact:

The Board Office of Postal Savings Bank of China Co., Ltd.
Address: No. 3 Financial Street, Xicheng District, Beijing, PRC
Telephone: 86-10-68858158
Fax: 86-10-68858165
Email: ir@psbc.com

Social Responsibility

During the reporting period, the Bank adhered to the service concept of “reaching both urban and rural areas and bring benefits to the people”, conscientiously implemented the requirements of various state policies and actively performed corporate social responsibilities.

Inclusive Finance, Serving the Real Economy

Based on its own resource and characteristics, the Bank has established a strategic positioning of serving the community, serving SMEs and serving “Sannong”, closely integrating its own development with China’s economic and social development.

Preferential Allocation of Resources to Implement National Strategies

In 2017, the Bank gave full play to its financial advantages and devoted itself to providing financial support to the “Belt and Road” projects, the coordinated development of Beijing, Tianjin and Hebei, the development of the Yangtze River Economic Belt, and the “Made in China 2025” strategy. Earnestly implementing the supply-side structural reform requirements, it further promoted the policy of “cutting overcapacity, cutting excess inventory, deleveraging, reducing costs, and strengthening areas of weakness”, innovatively used “credit + non-credit”, “equity + debt”, “commercial banking + investment banking” and other means to meet the diversified financial needs of enterprises and support the steady development of the real economy.

Implementation of Multiple Policies to Advance Poverty Alleviation

In 2017, the Bank fully understood the overall requirements of financial service-driven poverty alleviation, gave full play to its advantages in network, capital and expertise, improved its products and service methods, intensified capital investment, gradually exploring a new pattern of financial poverty relief that relies on specialized industries, product innovation and risk sharing.

Mechanism Innovation Dedicated to the Development of “Sannong”

As an important provider of “Sannong” financial services, the Bank has always placed great emphasis on “Sannong” financial services and given priority to supporting the development of agricultural economy and helping farmers increase their incomes. In 2017, the Bank was committed to speeding up the improvement of the operation mechanism of its Sannong Finance Department, serving the agricultural supply-side structural reform and continuously increasing the credit supply to key “Sannong” areas.

Pattern Optimization to Boost “Small and Micro Enterprises”

In 2017, the Bank devoted itself to building an efficient, convenient and fully-covered financial service system for small and micro enterprises, fully supporting the development of small and micro enterprises. It promoted the establishment of small and micro financial outlets with specialized industries as its guide; set up a multi-side win-win platform to offer “financing + intelligence” services for small and micro customers; launched small and micro financial service platforms for small and micro enterprises with the help of big data and provided them with intelligent services.

Corporate Governance

Green finance, boosting ecological civilization

The Bank adheres to the concept of green development, formulates green credit strategy and development objectives, integrates the green development concept into its business development and credit management, so as to enable finance to play the role of resource allocation in ecological conservation and contribute to ecological endeavors.

Management and Policies

By improving the differentiated green finance policy and adhering to the policy of not extending loans to non-environmental-friendly industries, the Bank gives priority to energy-saving and environmental protection industries, green economy, low-carbon economy and circular economy and strictly restricts the credit extension to clients and projects in the industries with high pollution, high energy consumption and over-capacity, practicing the principle of green development and committing itself to building an environment-friendly green bank.

Green Finance

In line with the requirements of the green finance credit extension policy, the Bank weights credit line, financial support and performance assessment resources towards renewable and clean energy projects such as green transportation, environment-friendly hydro-power and smart grid projects, strategic emerging industries such as energy conservation, environmental protection and new energy vehicle industries, green agriculture projects as well as high-end green equipment manufacturing industry.

Green Operation

The Bank proactively advocates Green Office. It optimizes the operation of electrical equipment, standardizes operating procedures, cultivates employees' awareness of energy conservation, promotes the recycling of office consumables, strengthens quota management of vehicle fuel and improves the utilization rate of video conference system to reduce unnecessary energy consumption.

Together, Making a Better Life

The Bank always attaches importance to the development of its employees and strictly abides by relevant laws and regulations to protect the legitimate rights and interests of its employees. The Bank also organizes targeted training to enhance employees' skills, carries out activities to promote their physical and mental health and creates a good working environment for them.

New Journey, Large Retail Financial Ecosystem

With the deepening of China's economic restructuring and upgrading, the Bank has given full play to its advantages and is committed to providing comprehensive and multilevel consumer financial services to both urban and rural residents. As of the end of 2017, the balance of consumer loans of the Bank increased by 28.11% to RMB1.41 trillion, as compared to the end of 2016, representing 38.88% of the total loans.

The Bank has put forward a goal of "building a finance-centered one-stop household economic ecosphere covering all scenarios" and devoted itself to building a "smart bank" featuring "experience + intelligence", an open and coordinated "platform bank" utilizing cloud computing, as well as an "inclusive bank" promoting equality and sharing.

The Bank has built a complete consumer credit product system with three types of consumer credit products including housing loans, automobile loans and credit line loans, covering various consumer needs and with a focus on emerging areas such as education and culture, tourism and leisure, retirement and health as well as energy conservation and environment protection.

The Bank has applied the online retail credit automated decision-making model, realizing automatic operating, bulk marketing and systematic risk control, simplifying the approval process, and effectively reducing customer financing costs.

The Bank has integrated electronic channels and physical networks, constantly optimized customer experience and formed a financial service landscape consisting of both offline physical banking and online virtual banking services, making the consumer financial services better meet people's needs.

PSBC Love Charity, Bringing Benefits to Tens of Thousands of Households

On March 20 2017, the Bank launched the "PSBC Love Charity Platform" at its 10th anniversary, which marks an important measure taken by PSBC to systematically and continuously carry out charity work by integrating both internal and external as well as online and offline resources.

The platform adheres to the concept of inclusive finance, unites social forces, awakens public awareness and passes on humanistic care. It promotes the development of China's charity cause in a normalized, diversified and sustainable manner and strives to become the innovator and practitioner of China's charity cause. The Bank also set up "PSBC Love Charity Foundation", implemented "PSBC Love Growth Plan", established "PSBC Charity Association of Volunteers" and set "PSBC Charity Day".

For more information on social responsibility, please refer to "PSBC Corporate Social Responsibility Report 2017 (Environment, Society and Governance)" published on the websites of the Hong Kong Stock Exchange and the Bank.

Report of the Board of Directors

Principal Business and Business Review

The principal business of the Bank and its subsidiary is to provide banking and related financial services. The Bank's business operation, Directors and Supervisors and business review as required by the Schedule 5 of the Hong Kong Companies Ordinance are set out in relevant sections including "Message from the President", "Discussion and Analysis", "Directors, Supervisors and Senior Management", "Corporate Governance", "Significant Events", Notes to the Consolidated Financial Statements and this "Report of the Board of Directors".

Profits and Dividends Distribution

The Bank's profits and financial position for the reporting period are set out in the "Financial Highlights" and "Discussion and Analysis — Analysis of Financial Statements".

The Bank proposed the distribution of cash dividend of ordinary shares of RMB1.471 (tax inclusive) for ten shares of 81,030,574,000 ordinary shares for the year 2017 ended December 31, 2017 to all holders of ordinary shares, totaling approximately RMB11.920 billion (tax inclusive). The aforesaid proposed distribution of the 2017 annual dividend is still subject to the approval of the 2017 annual general meeting of the Bank. Upon consideration and approval of 2017 profit distribution proposal of the Bank by the annual general meeting, it is expected that cash dividends will be distributed on or around Friday, August 17, 2018.

During the reporting period, the Bank did not distribute any dividend on offshore preference shares.

During the reporting period, upon approval by the 2016 annual general meeting held on June 8, 2017, the Bank distributed cash dividends for 2016 to all ordinary shareholders whose names appeared on the register of members on the record date. Dividend of RMB0.737 (tax inclusive) was distributed for every 10 shares, totaling approximately RMB5,972 million (tax inclusive). The Bank did not declare the 2017 interim dividend, and no capital reserve was converted into share capital.

Implementation of the Cash Dividend Policy

The formulation and implementation of the Bank's cash dividend policy complies with the Articles of Association and the resolutions of the Shareholders' general meetings. The relevant decision-making procedure and system are complete while the distribution standards and proportion are clearly stated. Independent non-executive Directors played their due roles by carrying out their obligations diligently and expressed their opinions.

Reserves

For details of the changes of reserves for the Bank during the reporting period, please refer to "Consolidated Statement of Changes in Equity".

Financial Highlights

The summary of operating results, assets and liabilities for the five years ended December 31, 2017 is set out in the section headed "Financial Highlights".

Donations

During the reporting period, the Bank made external donations (domestically) of RMB12.4452 million.

Fixed Assets

For details of the changes in fixed assets for the reporting period, please refer to "Notes to the Consolidated Financial Statements – 23 Property and equipment".

Subsidiary

The Bank currently has one majority-owned subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015, which mainly provides unsecured loan service (excluding mortgage and auto loans) to domestic residents for consumption purposes. At the end of 2017, PSBC Consumer Finance had a registered capital of RMB1 billion, of which the Bank held 61.5%. As of the end of 2017, it had total assets of RMB13,494 million, net assets of RMB998 million and recorded a net profit of RMB67.75 million for the year.

On March 16, 2018, a capital injection of RMB2 billion was completed by PSBC Consumer Finance, of which RMB1.5 billion was contributed by the Bank. Further to the capital injection, PSBC Consumer Finance has a registered capital of RMB3 billion, of which the Bank holds 70.5%.

Report of the Board of Directors

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

List of Changes in Share Capital

	December 31, 2016		Increase or decrease during the reporting period (+,-)	December 31, 2017	
	Numbers of shares	Percentage (%)		Numbers of shares	Percentage (%)
<i>share</i>					
I. Shares subject to selling restrictions					
1. RMB ordinary shares	61,174,407,000	75.50	—	61,174,407,000	75.50
2. Overseas-listed foreign shares	15,550,666,000	19.19	-9,296,186,000	6,254,480,000	7.72
II. Shares not subject to selling restrictions					
1. RMB ordinary shares	—	—	—	—	—
2. Overseas-listed foreign shares	4,305,501,000	5.31	+9,296,186,000	13,601,687,000	16.79
III. Total shares	81,030,574,000	100.00	—	81,030,574,000	100.00

As of the end of the reporting period, the Bank's total ordinary Shareholders amounted to 3,321. Among them, there were 3,316 H Shareholders and 5 domestic Shareholders. As of February 28, 2018, the total number of ordinary Shareholders was 3,143, and there was no preference shareholder with resumptive voting power. The top 10 ordinary Shareholders are as follows:

Shareholders	Class of shares	Number of shares held (shares)	Percentage of shares held (%)
China Post Group*	Domestic Shares	55,847,933,782	68.92
HKSCC Nominees Limited	H Shares	15,772,753,880	19.47
UBS AG	H Shares	3,423,340,000	4.22
China Life Insurance Company Limited*	Domestic Shares	3,341,900,000	4.12
China Telecommunications Corporation*	Domestic Shares	1,117,223,218	1.38
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	Domestic Shares	738,820,000	0.91
JPMorgan China Investment Company II Limited	H Shares	642,670,000	0.79
Shenzhen Tencent Domain Computer Network Company Limited	Domestic Shares	128,530,000	0.16
Yeung Chok Ming	H Shares	380,000	0.0005
Li Kiu	H Shares	207,000	0.0003
Total		81,013,757,880	99.98

* indicates the state-owned shareholders

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

On September 27, 2017, in order to further improve its comprehensive competitiveness and enhance its capacity of sustainable development, the Bank issued non-public preference shares totaling USD7.25 billion in the offshore market. According to the central parity rate of RMB against USD published by China Foreign Exchange Trade System on September 27, 2017, the total fund-raising scale in this issuance of overseas preference shares amounted to about RMB48 billion. After deducting commission and issuing expenses, the proceeds raised from the offshore preference shares issuance was approximately RMB47.8 billion, which was all used to supplement the Bank's additional tier 1 capital for the increase of capital adequacy ratio. The offshore preference shares were listed on the Hong Kong Stock Exchange on September 28, 2017. With a face value of RMB100 per share, the offshore preference shares were issued at a price of USD20 per share with a total of 362,500,000 authorized shares, all paid in USD.

For issuing details of the offshore preference shares, please refer to the Bank's announcement dated March 24, 2017 concerning proposed non-public issuance of offshore preference shares and proposed amendments to the Articles of Association, Circular to Shareholders dated April 24, 2017, voting results announcement dated June 8, 2017, the announcement concerning approval on non-public issuance of offshore preference shares and amendment to the Articles of Association by CBRC dated August 4, 2017, the announcement concerning approval of non-public issuance of offshore preference shares by CSRC dated September 13, 2017, the announcement on proposed issuance of non-cumulative perpetual offshore preference shares dated September 22, 2017 and the formal announcement on the issuance of offshore preference shares dated September 27, 2017.

Stock code of the offshore preference shares	Issuing date	Issuing price (USD/share)	Initial dividend rate	Issuing quantity (shares)	Issuing amount (USD)	Listing date	Permitted trading volume (shares)
4612	September 27, 2017	20	4.50	362,500,000	7,250,000,000	September 28, 2017	362,500,000

Report of the Board of Directors

Number of Offshore Preference Shareholders and Shareholdings

As of the end of the reporting period, the total number of offshore preference Shareholders (or nominees) of the Bank was 1. As of February 28, 2018, the total number of offshore preference Shareholders (or nominees) of the Bank was 1.

Top 10 offshore preference shareholders (or their nominees) of the Bank are as follows (the following data is based on the status of offshore preference shareholders dated December 31, 2017):

Name of shareholders	Nature of shareholders	Class of shares	Increase or decrease during the reporting period (share)	Shareholding Ratio (%)	Total amount of shares held (share)	Number of shares subject to selling restrictions	Number of shares pledged or locked-up
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	362,500,000	100	362,500,000	—	Unknown

- (1) Shareholding status of offshore preference shareholders are based on the statistics from information listed in the register of offshore preference shareholders.
- (2) Due to the non-public issuance of the offshore preference shares, the information listed in the register of offshore preference shareholders is information of placees and nominees.

Profit distribution of offshore preference shares

The Bank pays dividends to offshore preference shareholders in cash once every year. The dividend not paid in full to offshore preference shareholders by the Bank shall not accumulate to the next accrual year. After the dividend is distributed according to the agreed dividend rate, offshore preference shareholders of the Bank shall no longer participate in residual profit distribution along with ordinary shareholders.

During the reporting period, the first interest payment of the offshore preference shares issued by the Bank did not reach the dividend payment date, and there were no matters relating to the distribution of offshore preference share dividends. During the reporting period, there was no payment at offshore preference share dividends of the Bank.

Repurchase or transfer of offshore preference shares

During the reporting period, there was no repurchase or transfer of offshore preference shares.

Voting power resumption of preference shares

During the reporting period, the Bank did not resume voting power of offshore preference shares.

Accounting policies and reasons for offshore preference shares

According to the *Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, *Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments*, and *Distinction between Financial Liabilities and Equity Instruments and Related Accounting Treatment Provisions* issued by the Ministry of Finance, and the *International Accounting Standards No. 39 Financial Instruments: Recognition and Measurement* and *International Accounting Standards No. 32 Financial Instruments: Presentation* by International Accounting Standards Board, the terms of the issued and outstanding offshore preference shares of the Bank conform to the accounting requirements of equity instruments. Therefore, the aforesaid offshore preference shares are accounted for as equity instruments.

Substantial shareholders

According to the *Interim Measures on Equity management of Commercial Banks* published by CBRC, China Post Group, China Shipbuilding Industry Corporation (“CSIC”) and Shanghai International Port (Group) Co., Ltd (“SIPG”) are substantial Shareholders of the Bank, as China Post Group holds more than 5% of interest in the Bank and one member of senior management from CSIC and SIPG each holds a concurrent post of Director of the Bank.

Basic situation of substantial shareholders

Controlling shareholders

The controlling shareholder of the Bank is China Post Group. China Post Group, a large-scale wholly state-owned enterprise, established in accordance with the *Whole People Owned Industrial Enterprise Law of the People's Republic of China* on October 4, 1995. It engages in various postal businesses, undertakes the obligations of general postal services and provides special services entrusted by the government. China Post Group has a registered capital of RMB108.82149 billion. The domicile is No. 3 Jinrong Street, Xicheng District, Beijing. The unified social credit code is 91100000000192465 and the legal representative is Mr. Li Guohua. China Post Group is principally engaged in domestic and international mail delivery and express delivery, distribution of publications such as newspapers, journals and books, stamp issuance, postal remittance, confidential correspondence, postal financial business, postal logistics, e-commerce, postal agency and other businesses as stipulated by the state.

There was no change in the controlling shareholder or the actual controller of the Bank during the reporting period.

Report of the Board of Directors

Other Substantial Shareholders

Founded on July 1, 1999, CSIC is a wholly state-owned company established under the Company Law and financed by the state with a registered capital of RMB63 billion and registered office in No.72 Kunminghu Nan Lu, Haidian District, Beijing. The uniform social credit code is 9111000071092446XA and legal representative is Mr. Hu Wenming. CSIC is principally engaged in the research, development and production of naval equipment, civil vessels and ancillary and non-marine equipment and is the only Global 500 companies in the shipping industry in the PRC.

SIPG has its registered office address at 4/F, Area A, Complex, No. 1 Tonghui Road, Luchaogang Town, Pudong New Area, Shanghai, and its headquarters office at 358 East Daming Road, Hongkou District, Shanghai (International Port Building). Its unified social credit code is 913100001322075806 and the legal representative is Mr. Chen Xuyuan. The registered capital of SIPG is RMB23,173,674,650 and its ultimate controller is Shanghai State-owned Assets Supervision and Administration Commission. SIPG, the operator of Shanghai port public wharf, is a large specialized business group established in January 2003 after the former Shanghai Port Administration Bureau was restructured. In June 2005, SIPG became a joint stock company after an overall restructuring, and was listed on the Shanghai Stock Exchange on October 26, 2006, becoming the first joint-stock port company listed as a whole in China. It is now the largest public company in the port industry in mainland China and is also one of the largest port companies in the world. SIPG is mainly engaged in port-related business with its principal businesses including: container segment, bulk cargo segment, port logistics segment and port service segment.

Share Pledge by Substantial Shareholders of the Bank

During the reporting period, there was no share pledge by substantial Shareholders of the Bank.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at December 31, 2017, 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 of shareholders	Identity	Class of shares	Total number of shares held	Nature	Percentage of total issued shares (%)	Percentage of issued class shares (%)
China Post Group	Legal and beneficial owner	Domestic Shares	55,847,933,782	Long position	68.93	91.29
UBS Group AG ⁽¹⁾	Guaranteed interests and interests of a controlled corporation	H Shares	4,330,949,125	Long position	5.34	21.81
	Interests of controlled corporation	H Shares	3,437,835,478	Short position	4.24	17.31
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) Co., Ltd. ⁽³⁾	Interests of controlled corporation	H Shares	3,349,490,000	Long position	4.13	16.87
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 controlled corporation	H Shares	2,267,364,000	Long position	2.80	11.42
Li Tzar Kuoi, Victor ⁽⁴⁾	Interests of 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 (Group) Company ⁽⁵⁾	Interests of controlled corporation	Domestic Shares	3,341,900,000	Long position	4.12	5.46
China Life Insurance Company Limited ⁽⁵⁾	Legal and beneficial owner	Domestic Shares	3,341,900,000	Long position	4.12	5.46
China National Tobacco Corporation	Legal and beneficial owner	H Shares	1,296,000,000	Long position	1.60	6.53
Shanghai Port Group (BVI) Holding Co., Limited	Legal and beneficial owner	H Shares	1,470,000,000	Long position	1.81	7.4

Report of the Board of Directors

- (1) UBS Group AG holds 100% shares of UBS AG and UBS Securities LLC, and is therefore deemed to be interested in the H Shares held by UBS AG and UBS Securities LLC under the SFO.
- (2) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited hold 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 Li Ka Shing (Canada) Foundation 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.

Issuance and Listing of Securities

The offshore preference shares of the Bank were listed on the Hong Kong Stock Exchange on September 28, 2017. For issuing details of the offshore preference shares, please refer to “Changes in Share Capital and Shareholdings of Shareholders — Offshore Preference Shares”.

The proposal on A Share Offering was examined and approved at the 2017 second extraordinary shareholders’ meeting, the 2017 second domestic shareholders’ class meeting and the 2017 second H shareholders’ class meeting of the Bank on October 27, 2017. The Bank proposes to issue a total number of shares not exceeding 5,172,164,200 (no more than 6% of the issued capital after A Share Offering), which shall be exclusive of any shares that may be issued under the over-allotment option and shall all be used to supplement the Bank’s capital.

For details, please refer to the Bank’s Circular to Shareholders dated September 12, 2017, the announcement on the A Share Offering proposal dated August 29, 2017, the supplementary announcement on the A Share Offering proposal and circular for related matters dated October 12, 2017 and the announcement on voting results dated October 27, 2017. The Bank is currently planning to promote the matters related to A Share Offering as planned.

For issuance of other securities of the Bank, please refer to “Notes to the Consolidated Financial Statements — 32 Debt securities issued; 34.2 Other equity instrument”.

Share Capital and Public Float

As of the end of the reporting period, the Bank's total ordinary shares amounted to 81,030,574,000 (including 19,856,167,000 H Shares and 61,174,407,000 Domestic Shares). As of the Latest Practicable Date and based on publicly available information, the Bank maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the relevant exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

Tax Deduction

Overseas H shareholders

According to the Notice on the Collection of Personal Income Tax after the Expiration of National Tax Bureau Notice [1993] No. 045 (Guo Shui Han [2011] No. 348), which was released by the State Administration of Taxation on June 28, 2011, the responsible party should withhold personal income tax by law from overseas resident individual shareholders on their dividend income deriving from shares in domestic non-foreign invested companies issued in Hong Kong. However, the overseas resident individual shareholders who hold shares of domestic non-foreign invested companies issued in Hong Kong may be entitled to the relevant favorable tax treatments based on the tax treaties between the countries in which they are domiciled and China and the tax arrangements between Mainland China and Hong Kong (or Macau).

Based on the tax regulation mentioned above, the Bank will withhold personal income tax of the dividend at 10% tax rate for the overseas individual H shareholders. However, where there are different requirements otherwise specified in relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

The Bank will withhold 10% enterprise income tax of the dividend for non-resident corporate overseas H shareholders based on the Law of the People's Republic of China on Enterprise Income Tax and relevant implementation rules which have been effective since January 1, 2008.

If the overseas H shareholders of the Bank have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank's H shares.

Mainland's shareholders of Shanghai-Hong Kong stock connect and Shenzhen-Hong Kong stock connect

Pursuant to the Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) and the "Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Cai Shui [2016] No. 127), which were jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on October 31, 2014 and November 5, 2016, respectively, for dividends obtained by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the "CSDC") for

Report of the Board of Directors

providing the register of mainland individual investors and withhold personal income tax at 20% tax rate from mainland individual investors. While for dividends obtained by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the CSDC will withhold personal income tax at 20% tax rate. Individual investors may, by producing valid tax payment certificates, apply to the competent tax authority under the CSDC for tax credit relating to the withholding tax already paid abroad.

For dividend income obtained by the mainland security investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, personal income tax shall be withheld according to the above regulations.

For dividend income obtained by the mainland corporate investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such income shall be included in their total revenue and enterprise income tax shall be withheld by law. Meanwhile, for dividend income obtained by mainland resident enterprises from holding H shares for 12 consecutive months, enterprise income tax shall be exempted by law. H-share companies listed on Hong Kong Stock Exchange shall apply to the CSDC for providing the register of the mainland enterprise investors. The H-share companies shall not withhold income tax of dividends for mainland enterprise investors and such investors shall declare and pay relevant tax themselves.

Offshore Preference Share Holders

In accordance with Chinese tax laws and regulations, when distributing dividends to overseas non-resident enterprises on offshore preference shares, the Bank shall withhold enterprise income tax at a rate of 10%.

In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

Purchase, Sale or Redemption of the Bank's Shares

During the reporting period, save for the issuance of its offshore preference shares, the Bank and its subsidiary did not purchase, sell or redeem any of its listed shares.

Pre-emptive Rights

Pursuant to the PRC laws and the Articles of Association, the Bank made no arrangements in relation to pre-emptive rights. According to the Articles of Association, the Bank is entitled to increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing Shareholders, placing new shares to the existing Shareholders, transferring the capital reserve funds to increase share capital and other methods as permitted by laws, regulations and relevant authorities.

Major Customers

During the reporting period, the five largest customers accounted for no more than 30% of the interest income and other operating income of the Bank for the year. For further details on the major customers of the Bank, please refer to “Discussion and Analysis — Risk Management — Credit Risk — Credit Risk Analysis — Loan Concentration”.

Material relationship with employees and suppliers

Due to the nature of the business, the Bank does not have a major supplier.

For more information on our relationship with employees, please refer to “PSBC Corporate Social Responsibility Report 2017 (Environment, Society and Governance)” published on the websites of the Hong Kong Stock Exchange and the Bank.

