



2018

Interim Report



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Contents

Company Profile	2
Definitions	3
Important Notice	6
Corporate Information	7
Financial Highlights	9
Overview of Operations	14
Discussion and Analysis	16
Changes in Share Capital and Shareholdings of Shareholders	84
Directors, Supervisors and Senior Management	92
Significant Events	93
Report on Review of Interim Financial Information	97
Condensed Consolidated Statement of Comprehensive Income	98
Appendix I: Unreviewed Supplementary Financial Information	247
Appendix II: Liquidity Coverage Ratio	251
Appendix III: Leverage Ratio	252
Appendix IV: Composition of Capital	253

Company Profile

Postal Savings Bank of China (hereinafter referred to as “PSBC”) is a leading large retail commercial bank in China, strategically focuses on providing financial services to communities customers, SMEs and Sannong and is committed to meeting the financial needs of the most promising customers during China’s economic transformation. Meanwhile, PSBC 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 565 million individual customers, PSBC 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 “joint stock reform, 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.

Under the background of transformation and upgrading of China’s economy, deepening advancement of financial reform and thriving development of information technology, PSBC 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 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., as amended, supplemented and otherwise modified from time to time
“Bank/us/we/PSBC/Postal Savings Bank of China”	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)/bps”	a unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
“CBIRC”	China Banking and Insurance Regulatory Commission
“central bank/PBOC”	The People’s Bank of China
“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 and micro enterprises”	the loans to small and micro-sized enterprises which comply with the statistical classification of the CBIRC, 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
“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
“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

Definitions

“CSRC”	China Securities Regulatory Commission
“Domestic Shares”	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
“duration”	A method of measuring the weighted average maturity of bond cash flows, mainly reflecting the sensitivity of bonds to interest rate changes
“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 over-capacity”	industries with high pollution, high energy consumption and over-capacity
“MOF”	Ministry of Finance of the PRC
“PSBC Consumer Finance”	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015. The Bank held 70.5% equity interests in the PSBC Consumer Finance
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers”
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“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
“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

For the purpose of illustrating our distribution network and presenting certain results of operations and financial conditions in this 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 • Jiangsu Province 	<ul style="list-style-type: none"> • Zhejiang 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 • City of Dalian 	<ul style="list-style-type: none"> • Jilin Province • Heilongjiang Province

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

Certain amounts and percentage figures included in this 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 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 report.

The 2018 interim results announcement and Interim Report have been reviewed and approved at the meeting of the Board of Directors of the Bank held on August 28, 2018. The Bank has 14 directors in total, among which 14 directors attended the meeting in person. The attendance was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association.

With the approval at the 2017 annual general meeting held on June 28, 2018, the Bank has distributed cash dividends of RMB1.471 (tax inclusive) per ten shares, totaling approximately RMB11,920 million (tax inclusive), for the period from January 1, 2017 to December 31, 2017 to all the ordinary shareholders whose names appeared on the register of members of the Bank on the shareholding registration day.

The Bank will not declare or distribute an interim dividend of 2018, nor will it convert any capital reserve into share capital.

The 2018 interim financial statements prepared by the Bank in accordance with IFRS have been reviewed by PricewaterhouseCoopers in accordance with the International Standards on Review Engagements.

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

August 28, 2018

Lyu Jiajin, Legal Representative and President in charge of finance of the Bank, and Liu Yucheng, General Manager of the Financial Management Department of the Bank, hereby represent and warrant that the financial statements contained in this report are authentic, accurate and complete.

This report contains certain forward-looking statements regarding the financial condition, results of operations and business development of the Bank. These statements are based on current plans, estimates and forecasts, are subject to future external events or future financial, business or other performance of the Group 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(「中國郵政儲蓄銀行」)
Legal name in English:	“POSTAL SAVINGS BANK OF CHINA CO., LTD.” (“POSTAL SAVINGS BANK OF CHINA” or “PSBC”)
Legal representative:	Lyu Jiajin ⁽¹⁾
Chairman:	Lyu Jiajin ⁽¹⁾
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:	40/F, Sunlight Tower, 248 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

(1) Mr. Li Guohua resigned from the position of the Chairman and the Legal Representative from August 17, 2018 due to change of job. With the approval of the Board of Directors, Mr. Lyu Jiajin, President and an executive director of the Bank, was elected to perform the duties of the Chairman and the Legal Representative effective from August 17, 2018.

Corporate Information

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 LLP
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 report have been prepared in accordance with the IFRS. Unless otherwise specified, they are consolidated data of PSBC and its subsidiary.)

Key Financial Data

In millions of RMB, except for percentages

Item	For the six months ended		Increase/ (decrease)	Change (%)
	June 30			
	2018	2017		
Interim operating results				
Operating income	132,408	105,973	26,435	24.95
Net interest income	111,662	87,514	24,148	27.59
Net fee and commission income	7,682	7,033	649	9.23
Operating expenses	74,770	65,544	9,226	14.08
Impairment losses on assets	23,371	10,366	13,005	125.46
Profit before income tax