Use of Proceeds

During the reporting period, the net proceeds raised from issuance of the Bank’s tier 2 capital bonds and offshore preference shares were all utilized to strengthen the Bank’s capital base to support the ongoing growth of its business.

For details, please refer to the relevant announcements of the Bank published on the websites of the Hong Kong Stock Exchange and the Bank.

Major Projects Invested by Non-raised Capital

During the reporting period, the Bank did not make any material investments with non-raised funds.

Directors’ and Supervisors’ Interests in Contracts of Significance

For the list and biographies of and changes in Directors and Supervisors, please refer to “Directors, Supervisors and Senior Management”. During the reporting period, none of the Directors or Supervisors or entities related to such Directors and Supervisors had any direct or indirect material interests in any transaction, arrangement or contract of significance regarding its business to which the Bank or any of its subsidiaries was a party. None of the Directors or Supervisors has entered into any service contract with the Bank or any of its subsidiaries, pursuant to which the Bank needs to pay compensation (other than statutory compensation) for terminating the contract within one year.

Interests of Directors and Supervisors in Competing Businesses

None of the Directors and Supervisors held any interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

Directors’ and Supervisors’ Rights to Acquire Shares or Debentures

During the reporting period, the Bank did not grant any rights to subscribe Shares or debentures to any of the Directors or Supervisors, nor were any of such rights exercised by any of the Directors or Supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Report of the Board of Directors

Interests in Shares, Underlying Shares and Debentures Held by Directors and Supervisors

As at the end of the reporting period, none of the Directors or Supervisors held any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in 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 (including interests and short positions in which they are deemed to have under such provisions of the SFO), or any interests or short positions which were required to be recorded in the registrar referred to in Section 352 of the SFO, or any interests or short positions which were required to be notified to the Bank and Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to “Interests and Short Positions Held by Substantial Shareholders and Other Persons”.

Connected Transactions

During the reporting period, the Bank followed the regulatory laws and rules to promote the management of connected transactions by refining management mechanism, optimizing approval and filing procedures, organizing trainings, and cultivating compliance culture continuously, to further strengthen the management of connected transactions. During the reporting period, the Bank’s connected transactions were in compliance with relevant laws, and no impairment of the interest of the Bank and of the minority Shareholders was found.

For further details on the connected transactions of the Bank and the particulars of any contract of significance between the Group and its controlling shareholder and any of its subsidiaries and the particulars of any contract of significance for the provision of services to the Group by its controlling shareholder or any of its subsidiaries, please refer to “Connected Transactions and the Implementation of the Management System for Connected Transactions”.

For the related party transactions defined under accounting standards, please refer to “Notes to the Consolidated Financial Statements — 39 Transactions with related parties”. Save for the connected transactions disclosed in the “Connected Transactions and the Implementation of the Management System for Connected Transactions”, these connected party transactions do not constitute a discloseable connected transactions as defined under the Hong Kong Listing Rules.

Remuneration of Directors, Supervisors and Senior Management

Remuneration of senior management shall be considered and approved by the Board of Directors. Remuneration of Directors and Supervisors shall be considered and approved by the Board of Directors and then submitted to the Shareholders’ general meeting for approval. For the details of the specific remuneration standards, please refer to “Notes to the Consolidated Financial Statements — 10 Emoluments of directors and supervisors”. The Bank did not formulate any share incentive plan for Directors, Supervisors and senior management.

Permitted Indemnity Provisions

According to the Articles of Association, the Bank will undertake the civil liability arising from the discharge of the duties of Directors, Supervisors and senior management subject to or without prejudice against the laws and administrative regulations, unless its Directors, Supervisors and senior management were proven to have failed to perform their duties honestly or in good faith. The Bank has maintained liability insurance for Directors, Supervisors and senior management for the potential liabilities that may arise from the discharge of the duties of Directors, Supervisors and senior management.

Financial, Business and Family Relationship among Directors

Directors of the Bank had no relationship with each other, including financial, business, family or other material relationships.

Employee Benefit Plans

The Bank has pension plans for the employees according to applicable PRC laws. For details of employee benefit plans of the Bank, please refer to “Notes to the Consolidated Financial Statements — 33(1) Employee benefits payable”.

Management Contracts

Except for the service contracts of its management personnel, the Bank has not entered into any contract with any person, company or legal entity to manage or handle the whole or any material part of its businesses.

Auditors

The consolidated financial statements of the Bank for 2017, prepared in accordance with China Accounting Standard and IFRS, were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with the Auditing Standards of China and International Standards on Auditing, respectively. With respect to each, an unqualified audit opinion was issued.

Environmental Policy

The Bank strictly abided by relevant laws and regulations of China on environmental protection and there were no major environmental issues during the reporting period. The Bank actively advocated environmental protection in the course of business and practiced low-carbon and green office. The Bank also encouraged paperless office and called for saving water and cherishing office supplies. With these, the Bank contributed to saving resources for the company and the society and constructing environment-friendly society.

For details of the Bank actively practicing green credit policies, please refer to “Discussion and Analysis — Business Overview — Green Finance”.

Report of the Board of Directors

Compliance with Important Laws, Regulations and Rules

During the reporting period, the Bank complied with the laws, regulations and regulatory requirements of the place where it operates in all material respects. During the reporting period, save for the disclosure of the significant events, there was no investigation, circulated notice of criticism or public denunciation from the CSRC, in relation to the Bank or Directors, Supervisors and senior management, or penalty of other regulatory authorities which would have material effect on its operation.

For details of the compliance with important laws, regulations and rules by the Bank during the reporting period, please refer to “Discussion and Analysis – Risk Management – Legal and Compliance Risk”.

Significant Events

For other matters significant to the Bank for the knowledge of Shareholders, please refer to “Significant Events”.

By Order of the Board of Directors
Chairman Li Guohua
March 27, 2018

Report of the Board of Supervisors

Meetings of the Board of Supervisors and Its Special Committees

During the reporting period, the Board of Supervisors and its special committees were held by the Board of Supervisors of the Bank in strict accordance with the relevant laws and regulations, the Articles of Association and the rules of procedure of the Board of Supervisors. Eight Board of Supervisors meetings were held with 29 resolutions reviewed and 18 reports heard. Two meetings were held by the Nomination Committee, 3 meetings were held by Duty Performance Supervision Committee, and 2 meetings were held by the Finance and Internal Control Risk Monitoring Committee.

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank actively focused on the implementation of national macro policies and regulatory requirements, strengthening of risk prevention and control, and provision of services to the real economy by the Bank as required by national laws and regulations and the Articles of Association, and continuously innovated on supervision methods, standardized and improved its operations, and conscientiously performed various supervision duties based on the new requirements of the internal and external environment after listing, which significantly contributed to the continuous improvement of corporate governance and steady development of the Bank and succeeded in upholding the interests of Shareholders, the Bank, creditors and other stakeholders.

Duty Supervision and Evaluation

The Board of Supervisors optimized the procedures, contents and standards of the annual duty evaluation, and solidly carried out routine duty supervision according to the supervision requirements on listed companies. For the first time, the Board of Supervisors brought the evaluation opinions of tier-1 branch managers into the evaluation mechanism to realize a full coverage of the evaluation scope on both the head office and branches, improved the objectivity and impartiality of evaluation results, and completed the 2016 annual duty evaluation report and reported it to the regulatory authorities and Shareholders' general meeting in a timely manner. The Board of Supervisors paid continuous attention to the operations of the Board of Directors, senior management and its special committees and the performance of duties of directors and senior management, carried out evaluation on the implementation of retail strategies and compensation management, and conducted investigations and researches on the implementation of important decisions.

Risk Supervision

The Board of Supervisors paid close attention to the implementation of key national strategies and credit extension and risk policies by the Bank, urged the Bank to strengthen its financial support efforts on key national strategic policies, strictly implemented the overall requirements of serving the real economy, preventing financial risks and deepening reform, and ensured the effective implementation of the Bank's strategies, risk appetite, risk policies and credit extension policies. The Board of Supervisors paid attention to key risk areas; conducted investigations and researches on the supervision of new micro credit products, corporate customer risks, group customer risks and factoring business; and promptly reminded and urged the Bank to implement risk prevention and control measures. In addition, the Board of Supervisors paid attention to key supervision indicators, carried out analysis on the uses of funds raised

Report of the Board of Supervisors

from wealth management products, interbank funds and funds from bills, reminded the Bank to guide the businesses to return back to their basics and prevented useless capital circulation and its flow from the real economy to virtual economy. With the continuous conduction of routine monitoring and analysis, the Board of Supervisors provided timely risk warnings on external risk incidents of key customers.

Financial Supervision

The Board of Supervisors reviewed the resolutions including the Bank's regular reports, annual financial statement plans, profit distribution plans and the engagement of annual accounting firm, and effectively performed the supervision duties on important decisions. Meanwhile, the Board of Supervisors kept in touch with external auditors and communicated on the preparation plans of regular reports, audit findings and internal control management recommendations. According to the regulatory requirements and market concerns after listing, the Board of Supervisors conducted investigations and researches on the analysis of profitability and data quality; and promoted the improvement of refined financial management. The Board of Supervisors conducted investigations and researches on credit card and international businesses, carried out analysis on existing personal customer structure, actively promoted business transformation and upgrade, and accelerated the improvement of comprehensive operation profitability. Furthermore, the Board of Supervisors actively followed the Bank's preparatory work of IFRS9, conducted researches and analysis on the construction and application of the Bank's management accounting system and inter-bank management accounting system, promoted the enhancement of researches on management accounting systems, and improved refined management.

Internal Control and Supervision

The Board of Supervisors performed its internal control and supervision duties earnestly. The Board of Supervisors reviewed the annual internal control and assessment report of the Bank, listened to reports on compliance management and related transactions management; kept abreast of the progress of consultation project for internal control system construction on a regular basis, collected the case prevention and control and risk matters in a timely manner and promoted the improvement of the working mechanism for case control of the Bank. The Board of supervisors enhanced the supervision on the effectiveness of internal control, monitored regulatory reports and opinions on internal and external audit inspection timely, and gave reminders on relevant risks and urged prompt rectification by means of regular supervision. The Board of Supervisors carried out investigation on bancassurance business based on the Bank's unique model of "directly-operated outlets and agency outlets", reminded the strengthening of the risk management of cooperative institutions and promoted the compliant development of bancassurance business.

Work of External Supervisors

During the reporting period, the external Supervisors, namely Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu, acted in strict compliance with the provisions of the Articles of Association, performed their duties diligently, discussed in the meeting in due course, fully studied and considered all proposals, actively participated in all investigations conducted by the Board of Supervisors, attended meetings of the Board of Supervisors and special committees, issued professional, stringent and independent opinions and viewpoints, and played active roles in improving the Bank's corporate governance and operational management. During the reporting period, each external Supervisor worked over 15 working days for the Bank's supervision.

Independent Opinions Issued by the Board of Supervisors

Lawful Operations

During the reporting period, the Bank continued to operate in compliance with applicable laws and regulations and improve its internal control system, and the decision-making procedures complied with the provisions of laws, regulations and the Articles of Association. The Directors and senior management performed their duties conscientiously, and the Board of Supervisors did not find any violation of laws and regulations, or any action that contravened the interests of the Bank in their performance of duties.

Annual Report

The preparation and review procedures of this annual report complies with laws and regulations and regulatory provisions. The contents of this annual report reflected the Bank's actual situation truly, accurately and completely.

Use of Proceeds

During the reporting period, the use of funds raised by the Bank was in line with the purposes as stated in the prospectus.

Acquisition and Sale of Assets

During the reporting period, there was no insider dealing, or any other activity which impaired the Shareholders' interests or resulted in loss of assets arising from the acquisition and sale of assets of the Bank.

Connected Transactions

During the reporting period, the connected transactions of the Bank were conducted based on business principles. There were no activities which impaired the interests of the Bank in connected party transactions. The approval, voting, disclosure and implementation of connected transactions complied with applicable laws and regulations and the Articles of Association.

Report of the Board of Supervisors

Implementation of Resolutions Passed at the Shareholders' General Meeting

During the reporting period, the Board of Supervisors had no objection to the reports or proposals presented by the Board of Directors to the Shareholders' general meeting for consideration. The Board of Directors earnestly implemented the resolutions passed at the Shareholders' general meeting.

Internal Control

During the reporting period, the Board of Supervisors reviewed the annual internal control and assessment report of the Bank and had no objection to the report.

Implementation of Information Disclosure Management Rules

During the reporting period, the Bank performed its duty of information disclosure in strict compliance with the regulatory policies, implemented the information disclosure management rules earnestly, and disclosed information in a timely and fair manner. Information disclosed during the reporting period was authentic, accurate and complete.

Performance Appraisal Results of Directors and Senior Management

Current Directors and senior management are rated as competent in 2017 performance appraisal.

In addition to the above-mentioned issues, the Board of Supervisors had no objection to other supervision issues during the reporting period.

Connected Transactions and the Implementation of the Management System for Connected Transactions

Connected Transactions

China Post Group holds approximately 68.92% of the total issued share capital of the Bank, and is the Bank's controlling shareholder. According to the Hong Kong Listing Rules, China Post Group and its associates are the Bank's related parties. During the reporting period, the Bank entered into the following transactions with China Post Group and its associates in the ordinary course of business on normal business terms or better.

Land Use Rights and Properties Leasing

Pursuant to the land use rights and properties leasing framework agreement (the "Land Use Rights and Properties Leasing Framework Agreement") entered into between the Bank and China Post Group on September 2, 2016, the Bank has agreed to lease certain of its land use rights, properties and ancillary equipment to China Post Group and/or its associates. China Post Group and/or its associates lease the Bank's properties and ancillary equipment for their outlets or office purposes and paid us rental fees. During the reporting period, the aggregate amount of the rental payments for the properties and ancillary equipment leased by the Bank to China Post Group and/or its associates was RMB121 million.

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, China Post Group and/or its associates have agreed to lease certain of their land use rights, properties and ancillary equipment to the Bank. The Bank leases certain of the properties and ancillary equipment of China Post Group and/or its associates mainly for the Bank's outlets or office purposes. The aforementioned properties and ancillary equipment meet our business needs and relocation of such properties and ancillary equipment would cause unnecessary suspension of business and expenses. During the reporting period, the aggregate amount of the rental payments for the properties and ancillary equipment leased by China Post Group and/or its associates to the Bank was RMB986 million.

Comprehensive Services

On September 6, 2016, the Bank and China Post Group entered into a comprehensive services framework agreement (the "Comprehensive Services Framework Agreement"), pursuant to which the Bank and China Post Group and/or its associates provide a number of comprehensive services to each other. The Comprehensive Services Framework Agreement came into and/or its associates effective from September 28, 2016 and expire on December 31, 2018. If neither party to the agreement raises any objections and regulatory requirements are met in the place where the Bank's Shares are listed, the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry.

Marketing Services of Deposits and Other Businesses

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide marketing services of deposits and other businesses to the Bank. Since the agency outlets are not permitted to conduct corporate deposit business under relevant rules, agency outlets will refer corporate clients to the Bank's directly-operated outlets. During the reporting period, the aggregate amount paid for the marketing services of deposits and other businesses provided by China Post Group and/or its associates to the Bank was RMB457 million.

Connected Transactions and the Implementation of the Management System for Connected Transactions

Banking Related Labor Services and Other General Business Services

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide various banking related labor services and other general business services to the Bank. In particular, banking related labor services include transportation and storage of cash and equipment maintenance services, and general commercial services include property management, advertising, training and other services, of which the banknotes transportation and cash storage services are provided by China Post Group and/or its associates or through independent third parties engaged by it/them. Certain services are procured by China Post Group and/or its associates from independent third parties for use by China Post Group and/or its associates and the Bank to leverage on stronger bargaining power resulting from bulk purchase. Continuous use of the labor services provided by China Post Group and/or its associates will be beneficial to the Bank in light of the quality, cost, efficiency and convenience of such services. During the reporting period, the aggregate amount paid for the labor services provided by China Post Group and/or its associates to the Bank was RMB809 million.

Agency Banking Businesses

On September 7, 2016, according to the *Measures for the Administration of Agency Business Institutions* and with an aim to leverage on the respective strengths of China Post Group and the Bank and to promote the long-term and stable growth of the Bank's businesses, the Bank and China Post Group entered into an agency banking businesses framework agreement (the "Agency Banking Businesses Framework Agreement") in relation to the Bank's entrustment of China Post Group to conduct part of the Bank's commercial banking businesses through agency outlets (the "Agency Banking Businesses"). The Agency Banking Businesses Framework Agreement came into effective from September 7, 2016 with an indefinite term. Under the national policies, neither the Bank nor China Post Group is entitled to terminate the agency arrangement. In the event that there is any change in national policy in the future permitting the termination of the agency arrangement between the Bank and China Post Group and the Bank elect to terminate the Agency Banking Businesses Framework Agreement (the "Termination Right") following discussion between the Bank and China Post Group, the independent non-executive Directors shall express their written opinions and the Board shall then make the decision. The Bank shall follow the filing and approval procedures (if required) under relevant laws and regulations. The Agency Banking Businesses Framework Agreement (which includes the Termination Right) has been filed with the CBRC.

Agency Deposit Taking Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides Renminbi personal deposit taking business (the "Agency Renminbi Deposit Taking Business") and foreign currency personal deposit taking business (the "Agency Foreign Currency Deposit Taking Business") conducted by the agency outlets. The Agency Renminbi Deposit Taking Business and the Agency Foreign Currency Deposit Taking Business are collectively referred to as the agency deposit taking business (the "Agency Deposit Taking Business").

Agency RMB Deposit Taking Business

The Bank calculates the deposit agency fee costs for the Agency Renminbi Deposit Taking Business paid to China Post Group according to the principle of “Fixed Rate, Scaled Fees Based on Deposit Type* (固定費率、分檔計費),” i.e., different deposit agency fee rates are applicable to deposits with different maturities (the “Scaled Fee Rate”), and calculate the actual weighted average deposit agency fee rate (the “Composite Rate”) based on the Scaled Fee Rate and the daily average balance of agency deposits with different maturities. The Cap on Composite Rate shall be at 1.50%.

During the reporting period, the aggregate amount of the deposit agency fees the Bank paid for the Agency Renminbi Deposit Taking Business was RMB70,163 million, and the Composite Rate was 1.41%. The table below sets forth the daily average balances Scaled Fee Rate and the corresponding deposit agency fees paid to China Post Group in respect of the Agency Renminbi Deposit Taking Business during the reporting period:

In millions of RMB, except for percentages

Types	For the year ended December 31, 2017		
	Daily average balance	Scaled Fee Rate (%)	Deposit agency fee costs
Demand	1,627,369.70	2.30	37,429.50
Demand or time	14,672.17	1.50	220.08
Call deposits	21,859.41	1.70	371.61
3-month time deposit	134,520.98	1.25	1,681.51
Half-year time deposit	167,919.46	1.15	1,931.07
1-year time deposit	2,476,610.35	1.08	26,747.39
2-year time deposit	181,638.68	0.50	908.19
3-year time deposit	338,308.29	0.30	1,014.92
5-year time deposit	28,300.09	0.20	56.60
Daily aggregate cash (including cash in transit)	13,179.12	(1.50)	(197.69)
Total	4,991,199.13	1.41	70,163.20

Connected Transactions and the Implementation of the Management System for Connected Transactions

Agency Foreign Currency Deposit Taking Business

During the reporting period, the Bank calculated the deposit agency fee rate on the short term foreign currency deposits (i.e., with a term of less than 12 months) and the long term foreign currency deposits (i.e., with a term of 12 months or more), respectively, in line with market practice.

For short term foreign currency deposits, the deposit agency fee rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the PRC interbank foreign currency market quoted on Bloomberg, deducting the composite rate of interests payable to customers on the foreign currency deposit with corresponding term.

For long term foreign currency deposits, the deposit agency fee rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the global interest rate swap market quoted on Bloomberg (adjusted by the differences between overnight interest rate in the PRC interbank foreign currency market and London Interbank Offered Rate), deducting the composite rate of interest payable to customers on the foreign currency deposits with corresponding term.

During the reporting period, the amount of deposit agency fees for our foreign currency deposits were insignificant.

Agency Intermediary Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides agency banking intermediary business to the Bank via agency outlets, which includes financial settlement services, financial agency services and other services. The financial settlement services primarily include cross-region transactions, cross-bank transactions, personal remittance, management of accounts with small balances, short message services (SMS) and other settlement businesses, whereas financial agency services and other services primarily include bancassurance, agency sales of government bonds and funds, collection and payment agency services and other services.

As the principal of the Agency Banking Intermediary Businesses and pursuant to the requirement of accounting standards, the revenue from the Agency Banking Intermediary Businesses shall be credited to the Bank's book first, and then fees and commissions will be paid by the Bank to China Post and its branches and sub-branches at different levels providing general postal services, following the principle of "fees paid to the institution where services are provided (誰辦理誰受益)". The Bank does not set any annual cap for such fees and commissions.

During the reporting period, the fee payable for the Agency Banking Intermediary Businesses was RMB8,390 million, of which the fee payable in respect of provision of financial settlement services by agency outlets was RMB5,106 million, and fee payable in respect of provision of financial agency and other services by agency outlets was RMB3,284 million.

Hong Kong Listing Rules Implications

The above-mentioned land use rights, properties leasing and comprehensive services are connected transactions as defined in the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14A of Hong Kong Listing Rules, but are exempted from the independent shareholders' approval requirements.

The Agency Banking Businesses are connected transactions as defined in the Hong Kong Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of Hong Kong Listing Rules.

The Bank applied to the Hong Kong Stock Exchange at the time of its public offering, and the Hong Kong Stock Exchange approved the Bank's exemption from strict compliance with the requirements for announcement and (if applicable) independent shareholders' approval under the Listing Rules in terms of the above-mentioned continuing connected transactions. Save for the above, the Bank has applied for, and the Hong Kong Stock Exchange has granted the Bank, in respect of Agency Banking Businesses Framework Agreement, a waiver from strict compliance with the requirement to set a term of no more than three years under Rule 14A.52 of the Hong Kong Listing Rules; and for Agency Deposit Taking Business and Agency Banking Intermediary Businesses, a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Hong Kong Listing Rules. During the reporting period, the Bank fully complied with relevant rules for connected transactions under the Hong Kong Listing Rules.

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions were:

- (1) conducted in the daily business of the Bank;
- (2) carried out in accordance with normal commercial terms or better; and
- (3) conducted based on the agreement of relevant transactions, with fair and reasonable terms in the interests of the Bank's Shareholders as a whole.

Connected Transactions and the Implementation of the Management System for Connected Transactions

The independent non-executive Directors also confirmed that:

- (1) the methods and procedures established by the Bank are sufficient to ensure that the transactions are conducted on normal commercial terms and bring no harms to the interests of the Bank and minority shareholders; and
- (2) the Bank has set up appropriate internal monitoring procedures, and internal auditors will review these transactions.

The Bank has appointed PricewaterhouseCoopers to report continuing connected transactions. PricewaterhouseCoopers has written to the Board of Directors to confirm that it has not noticed anything that could make them consider that the continuing connected transactions:

- (1) have not been approved by the Board of Directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) exceeded the cap (if applicable).

In addition to the above-mentioned continuing connected transactions, the continuing connected transactions since our listing also include the transactions under Trademark License Agreement, the sale of philatelic items the provision of mailing service, sales of goods other than philatelic items and the provision of entrusted asset management services by China Post Group and/or its associates under the Comprehensive Services Framework Agreement; sales of business supplies and other goods, the provision of bancassurance services, the provision of labor services, the provision of custody services and the provision of integrated business operation services conducted by the Bank for China Post Group and/or its associates under the Comprehensive Services Framework Agreement. Meanwhile, in the ordinary and usual course of business since its listing, the Bank also provides connected persons with commercial banking services and products, including providing connected persons with loans and credit facilities, taking deposits from connected persons and providing connected persons with other banking services and products. These continuing connected transactions were exempted from compliance with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Implementation of Management Rules for Connected Party Transactions

In 2017, the Bank established a sound management system for connected party transactions, improved the operating mechanism for connected party transactions and enhanced the management of connected party transactions in compliance with the regulatory requirements of CBRC and the Hong Kong Stock Exchange and pursuant to the *Measures for the Administration of Connected Party Transactions of Postal Savings Bank of China (revised in 2016)*. The following three measures have been adopted: first, reviewing connected regulatory requirements, the Bank established the identification standards for connected parties and prepared the list of connected parties of the Bank, and carried out dynamic update maintenance; second, the Bank made efforts to establish the management and organization system and operating mechanism for connected party transactions with “scientific management and effective control”; the process management mechanisms for the identification and reporting of connected parties and the examination, approval, filing and reporting of connected party transactions have been further improved, ensuring the effective control for the risk of connected party transactions; Third, the consulting work for the construction of the management system of connected party transactions has been conducted in depth, and the Bank fully reviewed the connected party transactions of the Bank and promoted the management informatization of connected party transactions.

For more information on the operation of Related Party Transactions Control Committee of the Board of Directors during the reporting period, please see “Corporate Governance”.

For more information on related parties and transactions with related parties, please see “Notes to the Consolidated Financial Statements — 39 Transactions with related parties”.

Significant Events

Implementation of the Commitments of the Controlling Shareholder

In order to avoid potential competition, China Post Group made a non-competing undertaking in favor of the Bank on September 7, 2016, under which China Post Group made the commitment that it will not engage in any competing commercial banking business within or outside China. China Post Group confirmed that there had been no breach of the non-competing undertaking during the reporting period.

Material Legal Proceedings and Arbitration

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

As of December 31, 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 RMB488 million. The provision of such anticipated liabilities in respect of these matters have been fully made, and 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 or merger activities.

Significant Contract and Their Performance

Material Custody, Subcontracting and Leasing

During the reporting period, there was no matter in relation to material custody, subcontracting or leasing assets of other companies by the Bank, or material custody, subcontracting or leasing assets of the Bank by other companies.

Material Guarantees

The provision of guarantees is an off-balance sheet service in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guarantee that needed to be disclosed except for the financial guarantee services within the business scope as approved by PBOC.

Material Events Concerning Entrusting Other Persons for Cash Management or Entrusted Loans

No such matters concerning entrusting other persons for cash management or entrusted loans occurred in the Bank during the reporting period.

Pledge of Assets

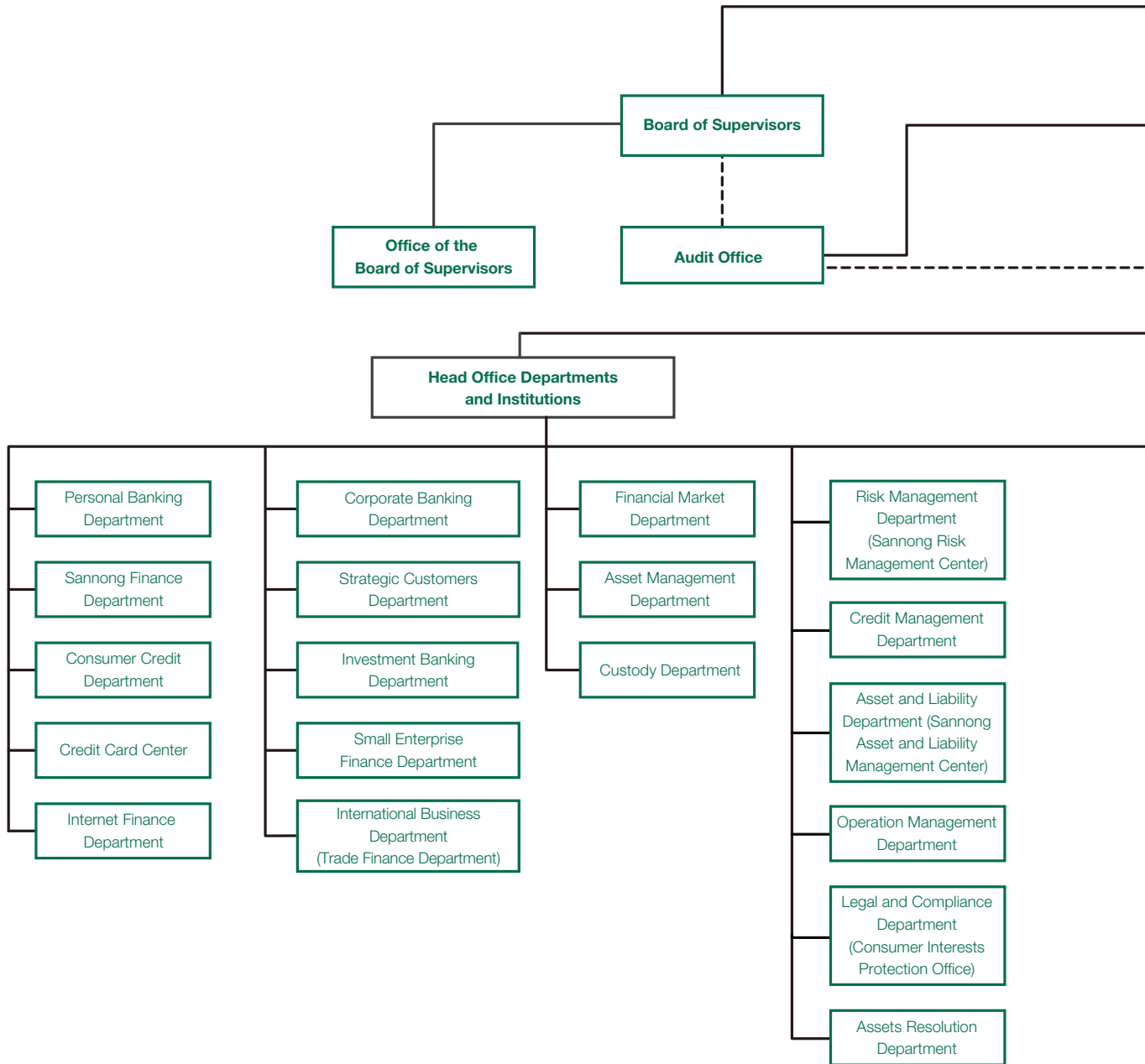
For information relating to the pledge of assets of the Bank, please see “Notes to the Consolidated Financial Statements — 41 Contingent liabilities and commitments”.

Penalties Imposed on the Bank and Directors, Supervisors and Senior Management of the Bank

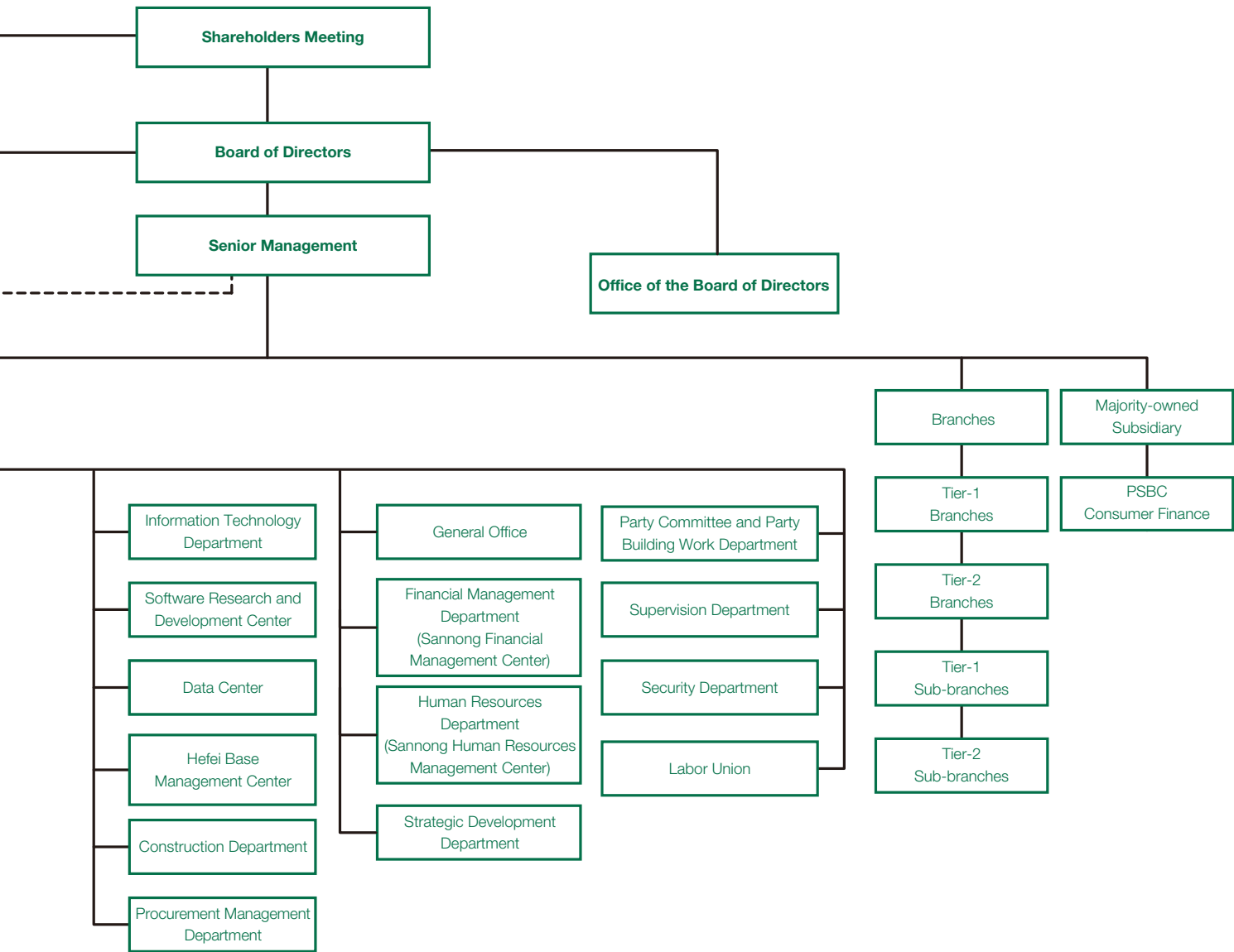
The Bank was subject to the administrative penalty by the CBRC for being one of the capital contribution institutions of the illegal guarantee case for China Guangfa Bank, for details please refer to the announcement of the Bank dated January 1, 2018; the Bank was subject to the administrative penalty by the CBRC in respect of the non-compliance bills case of Wenchang Road Sub-branch, Wuwei City, Gansu Province, for details please refer to the announcement of the Bank dated January 28, 2018.

During the reporting period, save for the relevant administrative penalties mentioned above, there was no investigation, administrative penalty, criticism or public denunciation from the CSRC or CBRC in relation to the Bank or Directors, Supervisors and senior management. None of the Bank or Directors, Supervisors and senior management was subject to any penalty of other regulatory authorities which would have material impact on our operation.

Organizational Structure



For the details of branches and sub-branches and operating premises of the Bank, please refer to “Outlet Inquiry” on home page of our official website.



Independent Auditor's Report

To the Shareholders of Postal Savings Bank of China Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 160 to 307 which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Allowance for impairment losses on loans and advances
- Classification of other debt instruments
- Agency Banking Transactions with China Post Group
- Assessment and disclosure of the possible impact of IFRS 9 implementation

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Allowance for impairment losses on loans and advances</p> <p>Refer to Note 3.1 to the Consolidated Financial Statements "Provision for impairment on loans and advances to customers" in critical accounting estimates and judgements in applying accounting policies, and Note 20 "Loans and Advances to Customers".</p> <p>As at December 31, 2017, the balance of loans and advances to customers amounted to RMB3,630,135 million, with impairment allowance of RMB88,564 million.</p> <p>Allowance for impairment losses is estimated using either individual or collective assessment.</p> <p>Loans and advances which are considered individually significant are assessed individually for impairment. Homogeneous groups of loans and advances not considered individually significant and those assessed with no objective evidence of impairment on an individual basis are assessed for impairment on a collective basis.</p>	<p>Our procedures in relation to impairment allowance of loans and advances to customers included:</p> <p>Individual assessment</p> <p>We performed credit reviews on individually significant loans and advances balances, on sampling basis, with particular focus on overdue but not impaired loans and advances to assess whether the impairment was identified on a timely basis by management.</p> <p>In addition, for the impaired loans and advances from our sample, based on the supporting evidence obtained internally and externally, we tested the expected future cash flows through reviewing the latest-available financial information of the borrowers, considering the realisable value of mortgaged and pledged assets, and support from guarantors, as appropriate and discounted rates.</p>

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Allowance for impairment losses on loans and advances (cont'd)</p> <p>Because of the size of the loans and advances and judgement involved in estimating impairment losses, allowance for impairment losses of loans and advances was our key audit focus. We particularly focused on the following aspects:</p> <ul style="list-style-type: none"> • Whether impaired loans and advances were identified on a timely basis and the discounted future cash flows relating to loans and advances applying individual assessment were estimated reasonably by management; and • Whether the models, parameters and assumptions employed were reasonable for collective assessment. 	<p>Collective assessment</p> <p>Loans and advances subject to collective assessment were assessed for impairment on a collective basis with the relevant data taken from the loan system, using models, parameters and assumptions determined by management.</p> <p>We assessed whether the parameters and assumptions used in the loan loss provision models properly reflected the credit risks. We also independently performed recalculation of the allowance for impairment losses on loans and advances collectively assessed.</p>
<p>Classification of other debt instruments</p> <p>Refer to Note 2.8 to the Consolidated Financial Statements “financial instruments” in significant accounting policies, and Note 21.3 “Investment classified as receivables”.</p> <p>Other debt instruments were non-derivative investments in structured entities. As at December 31, 2017, the balance of other debt instruments amounted to RMB216,937 million, which were classified in “investment classified as receivables”.</p> <p>The Group would recognize and classify these other debt instruments which are mainly subject to credit risk, with fixed or determinable payments and not quoted in an active market as “investment classified as receivables”.</p>	<p>Based on the evidence obtained, we found management’s judgement exercised in identifying the impaired loans for individual assessment and in estimating the individual and collective allowance for impairment losses on loans and advances to customers to be reasonable.</p> <p>Our procedures in relation to the classification of other debt instruments include:</p> <ul style="list-style-type: none"> • Evaluated the rationale, applicability and consistency of the management’s accounting policies for other debt instruments; • Selected and reviewed, on a sample basis, the investment contracts and offering circulars of other debt instruments to analyze whether the cash flows were fixed or determinable, whether there were no other residual values from the investments and whether these other debt instruments were subject to any contractual restriction for trading or whether they were quoted in an active markets; and • On a sample basis, independently sent confirmations to verify significant terms in the investment contracts.

Independent Auditor's Report

Key Audit Matter

Classification of other debt instruments (cont'd)

During the process of determining the classification, the certainty of cash flow, the distribution of residual interests and existence of active market quotes, all require significant management judgements and given the size of other debt instruments the Group has invested in, we identify it as a key audit matter.

Agency Banking Transactions with China Post Group

Refer to Note 39.3(1) "Agency banking services from China Post Group".

The Group operates its business through both directly-operated outlets and agency outlets owned by China Post Group (the Group's holding company). In accordance with the Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets ("Framework Agreement") signed between the Group and China Post Group, agency outlets can provide deposits taking, financial settlement, financial agency and other services under the name of the Group, and the Group pays agency fees to China Post Group for these services ("Agency Banking Transactions").

In 2017, deposit agency fee costs amounted to RMB70,163 million, representing 47.72% of total operating expenses of the Group; fees for agency savings settlement, and fees for agency sales and other commissions amounted to RMB5,106 million and RMB3,284 million, respectively, representing 77.30% of total fee and commission expenses.

We focus on the Agency Banking Transactions due to the unique features, the size of transactions, and the importance of disclosures in the financial statements to facilitate understanding of the financial position and operating performance of the Group.

How our audit addressed the Key Audit Matter

Based on the audit evidence obtained, we found the management's judgement on the classification of other debt investments were supportable.

Our procedures in relation to Services from China Post Group include:

- Understood and tested the controls designed and applied in the Agency Banking Transactions with China Post Group;
- Tested the IT systems and controls applied by the Group in capturing data for calculation of agency fees;
- Inspected the Framework Agreement, evaluated whether the transactions had been appropriately authorized and approved in accordance with specific terms and conditions of the agreement;
- On a sample basis, inspected evidence of payments and receipts of transactions, recalculated the settlement amounts based on the Framework Agreement, and sent confirmations to China Post Group to confirm the transaction amounts and balances; and
- Evaluated if the Agency Banking Transactions with China Post Group were properly disclosed in the consolidated financial statements.

We found no significant exceptions from our above procedures.

Independent Auditor's Report

Key Audit Matter

Assessment and disclosure of the possible impact of IFRS 9 implementation

Refer to Note 2.2 to the consolidated financial statements.

The Group has adopted International Financial Reporting Standard 9: Financial Instruments ("IFRS 9") since 1 January 2018. According to International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), the Group disclosed the reasonably estimable information relevant to assessing the possible impact of IFRS 9 as that, the adoption of IFRS9 is expected to result in an impact on the equity attributable to Shareholders of the Bank as at 1 January 2018 of less than 1%. The Group continues to monitor and refine certain elements of implementation process for adoption of IFRS9 in advance of first quarter of 2018.

To assess the impact of IFRS 9, the Group:

- Established new systems, processes and controls;
- Modified the framework for classification and measurement of financial instruments; and
- Made interpretation of the standard and significant judgements and assumptions, which in particular are key in the development of expected credit loss (ECL) model.

The Group's estimation of the impact upon initial application of IFRS 9 is a highly complex process and involves significant management judgments and estimations. Hence, we consider the disclosure of the possible impact of IFRS 9 implementation as a key audit matter.

How our audit addressed the Key Audit Matter

We performed the following procedures to assess the reasonableness of the Group's disclosed possible impact of the initial adoption of IFRS 9:

- Understood the governance, processes and key controls over the Group's adoption of IFRS 9;
- Understood policies and procedures related to classification and measurements of financial instruments, and ECL model;
- Checked documentations of business models, evaluated methodologies and logics about test of Solely Payments of Principal and Interest ("SPPI"), and on a sample basis, checked the SPPI test results. Regarding the changes of fair value ("FV") from the reclassification of financial instruments, we evaluated methodologies and assumptions made by management, and on a sample basis, recalculated the FV results;
- Obtained an understanding of ECL model methodologies and development processes through reading related documentations and discussing with management. With the support of our specialists, we assessed the reasonableness of parameters used, and judgements, interpretations and key assumptions made by management; and
- Agreed major data inputs used in ECL models to source systems on a sample basis.

Based on the audit evidence obtained, we found the management's judgements on the disclosure of the possible impact of IFRS 9 implementation were supportable.

Independent Auditor's Report

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 27, 2018

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	2017	2016
Interest income	4	305,285	278,198
Interest expense	4	(117,170)	(120,612)
Net interest income	4	188,115	157,586
Fee and commission income	5	23,591	21,015
Fee and commission expense	5	(10,854)	(9,517)
Net fee and commission income	5	12,737	11,498
Net trading gains	6	1,875	664
Net gains on investment securities	7	22,255	15,479
Net other operating (losses)/gains	8	(118)	4,375
Operating income		224,864	189,602
Operating expenses	9	(147,016)	(129,772)
Impairment losses on assets	11	(26,737)	(16,902)
Profit before tax		51,111	42,928
Income tax expenses	12	(3,402)	(3,152)
Net profit		47,709	39,776
Net profit attributable to:			
Shareholders of the Bank		47,683	39,801
Non-controlling interests		26	(25)

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	2017	2016
Profit for the year		47,709	39,776
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		(32)	24
Subtotal		(32)	24
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of available-for-sale financial assets		(6,679)	(6,364)
Amortization of unrealized fair value changes after reclassification to held-to-maturity investments		(96)	(96)
Less: related income tax impact		1,693	1,615
Subtotal		(5,082)	(4,845)
Total comprehensive income for the year		42,595	34,955
Total comprehensive income attributable to:			
Shareholders of the Bank		42,569	34,980
Non-controlling interests		26	(25)
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	13	0.59	0.55

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

Consolidated Statement of Financial Position

As at December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	As at December 31	
		2017	2016
Assets			
Cash and deposits with central bank	14	1,411,962	1,310,273
Deposits with banks and other financial institutions	15	296,758	175,776
Placements with banks and other financial institutions	16	315,999	193,287
Financial assets at fair value through profit or loss	17	119,992	68,976
Derivative financial assets	18	6,584	6,179
Financial assets held under resale agreements	19	141,974	73,131
Loans and advances to customers	20	3,541,571	2,939,217
Investment instruments			
Available-for-sale financial assets	21.1	686,748	1,160,187
Held-to-maturity investments	21.2	935,735	736,154
Investment classified as receivables	21.3	1,424,558	1,498,524
Property and equipment	23	43,804	39,282
Deferred tax assets	24	22,258	13,465
Other assets	25	64,608	51,171
Total assets		9,012,551	8,265,622

Consolidated Statement of Financial Position

As at December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

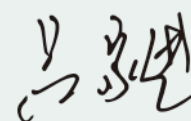
	Note	As at December 31	
		2017	2016
Liabilities			
Deposits from banks and other financial institutions	27	48,454	281,687
Placements from banks and other financial institutions	28	73,617	14,158
Financial liabilities at fair value through profit or loss	29	42,193	10,623
Derivative financial liabilities	18	6,616	6,404
Financial assets sold under repurchase agreements	30	115,143	129,789
Customer deposits	31	8,062,659	7,286,311
Debt securities issued	32	74,932	54,943
Other liabilities	33	157,580	134,819
Total liabilities		8,581,194	7,918,734
Equity			
Share capital	34.1	81,031	81,031
Other equity instruments			
— Preference Shares	34.2	47,846	—
Capital reserve	35	74,659	74,659
Other reserves	36	121,126	114,268
Retained earnings		106,311	76,572
Equity attributable to Shareholders of the Bank		430,973	346,530
Non-controlling interests		384	358
Total equity		431,357	346,888
Total equity and liabilities		9,012,551	8,265,622

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

Approved and authorized for issue by the Board of Directors on March 27, 2018.



(On behalf of Board of Directors)



(On behalf of Board of Directors)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Attributable to shareholders of the Bank											
	Note	Other equity instruments-		Other reserves					Retained earnings	Total	Non-controlling interests	Total equity
		Share capital	Preference Shares	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Others ⁽¹⁾				
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 year		—	—	—	—	—	—	—	47,683	47,683	26	47,709
Other comprehensive income		—	—	—	—	—	(5,082)	(32)	—	(5,114)	—	(5,114)
Total comprehensive income for the year		—	—	—	—	—	(5,082)	(32)	47,683	42,569	26	42,595
Appropriations to surplus reserve	36.1	—	—	—	4,764	—	—	—	(4,764)	—	—	—
Appropriations to general reserve	36.2	—	—	—	—	7,208	—	—	(7,208)	—	—	—
Issuance of preference shares	34	—	47,846	—	—	—	—	—	—	47,846	—	47,846
Dividends	37	—	—	—	—	—	—	—	(5,972)	(5,972)	—	(5,972)
As at December 31, 2017		81,031	47,846	74,659	25,159	101,011	(4,939)	(105)	106,311	430,973	384	431,357

	Attributable to shareholders of the Bank											
	Note	Other equity instruments-		Other reserves					Retained earnings	Total	Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Others ⁽¹⁾					
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	36.1	—	—	3,984	—	—	—	—	(3,984)	—	—	—
Appropriations to general reserve	36.2	—	—	—	9,049	—	—	—	(9,049)	—	—	—
Share issuance	34	12,427	37,675	—	—	—	—	—	50,102	—	—	50,102
Dividends	37	—	—	—	—	—	—	—	(9,000)	(9,000)	—	(9,000)
As at December 31, 2016		81,031	74,659	20,395	93,803	143	(73)	76,572	346,530	358	346,888	

(1) Other reserves-others presents the re-measurement of retirement benefit obligation.

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Year ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	51,111	42,928
Adjustment for:		
Amortization of intangible assets and other assets	816	898
Depreciation of property and equipment and investment properties	3,740	3,792
Impairment losses on assets	26,737	16,902
Interest income arising from investment instruments	(94,506)	(97,887)
Interest expense arising from debt securities issued	2,824	1,302
Net gains on investment securities	(22,255)	(15,479)
Unrealised foreign exchange loss/(gain)	2,468	(2,902)
Net loss/(gain) from disposal of property, equipment and other assets	8	(5)
	(29,057)	(50,451)
NET CHANGES IN OPERATING ASSETS AND OPERATING LIABILITIES		
Net (increase)/decrease in deposits with central bank, banks and other financial institutions	(260,277)	23,614
Net increase in placements with banks and other financial institutions	(25,108)	(18,195)
Net increase/(decrease) in placements from banks and other financial institutions	59,459	(56,701)
Net decrease in financial assets held under resale agreements	7,860	5,938
Net decrease in financial assets sold under repurchase agreements	(14,646)	(265,028)
Net increase in loans and advances to customers	(623,472)	(546,636)
Net increase in customer deposits and deposits from banks and other financial institutions	543,115	1,171,633
Net increase in other operating assets	(34,598)	(44,082)
Net increase in other operating liabilities	16,987	8,027
Cash from operations	(359,737)	228,119
Income tax paid	(5,312)	(7,662)
NET CASH FROM OPERATING ACTIVITIES	(365,049)	220,457
Net cash flows from operating activities include:		
Interest received	205,797	179,427
Interest paid	(116,056)	(121,244)

Consolidated Statement of Cash Flows

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

	Note	Year ended December 31	
		2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal of investment instruments		1,362,479	1,944,244
Cash received from interest income arising from investment instruments and gains on investment securities		113,938	111,912
Cash paid for purchase of investment instruments		(1,022,616)	(2,384,263)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		(8,854)	(7,405)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		97	156
NET CASH USED IN INVESTING ACTIVITIES		445,044	(335,356)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from ordinary share issuance		—	50,102
Cash received from issuance of other equity instruments		47,846	—
Dividends paid		(5,972)	(9,000)
Interests paid on debt securities issued		(2,130)	(1,127)
Cash received from issuing debt securities		20,489	29,970
Repayments of debt securities issued		(500)	—
Cash paid relating to other financing activities		(3)	(34)
NET CASH INFLOW GENERATED FROM FINANCING ACTIVITIES		59,730	69,911
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		139,725	(44,988)
Balance of cash and cash equivalents as at January 1		184,893	227,361
Effect of foreign exchange rate changes		(1,683)	2,520
BALANCE OF CASH AND CASH EQUIVALENTS AS AT DECEMBER 31	38	322,935	184,893

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

1 General information

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

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

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

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

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

As at December 31, 2017, the Bank had a total of 36 tier-one branches and 322 tier-two branches across China.

These consolidated financial statements were authorized for issue by the Board of Directors of the Bank on March 27, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the relevant periods presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”), which collectively include International Accounting Standards (“IASs”) and related interpretations issued by the International Accounting Standards Board (the “IASB”). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap.622) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss (including derivative instruments).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in Note 3.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations

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

		Effective date
Amendment to IAS 7	Statement of cash flows	January 1, 2017
Amendment to IAS 12	Income taxes	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.

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

		Effective for accounting periods beginning on or after
Amendments to IFRS 2	Classification and measurement of share – based payment transactions	January 1, 2018
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The effective date has now been deferred indefinitely

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 9 Financial Instruments (continued)

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

All recognized financial assets that are within the scope of IAS 39 are subsequently measured at amortized cost or fair value under IFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognized in profit or loss. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under IFRS 9 that will change the way the Group classifies and measures its financial assets in 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale financial assets' under the existing IAS 39.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 9 Financial Instruments (continued)

IFRS 9 will have an impact on the Group's financial statements. The Group has set up a project team to carry out preparatory work in phases. Preparatory work mainly includes establishing new financial asset classification standards, revising the financial asset impairment model, preparing related financial statements disclosures, updating policies and procedures, as well as upgrading the relevant IT systems.

Currently the Group has completed all preparation work as planned. Based on current estimates, the adoption of IFRS9 is expected to result in an impact to the equity attributable to ordinary equity holds as at 1 January 2018 of less than 1%.The Group continues to monitor and refine certain elements of implementation process in advance of first quarter of 2018.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 16 Leases

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 December 31, 2017, the Group has non-cancellable operating lease commitments of RMB11,125 million, see Note 41.4. 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 lessors, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial statements.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Bank, a subsidiary and all structured entities under the Bank's control (Note 40).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Consolidation (continued)

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities (“SEs”) in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager’s decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group. Inter-group transactions, balances and unrealized profits on transactions between companies of the Group are eliminated in the consolidated financial statements.

2.4 Revenue recognition

(1) Interest income

Interest income for all interest-bearing instruments is recognized in the consolidated statement of comprehensive income based on the effective interest method. Interest income includes the amortization of a discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.4 Revenue recognition (continued)

(1) Interest income (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(2) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

2.5 Foreign currency translation

The functional currency and presentation currency of the Group is Renminbi ("RMB").

Foreign currency transactions are recorded in accordance with the prevailing rates at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognized in profit or loss.

Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from re-translation of non-monetary items in respect of financial assets classified as available-for-sale are recognized in other comprehensive income; other exchange differences are recognized directly in profit and loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.6 Taxation

Income tax expense comprises current and deferred tax.

Current tax

The current income tax charge is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax charge is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current income tax includes the expected tax payable on the taxable income for the period at applicable tax rates, and any adjustments to tax payable in respect of prior periods.

Deferred tax

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated statement of comprehensive income, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, retirement benefits and early retirement benefits.

(1) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated statement of comprehensive income.

(2) Retirement benefits

The Group's retirement benefits include defined contribution plans and defined benefit plans. Under defined contribution plans, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. All other retirement plans are classified as defined benefit plans.

The Group's retirement benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, annuity scheme and supplementary retirement benefits, among which, social welfare program and annuity scheme are defined contribution plans and supplementary retirement benefits is defined benefit plan.

Basic pensions

Basic pensions refers to payments related to government mandated social welfare programs, including social insurance, medical insurance, housing funds and other social welfare contributions. Contributions are recognized in the consolidated statement of comprehensive income for the period in which the related payment obligation is incurred.

Annuity Scheme

In addition to the statutory pension schemes, the Group's employees also participate in the annuity scheme set up by the Group under *Annuity Scheme of Postal Savings Bank of China Co., Ltd.* (the "Annuity Scheme") in accordance with the state's corporate annuity regulations. The annuity contributions are paid by the Group in proportion to its employees' gross salaries, and are expensed in the consolidated statement of comprehensive income of the current period. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.7 Employee benefits (continued)

(2) Retirement benefits (continued)

Supplementary retirement benefit

The Group gives supplementary retirement benefits to retired staff who are qualified before December 31, 2010. The supplementary retirement benefits include supplementary pensions and supplementary medical benefits. The retirement benefits plan attributed to defined benefit plan, and is usually determined by one or several factors such as age, length of service and compensation.

The liabilities recognized in relation to the above defined benefit pension plan in the consolidated statement of financial position are the present values of defined benefit liabilities at the end of reporting period. The present value of defined benefit liability is based on the expected future cash outflow which is discounted by the government debt interest rate similar to employee benefit liability. The estimate of future cash outflows is affected by various assumed conditions, including inflation rate of pension, inflation rate of medical benefits and other factors. Gains and losses adjusted in accordance with historical experience and assumed movements are included in other comprehensive income when incurred.

(3) Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated statement of comprehensive income. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

2.8 Financial instruments

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of comprehensive income.

(1) Financial assets

The Group's financial assets are classified into four categories — financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

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

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of comprehensive income in the period in which they arise.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed maturities and fixed or determinable payments that Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

When the Group sells or reclassifies a significant amount of financial assets classified as held-to-maturity during the reporting period due to reasons other than the exceptions allowed by accounting standards, the remaining held-to-maturity assets are reclassified as available-for-sale financial assets and no financial assets will be classified as held-to-maturity assets for the reporting period and the subsequent two full financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets refer to the designated or not classified as the financial assets at fair value through profit or loss, loans and receivables, or non-derivative financial assets of held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Available-for-sale financial assets (continued)

Equity investment classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of Interest Income in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider previously;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of significant financial difficulties;
or

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Impairment of financial assets (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio, and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Impairment of financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment exists, the amount of loss is recognized in the income statement. For financial assets that are not individually significant, and for individually assessed financial assets (whether significant or not) that the Group determines that no objective evidence of impairment exists, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

If there is objective evidence that financial assets carried at amortized cost are impaired, an impairment loss is recognized in the consolidated statement of comprehensive income. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are expected to result from foreclosure, less the cash flow of the expenses of obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of comprehensive income. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Impairment of financial assets (continued)

(a) Impairment of financial assets carried at amortized cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(b) Impairment of financial assets classified as available-for-sale

At the end of each reporting period, the Group assesses whether there is objective evidence shows that a financial asset or a financial asset group is impaired. For debt securities, the standards above are applicable. For investment classified as available-for-sale equity, it is also an impairment evidence if the fair value of the debt securities is significantly or prolonged lower than the cost. If the evidence exists for available-for-sale financial assets, the accumulated loss of investment revaluation reserve which was originally included in other comprehensive income shall be reclassified into the consolidated statement of comprehensive income for the period impairment incurred.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated statement of comprehensive income in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated statement of comprehensive income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(2) Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities carried at amortized cost.

(3) Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gains or losses are recognized in the consolidated statement of comprehensive income. The derivative financial instruments are held by the Group for managing risk exposures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(4) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or a significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(5) Derecognition

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when the Group becomes a party of related financial instrument contractual terms.

A financial asset is derecognized when any of the following criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expired; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to another entity, or; (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss for the current period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(5) Derecognition (continued)

Where the Group has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset, or transferred control of the financial assets, the asset are recognized to the extent of the Group's continuing involvement of the financial asset. The financial asset is derecognized if the Group has not retained control. The rights and obligations arising from transfer are separately recognized as assets or liabilities.

A financial liability is derecognized when any of the following criteria is met: (i) the current obligation has been discharged, cancelled or expired, or (ii) the Group enters into an agreement with creditor so as to replace the current financial liabilities in the way of taking new financial liabilities, and the contractual terms of new financial liabilities and current financial liabilities are substantially different. If the terms for the current liabilities have significant modifications, the replacement or adjusted items shall be handled as the derecognition of the original financial liabilities and initial recognition of a new financial liability.

The difference between the carrying amount of the derecognized part and the consideration is recognized in profit or loss.

(6) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied:

- (i) the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable; and
- (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

(7) Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as held-to-maturity investments, available-for-sale financial assets, investment classified as receivables or loans and advances to customers as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note 41.5 "Contingent Liabilities and Commitments — Collateral".

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(7) Repurchase agreements and agreements to resell (continued)

Consideration paid for financial assets held under agreements to resell are recorded as financial assets held under resale agreements. The difference between purchase and sale price is recognized as interest expense or income in the consolidated statement of comprehensive income for that year over the term of the agreements using effective interest method.

2.9 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Depreciation is recognized as a component of operating expenses in the consolidated statement of comprehensive income so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each category of property and equipment are as follows:

Categories	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	5%	4.75%
Electronic equipment	3 years	5%	31.67%
Motor vehicles	4 years	5%	23.75%
Office equipment and others	5 years	5%	19.00%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. The costs comprise construction cost, installation cost, borrowing costs that are eligible for capitalisation and other costs necessary for preparing the property and equipment for their intended use. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.9 Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continuing use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating gains or losses in the consolidated statement of comprehensive income. Property and equipment's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

2.10 Land use rights

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.

2.11 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Investment property is subsequently measured at cost. Depreciation is recognized on a straight-line basis based on estimated useful life and net residual rate. The estimated useful life is 20 years and the estimated residual rate is 5% of the investment property.

At the end of the reporting period, the Group reviews the carrying amounts of its investment properties to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount (the higher of fair value less costs to sell and value in use) of the property is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the property is reduced to its recoverable amount. An impairment loss is recognized in the consolidated statement of comprehensive income. The accounting policies of impairment of investment property are included in Note 2.14 "Impairment of non-financial assets".

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.11 Investment property (continued)

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of comprehensive income for the current period.

2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as net other operating gains in the consolidated statement of comprehensive income on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

When the Group is a lessee under finance leases, the leased assets are capitalized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated statement of comprehensive income. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

2.13 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.14 Impairment of non-financial assets

Fixed assets, investment properties, construction in progress and intangible assets with finite useful lives, among others, are tested for impairment if there is any indication that the assets may be impaired as at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Non-financial assets that are suffered an impairment, are reviewed for possible reversal of impairment at each reporting date.

2.15 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and short-term debt securities.

2.16 Dividend distribution

Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements when the dividends are approved by the Bank's shareholders.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.18 Fiduciary activities

The Group acts as a custodian or a trustee to hold and manage assets for third parties. The Group conducts entrusted lending business as agent of customer. In the Fiduciary activities, the Group only receive service fee without bearing any major risks related to the fiduciary business. The assets and their repayment obligations related to these activities are not included in the consolidated statement of financial position of the Group.

2.19 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is recognized in the consolidated income statement.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but disclosed. The Group's contingent liabilities are disclosed in Note 41 "Contingent Liabilities and Commitments".

A provision is recognized when it meets the criteria as set forth in Note 2.17 "Provisions".

2.21 Segment Analysis

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Relevant committees led by presidents allocate resources to and assesses the performance of the operating segments based on periodically reviewing this analysis. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

3 Critical accounting estimates and judgements in applying accounting policies

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions below may lead to material adjustments to the carrying amounts of assets and liabilities within the next accounting year.

3.1 Provision for impairment on loans and advances to customers

Except for the individually-significant impaired loans identified that are individually assessed for impairment losses, the Group reviews loan portfolios to assess impairment on a periodic basis. In determining whether provisions of impairment on loans are to be recognized, the Group makes judgements as to whether there is indication of impairment which will have a decrease in the estimated future cash flows from portfolios composed of loans which are found to have no decrease in cash flows individually. Indications of impairment resulting in the decrease in estimated cash flows include deterioration in borrower's repayment abilities to the loan portfolios, or a breach of contract by the borrower of the loan portfolio due to the adverse changes in the borrower's economic position. Based on the historical loss experience from a group of assets having the similar credit risk characteristics, the Group makes impairment estimation to the loan portfolios that have indications of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2 Fair value of financial instruments

The fair value of financial instruments that are quoted in an active market is determined by the Group through market inquiry; the fair value of financial instruments that are not quoted in an active market is determined by the Group through valuation technique. Valuation techniques include the use of recent prices of transaction between knowledgeable, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are commonly used in the market. To the extent practical, models for the valuation of derivative and other financial instruments use observable market data, such as interest yield curves and foreign exchange rate. Fair values calculated through valuation techniques are verified based on the industry practice and currently observable prices of same or similar financial instruments in the market.

The Group, through regular review and approval procedures, reviews the assumptions and market expectations adopted by the valuation technique, including the examination of assumptions and pricing factors of models, changes in assumption conditions of models, properties of market parameters, whether the market is active or not, adjustment factors of fair values which are not covered by models, and the consistency of valuation techniques between periods. Valuation techniques are regularly reviewed through validity tests and updated to reflect the market conditions at the balance sheet date where appropriate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Actuarial valuation of early retirement benefits and supplementary retirement benefits liabilities

The Group has recognized early retirement benefits and supplementary retirement benefits as liabilities, and performed actuarial valuation of the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits using various assumptions. The assumptions include discount rates, growth rates of expenses, and mortality rates, etc. Any differences between the actual results and assumptions are accounted for in the current period in accordance with relevant accounting policies. The assumptions used are reasonable to the best knowledge of the Group's management, but the actual experience or changes in assumptions will affect the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits.

3.4 Income taxes

In the ordinary course of the Group's business, there are certain transactions and activities for which there are uncertainties concerning their ultimate tax treatment. In accordance with the current tax laws and regulations as well as the policies applicable to the Group from competent government authorities in the previous years, the Group makes tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. In calculating its income tax liabilities, the Group makes significant judgements. Where the final outcome of these tax matters is different from the amounts initially recorded, such differences will affect the current income tax and deferred income tax provisions in the period during which such a determination is made.

3.5 Control over structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it controls the structured entities. The principle of control includes three factors: (i) power over investees; (ii) exposure or right to the variable returns of investees, and (iii) ability to affect those returns through its power over the investees. If evidence shows that the factors of the control change, the Group shall reassess whether it has control on the investees. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (such as direct investment) that it holds in the structured entities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31	
	2017	2016
Interest income		
Deposits with central bank	21,258	19,322
Deposits with banks and other financial institutions	9,539	8,096
Placements with banks and other financial institutions	11,464	10,772
Financial assets at fair value through profit or loss	753	328
Financial assets held under resale agreements	6,784	6,888
Loans and advances to customers	160,981	134,905
Including: Corporate loans and advances	67,104	56,874
Personal loans and advances	93,877	78,031
Available-for-sale financial assets	7,998	6,520
Held-to-maturity investments	30,644	26,164
Investment classified as receivables	55,864	65,203
Subtotal	305,285	278,198
Interest expense		
Deposits from banks and other financial institutions	(1,781)	(6,437)
Placements from banks and other financial institutions	(1,076)	(1,814)
Financial assets sold under repurchase agreements	(3,692)	(8,862)
Customer deposits	(107,797)	(102,197)
Debt securities issued	(2,824)	(1,302)
Subtotal	(117,170)	(120,612)
Net interest income	188,115	157,586
Including:		
Interest income accrued on impaired financial assets	139	395
Included in interest income		
Interest income from listed investments	36,955	36,607
Interest income from unlisted investments	57,551	61,608

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

	Note	Year ended December 31	
		2017	2016
Bank cards and POS fee income		8,625	5,761
Wealth management fee income		4,836	4,390
Settlement and clearing fee income	(1)	4,751	5,640
Agency service fee income	(2)	3,931	3,870
Custodian business fee income		967	957
Others		481	397
Fee and commission income		23,591	21,015
Fee and commission expense	(3)	(10,854)	(9,517)
Net fee and commission income		12,737	11,498

- (1) Settlement and clearing fee income refers to income derived from settlement services provided for institutional and individual customers, mainly includes fee and commission derived from cross-region and cross-bank transactions and remittance services.
- (2) Agency service 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 service.
- (3) Fee and commission expense were mainly expenses incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 39.3 (1) for expenses paid by the Bank to China Post Group.

6 Net trading gains

	Year ended December 31	
	2017	2016
Debt securities	2,070	919
Derivative financial instruments	(195)	(255)
Total	1,875	664

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

7 Net gains on investment securities

	Year ended December 31	
	2017	2016
Net gains from available-for-sale financial assets	21,991	14,413
Net re-valuation gains reclassified from other comprehensive income	108	903
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	96	96
Net gains from investment classified as receivables	60	67
Total	22,255	15,479

8 Net other operating (losses)/gains

	Year ended December 31	
	2017	2016
Net exchange (losses)/gains	(1,876)	2,987
Government subsidies	824	565
Precious metal sales income	419	342
Leasing income	184	169
Others	331	312
Total	(118)	4,375

9 Operating expenses

	Note	Year ended December 31	
		2017	2016
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	41,812	36,579
Deposit agency fee costs and others	(2)	68,797	61,038
Other general operating and administrative expenses		20,462	20,175
Taxes and surcharges	(3)	1,662	3,794
Depreciation and amortization		4,556	4,690
Auditor's remuneration	(4)	52	60
Others		9,675	3,436
Total		147,016	129,772

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses (continued)

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

	Year ended December 31	
	2017	2016
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	29,517	26,085
Staff welfare	1,689	1,490
Social security contributions	1,929	1,577
Including: Medical insurance	1,770	1,447
Work injury insurance	58	50
Maternity insurance	101	80
Housing funds	2,464	2,309
Labour union funds and employee education funds	1,182	902
Subtotal	36,781	32,363
Defined contribution benefits		
Basic pensions	3,982	3,319
Unemployment insurance	95	145
Annuity scheme	942	732
Subtotal	5,019	4,196
Supplementary retirement benefits (Note 33(1))	12	20
Total	41,812	36,579

- (2) Deposit agency fee costs and others mainly are payments by the Bank to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group (Note 39.3(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 3%, 6%, 11% and 17%.

- (4) For the year ended December 31, 2017, auditor's remunerations included the cost of providing audit related services for the bank.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors

(1) Details of the directors and supervisors' emoluments are as follows:

Name	Note	Year ended December 31, 2017					Total (ix) RMB thousand
		Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand		
Chairman							
Li Guohua (李國華)	(i)	—	—	—	—	—	
Executive directors							
Lyu Jiajin (呂家進)	(i)	—	—	—	—	—	
Zhang Xuewen (張學文)		—	448	123	65	636	
Yao Hong (姚紅)		—	425	120	66	611	
Non-executive directors							
Han Wenbo (韓文博)	(ii)	—	423	47	60	530	
Tang Jian (唐健)		—	463	51	65	579	
Liu Yaogong (劉堯功)	(ii)	—	423	47	60	530	
Chin Hung I David (金弘毅)		—	460	—	—	460	
Liu Yue (劉悅)	(iii)	—	—	—	—	—	
Ding Xiangming (丁向明)	(iii)	—	—	—	—	—	
Independent directors							
Ma Weihua (馬蔚華)		450	—	—	—	450	
Bi Zhonghua (畢仲華)		300	—	—	—	300	
Fu Tingmei (傅廷美)		300	—	—	—	300	
Gan Peizhong (甘培忠)		300	—	—	—	300	
Hu Xiang (胡湘)	(iv)	—	—	—	—	—	
Supervisors							
Chen Yuejun (陳躍軍)		—	450	124	65	639	
Li Yujie (李玉杰)		—	—	—	—	—	
Zhao Yongxiang (趙永祥)		—	—	—	—	—	
Zeng Kanglin (曾康霖)		240	—	—	—	240	
Guo Tianyong (郭田勇)		240	—	—	—	240	
Wu Yu (吳昱)		240	—	—	—	240	
Li Yue (李躍)	(v)	—	—	—	—	—	
Song Changlin (宋長林)	(v)	—	—	—	—	—	
Bu Dongsheng (卜東升)	(vi)	—	—	—	—	—	
Directors and supervisors resigned							
Yang Songtang (楊松堂)	(vii)	—	40	4	7	51	
Lai Weiwen (賴偉文)	(vii)	—	40	4	7	51	
Dang Junzhang (黨均章)	(viii)	—	—	—	—	—	
Total		2,070	3,172	520	395	6,157	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

- (i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.
- (ii) At the Bank's Interim Shareholders' General Meeting for the year of 2017 held in March 2017, Mr. Han Wenbo and Mr. Liu Yaogong were appointed as non-executive directors of the Bank, and their appointment was approved by CBRC in May 2017.
- (iii) At the Bank's Shareholders' General Meeting for the year of 2016 held in June 2017, Mr. Liu Yue and Mr. Ding Xiangming were appointed as executive directors of the Bank, and their appointments were approved by CBRC in December 2017 and October 2017, respectively.
- (iv) At the Bank's Shareholders' General Meeting for the year of 2016 held in June 2017, Mr. Hu Xiang was appointed as independent non-executive director of the Bank, and his appointment was approved by CBRC in October 2017.
- (v) The compensation due to employee supervisor Mr. Li Yue and Mr. Song Changlin as employee of the Bank is not included here.
- (vi) At the Bank's First Worker's Congress for the year of 2017, Mr. Bu Dongsheng was elected employee supervisors effective in May 2017, and the compensation due to them as employees of the Bank is not included here.
- (vii) Mr. Yang Songtang and Mr. Lai Weiwen ceased to be non-executive director in January 2017.
- (viii) Mr. Dang Junzhang ceased to be employee supervisor in May 2017.
- (ix) The total compensation packages for certain directors and supervisors for the year ended December 31, 2017 have not yet been finalized. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended December 31, 2017. The final compensation will be disclosed when determined.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

Name	Note	Year ended December 31, 2016					Total RMB thousand
		Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand		
Chairman							
Li Guohua (李國華)	(i)	—	—	—	—	—	
Executive directors							
Lyu Jiajin (呂家進)	(ii)	—	373	69	54	496	
Zhang Xuewen (張學文)		—	850	97	130	1,077	
Yao Hong (姚紅)	(iii)	—	806	95	127	1,028	
Non-executive directors							
Yang Songtang (楊松堂)		—	728	47	126	901	
Tang Jian (唐健)		—	728	47	132	907	
Lai Weiwen (賴偉文)		—	728	47	106	881	
Chin Hung I David (金弘毅)	(iv)	—	425	—	—	425	
Independent non-executive directors							
Ma Weihua (馬蔚華)		450	—	—	—	450	
Bi Zhonghua (畢仲華)		300	—	—	—	300	
Fu Tingmei (傅廷美)	(v)	175	—	—	—	175	
Gan Peizhong (甘培忠)	(v)	175	—	—	—	175	
Supervisors							
Chen Yuejun (陳躍軍)		—	852	98	129	1,079	
Li Yujie (李玉杰)	(vi)	—	—	—	—	—	
Zhao Yongxiang (趙永祥)	(vi)	—	—	—	—	—	
Zeng Kanglin (曾康霖)	(vii)	146	—	—	—	146	
Guo Tianyong (郭田勇)		250	—	—	—	250	
Wu Yu (吳昱)	(vii)	146	—	—	—	146	
Dang Junzhang (黨均章)	(viii)	—	—	—	—	—	
Li Yue (李躍)	(ix)	—	—	—	—	—	
Song Changlin (宋長林)	(viii)	—	—	—	—	—	
Total		1,642	5,490	500	804	8,436	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

- (i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.
- (ii) Mr. Lyu Jiajin, executive director of the Bank, serves as deputy president and receives emolument from China Post Group since May 2016, and does not receive emolument from the Bank since June 2016.
- (iii) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Ms. Yao Hong was appointed as executive director of the Bank, and her appointment was approved by CBRC in August 2016.
- (iv) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Chin Hung I David was appointed as non-executive director of the Bank, and his appointment was approved by CBRC in August 2016.
- (v) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Fu Tingmei and Mr. Gan Peizhong were appointed as independent non-executive directors of the Bank, and their appointments were approved by CBRC in August 2016.
- (vi) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Li Yujie and Mr. Zhao Yongxiang were appointed as shareholder representative supervisors of the Bank, and they do not receive emolument from the Bank.
- (vii) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Zeng Kanglin and Mr. Wu Yu were appointed as external supervisors.
- (viii) Mr. Dang Junzhang and Mr. Song Changlin were elected employee supervisors effective in March 2016, and the compensation due to them as employees of the Bank is not included here.
- (ix) The compensation due to employee supervisor Mr. Li Yue as employee of the Bank is not included here.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(2) Five highest paid individuals

For the years ended December 31, 2017 and 2016, the five highest paid individuals did not include any member of the directors or supervisors.

The emoluments of the five highest paid individuals in the Group are as follows:

	Year ended December 31	
	2017	2016
	RMB thousand	RMB thousand
Remunerations paid	6,014	6,801
Contribution to pension schemes	275	386
Benefits in kind	270	488

The number of these individuals, other than directors, whose emoluments fell within the following bands, is as follows:

	Year ended December 31	
	2017	2016
	Headcount	Headcount
RMB500,001–RMB1,000,000	—	—
RMB1,000,001–RMB1,500,000	5	2
RMB1,500,001–RMB2,000,000	—	3

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(3) Benefits and interests of directors and connected entities

- (i) The Group enters into credit transactions with the directors, supervisors or certain corporates and connected entities controlled by the directors or supervisors in general commercial terms in the ordinary course of business. For the years ended December 31, 2017 and 2016, the balance of loans and advances from the Group to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors was not significant. The Group did not provide any guarantee or security to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.
- (ii) For the years ended December 31, 2017 and 2016, no emolument was paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the annuity scheme and pension scheme, other retirement benefits for directors or supervisors were not significant, and there were no consideration provided to third parties for making available directors' or supervisors' services; and save as disclosed above, none of the directors or supervisors had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended December 31, 2017 and 2016.

11 Impairment losses on assets

	Year ended December 31	
	2017	2016
Deposits with banks and other financial institutions	1,047	—
Placements with banks and other financial institutions	293	(1,502)
Loans and advances to customers	21,127	20,311
Held-to-maturity investments	415	—
Investment classified as receivables	2,336	(2,119)
Others	1,519	212
Total	26,737	16,902

12 Income tax expenses

	Year ended December 31	
	2017	2016
Current income tax	10,502	5,803
Deferred income tax (Note 24)	(7,100)	(2,651)
Total	3,402	3,152

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

12 Income tax expenses (continued)

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

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

	Note	Year ended December 31	
		2017	2016
Profit before tax		51,111	42,928
Income tax expenses calculated at the statutory tax rate of 25%		12,778	10,731
Tax effect of non-taxable income	(1)	(9,633)	(7,748)
Tax effect of items not deductible for tax purpose	(2)	257	169
Income tax expenses		3,402	3,152

(1) 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 income levy reduced half in accordance with the relevant PRC tax regulations.

(2) 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.

13 Basic and diluted earnings per share

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

	Year ended December 31	
	2017	2016
Net profit attributable to shareholders of the Bank	47,683	39,801
Weighted average number of ordinary shares in issue (in millions)	81,031	71,810
Basic earnings per share (in RMB Yuan)	0.59	0.55

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

13 Basic and diluted earnings per share (continued)

(2) Diluted earnings per share

For the years ended December 31, 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.

14 Cash and deposits with central bank

	Note	As at December 31	
		2017	2016
Cash on hand		47,570	51,238
Statutory reserve with central bank	(1)	1,331,917	1,198,987
Surplus reserve with central bank	(2)	30,873	58,716
Fiscal deposits with central bank		1,602	1,332
Total		1,411,962	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 "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at December 31, 2017 and 2016, the ratio for RMB deposits statutory reserve was 16.5%, and the ratio for foreign currency deposits was 5%.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

15 Deposits with banks and other financial institutions

	As at December 31	
	2017	2016
Deposits with:		
Domestic banks	291,140	165,239
Other domestic financial institutions	234	69
Overseas banks	6,431	10,468
Gross amount	297,805	175,776
Allowance for impairment losses (Note 26)	(1,047)	—
Carrying amounts	296,758	175,776

16 Placements with banks and other financial institutions

	As at December 31	
	2017	2016
Placements with:		
Domestic banks	109,724	20,462
Other domestic financial institutions	205,600	169,536
Overseas banks	1,108	3,429
Gross amount	316,432	193,427
Allowance for impairment losses (Note 26)	(433)	(140)
Carrying amounts	315,999	193,287

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

17 Financial assets at fair value through profit or loss

	Note	As at December 31	
		2017	2016
Financial assets held for trading			
Debt securities:			
— Listed in Hong Kong		218	1,106
— Listed outside Hong Kong		8,819	11,062
— Unlisted		—	56
Subtotal		9,037	12,224
Certificates of deposits			
— Listed outside Hong Kong		59,163	46,128
— Unlisted		9,759	—
Subtotal		68,922	46,128
Subtotal	(1)	77,959	58,352
Designated at fair value through profit or loss financial assets			
Asset management plans			
— Unlisted		17,762	6,576
Placement with other financial institutions			
— Unlisted		11,709	—
Beneficiary certificates			
— Unlisted		12,562	4,048
Subtotal	(2)	42,033	10,624
Total		119,992	68,976

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

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

Analyzed by types of issuers:

	Note	As at December 31	
		2017	2016
Debt securities:			
– Government		250	639
– Financial institutions		3,594	6,921
– Corporates		5,193	4,664
Subtotal		9,037	12,224
Certificates of deposits			
– Financial institutions		68,922	46,128
Subtotal	(1)	77,959	58,352
Designated at fair value through profit or loss			
Assets management plans			
– Financial institutions		17,762	6,576
Placements with other financial institutions			
– Financial institutions		11,709	—
Beneficiary certificates			
– Financial institutions		12,562	4,048
Subtotal	(2)	42,033	10,624
Total		119,992	68,976

(1) There are no significant constrains on the ability of the Group and the Bank 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 December 31, 2017 and 2016, the fair value of the Group's financial assets designated as at fair value through profit or loss has no significant changes due to changes arising from their credit risk exposures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

18 Derivative financial assets and liabilities

The Group primarily enters into derivative contracts of foreign exchange rates and interest rates, 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, or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

By types of contracts

	As at December 31, 2017		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	440,005	6,456	(6,499)
Interest rate contracts	108,558	128	(117)
Total	548,563	6,584	(6,616)

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

18 Derivative financial assets and liabilities (continued)

Analyzed by credit-risk-weighted amount for counterparty:

	As at December 31	
	2017	2016
Credit-risk-weighted amount for counterparty		
Exchange rate contracts	2,613	2,435
Interest rate contracts	58	27
Subtotal	2,671	2,462
Credit value adjustments	5,296	1,234
Total	7,967	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)* 《商業銀行資本管理辦法(試行)》and other related regulations on 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.

19 Financial assets held under resale agreements

	As at December 31	
	2017	2016
By collaterals:		
Bills	14,540	50,227
Debt securities	127,434	21,904
Loans and others	—	1,000
Total	141,974	73,131

The collateral received in connection with the purchase of financial assets under resale agreements is disclosed in Note 41.5 "Contingent liabilities and commitments — Collateral". As at December 31, 2017 and 2016, the Group did not have any netting arrangements or similar agreements with counterparties.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers

20.1 Loans and advances by types

	As at December 31	
	2017	2016
Corporate loans and advances		
— Loans	1,391,901	1,079,392
— Discounted bills	291,761	349,081
Subtotal	1,683,662	1,428,473
Personal loans and advances		
Consumer loans	1,411,361	1,101,662
— Residential mortgage loans	1,155,176	903,967
— Other consumer loans	256,185	197,695
Personal business loans	300,990	288,370
Micro loans	156,427	139,239
Credit cards overdrafts and others	77,695	52,904
Subtotal	1,946,473	1,582,175
Gross loans and advances	3,630,135	3,010,648
Less: Allowance for impairment losses		
— Individual assessment	(3,136)	(2,439)
— Collective assessment	(85,428)	(68,992)
Net loans and advances	3,541,571	2,939,217

20.2 Detail information regarding loans and advances to customers by geographical distribution, industries, types of collateral and overdue situation are set out in Note 44.3(5), Note 44.3(6) and Note 44.3(7).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.3 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 December 31, 2017					
Gross loans and advances	3,602,865	23,853	3,417	3,630,135	0.75%
Allowance for impairment losses	(65,079)	(20,349)	(3,136)	(88,564)	
Loans and advances to customers, net	3,537,786	3,504	281	3,541,571	
As at December 31, 2016					
Gross loans and advances	2,984,357	23,424	2,867	3,010,648	0.87%
Allowance 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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.4 Movements of the allowance for impairment losses by assessment results

	Allowance for loans and advances not identified as impaired which are collectively assessed	Allowance 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 year	14,295	5,710	1,122	21,127
Write-off and transfer out	—	(6,024)	(471)	(6,495)
Recovery of loans and advances written off	—	2,570	70	2,640
Unwinding of discount on allowance	—	(115)	(24)	(139)
As at December 31, 2017	65,079	20,349	3,136	88,564

	Allowance for loans and advances not identified as impaired which are collectively assessed	Allowance 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.5 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 year	12,923	8,204	21,127
Write-off and transfer out	(2,476)	(4,019)	(6,495)
Recovery of loans and advances written off	776	1,864	2,640
Unwinding of discount on allowance	(21)	(118)	(139)
As at December 31, 2017	45,201	43,363	88,564

	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments

21.1 Available-for-sale financial assets

	Note	As at December 31	
		2017	2016
Debt securities			
— Listed in Hong Kong		9,346	7,245
— Listed outside Hong Kong		194,126	198,128
— Unlisted		657	839
Subtotal		204,129	206,212
Certificates of deposits			
— Listed outside Hong Kong		8,898	—
Asset-backed securities			
— Listed outside Hong Kong		34,251	30,549
— Unlisted		—	1,171
Subtotal		34,251	31,720
Equity instruments	(1)		
— Unlisted		439,470	922,255
Total		686,748	1,160,187

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.1 Available-for-sale financial assets (continued)

Analyzed by types of issuers:

	As at December 31	
	2017	2016
Debt securities		
— Government	90,254	91,688
— Financial institutions	101,281	99,043
— Corporates	12,594	15,481
Subtotal	204,129	206,212
Certificates of deposits		
— Financial institutions	8,898	—
Asset-backed securities		
— Financial institutions	34,251	31,720
Equity instruments		
— Financial institutions	439,470	922,255
Total	686,748	1,160,187

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.1 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	December 31, 2017
Amortized cost	1,161,208	753,651	(1,220,411)	—	—	694,448
Fair value	(1,021)	—	—	(108)	(6,571)	(7,700)
Total	1,160,187					686,748

	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

21.2 Held-to-maturity investments

	As at December 31	
	2017	2016
Debt securities		
— Listed in Hong Kong	1,937	1,381
— Listed outside Hong Kong	925,244	732,057
— Unlisted	326	416
Subtotal	927,507	733,854
Certificates of deposits		
— Listed outside Hong Kong	7,443	—
Asset-backed securities		
— Listed outside Hong Kong	1,200	2,300
Gross amount	936,150	736,154
Allowance for impairment losses (Note 26)	(415)	—
Carrying amounts	935,735	736,154
Fair value of listed held-to-maturity investments	913,774	750,261

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.2 Held-to-maturity investments (continued)

Analyzed by types of issuers:

	As at December 31	
	2017	2016
Debt securities		
— Government	539,278	451,082
— Public institutions and quasi-government	1,270	570
— Financial institutions	342,492	233,377
— Corporates	44,467	48,825
Subtotal	927,507	733,854
Certificates of deposits		
— Financial institutions	7,443	—
Asset-backed securities		
— Financial institutions	1,200	2,300
Gross amount	936,150	736,154
Allowance for impairment losses (Note 26)	(415)	—
Carrying amounts	935,735	736,154

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.3 Investment classified as receivables

	Note	As at December 31	
		2017	2016
Debt securities			
— Listed outside Hong Kong		120,406	113,007
— Unlisted	(1)	1,057,518	1,034,086
Subtotal		1,177,924	1,147,093
Asset-backed securities			
— Unlisted		33,854	47,001
Other debt instruments			
— Unlisted	(2)	216,937	306,251
Allowance for impairment losses (Note 26)		(4,157)	(1,821)
Carrying amounts		1,424,558	1,498,524

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.3 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at December 31	
	2017	2016
Debt securities		
— Government	13,044	8,813
— Financial institutions	1,159,560	1,134,030
— Corporates	5,320	4,250
Subtotal	1,177,924	1,147,093
Asset-backed securities		
— Financial institutions	33,854	47,001
Other debt instruments		
— Financial institutions	216,937	306,251
Allowance for impairment losses (Note 26)	(4,157)	(1,821)
Carrying amounts	1,424,558	1,498,524

22 Investment in subsidiary

The Bank

	As at December 31	
	2017	2016
Investment cost	615	615

On November 19, 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). Registered in Guangzhou with a registered capital of RMB1 billion, PSBC Consumer Finance mainly engages in personal consumer loans; consumer financing advisory and agency services; agency sales of consumer loans related insurance products; borrowing from domestic financial institutions; authorized issuance of financial bonds; lending to domestic financial institutions; and fixed income securities investments. All service offerings are restricted to consumer financing only.

In 2017, the Bank owns 61.50% in the equity interest and voting rights of PSBC Consumer Finance (In 2016: 61.50%).

On January 4, 2018, the CBRC Guangdong Office issued an approval that agreed PSBC Consumer Finance to increase its registered capital from RMB1 billion to RMB3 billion. The Bank will increase its share capital injection by RMB1.5 billion.

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

23 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2017	35,934	9,748	1,259	5,027	8,088	60,056
Add: Additions	422	433	29	253	7,483	8,620
Transfer-in from investment properties	121	—	—	—	—	121
Transfer-in from construction in progress	1,484	284	—	206	(1,974)	—
Less: Disposals	(76)	(363)	(45)	(91)	—	(575)
Transfer-out to investment properties	(4)	—	—	—	—	(4)
Transfer-out from construction in progress	—	—	—	—	(404)	(404)
As at December 31, 2017	37,881	10,102	1,243	5,395	13,193	67,814
Accumulated depreciation						
As at January 1, 2017	(9,414)	(7,139)	(1,180)	(3,041)	—	(20,774)
Add: Charge for the year	(1,836)	(1,171)	(41)	(623)	—	(3,671)
Transfer-in from investment properties	(52)	—	—	—	—	(52)
Less: Disposals	15	344	43	85	—	487
As at December 31, 2017	(11,287)	(7,966)	(1,178)	(3,579)	—	(24,010)
Carrying amounts						
As at December 31, 2017	26,594	2,136	65	1,816	13,193	43,804
As at January 1, 2017	26,520	2,609	79	1,986	8,088	39,282

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

23 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 amounts						
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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

23 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 RMB0.4 billion and RMB0.6 billion as at December 31, 2017 and 2016, respectively.

In addition, as at December 31, 2017 and 2016, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with net book value of RMB2.3 billion and RMB1.8 billion, respectively.

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 December 31, 2017 and December 31, 2016 are not significant.

24 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 December 31	
	2017	2016
Deferred tax assets	22,258	13,465

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

24 Deferred taxation (continued)

(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	Provisions	Deferred income	Deductible losses	Total
January 1, 2017	13,320	130	(9)	—	—	24	13,465
Credit/(change) to profit or loss	4,959	288	41	1,474	362	(24)	7,100
Credit to other comprehensive income	—	—	1,693	—	—	—	1,693
December 31, 2017	18,279	418	1,725	1,474	362	—	22,258

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Deferred income	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

24 Deferred taxation (continued)

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

	As at December 31			
	2017		2016	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	73,118	18,279	53,282	13,320
Fair value changes of financial instruments	7,807	1,952	174	43
Provisions	5,896	1,474	—	—
Staff cost accrued but not paid	1,672	418	517	130
Deferred income	1,447	362	—	—
Deductible losses	—	—	96	24
Total	89,940	22,485	54,069	13,517
Deferred tax liabilities				
Fair value changes of financial instruments	(907)	(227)	(208)	(52)
Total	(907)	(227)	(208)	(52)
Net	89,033	22,258	53,861	13,465

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

25 Other assets

	Note	As at December 31	
		2017	2016
Interest receivable		41,878	33,448
Accounts receivable and temporary payment		6,427	2,844
Other accounts receivable		6,187	1,996
Prepaid expenses		2,217	3,911
Land use rights	(1)	1,796	1,822
Intangible assets	(2)	1,758	1,744
Long-term prepaid expenses	(3)	1,053	1,252
Receivable of fee and commission		1,046	1,432
Investment properties	(4)	682	816
Low-value consumables		461	542
Foreclose assets		191	144
Others		1,321	1,556
Gross amount		65,017	51,507
Allowance for impairment losses		(409)	(336)
Net value		64,608	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 lease and prepaid rental fees.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

25 Other assets (continued)

(4) Investment properties

	As at December 31	
	2017	2016
Cost		
Balance at beginning of year	1,317	1,132
Add: Transfer-in from property and equipment	4	202
Less: Transfer-out to property and equipment	(121)	(17)
At end of year	1,200	1,317
Accumulated depreciation		
Balance at beginning of year	(501)	(377)
Add: Provision in current year	(69)	(69)
Transfer-in from property and equipment	—	(60)
Less: Transfer-out to property and equipment	52	5
At end of year	(518)	(501)
Net book value	682	816

All investment properties from China Post Group had completed ownership transfer as at December 31, 2017 and 2016.

Notes to the Consolidated Financial Statements

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26 Movements of allowance for impairment losses

	Balance at beginning of the year	Current year provision	2017 Increase/(Decrease) in current year		Balance at end of the year
			Transferred in	Written off	
Allowance for impairment losses of deposits with banks and other financial institutions	—	1,047	—	—	1,047
Allowance for impairment losses of placements with banks and other financial institutions	140	293	—	—	433
Allowance for impairment losses of loans and advances to customers	71,431	21,127	2,501	(6,495)	88,564
Allowance for impairment losses of Held-to-maturity investments	—	415	—	—	415
Allowance for impairment losses of investment classified as receivables	1,821	2,336	—	—	4,157
Allowance for impairment losses of other assets	336	148	—	(75)	409
Total	73,728	25,366	2,501	(6,570)	95,025

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

26 Movements of allowance for impairment losses (continued)

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

27 Deposits from banks and other financial institutions

	As at December 31	
	2017	2016
Deposits from:		
Domestic banks	12,955	183,382
Other domestic financial institutions	35,499	98,305
Total	48,454	281,687

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

28 Placements from banks and other financial institutions

	As at December 31	
	2017	2016
Placements from:		
Domestic banks	68,708	9,770
Other domestic financial institutions	—	400
Overseas banks	4,909	3,988
Total	73,617	14,158

29 Financial liabilities at fair value through profit or loss

	As at December 31	
	2017	2016
Principal-guaranteed wealth management products	42,193	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 December 31, 2017 and 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 years ended December 31, 2017 and 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.

30 Financial assets sold under repurchase agreements

	As at December 31	
	2017	2016
Analyzed by type of collateral:		
Debt securities	83,219	123,712
Bills	31,924	6,077
Total	115,143	129,789

The collaterals pledged under repurchase agreements are disclosed in Note 41.5 "Contingent liabilities and commitments — Collateral".

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

31 Customer deposits

	As at December 31	
	2017	2016
Demand deposits		
Corporates	805,616	742,380
Personal	2,523,431	2,347,795
Subtotal	3,329,047	3,090,175
Time deposits		
Corporates	394,165	332,644
Personal	4,337,973	3,862,371
Subtotal	4,732,138	4,195,015
Other deposits	1,474	1,121
Total	8,062,659	7,286,311

As at December 31, 2017 and 2016, customer deposits received by the Group included pledged deposits of RMB33.3 billion and RMB33.9 billion, respectively.

32 Debt securities issued

	Note	As at December 31	
		2017	2016
10-year tier-2 capital bonds of at a fixed interest rate	(1)	24,978	24,975
10-year tier-2 capital bonds of at a fixed interest rate	(2)	29,972	29,968
10-year tier-2 capital bonds of at a fixed interest rate	(3)	19,982	—
Subordinated debts		74,932	54,943

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

32 Debt securities issued (continued)

- (1) In September 2015, upon the approval from CBRC and PBOC, the Group issued RMB25 billion of 10-year tier-two capital bonds of at a fixed coupon 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 coupon rate would remain at 4.50% from September 2020 onward.
- (2) In October 2016, upon the approval from CBRC and PBOC, the Group issued RMB30 billion of 10-year tier-two capital bonds of at a fixed coupon 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 coupon rate would remain at 3.30% from October 2021 onward.
- (3) In March 2017, upon the approval from CBRC and PBOC, the Group issued RMB20 billion of 10-year tier-two capital bonds of at a fixed coupon 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.

33 Other liabilities

	Note	As at December 31	
		2017	2016
Interest payable		88,541	89,558
Payables for agency services		16,359	18,524
Settlement and clearance payables		12,095	4,183
Tax payable		9,083	3,703
Employee benefits payable	(1)	8,040	5,996
Provisions	(2)	7,385	122
Payables to China Post Group (Note39.4(2))		2,012	1,768
Dormant deposit payables		1,547	1,283
Deferred income		1,219	569
Remittance payables		1,070	1,198
Payable for construction cost		719	743
Others		9,510	7,172
Total		157,580	134,819

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

(1) Employee benefits payable

	Note	As at December 31	
		2017	2016
Short-term employee benefits	(i)	6,878	4,601
Defined contribution benefits	(ii)	667	914
Supplementary retirement benefits	(iii)	495	481
Total		8,040	5,996

(i) Short-term employee benefits

	2017			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Wages and salaries, bonus, allowance and subsidies	4,001	29,517	(27,608)	5,910
Staff welfare	—	1,689	(1,689)	—
Social security contributions	55	1,929	(1,896)	88
Including: Medical insurance	52	1,770	(1,738)	84
Work injury insurance	1	58	(57)	2
Maternity insurance	2	101	(101)	2
Housing funds	25	2,464	(2,471)	18
Labour union funds and employee education funds	520	1,182	(840)	862
Total	4,601	36,781	(34,504)	6,878

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	2016			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Wages and salaries, bonus, allowance 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

(ii) Defined contribution benefits

	2017			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Basic pensions	67	3,982	(3,959)	90
Unemployment insurance	5	95	(95)	5
Annuity scheme	842	942	(1,212)	572
Total	914	5,019	(5,266)	667

	2016			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

33 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 statement of comprehensive income using the projected unit credit method as follows:

	2017	2016
Balance at the beginning of year	481	515
Interest expenses	16	16
Gain or loss from actuarial calculation	28	(20)
Changed to profit or losses	(4)	4
Changed to other comprehensive income	32	(24)
Benefits paid	(30)	(30)
Balance at the end of year	495	481

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

	As at December 31	
	2017	2016
Discount rate — retirement benefit plan	4.25%	3.50%
Discount rate — early retirement benefit plan	3.75%	3.00%
Annual growth rates of average medical expenses	8.00%	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 at December 31, 2017 is based on the China Life Insurance Mortality Table (2010–2013), which is the statistical information published at December 28, 2016 and publicly available in China. Assumption for future mortality rate at December 31, 2016 is based on the China Life Insurance Mortality Table (2000–2003), which is the statistical information published at December 19, 2005 and publicly available in China.

As at December 31, 2017 and December 31, 2016, the Group has no default on the staff costs payable above.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

(2) Provisions

		2017		2016			
	Note	Balance at beginning of the year	Current year provision	Balance at end of the year	Balance at beginning of the year	Current year provision	Balance at end of the year
Guarantee and Commitments		122	1,345	1,467	37	85	122
Litigation provisions	(i)	—	5,918	5,918	—	—	—
Total		122	7,263	7,385	37	85	122

- (i) On January 28 2018, the Bank announced that its former employee was alleged to have conspired with external parties, to swindle funds from bills by forging stamps and other means in breach of relevant laws and rules in the name a branch of the Bank. This employee was also alleged to have misappropriated wealth management funds for payment of the aforementioned bills. The case is currently being investigated by public security authorities. The Bank has made provision according to best estimation in the consolidated statement of comprehensive income for the year ended December 31, 2017.

34 Share capital and other equity instrument

34.1 Share capital

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

	2017	2016
Number of shares, issued and fully paid at par value (in millions)		
At beginning of year	81,031	68,604
Addition in current year	—	12,427
At end of year	81,031	81,031

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited and issued a total of 12,426,574,000 H shares (including over-allotment) with par value of RMB1 each at an offer price of HKD4.76 per share. 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

34 Share capital and other equity instrument (continued)

34.2 Other equity instruments

(a) Preference shares outstanding as at the end of the year

Financial instrument	Issue date	Classification	Initial dividend rate	Issue price	Quantity (million)	Total amount (million)		Conversion condition	Maturity date	Conversion
						Original Currency (USD)	(RMB)			
Offshore Preference Shares	September 27, 2017	Equity instruments	4.50%	20USD/share	362.5	7,250	47,989	Mandatory	No Maturity Date	No
Less: Issuance fee							143			
Carrying amount							47,846			

The key terms are as below:

(1) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the Fixed Spread. The Fixed Spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The Fixed Spread will remain unchanged throughout the term of the Preference Shares. Dividends will be paid annually.

(2) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Group are senior to the ordinary shareholders on the right to dividends. The Group may elect to cancel any dividend. Such cancellation requires a shareholder's resolution to be passed, and is not considered as event of default.

(3) Dividend stopper

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

34 Share capital and other equity instrument (continued)

34.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of the reporting period (continued)

(4) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into H shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to H shares, it could not be converted to Preference Shares again.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into H shares. Approval from offshore preference shareholders are not required. If Preference Shares were converted to H shares, it could not be converted to Preference Shares again.

(5) *Order of distribution and liquidation method*

Upon the Winding-Up of the Bank, the rights and claims in respect of the Offshore Preference Shareholders shall rank: junior to holders of all liabilities of the Bank including any tier 2 capital instruments and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and in priority to the Ordinary Shareholders.

(6) *Redemption*

The offshore preference shares are perpetual and have no maturity date. Under the premise of obtaining the approval of the CBRC and condition of redemption, the Group has right to redeem all or some of oversee preferred stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The First Redemption Date of USD Preference Shares is five years after issuance.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

34 Share capital and other equity instrument (continued)

34.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of the reporting period (continued)

(7) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Group will not participate the distribution of residual profits with ordinary shareholders. Preference shareholders of the Bank senior to the ordinary shareholders on the right to dividends.

The Group shall distribute dividends for the Preference Shares in cash, based on the total amount of the issued and outstanding Preference Shares on the corresponding times (i.e. the product of the issue price of preference shares and the number of the issued and outstanding preference shares).

(b) Changes in Preference shares outstanding

Financial Instrument	January 1, 2017		Increase		December 31, 2017	
	Amount (million shares)	Carrying Amount (million)	Amount (million shares)	Carrying Amount (million)	Amount (million shares)	Carrying Amount (million)
Offshore Preference Shares	—	—	362.5	47,846	362.5	47,846

(c) Equity attributable to the holders of equity instruments

Items	As at December 31	
	2017	2016
1. Total equity attributable to equity holders of the Group	430,973	346,530
(1) Equity attributable to ordinary equity holders of the Bank	383,127	346,530
(2) Equity attributable to other equity holders of the Bank	47,846	—
2. Total equity attributable to non-controlling interests	384	358
(1) Equity attributable to non-controlling interests of ordinary shares	384	358
(2) Equity attributable to non-controlling interests of preference shares	—	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

35 Capital reserve

	As at December 31	
	2017	2016
Asset revaluation appreciation from the Bank's joint stock restructuring	3,448	3,448
Share premium from the Strategic Investors	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

36 Other reserves

36.1 Surplus reserve

	2017	2016
At the beginning of the year	20,395	16,411
Appropriations	4,764	3,984
At the end of the year	25,159	20,395

In accordance with *the Company Law of the People's Republic of China* (中華人民共和國公司法), 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.

36.2 General reserve

	2017	2016
At the beginning of the year	93,803	84,754
Appropriations	7,208	9,049
At the end of the year	101,011	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 risk assets at the end of each year. Banks are required to make full provisions to its general risk reserve within 5 years from July 1, 2012.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

36 Other reserves (continued)

36.3 Investment revaluation reserve

	Gross amount	2017 Taxation effect	Net carrying amount
January 1, 2017	189	(46)	143
Changes in fair value of available-for-sale financial assets	(6,571)	1,642	(4,929)
Transferred to profit or loss			
— Upon disposal of available-for-sale financial assets	(108)	27	(81)
— Others	(96)	24	(72)
December 31, 2017	(6,586)	1,647	(4,939)

	Gross amount	2016 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

37 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.

On March 27, 2018, the Board of Directors proposed the following profit distribution scheme for the year ended December 31, 2017: appropriation of RMB4,764 million, representing 10% of the net profit of the Bank to statutory surplus reserve; appropriation of RMB7,208 million to general reserve, declaration of cash dividend of RMB1.471 per ten shares (tax included), totally RMB11,920 million (tax included) to ordinary shareholders. The proposed profit distribution scheme is subject to the approval by the shareholders in the forthcoming Annual General Meeting for the year of 2017. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

38 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 December 31	
	2017	2016
Cash	47,570	51,238
Surplus reserve with central bank	30,873	58,716
Deposits with banks and other financial institutions	9,117	14,165
Placements with banks and other financial institutions	107,111	9,214
Financial assets held under resale agreements	128,264	51,560
Total	322,935	184,893

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties

39.1 Information of the parent company

(1) General information of the parent company

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

China Post Group is wholly-owned by MOF.

- (2) As at December 31, 2017, China Post Group held 68.92% of the equity shares and voting rights in the Group (December 31, 2016: 68.92%).

39.2 Information of major related parties

Name of enterprise	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 Group	Under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd	An associate of China Post Group

39.3 Related party transactions

(1) Agency banking 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 (代理營業機構委託代理銀行業務框架協定) entered into between the Bank and China Post Group and its provincial branches.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(1) Agency banking services from China Post Group and its provincial branches (continued)

For RMB deposit-taking services, the basis is computed based on the principle of “Fixed Rate, Scaled Fees Based on Deposit Type (固定費率、分檔計費)”, i.e. different deposit agency fee costs 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 costs 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%.

The agency fee for foreign currency deposit-taking was insignificant, and it is determined in line with industrial practice, applying market rate 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.

	Note	Year ended December 31	
		2017	2016
Deposit agency fee costs and others	(i)	68,797	61,038
Fees for agency savings settlement		5,106	4,177
Fees for agency sales and other commissions		3,284	3,105
Total		77,187	68,320

(i) In 2017, deposit agency fee costs amounted to RMB70,163 million. According to the netting arrangement between the Bank and China Post Group, deposit agency fee costs and others are settled with a offsetting amount.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(2) Operating lease with related parties

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

As lessor

	Year ended December 31	
	2017	2016
Buildings	83	89
Others	38	48
Total	121	137

As lessee

	Year ended December 31	
	2017	2016
Buildings	935	1,030
Others	51	60
Total	986	1,090

(3) Comprehensive services and goods transactions with related parties

Rendering services and selling general office materials to related parties

	Note	Year ended December 31	
		2017	2016
Comprehensive services rendered to related parties	(i)	80	43
General office materials sold to related parties		11	3
Total		91	46

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

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

Receiving services or purchasing products from related parties

	Note	Year ended December 31	
		2017	2016
Comprehensive services received from related parties	(ii)	941	681
Marketing services received from related parties	(iii)	457	1,265
Goods purchased from related parties		85	50
Total		1,483	1,996

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

(iii) In 2016, the marketing services received from related parties included an one-off service from China Post Group for personal deposit promotion activities which occurred during the period from January 2016 to May 2016.

(4) Credit facilities granted to related parties

- (i) As at December 31, 2017, no loans and advance was granted to related parties by the Group (as at December 31, 2016, nil).
- (ii) As at December 31, 2017, performance guarantee of RMB1 million was provided by the Group to related parties (as at December 31, 2016, nil).
- (iii) As at December 31, 2017, no acceptance credit was provided by the Group to related parties (as at December 31, 2016, nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(5) Deposits from related parties

	As at December 31	
	2017	2016
China Post Group	13,464	10,390
China Postal Express & Logistics Company Limited and its subsidiaries	1,540	1,644
Other related parties	5,429	4,824
Total	20,433	16,858
Interest rates per annum	0.30%–2.85%	0.30%–3.42%

During each of years ended December 31, 2017 and 2016, interest expenses on deposits paid to related parties were not significant.

(6) Income from agency services provided to related parties

	Year ended December 31	
	2017	2016
Insurance agency sales for China Post Life Insurance Company Limited	113	60
Fund agency sales for China Post & Capital Fund Management Co., Ltd.	16	24

39.4 Balance with related parties

(1) Accounts receivable

	As at December 31	
	2017	2016
China Post Group	284	302

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.4 Balance with related parties (continued)

(2) Accounts payable

	As at December 31	
	2017	2016
China Post Group (Note 33)	2,012	1,768

39.5 Commitments

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

	As at December 31	
	2017	2016
China Post Group	1,004	1,172

39.6 The Group and other government related entities

Other than disclosed above and also in other relevant notes in this 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, derivatives trading, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.7 Key management personnel compensation

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

	Year ended December 31	
	2017	2016
Key management personnel compensation	9	12

40 Structured entities

40.1 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 December 31, 2017 and 2016, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB732.0 billion and RMB809.3 billion, respectively. The Group earned fee and commission of RMB4.8 billion and RMB4.4 billion from these WMPs for the years ended December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 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. The WMP vehicles did not incur any losses, or experience any difficulty in financing their activities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

40 Structured entities (continued)

40.2 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 Groups as investments, and the Group records trading gains or losses and interest income therefrom. As at December 31, 2017 and 2016, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below.

	As at December 31, 2017			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Equity instruments	439,470	—	—	439,470
Asset-backed securities	34,251	1,200	33,656	69,107
Other debt instruments	—	—	213,041	213,041
Total	473,721	1,200	246,697	721,618

	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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

40 Structured entities (continued)

40.2 Unconsolidated structured entities held by the Group (continued)

For the years ended December 31, 2017 and 2016, income from these unconsolidated structured entities earned by the Group was as follows:

	Year ended December 31	
	2017	2016
Interest income	17,794	30,718
Net gain arising from investment securities	22,156	15,285
Other comprehensive income	(490)	(435)
Total	39,460	45,568

40.3 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. During the years ended December 31, 2017 and 2016, the Group did not provide any financial support to any of these WMP vehicles and the special purpose trust.

41 Contingent liabilities and commitments

41.1 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 advisors, management has made relevant provision based on the current facts and circumstances. 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. Provision for risk incidents and legal proceedings were made by the Group based on court judgments or advice of internal and external legal counsel, and included in Note 33 Other Liabilities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.2 Capital commitments

	As at December 31	
	2017	2016
Contracts signed but not executed	2,360	1,842

41.3 Credit commitments

	As at December 31	
	2017	2016
Loan commitments		
— With an original maturity of less than 1 year	12,215	6,191
— With an original maturity of 1 year or above	417,624	279,981
Subtotal	429,839	286,172
Bank acceptance	32,933	41,327
Guarantee and letters of guarantee	18,593	25,230
Letters of credit	12,224	7,438
Unused credit card commitments	150,409	164,742
Total	643,998	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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.4 Operating lease commitments

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

	As at December 31	
	2017	2016
Within 1 year	3,399	3,846
1 to 2 years	2,584	3,126
2 to 3 years	1,946	2,421
3 to 5 years	2,105	2,969
Over 5 years	1,091	1,582
Total	11,125	13,944

41.5 Collateral

Assets pledged

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

	As at December 31	
	2017	2016
Debt securities	85,035	123,894
Bills	32,292	6,151
Total	117,327	130,045

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collateral. As at December 31, 2017 and 2016, the carrying amount of debt securities pledged as collateral amounted to RMB38.6 billion and RMB36.1 billion, respectively. The pledged debt securities are mainly classified as held-to-maturity investments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.5 Collateral (continued)

Collateral received

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

The Group obtains debt securities from counterparts which could be resold or re-pledged as collateral with the operation of financial assets held under resale agreements from banks. The Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB78.1 billion as at December 31, 2017 (December 31, 2016: None).

41.6 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 bond underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at December 31, 2017 and 2016, the nominal value of treasury bonds the Group was obligated to redeem was RMB101.9 billion and RMB94.7 billion, respectively. 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.

41.7 Credit-risk-weighted amounts for financial guarantees and credit commitments

	As at December 31	
	2017	2016
Financial guarantees and credit commitments	274,635	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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

42 Transfer of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to structured entities. Where the transfers 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.

42.1 Outright repurchase agreements

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

	As at December 31	
	2017	2016
	Held-to-maturity investments	Held-to-maturity investments
Carrying amount of the collateral	3,048	2,081
Financial assets sold under repurchase agreements	(3,116)	(2,001)

42.2 Securitization transactions

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

The Group may maintain continuing involvement in its transferred assets as it may hold subordinated tranches of the asset-backed securities ("ABS"). The Group recognizes these credit assets in its balance sheet to the extent of its continuing involvement, while derecognizes the remaining parts. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

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

	As at December 31	
	2017	2016
ABS issued, face value	6,800	6,800
Assets retained by the Group, net	273	273

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

42 Transfer of financial assets (continued)

42.2 Securitization transactions (continued)

As at December 31 2017, the original carrying 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 RMB115 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 year of 2017, the Group did not provide financial support to the above-mentioned specific purpose trust (2016: Nil).

42.3 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 December 31 2017, the carrying amount of debt securities lent to counterparties was RMB15.5 billion. These debt securities are included in available-for-sale financial assets (Note 21.1) and held-to-maturity investments (Note 21.2). (31 December 2016: Nil).

43 Segment analysis

43.1 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 currencies, 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, and wealth management products. The issuance of debt securities also falls into this segment.

Others

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	99,293	71,767	134,225	—	305,285
Interest expense to external customers	(94,691)	(13,106)	(9,373)	—	(117,170)
Intersegment net interest income/(expense)	132,925	(15,689)	(117,236)	—	—
Net interest income	137,527	42,972	7,616	—	188,115
Net fee and commission income	10,136	1,024	1,577	—	12,737
Net trading gains	—	—	1,875	—	1,875
Net gains from investment securities	—	—	22,255	—	22,255
Net other operating (losses)/gains	1,128	(179)	(1,490)	423	(118)
Operating expenses	(116,011)	(17,084)	(13,440)	(481)	(147,016)
Impairment losses on assets	(9,712)	(12,934)	(4,091)	—	(26,737)
Profit before income tax	23,068	13,799	14,302	(58)	51,111

	As at December 31, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,362,836	1,951,411	4,676,046	—	8,990,293
Deferred tax assets					22,258
Total assets					9,012,551
Segment liabilities	(6,997,524)	(1,217,170)	(366,500)	—	(8,581,194)
Supplementary information					
Depreciation and amortization	3,829	649	78	—	4,556
Capital expenditures	7,442	1,261	151	—	8,854
Credit commitments	150,409	493,589	—	—	643,998

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	82,387	60,807	135,004	—	278,198
Interest expense to external customers	(90,040)	(12,156)	(18,416)	—	(120,612)
Intersegment net interest income/(expense)	133,329	(14,934)	(118,395)	—	—
Net interest income	125,676	33,717	(1,807)	—	157,586
Net fee and commission income	8,558	1,380	1,560	—	11,498
Net trading gains	—	—	664	—	664
Net gains from investment securities	—	—	15,479	—	15,479
Net other operating gains	1,262	250	2,461	402	4,375
Operating expenses	(104,166)	(13,345)	(12,064)	(197)	(129,772)
Impairment losses on assets	(11,788)	(8,735)	3,621	—	(16,902)
Profit before income tax	19,542	13,267	9,914	205	42,928

	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 amortization	3,675	928	87	—	4,690
Capital expenditures	5,802	1,465	138	—	7,405
Credit commitments	164,742	360,167	—	—	524,909

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 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, Tianjin Municipality, Hebei Province, Shandong 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, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region, Inner Mongolia Autonomous Region and Guangxi Autonomous Region; and
- “North-eastern China” region: Liaoning Province, Heilongjiang Province, Jilin Province and Dalian.

	Year ended December 31, 2017								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Interest income from external customers	156,025	26,532	18,488	22,650	38,667	30,708	12,215	—	305,285
Interest expense to external customers	(12,932)	(17,230)	(8,265)	(15,565)	(33,403)	(22,020)	(7,755)	—	(117,170)
Intersegment net interest (expense)/income	(132,373)	16,258	10,220	18,991	46,402	30,576	9,926	—	—
Net interest income	10,720	25,560	20,443	26,076	51,666	39,264	14,386	—	188,115
Net fee and commission income	(1,425)	2,477	2,135	2,259	3,239	2,862	1,190	—	12,737
Net trading gains	1,817	—	1	21	—	36	—	—	1,875
Net gains from investment securities	22,209	—	—	46	—	—	—	—	22,255
Net other operating (losses)/gains	(1,823)	186	162	136	411	702	108	—	(118)
Operating expenses	(7,301)	(19,094)	(15,394)	(18,676)	(37,433)	(36,440)	(12,678)	—	(147,016)
Impairment losses on assets	(10,364)	(2,196)	(1,724)	(2,705)	(4,177)	(4,370)	(1,201)	—	(26,737)
Profit before income tax	13,833	6,933	5,623	7,157	13,706	2,054	1,805	—	51,111

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	As at December 31 2017								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	7,213,738	1,373,954	888,035	1,540,530	2,773,226	2,032,512	730,335	(7,562,037)	8,990,293
Deferred tax assets									22,258
Total assets									9,012,551
Segment liabilities	(6,871,547)	(1,362,106)	(877,450)	(1,530,263)	(2,751,212)	(2,022,396)	(728,257)	7,562,037	(8,581,194)
Supplementary information									
Depreciation and amortization	882	695	368	512	735	1,008	356	—	4,556
Capital expenditures	1,258	2,663	377	1,610	1,474	980	492	—	8,854
Credit commitments	150,409	70,566	82,534	106,054	133,280	90,291	10,864	—	643,998

	Year ended December 31, 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	156,589	21,009	14,482	17,758	31,328	26,804	10,228	—	278,198
Interest expense to external customers	(22,118)	(15,881)	(7,235)	(15,391)	(30,930)	(21,209)	(7,848)	—	(120,612)
Intersegment net interest (expense)/income	(143,858)	19,238	11,791	22,159	47,147	31,798	11,725	—	—
Net interest income	(9,387)	24,366	19,038	24,526	47,545	37,393	14,105	—	157,586
Net fee and commission income	979	1,687	1,609	1,728	2,356	2,124	1,015	—	11,498
Net trading gains	660	—	—	4	—	—	—	—	664
Net gains from investment securities	15,479	—	—	—	—	—	—	—	15,479
Net other operating gains	2,843	203	208	145	331	545	100	—	4,375
Operating expenses	(6,154)	(17,890)	(14,290)	(17,216)	(34,150)	(28,135)	(11,937)	—	(129,772)
Impairment losses on assets	1,723	(2,032)	(1,630)	(2,628)	(4,624)	(6,491)	(1,220)	—	(16,902)
Profit before income tax	6,143	6,334	4,935	6,559	11,458	5,436	2,063	—	42,928

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	As at December 31, 2016								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Segment assets	7,815,471	1,146,868	742,914	1,359,200	2,285,513	1,660,562	615,355	(7,373,726)	8,252,157
Deferred tax assets									13,465
Total assets									8,265,622
Segment liabilities	(7,509,542)	(1,141,605)	(737,587)	(1,355,714)	(2,276,294)	(1,656,999)	(614,719)	7,373,726	(7,918,734)
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

44 Financial risk management

44.1 Overview

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a general risk preference of “appropriate risk-taking, appropriate returns and prudent operations”, and achieves a modest return through prudent operation and 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 subsidiary and structured entities consolidated by the Group are not material, in terms of amount and size. All the analysis in this section is for financial risks of the Group as a whole.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.2 Framework of financial risk management

The Group manages its risks at four levels, i.e., Board of Directors, senior management, risk management departments at the head office and the branches.

The Group's Board of Directors, the ultimate owner of the Group's risk management, is responsible for determining the Group's risk appetites and risk strategies. The Board of Directors oversees senior management's risk control through its Risk Management Committee and proposes requests and advices for the improvement of risk management and internal risk control. The Risk Management Committee meets regularly to deliberate the significant matters of risk management and supervise the the Group's operation of risk management system and our risk profile.

Senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, developing risk management measures and policies, and approving internal rules and procedures for risk management. The Risk Management Committee under the senior management is responsible for reviewing implementation plans for enterprise-wide risk management strategies and basic policies and rules and procedures for risk management, regularly reviewing risk management status and performance across the Group, and evaluating significant risk issues and discussing solutions.

Under the oversight and guidance of the senior management and its Risk Management Committee, the Risk Management Department at the head office has overall responsibility for the identification, measurement, monitoring, reporting and control of risks across the Group. The Risk Management Department is responsible for centrally managing and coordinating risk management activities across the Group, developing and organising the implementation of risk management framework, policies and relevant rules, leading the building of enterprise-wide risk management, assessing the risk management position of relevant departments and branches. Other risk management departments and relevant functional departments perform their respective responsibilities under the enterprise-wide risk management framework by consistently implementing risk management policies, procedures and processes.

Risk management and internal control committees under the management of tier-one branches and tier-two branches are responsible for decision-making within their respective authority limits, organizing plans and procedures to meet their risk management objectives and assessing the risk position and organizing risk management activities within their respective jurisdictions. Meanwhile, risk management departments in tier-one branches and tier-two branches are responsible for developing risk management rules and measures at their level and overseeing the implementation of risk management policies.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to fulfill an obligation.

Credit risk exposure mainly arises from loans and investments, and off-balance sheet credit activities.

To effectively recognize, measure, monitor, control and report the credit risk, the Group has designed the organisation structure for risk management and established credit granting policies and procedures. The Board and its Risk Management Committee are responsible for determining credit risk strategy and risk appetite, supervising the implementation of the risk appetite and credit risk policies. Senior management and its risk management committee are responsible for considering the methodology and standards of credit rating, examining the strategy and quota of credit risk management, implementing risk strategy and risk appetite determined by the Board. The Risk Management Department is responsible for establishing credit risk management policies, directing credit operations, and examining and monitoring the implementation policies and framework. Each business department and credit granting department is responsible for implementing daily credit risk management policies and standards in their respective function, conducting specific risk controls in pre-lending assessment, loan review, drawn-down approval and post-lending management.

In order to adapt to the changing macroeconomic environment in the related financial period, the Group refined its credit risk management policy and credit risk quota management based on its appetite of prudent and steady risk management. The Group further enhanced its credit risk management system and the entire process of credit risk controls including pre-lending assessment, credit rating evaluation, credit review and approval, loan drawn-down authorization and post-lending supervision. In addition, in order to strengthen its credit risk management, the Group focused on identifying, monitoring, analysing and predicting credit exposures to strictly control the associated significant risks, as well as accelerating the disposal of non-performing loans and the upgrading of its system.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(1) Credit risk measurement

(a) *Loans and advances to customers*

The risk on its loan portfolio refers to the risk of uncertain income or loan losses from non-performing loans due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered a principal credit risk.

The Group measures and manages the quality of corporate and personal loans and advances in accordance with the CBRC's Guidelines on Risk-based Loan Classification ("the CBRC Guidelines"). The CBRC Guidelines require classification of corporate and personal loans into five categories, namely pass, special mention, sub-standard, doubtful and loss, of which the sub-standard, doubtful and loss categories are non-performing loans.

The five categories are defined as follows:

Pass: There is no doubt on the borrower's ability to repay the scheduled principal and interest payments on time.

Special mention: Although there is no doubt on the borrower's ability to repay at this point in time, there exists potential indications that may affect its ability to repay in the future.

Sub-standard: The borrower's repayment ability is apparently in question. It cannot depend on its normal operating revenue to repay in full the principal and interest. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of some loss.

Doubtful: The borrower cannot repay the principal and interest in full. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of substantial loss.

Loss: After exhausting all possible means of recovery actions or taking the necessary legal actions, there is still no possibility for recovery of principal and interest, or the recovery is negligible.

In order to improve recovery and disposal of non-performing loans, the Group has set up asset recovery department at various levels to focus on the recovery of non-performing assets, mitigating risks, minimizing losses and improving asset quality.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(1) Credit risk measurement (continued)

(b) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly wealth management products issued by financial institutions, trust investment plans and assets management plans. The Group maintains its overall credit risk level on debt securities and other debt instruments at a low level.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

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

The Group manages the credit quality of deposits and placements with banks and other financial institutions by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

(2) Credit risk limit control and mitigation policies

In accordance with the risk management policies and limits for risk control parameters, the Group's management departments and business departments formulate specific risk management measures, streamline the business process, and decompose and monitor the implementation of the risk control parameters.

For the purpose of minimising risks, the Group requires its borrowers to provide collateral or guarantees where appropriate. The Group has defined rules for the quality of certain collateral by establishing controls and procedures on collateral management. At the same time, the Group reviews the value, structure and legal documentation of collateral on a regular basis to ensure they can meet their intended purposes and market conventions.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(3) Impairment and provision policies

The impairment losses of loans are assessed based on the credit risk classification of the loans.

The Group's policy requires that financial assets that are individually significant are reviewed on a regular basis. All assets that are individually significant are assessed for impairment losses on an individual basis at the balance sheet date to determine their impairment provisions. These assessments often take into account collateral held by the Group (including re-assessment of their realizability) and expected recoverable amount of individual assets.

Collective assessment includes: (i) Groups of assets that are not individually significant but share similar characteristics; and (ii) losses that have already been incurred but not identified with individual assets, and these assets are assessed using historical experience, empirical judgements and statistical techniques. In view of the short history of the Group and limited historical experience on portfolio losses, the Group will also consider loss experience of other banks, regulatory requirements and guidelines, and the risk characteristics of the Group's loan portfolio in making collective assessment for allowance for impairment losses.

(4) 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 December 31	
	2017	2016
Deposits with central bank	1,364,392	1,259,035
Deposits with banks and other financial institutions	296,758	175,776
Placements with banks and other financial institutions	315,999	193,287
Financial assets at fair value through profit or loss	119,992	68,976
Derivative financial assets	6,584	6,179
Financial assets held under resale agreements	141,974	73,131
Loans and advances to customers	3,541,571	2,939,217
Available-for-sale financial assets — debt instruments	247,278	237,932
Held-to-maturity investments	935,735	736,154
Investment classified as receivables	1,424,558	1,498,524
Other financial assets	56,356	36,490
Subtotal	8,451,197	7,224,701
Credit commitments	643,998	524,909
Total	9,095,195	7,749,610

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

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

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

(5) Loans and advances to customers

(a) Loans and advances by geographical region:

	As at December 31			
	2017		2016	
	Amount	Proportion	Amount	Proportion
Head Office	256,498	7%	246,633	8%
Central China	838,929	23%	676,974	23%
Western China	662,034	18%	540,762	18%
Yangtze River Delta	651,145	18%	540,236	18%
Bohai Rim	559,898	16%	460,587	15%
Pearl River Delta	400,766	11%	321,097	11%
North-eastern China	260,865	7%	224,359	7%
Total	3,630,135	100%	3,010,648	100%

(b) Loans and advances by types:

	As at December 31			
	2017		2016	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	1,391,901	38%	1,079,392	35%
Discounted bills	291,761	8%	349,081	12%
Personal loans and advances	1,946,473	54%	1,582,175	53%
Total	3,630,135	100%	3,010,648	100%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(5) Loans and advances to customers (continued)

(c) Loans and advances by industries:

	As at December 31			
	2017		2016	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation*, storage and postal services	382,006	11%	317,722	10%
Manufacturing	223,037	6%	181,917	6%
Production and supply of electricity, heating, gas and water	188,518	5%	132,157	4%
Financial services	169,855	5%	161,012	5%
Management of water conservancy, environmental and public facilities	82,676	2%	36,751	1%
Wholesale and retail	79,602	2%	56,937	2%
Construction	60,851	2%	54,450	2%
Leasing and business services	58,426	2%	17,929	1%
Mining	48,403	1%	47,631	2%
Real estate	45,788	1%	39,881	1%
Other industries	52,739	1%	33,005	1%
Subtotal	1,391,901	38%	1,079,392	35%
Discounted bills	291,761	8%	349,081	12%
Personal loans and advances				
Consumer loans				
— Residential mortgage loans	1,155,176	33%	903,967	29%
— Other consumer loans	256,185	7%	197,695	7%
Personal business loans	300,990	8%	288,370	10%
Micro loans	156,427	4%	139,239	5%
Credit cards overdrafts and others	77,695	2%	52,904	2%
Subtotal	1,946,473	54%	1,582,175	53%
Total	3,630,135	100%	3,010,648	100%

* As at December 31, 2017, balance included loans to China Railway Corporation of RMB194,633 million (December 31, 2016: RMB197,263 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(5) Loans and advances to customers (continued)

(d) Loans and advances by types of collateral:

	As at December 31			
	2017		2016	
	Amount	Proportion	Amount	Proportion
Unsecured loans	956,629	26%	729,884	24%
Guaranteed loans	265,272	7%	227,942	8%
Loans secured by mortgages	1,797,803	50%	1,507,326	49%
Loans secured by pledges	318,670	9%	196,415	7%
Discounted bills	291,761	8%	349,081	12%
Total	3,630,135	100%	3,010,648	100%

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

	As at December 31	
	2017	2016
Corporate loans and advances		
— Neither overdue nor impaired	1,668,920	1,418,971
— Overdue but not impaired	5,461	1,324
— Impaired	9,281	8,178
Subtotal	1,683,662	1,428,473
Personal loans and advances		
— Neither overdue nor impaired	1,923,897	1,560,143
— Overdue but not impaired	4,587	3,919
— Impaired	17,989	18,113
Subtotal	1,946,473	1,582,175
Total	3,630,135	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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) 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 December 31, 2017		
	Pass	Special mention	Total
Corporate loans and advances	1,660,500	8,420	1,668,920
Personal loans and advances	1,917,704	6,193	1,923,897
Total	3,578,204	14,613	3,592,817

	As at December 31, 2016		
	Pass	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 December 31, 2017			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	5,093	368	—	5,461
Personal loans and advances	3,170	1,417	—	4,587
Total	8,263	1,785	—	10,048

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) 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 December 31					
	2017			2016		
	Amount	Proportion	NPL Ratio	Amount	Proportion	NPL Ratio
Head Office	1,131	4%	0.44%	926	4%	0.38%
Central China	5,274	19%	0.63%	4,518	17%	0.67%
Western China	8,729	32%	1.32%	9,755	37%	1.80%
Yangtze River Delta	3,012	11%	0.46%	2,869	11%	0.53%
Bohai Rim	3,341	12%	0.60%	2,966	11%	0.64%
Pearl River Delta	2,330	9%	0.58%	2,119	8%	0.66%
North-eastern China	3,453	13%	1.32%	3,138	12%	1.40%
Total	27,270	100%	0.75%	26,291	100%	0.87%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) 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 December 31					
	2017			2016		
	Amount	Proportion	NPL Ratio	Amount	Proportion	NPL Ratio
Corporate loans and advances	9,281	34%	0.55%	8,178	31%	0.57%
Personal loans and advances						
Consumer loans						
— Residential mortgage loans	2,693	10%	0.23%	1,711	6%	0.19%
— Other consumer loans	1,671	6%	0.65%	983	4%	0.50%
Personal business loans	8,203	30%	2.73%	10,027	38%	3.48%
Micro loans	4,294	16%	2.75%	4,468	17%	3.21%
Credit cards overdrafts and others	1,128	4%	1.45%	924	4%	1.75%
Total	27,270	100%	0.75%	26,291	100%	0.87%

Collectively assessed impairment allowance are provided on loans and advances that are 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 Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(7) Overdue loans and advances

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

	As at December 31, 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	879	924	663	56		2,522
Guaranteed loans	1,758	2,046	1,898	559		6,261
Loans secured by mortgages	5,404	5,852	8,164	441		19,861
Loans secured by pledges	4,603	649	1,029	276		6,557
Discounted bills	72	—	—	—		72
Total	12,716	9,471	11,754	1,332		35,273

	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(8) 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 December 31, 2017, rescheduled loans and advances of the Group was RMB1,670 million (December 31, 2016: RMB1,012 million).

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

The table below represents the carrying amounts and accumulated impairment charges of deposits with banks and other financial institutions, and placement with banks and other financial institutions.

	As at December 31	
	2017	2016
Neither overdue nor impaired	614,237	369,203
Allowance for impairment losses — Collectively assessed	(1,480)	(140)
Deposits and placements with banks and other financial institutions, net	612,757	369,063

As at December 31, 2017 and 2016, the counterparties for deposits and placements with banks and other financial institutions were mainly domestic banks and other financial institutions.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments

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

		As at December 31	
		2017	2016
Neither overdue nor impaired	(a)	2,362,665	2,236,499
Impaired	(b)	2,200	—
Subtotal		2,364,865	2,236,499
Individually assessed		(2,200)	—
Collectively assessed		(2,372)	(1,821)
Allowance for impairment losses		(4,572)	(1,821)
Total held-to-maturity investments and investment classified as receivables, net		2,360,293	2,234,678

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments (continued)

(a) Debt instruments neither overdue nor impaired

	As at December 31, 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	250	90,254	539,278	13,044	642,826
Public sector and quasi-government bonds	—	—	1,270	—	1,270
Financial institution bonds	3,594	101,281	342,492	1,159,560	1,606,927
Corporate bonds	5,193	12,594	44,467	5,320	67,574
Certificates of deposit	68,922	8,898	7,443	—	85,263
Asset-backed securities	—	34,251	1,200	33,854	69,305
Asset management plans	17,762	—	—	—	17,762
Placement with other financial institutions	11,709	—	—	—	11,709
Beneficiary certificates	12,562	—	—	—	12,562
Other debt instruments	—	—	—	214,737	214,737
Total	119,992	247,278	936,150	1,426,515	2,729,935

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) 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 deposit	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

(b) Impaired debt instruments

	As at December 31, 2017		Total
	Held-to-maturity investments	Investment classified as receivables	
Other debt instruments	—	2,200	2,200
Allowance for impairment losses	—	(2,200)	(2,200)
Net	—	—	—

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments (continued)

(c) Debt instruments analyzed by credit rating

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

	As at December 31, 2017					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	481,695	161,131	—	—	—	642,826
Public sector and quasi-government bonds	—	1,270	—	—	—	1,270
Financial institution bonds	1,549,300	44,733	3,625	3,740	5,529	1,606,927
Corporate bonds	8,865	50,995	3,947	3,137	630	67,574
Certificates of deposit	85,263	—	—	—	—	85,263
Asset-backed securities	33,870	28,816	6,619	—	—	69,305
Asset management plans	17,762	—	—	—	—	17,762
Placement with other financial institutions	11,709	—	—	—	—	11,709
Beneficiary certificates	12,562	—	—	—	—	12,562
Other debt instruments	216,937	—	—	—	—	216,937
Total	2,417,963	286,945	14,191	6,877	6,159	2,732,135

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) 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.

(11) Concentration of credit risk

The credit risk exposure of financial assets mainly concentrates in Mainland China.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 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 of normal operation. The objective of liquidity risk management of the Group is to meet the liquidity needs and fulfill 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, through which liquidity risk can be timely identified, measured and effectively controlled.

The Group is exposed to liquidity risk in funding credit activities, transactions and investments, and in managing liquidity positions. The Group's liquidity is mainly subject to the maturity structure of its assets and liabilities and changes in banking policies, e.g., changes in loan-to-deposit ratio and statutory reserve ratio requirements.

The Group manages its liquidity risk in accordance with regulatory requirements and by adopting a prudent approach. The Asset and Liability Management Department and Risk Management Department, among others, are responsible for formulating and driving the implementation of liquidity risk management policies, monitoring the changes to the Group's working capital, measuring and assessing liquidity risk, estimating the trend of liquidity risk, and recommending adjustments to its working capital structure, so as to ensure that its liquidity and liquidity ratios are maintained at proper levels and that the Group is able to meet its funding needs.

The Group is mainly funded by personal deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as cash and deposits with banks and other financial institutions, and government bonds. Management considers the Group's overall liquidity risk is low.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

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 December 31, 2017								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	–	78,443	–	–	–	–	–	1,333,519	1,411,962
Deposits with banks and other financial institutions	–	9,117	8,682	19,876	257,976	1,107	–	–	296,758
Placements with banks and other financial institutions	–	–	92,138	31,375	79,097	113,389	–	–	315,999
Financial assets at fair value through profit or loss	–	–	8,150	18,398	72,297	21,019	128	–	119,992
Derivative financial assets	–	–	1,726	2,124	2,631	103	–	–	6,584
Financial assets held under resale agreements	–	–	130,205	9,798	1,971	–	–	–	141,974
Loans and advances to customers	11,327	–	185,613	270,630	1,077,129	671,895	1,324,977	–	3,541,571
Available-for-sale financial assets	–	105,903	15,686	80,541	194,859	168,665	121,028	66	686,748
Held-to-maturity investments	–	–	10,166	17,015	50,924	507,674	349,956	–	935,735
Investment classified as receivables	–	–	47,128	13,753	129,854	638,841	594,982	–	1,424,558
Other financial assets	842	12,253	15,578	12,227	14,311	452	530	163	56,356
Total financial assets	12,169	205,716	515,072	475,737	1,881,049	2,123,145	2,391,601	1,333,748	8,938,237
Deposits from banks and other financial institutions	–	45,277	135	258	1,156	1,628	–	–	48,454
Placements from banks and other financial institutions	–	–	62,327	1,384	9,906	–	–	–	73,617
Derivative financial liabilities	–	–	1,627	1,919	2,798	272	–	–	6,616
Financial assets sold under repurchase agreements	–	–	84,600	28,998	1,545	–	–	–	115,143
Financial liabilities at fair value through profit or loss	–	–	6,324	18,503	15,838	1,528	–	–	42,193
Customer deposits	–	3,374,194	577,170	1,302,743	2,208,916	599,636	–	–	8,062,659
Debt securities issued	–	–	–	–	–	–	74,932	–	74,932
Other financial liabilities	–	26,127	27,015	30,539	27,209	21,605	366	210	133,071
Total financial liabilities	–	3,445,598	759,198	1,384,344	2,267,368	624,669	75,298	210	8,556,685
Net liquidity	12,169	(3,239,882)	(244,126)	(908,607)	(386,319)	1,498,476	2,316,303	1,333,538	381,552

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

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

	As at December 31, 2016								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	—	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 year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 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 December 31, 2017								Total
	Overdue	Payable 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	—	78,443	—	663	—	—	—	1,333,519	1,412,625
Deposits with banks and other financial institutions	—	9,118	8,717	23,061	263,697	1,136	—	—	305,729
Placements with banks and other financial institutions	—	—	92,297	34,360	87,031	121,331	—	—	335,019
Financial assets at fair value through profit or loss	—	—	8,309	18,894	75,180	22,595	142	—	125,120
Financial assets held under resale agreements	—	—	130,693	9,826	1,972	—	—	—	142,491
Loans and advances to customers	12,175	—	199,768	297,666	1,180,481	990,008	1,809,492	—	4,489,590
Available-for-sale financial assets	—	105,903	16,252	81,785	202,079	191,842	132,689	66	730,616
Held-to-maturity investments	—	—	13,026	20,976	79,378	613,041	450,089	—	1,176,510
Investment classified as receivables	—	—	51,023	23,719	171,792	788,479	731,932	—	1,766,945
Other financial assets	—	12,252	201	865	17	450	530	163	14,478
Total non-derivative financial assets	12,175	205,716	520,286	511,815	2,061,627	2,728,882	3,124,874	1,333,748	10,499,123
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	45,300	138	272	1,195	1,783	—	—	48,688
Placements from banks and other financial institutions	—	—	62,442	1,426	10,314	—	—	—	74,182
Financial assets sold under repurchase agreements	—	—	84,761	29,340	1,560	—	—	—	115,661
Financial liabilities at fair value through profit or loss	—	—	6,338	18,644	16,215	1,598	—	—	42,795
Customer deposits	—	3,374,840	577,600	1,306,852	2,236,549	878,617	—	—	8,374,458
Debt securities issued	—	—	—	900	2,115	12,060	86,835	—	101,910
Other financial liabilities	—	23,753	17,231	2,025	149	796	366	210	44,530
Total non-derivative financial liabilities	—	3,443,893	748,510	1,359,459	2,268,097	894,854	87,201	210	8,802,224
Net liquidity	12,175	(3,238,177)	(228,224)	(847,644)	(206,470)	1,834,028	3,037,673	1,333,538	1,696,899

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2016								
	Overdue	Payable 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	—	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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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 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 foreign 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 December 31, 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	(1)	2	22	—	24

	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 instruments 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 December 31, 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	144,044	99,840	188,532	3,892	—	436,308
— Cash outflow	(144,144)	(103,662)	(188,171)	(3,955)	—	(439,932)
Total	(100)	(3,822)	361	(63)	—	(3,624)

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Cash flow of derivative financial instruments (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 maturity.

	As at December 31, 2017			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	82,778	306,552	40,509	429,839
Bank acceptance	32,933	—	—	32,933
Guarantee and letters of guarantee	10,143	8,445	5	18,593
Letters of credit	12,224	—	—	12,224
Unused credit card commitments	150,409	—	—	150,409
Total	288,487	314,997	40,514	643,998

	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

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk

Market risk refers to the risk of losses to the Group's on- and off-balance sheet activities arising from unfavourable changes on market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The Group is primarily exposed to interest rate risk and exchange rate risk in the course of business. In managing its market risks, the Group aims to control the market risk within a controllable range, according to the Group's risk appetite, and to maximize risk-adjusted returns.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books, and valuation of financial assets. The Group applies such rules and procedures to separate banking and trading books, and to identify, measure, monitor and control market risks on banking book and trading book.

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from the changes in value of financial instruments in the trading book due to changes of market interest rates and exchange rates.

The Group assesses, measures and monitors the interest rate risk on its trading book using a variety of techniques, including duration, present value of a basic point, stress testing and scenario analysis, and makes improvement where appropriate according to the assessment results to its management of interest rate risk on the financial instruments in the trading book.

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Techniques for measuring and limits for market risks (continued)

Banking book

Interest rate risk on the Banking book arises from the risk of impact on the Group's income due to unfavourable changes in market interest rates or statutory interest rates, mainly including risks arising from repricing.

The Group monitors the interest rate sensitivity gap mainly through repricing gap analysis. The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

Meanwhile, the Group closely monitors the trends of interest rates in RMB and foreign currencies and makes adjustments to its deposit and lending interest rates in RMB and foreign currencies in a timely manner in accordance with the market interest rate changes to minimize its interest rate risk.

Sensitivity analysis on net interest income

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that all interest rates move by the same margin and the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, benchmark interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes to net interest income of the current year.

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 differ from the actual outcome.

	Increase/(Decrease) in net interest income As at December 31	
	2017	2016
Upward parallel shift of 100 bps for yield curves	(3,686)	(7,695)
Downward parallel shift of 100 bps for yield curves	3,686	7,695

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 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 December 31, 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	1,361,767	—	—	—	—	50,195	1,411,962
Deposits with banks and other financial institutions	17,799	59,076	218,776	1,107	—	—	296,758
Placements with banks and other financial institutions	92,138	58,568	51,904	113,389	—	—	315,999
Financial assets at fair value through profit or loss	12,346	19,699	70,885	16,805	128	129	119,992
Derivative financial assets	—	—	—	—	—	6,584	6,584
Financial assets held under resale agreements	130,205	9,798	1,971	—	—	—	141,974
Loans and advances to customers	2,359,532	348,868	765,461	60,214	7,496	—	3,541,571
Available-for-sale financial assets	18,363	12,642	35,012	121,680	59,581	439,470	686,748
Held-to-maturity investments	12,447	39,680	64,229	471,312	348,067	—	935,735
Investment classified as receivables	186,130	638,862	324,058	92,646	182,862	—	1,424,558
Other financial assets	—	—	—	—	—	56,356	56,356
Total financial assets	4,190,727	1,187,193	1,532,296	877,153	598,134	552,734	8,938,237

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2017						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Deposits from banks and other financial institutions	45,412	258	1,156	1,628	—	—	48,454	
Placements from banks and other financial institutions	62,327	1,384	9,906	—	—	—	73,617	
Derivative financial liabilities	—	—	—	—	—	6,616	6,616	
Financial assets sold under repurchase agreements	84,600	28,998	1,545	—	—	—	115,143	
Financial liabilities at fair value through profit or loss	6,285	18,359	15,759	1,500	—	290	42,193	
Customer deposits	3,949,890	1,302,743	2,208,916	599,636	—	1,474	8,062,659	
Debt securities issued	—	—	—	—	74,932	—	74,932	
Other financial liabilities	—	—	—	—	—	133,071	133,071	
Total financial liabilities	4,148,514	1,351,742	2,237,282	602,764	74,932	141,451	8,556,685	
Interest rate risk gap	42,213	(164,549)	(704,986)	274,389	523,202	411,283	381,552	

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 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	

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 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			
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	

Foreign exchange risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2017 and 2016. The Group's RMB exposures are included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments are stated at their carrying amounts in RMB equivalent.

The major currency of the Group for daily operation is RMB. Other currencies used by the Group include United States Dollars (USD), Euro (EUR), Hong Kong Dollars (HKD) and U.K. Pound Sterling (pound).

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2017			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,410,669	1,229	64	1,411,962
Deposits with banks and other financial institutions	289,120	5,568	2,070	296,758
Placements with banks and other financial institutions	261,507	54,492	—	315,999
Financial assets at fair value through profit or loss	109,951	10,041	—	119,992
Derivative financial assets	95	6,488	1	6,584
Financial assets held under resale agreements	141,974	—	—	141,974
Loans and advances to customers	3,518,669	19,068	3,834	3,541,571
Available-for-sale financial assets	671,161	15,587	—	686,748
Held-to-maturity investments	933,018	2,717	—	935,735
Investment classified as receivables	1,424,558	—	—	1,424,558
Other financial assets	49,285	7,060	11	56,356
Total financial assets	8,810,007	122,250	5,980	8,938,237
Deposits from banks and other financial institutions	48,453	1	—	48,454
Placements from banks and other financial institutions	61,520	12,097	—	73,617
Financial liabilities at fair value through profit or loss	42,193	—	—	42,193
Derivative financial liabilities	117	6,311	188	6,616
Financial assets sold under repurchase agreements	115,143	—	—	115,143
Customer deposits	8,020,186	42,009	464	8,062,659
Debt securities issued	74,932	—	—	74,932
Other financial liabilities	126,598	6,441	32	133,071
Total financial liabilities	8,489,142	66,859	684	8,556,685
Net on-balance sheet position	320,865	55,391	5,296	381,552
Net notional amount of derivative financial instruments	2,284	2,325	(4,374)	235
Credit commitments	628,445	10,518	5,035	643,998

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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 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	36,139	330	21	36,490
Total financial assets	8,129,457	65,002	3,735	8,198,194
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	118,671	4,437	693	123,801
Total financial liabilities	7,870,847	35,646	1,223	7,907,716
Net on-balance sheet position	258,610	29,356	2,512	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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For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 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% or 1% on net profit.

Exchange rate changes	As at December 31, 2017	Exchange rate changes	As at December 31, 2016
5% of appreciation of USD against RMB	1,086	1% of appreciation of USD against RMB	142
5% of depreciation of USD against RMB	(1,086)	1% of depreciation of USD against RMB	(142)

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.

44.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, inadequate personnel controls and flawed systems or from external events. Events of losses caused by operational risks mainly arise from internal and external frauds; unreasonable employment rules and procedures, work-place security flaws, inadequate controls on customer products and business activities; damages to physical assets; information system flaws; failure in delivery and settlement and process management, etc.

Guided by the operational risk preference approved by the Board of Directors, the Group's senior management is mainly responsible for building and implementing the operational risk management policies and limitations. The policies aim to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, improve the information technology capability, enrich the basis of operation management, intensify monitoring report, regulate staff behaviour, foster risk management culture and initiative awareness to regulations and ensure the security of business operation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments

The majority of the assets and liabilities of the Group as presented in its consolidated statement of financial position are financial assets and financial liabilities. The changes in fair value of non-financial assets and non-financial liabilities have insignificant impact on the financial results of the Group.

The Group did not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended December 31, 2017 and 2016.

(1) Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions, traded in active, liquid markets are determined with reference to quoted market prices.
- The fair value of non-option derivatives is determined through analysis of discounted future cash flows based on the instrument's yield curve.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there are no available observable current market transactions prices for similar instruments, the fair value of net assets is used for the valuations, and management performs analysis on this valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

During the years ended December 31, 2017 and 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

(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).

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

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, loans and advances to customers, held-to-maturity investments and investment classified as receivables, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

The tables below summarize the fair values of the hold-to-maturity investments, investments classified as receivables, and debt securities issued which are not set out in the statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

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

	As at December 31, 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	935,735	914,104	2,725	911,379	—
Investment classified as receivables	1,424,558	1,355,374	—	64,285	1,291,089
Total	2,360,293	2,269,478	2,725	975,664	1,291,089
Financial liabilities					
Debt securities issued	74,932	71,239	—	71,239	—

	As at December 31, 2016				
	Carrying amount	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 statement of financial position are determined using discounted future cash flows. There is no significant difference between their carrying amounts and their fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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 summarize the fair values of the financial assets and financial liabilities measured in the statement of financial position at their fair value.

	As at December 31, 2017			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	283	8,754	—	9,037
— Certificates of deposits	9,758	59,164	—	68,922
— Asset management plans	—	—	17,762	17,762
— Placement with other financial institutions	—	—	11,709	11,709
— Beneficiary certificates	—	—	12,562	12,562
Subtotal	10,041	67,918	42,033	119,992
Derivative financial assets				
— Exchange rate derivatives	—	6,456	—	6,456
— Interest rate derivatives	—	128	—	128
Subtotal	—	6,584	—	6,584
Available-for-sale financial assets				
— Debt securities	12,114	192,015	—	204,129
— Certificates of deposits	—	8,898	—	8,898
— Assets-backed securities	—	34,251	—	34,251
— Equity instruments	—	105,902	1,721	107,623
Subtotal	12,114	341,066	1,721	354,901
Total financial assets	22,155	415,568	43,754	481,477
Financial liabilities				
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(42,193)	(42,193)
Derivative financial liabilities				
— Exchange rate derivatives	—	(6,499)	—	(6,499)
— Interest rate derivatives	—	(117)	—	(117)
Subtotal	—	(6,616)	—	(6,616)
Total financial liabilities	—	(6,616)	(42,193)	(48,809)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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				
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 financial assets	11,722	474,871	12,370	498,963
Financial liabilities				
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 financial liabilities	—	(6,404)	(10,623)	(17,027)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

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

There were no significant movements among levels of the fair value hierarchy for each years ended December 31, 2017 and 2016.

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices. Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread.

Changes in Level 3 financial assets are analyzed below:

	2017	2016
Level 3 financial assets		
Balance at beginning of year	12,370	6,796
Increased	94,301	27,084
Settled	(64,393)	(21,567)
Total gains or losses recognized in		
— Profit or loss	1,408	697
— Other comprehensive income	68	(640)
Balance at end of year	43,754	12,370

Changes in Level 3 financial liabilities are analyzed below:

	2017	2016
Level 3 financial liabilities		
Balance at beginning of year	(10,623)	(4,139)
Increased	(93,512)	(26,566)
Settled	62,105	20,232
Total gains or losses recognized in		
— Profit or loss	(163)	(150)
Balance at end of year	(42,193)	(10,623)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

31 December 2017	Note	Fair value	Valuation technique	Unobservable inputs		
				Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss	(i)	42,033	Discounted cash flow method	Discount rate	5.00%–5.73%	Negative correlation
Available-for-sale financial assets						
— Equity instruments	(ii)	1,721	Net asset method	Net assets		Positive correlation
Total		43,754				
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	(i)	(42,193)	Discounted cash flow method	Discount rate	4.29%–4.33%	Negative correlation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below (continued):

31 December 2016	Note	Fair value	Valuation technique	Inputs	Unobservable inputs	
					Range of inputs/weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss	(i)	10,624	Discounted cash flow method	Discount rate	3.54%–4.51%	Negative correlation
Available-for-sale financial assets						
— Equity instruments	(ii)	1,746	Net asset method	Net assets		Positive correlation
Total		12,370				
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	(i)	(10,623)	Discounted cash flow method	Discount rate	2.92%–3.22%	Negative correlation

(i) The fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(ii) The fair value of equity investments in industrial funds under available for-sale financial assets, is calculated using the share of the net asset value the fund, where the significant unobservable inputs are the net assets of the invested funds.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.8 Capital management

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to deliver its management objectives, including performance assessment against plans and budgets and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; help drive risk management across the Group; ensure a disciplinary expansion of its assets; and improve its business structure and operating models.

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the utilisation of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximises returns to shareholders without compromising its risk control, the Group makes strong efforts to promote the establishment of capital constraints system, strengthen the control of total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through comprehensively using several measures such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

In accordance with *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《商業銀行資本管理辦法(試行)》 promulgated by CBRC and the related provisions, as from January 1, 2013, CBRC requires commercial banks to maintain a minimum capital adequacy ratio, where core tier 1 capital adequacy ratio not lower than 5%, tier 1 capital adequacy ratio not lower than 6%, and capital adequacy ratio not lower than 8%. Meanwhile, in accordance with the *Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《中國銀監會關於實施〈商業銀行資本管理辦法(試行)〉過渡期安排相關事項的通知》, capital reserve requirement will be gradually introduced within the transitional period, and is to be satisfied by the core tier 1 capital of commercial banks. In accordance with this provision, as at December 31, 2017, the Group's core tier 1 capital adequacy ratio should be 7.10%, tier 1 capital adequacy ratio should be 8.10%, and capital adequacy ratio should be 10.10% (as at December 31, 2016: 6.70%, 7.70% and 9.70%, respectively). The Group continuously intensifies the monitoring, analyzing and reporting of capital adequacy ratios, constantly optimises the risk asset structure, increases internal capital accumulation, and promotes the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.8 Capital management (continued)

The Group's regulatory capital as calculated according to *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《商業銀行資本管理辦法(試行)》 promulgated by CBRC and Accounting Standards for Business Enterprises as at December 31, 2017 is as follows:

	Note	As at December 31	
		2017	2016
Core tier 1 capital adequacy ratio	(1)	8.60%	8.63%
Tier 1 capital adequacy ratio	(1)	9.67%	8.63%
Capital adequacy ratio	(1)	12.51%	11.13%
Core tier 1 capital		383,431	346,574
Deductions of core tier 1 capital	(2)	(1,758)	(1,757)
Core tier 1 capital — net		381,673	344,817
Other tier 1 capital		47,887	6
Tier 1 capital — net		429,560	344,823
Tier 2 capital			
— Excess provision for loan loss		50,816	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		69	12
Net capital	(3)	555,445	444,919
Risk-weighted assets	(4)	4,440,497	3,995,908

(1) Core tier 1 capital adequacy ratio is equal to net core tier 1 capital divided by risk-weighted assets; tier 1 capital adequacy ratio is equal to net tier 1 capital divided by risk-weighted assets; and capital adequacy ratio is equal to net capital divided by risk-weighted assets.

(2) Deductions from core tier 1 capital include other intangible assets (not including land use rights).

(3) Net capital is equal to total capital net of deductions from total capital.

(4) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk-weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

45 Reclassification of Comparative Figures

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

46 Statement of Financial Position of the Bank

	As at December 31	
	2017	2016
Assets		
Cash and deposits with central bank	1,411,962	1,310,221
Deposits with banks and other financial institutions	298,522	176,526
Placements with banks and other financial institutions	318,499	193,737
Financial assets at fair value through profit or loss	119,992	68,976
Derivative financial assets	6,584	6,179
Financial assets held under resale agreements	141,974	73,131
Loans and advances to customers	3,528,775	2,935,043
Investment instruments		
Available-for-sale financial assets	686,748	1,160,187
Held-to-maturity investments	935,735	736,154
Investment classified as receivables	1,424,831	1,498,798
Investment in subsidiary	615	615
Property and equipment	43,789	39,269
Deferred tax assets	22,200	13,441
Other assets	64,558	51,109
Total assets	9,004,784	8,263,386

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

46 Statement of Financial Position of the Bank (continued)

	As at December 31 2017	As at December 31 2016
Liabilities		
Deposits from banks and other financial institutions	48,851	281,757
Placements from banks and other financial institutions	66,217	12,278
Financial liabilities at fair value through profit or loss	42,193	10,623
Derivative financial liabilities	6,616	6,404
Financial assets sold under repurchase agreements	115,143	129,789
Customer deposits	8,062,659	7,286,311
Debt securities issued	74,932	54,943
Other liabilities	157,199	134,708
Total liabilities	8,573,810	7,916,813
Equity		
Share capital	81,031	81,031
Other equity instruments		
— Preference Shares	47,846	—
Capital reserve	74,659	74,659
Other reserves	121,126	114,268
Retained earnings	106,312	76,615
Total equity	430,974	346,573
Total equity and liabilities	9,004,784	8,263,386

Approved and authorized for issue by the Board of Directors on March 27, 2018.

(On behalf of Board of Directors)

(On behalf of Board of Directors)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

47 Statement of Changes in Equity of the Bank

	Other equity instruments –		Other reserves						Retained earnings	Total
	Share capital	Preference Share	Capital reserve	Surplus reserve	Investment					
					General reserve	revaluation reserve	Others ⁽¹⁾			
As at January 1, 2017	81,031	–	74,659	20,395	93,803	143	(73)	76,615	346,573	
Profit for the year	–	–	–	–	–	–	–	47,641	47,641	
Other comprehensive income	–	–	–	–	–	(5,082)	(32)	–	(5,114)	
Total comprehensive income for the year	–	–	–	–	–	(5,082)	(32)	47,641	42,527	
Appropriations to surplus reserve	–	–	–	4,764	–	–	–	(4,764)	–	
Appropriations to general reserve	–	–	–	–	7,208	–	–	(7,208)	–	
Issuance of preference shares	–	47,846	–	–	–	–	–	–	47,846	
Dividends	–	–	–	–	–	–	–	(5,972)	(5,972)	
As at December 31, 2017	81,031	47,846	74,659	25,159	101,011	(4,939)	(105)	106,312	430,974	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

47 Statement of Changes in Equity of the Bank (continued)

	Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves		Retained earnings	Total
					Investment revaluation reserve	Others ⁽¹⁾		
As at January 1, 2016	68,604	36,984	16,411	84,754	4,988	(97)	58,808	270,452
Profit for the year	—	—	—	—	—	—	39,840	39,840
Other comprehensive income	—	—	—	—	(4,845)	24	—	(4,821)
Total comprehensive income for the year	—	—	—	—	(4,845)	24	39,840	35,019
Appropriations to surplus reserve	—	—	3,984	—	—	—	(3,984)	—
Appropriations to general reserve	—	—	—	9,049	—	—	(9,049)	—
Share issuance	12,427	37,675	—	—	—	—	—	50,102
Dividends	—	—	—	—	—	—	(9,000)	(9,000)
As at December 31, 2016	81,031	74,659	20,395	93,803	143	(73)	76,615	346,573

(1) Other reserves-others presents re-measurement of retirement benefit obligation.

Appendix I : Unaudited Supplementary Financial Information

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

Liquidity ratios and leverage ratio

Liquidity ratios

	Average for the year ended December 31, 2017	Average for the year ended December 31, 2016
Liquidity ratios (RMB and foreign currency)	42.99%	44.63%

	As at December 31, 2017	As at December 31, 2016
Liquidity ratios (RMB and foreign currency)	42.06%	38.37%

Leverage ratio

	As at December 31, 2017	As at December 31, 2016
Leverage ratio	4.55%	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 1, 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 : Unaudited Supplementary Financial Information

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

Currency concentrations

	As at December 31, 2017			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	84,724	1,362	5,245	91,331
Spot liabilities	(39,792)	(186)	(953)	(40,931)
Forward purchases	218,842	42	169	219,053
Forward sales	(216,698)	(47)	(4,898)	(221,643)
Net long/(short) position	47,076	1,171	(437)	47,810

	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 Group has no structural position during the reporting periods.

International claims

The Bank regards all claims on third parties outside Mainland China and claims denominated 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.

Appendix I : Unaudited Supplementary Financial Information

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

International claims (continued)

	As at December 31, 2017			Total
	Official Sector	Banks and other financial institutions	Non-bank private sectors	
Asia Pacific	3,414	80,437	13,485	97,336
of which attributed to Hong Kong	—	1,951	971	2,922
North and South America	—	4,355	4,574	8,929
Europe	—	4,814	4,352	9,166
Total	3,414	89,606	22,411	115,431

	As at December 31, 2016			Total
	Official Sector	Banks and other financial institutions	Non-bank private sectors	
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
Total	878	45,375	13,757	60,010

Appendix I : Unaudited Supplementary Financial Information

For the year ended December 31, 2017 (All amounts in millions of RMB unless otherwise stated)

Gross amount of overdue loans and advances to customers

	December 31, 2017	December 31, 2016
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of		
Within 3 months (inclusive)	12,716	8,352
Between 3 months and 6 months (inclusive)	3,296	4,700
Between 6 months and 12 months (inclusive)	6,175	6,762
Over 12 months	13,086	9,186
Total	35,273	29,000
As a percentage of total gross loans and advances to customers		
Within 3 months (inclusive)	0.35%	0.28%
Between 3 months and 6 months (inclusive)	0.09%	0.16%
Between 6 months and 12 months (inclusive)	0.17%	0.22%
Over 12 months	0.36%	0.30%
Total	0.97%	0.96%

Overdue loans and advances to customers by geographical areas

	As at December 31	
	2017	2016
Head office	1,351	1,056
Yangtze River Delta	3,527	3,346
Pearl River Delta	2,760	2,555
Bohai Rim	8,182	3,354
Central China	6,067	5,785
Western China	9,649	9,470
North eastern China	3,737	3,434
Total	35,273	29,000

Appendix II : Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	After adjustment December 31, 2017	After adjustment December 31, 2016
High quality liquid assets	1,272,410	1,080,184
Net cash outflow	872,748	842,675
Liquidity coverage ratio (%)	145.79	128.19

Appendix III : Leverage Ratio

In millions of RMB, except for percentages

Item	December 31, 2017	December 31, 2016
Net tier 1 capital	429,560	344,823
Adjusted asset balance on-and-off the balance sheet	9,444,741	8,518,775
Leverage ratio (%)	4.55	4.05

Appendix III : Leverage Ratio

No.	Item	December 31,	
		2017	2016
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,878,533	8,237,547
2	Less: Deduction from tier 1 capital	1,758	1,757
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	8,876,775	8,235,790
4	Replacement costs of various derivatives (excluding eligible margin)	6,584	6,175
5	Potential risk exposures of various derivatives	11,235	11,595
6	Total collateral deducted from the balance sheet	—	—
7	Less: Assets receivable arising from the provision of eligible margin	—	—
8	Less: Derivative assets arising from central counterparty transactions when providing clearing services to customers	—	—
9	Nominal principals arising from sales of credit derivatives	—	—
10	Less: Deductible assets arising from sales of credit derivatives	—	—
11	Derivative assets	17,819	17,770
12	Accounting assets arising from securities financing transactions	127,434	21,904
13	Less: Deductible assets arising from securities financing transactions	—	—
14	Counter-party credit risk exposure arising from securities financing transactions	70,237	—
15	Assets arising from the agency services in connection with securities financing transactions	—	—
16	Securities financing transactions assets	197,671	—
17	Off-balance sheet assets	1,079,518	538,910
18	Less: Decrease in off-balance sheet assets due to credit conversion	727,041	295,599
19	Off-balance sheet assets after adjustments	352,476	243,311
20	Net tier 1 capital	429,560	344,823
21	On and off-balance sheet assets after adjustments	9,444,741	8,518,775
22	Leverage ratio (%)	4.55	4.05

Appendix IV : Composition of Capital

Composition of Capital

In millions of RMB, except for percentages

	Amount
Core tier 1 capital:	
1 Paid-in capital	81,031
2 Retained earnings	232,481
2a Surplus reserves	25,159
2b General reserve	101,011
2c Undistributed profits	106,311
3 Accumulated other comprehensive income and disclosed reserve	69,615
3a Capital reserve	74,659
3b Others	(5,044)
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	304
6 Core tier 1 capital before regulatory adjustments	383,431
Core tier 1 capital: Regulatory adjustments	
7 Prudential valuation adjustments	—
8 Goodwill (net of deferred tax liabilities)	0
9 Other intangible assets other than land use rights (net of deferred tax liabilities)	1,758
10 Deferred tax assets that rely on future profitability and arising from operating loss	—
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	0
13 Gain on sale related to asset securitization	—
14 Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	—
15 Defined-benefit pension fund net assets (net of deferred tax liabilities)	—
16 Directly or indirectly holding in own ordinary shares	—
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	0
19 Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
20 Mortgage servicing rights	—
21 Other deductible amount in deferred tax assets dependent on future profitability	0

Appendix IV : Composition of Capital

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount
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	0
23 Including: Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions	0
24 Including: Deductible amount of mortgage servicing rights	—
25 Including: Deductible amount in deferred tax assets arising from temporary differences	0
26a Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
26b Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
26c Others that should be deducted from core tier 1 capital	0
27 Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	0
28 Total regulatory adjustments to core tier 1 capital	1,758
29 Core tier 1 capital	381,673
Additional tier 1 capital:	
30 Additional tier 1 capital instruments and related premium	47,846
31 Including: Portion classified as equity	47,846
32 Including: Portion classified as liabilities	—
33 Invalid instruments to additional tier 1 capital after the transition period	—
34 Qualifying non-controlling interests	41
35 Including: invalid portion to additional tier 1 capital excluded after the transition period	—
36 Additional tier 1 capital before regulatory adjustments	47,887
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	0
40 Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
41a Investment in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
41b Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
41c Others that should be deducted from additional tier 1 capital	0

Appendix IV : Composition of Capital

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount
42 Undeducted shortfall that should be deducted from tier 2 capital	0
43 Total regulatory adjustments to additional tier 1 capital	0
44 Additional tier 1 capital	47,887
45 Tier 1 capital (core tier 1 capital + additional tier 1 capital)	429,560
Tier 2 capital:	
46 Tier 2 Capital instruments and related premium	75,000
47 Invalid tier 2 instruments to capital after the transition period	—
48 Valid portion of minority interests	69
49 Including: Invalid portion to tier 2 capital after the transition period	—
50 Valid portion of surplus provision for loan impairment	50,816
51 Tier 2 capital before regulatory adjustments	125,885
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 non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	0
55 Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	0
56a Investment in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
56b Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
56c Others that should be deducted from tier 2 capital	0
57 Total regulatory adjustments to tier 2 capital	0
58 Tier 2 capital	125,885
59 Total capital (tier 1 capital + tier 2 capital)	555,445
60 Total risk-weighted assets	4,440,497
Requirements for capital adequacy ratio and reserve capital (%)	
61 Core tier 1 capital adequacy ratio	8.60
62 Tier 1 capital adequacy ratio	9.67
63 Capital adequacy ratio	12.51
64 Institution specific capital requirement	2.10
65 Including: Capital conservation buffer requirement	2.10
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	1.50

Appendix IV : Composition of Capital

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount
Domestic minimum requirements for regulatory capital (%)	
69 Core tier 1 capital adequacy ratio	7.10
70 Tier 1 capital adequacy ratio	8.10
71 Capital adequacy ratio	10.10
Amounts below the thresholds for deduction	
72 Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	26,234
73 Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	0
74 Mortgage servicing rights (net of deferred tax liabilities)	0
75 Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	22,258
Valid caps of surplus provision for loan impairment to tier 2 capital	
76 Provision for loan impairment under the weighted approach	88,564
77 Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	50,816
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

	The regulatory consolidated balance sheet	Code
Goodwill	0	a
Intangible assets	1,758	b
Deferred income tax liabilities		
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	e
Other equity instruments		
Including: Preference shares	47,846	f
Capital reserve	74,659	g
Other	(5,044)	h
Surplus reserve	25,159	i
General reserve	101,011	j
Undistributed profits	106,311	k

Appendix IV : Composition of Capital

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

In millions of RMB

	Amount	Code
Core tier 1 capital:		
1 Paid-in capital	81,031	e
2 Retained earnings	232,481	i+j+k
2a Surplus reserves	25,159	i
2b General reserve	101,011	j
2c Undistributed profits	106,311	k
3 Accumulated other comprehensive income and disclosed reserve	69,615	g+h
3a Capital reserve	74,659	g
3b Others	(5,044)	h
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	304	
6 Core tier 1 capital before regulatory adjustments	383,431	
Core tier 1 capital: Regulatory adjustments		
7 Prudential valuation adjustments	—	
8 Goodwill (net of deferred tax liabilities)	0	a
9 Other intangible assets other than land use rights (net of deferred tax liabilities)	1,758	b-c-d
10 Deferred tax assets that rely on future profitability and arising from operating loss	—	
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	0	
13 Gain on sale related to asset securitization	—	
14 Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	—	
15 Defined-benefit pension fund net assets (net of deferred tax liabilities)	—	
16 Directly or indirectly holding in own ordinary shares	—	
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	0	
19 Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0	
20 Mortgage servicing rights	—	
Additional tier 1 capital		
30 Additional tier 1 capital instruments and its premiums	47,846	f
31 Including: Portion classified as equity	47,846	f

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
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.	Postal Savings Bank of China Co., Ltd.
2 Identification code	1658.HK	1528007.IB	1628016.IB	1728005.IB	4612
3 Applicable laws Regulatory process	PRC/Hong Kong laws	PRC laws	PRC laws	PRC laws	The creation and issuance of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by and shall be construed in accordance with PRC laws
Regulatory processing					
4 Including: Applicable to transitional period rules specified by Capital Rules for Commercial Banks (Provisional)	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital
5 Including: Applicable to the rules after expiration of the transitional period specified by Capital Rules for Commercial Banks (Provisional)	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital
6 Including: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7 Instrument type	Core tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Additional tier 1 capital instruments

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
8 Amount that can be included in regulatory capital (in RMB millions; on the latest reporting date)	HKD59,150	RMB25,000	RMB30,000	RMB20,000	USD7,250
9 Par value of instrument	HKD59,150	RMB25,000	RMB30,000	RMB20,000	USD7,250
10 Accounting treatment	Share capital, capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments
11 Initial issuance date	September 28, 2016	September 7, 2015	October 26, 2016	March 22, 2017	September 27, 2017
12 Term (term or perpetual)	Perpetual	Term	Term	Term	Perpetual
13 Including: Original maturity date	No maturity date	September 9, 2025	October 28, 2026	March 24, 2027	No maturity date
14 Issuer's redemption (subject to regulatory approval)	No	Yes	Yes	Yes	Yes
15 Including: Redemption date (or contingent redemption date) and amount	Not applicable	September 9, 2020 Part or full	October 28, 2021 Part or full	March 24, 2022 Part or full	The first redemption date is September 27, 2022 Part or full
16 Including: Subsequent redemption date (if any)	Not applicable	Not applicable	Not applicable	Not applicable	September 27 in each year after the first redemption date

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
Dividend or interest payment					
17 Including: Fixed or floating dividend or interest payment	Floating	Fixed	Fixed	Fixed	Floating: The dividend yield is fixed in a single dividend yield adjustment cycle (five years) and is reset every five years
18 Including: Coupon rate and relevant indicators	Not applicable	4.50%	3.30%	4.50%	The dividend yield in the first five years is 4.50%, and it is reset every five years based on the yield of five-year US treasury bond on the resetting date plus 263.4 basis points
19 Including: Existence of dividend brake mechanism	Not applicable	No	No	No	Yes
20 Including: Discretion to cancel dividend or interest payment	Full discretion	No	No	No	Full discretion
21 Including: Existence of redemption incentive mechanism	No	No	No	No	No
22 Including: Cumulative or noncumulative	Noncumulative	Not applicable	Not applicable	Not applicable	Noncumulative
23 Conversion into shares	No	No	No	No	Yes

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
24 Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, that is, the CET 1 CAR drops to 5.125% or below; or upon the occurrence of any tier 2 capital instrument trigger event, which means either of the following circumstances (whichever is earlier): (1) the CBRC having concluded that a conversion or write-off is necessary without which the Bank would become non-viable; or (2) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
25 Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of additional tier 1 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all or part of the issued and outstanding overseas preference shares into common H shares; upon the occurrence of tier 2 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all of the issued and outstanding overseas preference shares into common H shares
26 Including: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	The initial conversion price is the average trading price of common H Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution (24 March 2017) on the Preference Shares issuance

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
27 Including: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Mandatory
28 Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Core tier 1 capital
29 Including: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	The Bank
30 Write-down or not	No	Yes	Yes	Yes	No

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
31 Including: Please specify the trigger point of write-down, if allowed	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Not applicable
32 Including: Please specify write-down in whole or in part, if write-down is allowed	Not applicable	In whole	In whole	In whole	Not applicable
33 Including: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Perpetual	Perpetual	Perpetual	Not applicable
34 Including: Please specify the bookentry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
35 Hierarchy of claims (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and creditor of the subordinated debts	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument 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	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument 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	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument 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	After depositor, general creditor, and holders of tier 2 capital instrument

Appendix IV : Composition of Capital

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
		and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds	and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds	and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds	
36 Does the instrument contain temporary illegible attribute?	No	No	No	No	No
Including: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Appendix V : Reference Materials for Shareholders

Financial Calendar for 2017

2017 annual results announcement	announced on March 27, 2018
2017 annual report	To be announced on April 30, 2018
2018 interim results announcement	To be announced no later than August 30, 2018

Dividends on Ordinary Shares

The Board of Directors recommended a dividend on ordinary shares of RMB1.471 per 10 shares (tax-inclusive), subject to the approval of shareholders at the 2017 Annual General Meeting.

Securities Information

Listing

The ordinary shares of the Bank were listed on the Hong Kong Stock Exchange on September 28, 2016, the offshore preference shares were listed on the Hong Kong Stock Exchange on September 28, 2017.

Ordinary Shares

Issued H Shares: 19,856,167,000 shares (as of December 31, 2017).

Preference Shares

Issued offshore preference shares: 362,500,000 shares (as of December 31, 2017).

Market Capitalisation

As of the last trading day in 2017 (December 29, 2017), the Bank's market capitalisation was HKD328.984 billion (based on the closing price on December 29, 2017).

Securities Price

Closing price on December 29, 2017	Highest trading price during the year	Lowest trading price during the year
HKD4.06	HKD5.18	HKD4.03

Appendix V : Reference Materials for Shareholders

Securities Code

Stock Name	Postal Savings Bank of China
HKEX	1658
Reuters	1658.HK
Bloomberg	1658.HK

Offshore Preference Shares

Stock Name	PSBC 17USDPREF
HKEX	4612
Reuters	4612.HK
Bloomberg	AP1366677

Shareholder Enquiries

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

Computershare Hong Kong Investor Services Limited
 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
 Telephone: (852) 2862 8555
 Fax: (852) 2865 0990

Credit Rating

Standard & Poor's	A (stable)
Moody's Investors Service	A2 (positive)
Fitch Ratings	A+ (stable)
CCXI	AAA

Index Constituents

Hang Seng China 50 Index
 Hang Seng China Enterprises Index
 Hang Seng Composite Index Series
 Hang Seng Global Composite Index
 Hang Seng SCHK Mainland China Banks Index
 FTSE China 50 Index

Appendix V : Reference Materials for Shareholders

Investor Enquiries

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

No. 3 Financial Street, Xicheng District, Beijing, PRC

Telephone: (86) 10 6885 8158

Fax: (86) 10 6885 8165

Email: ir@psbc.com

Other Information

You may write to the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's office address for copies prepared under CAS. The Chinese and/or English versions of this annual report are also available on the following websites: www.psbc.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's H Share Registrar ((852) 2862 8555) or the Bank's hotlines at (86) 10 6885 8158.

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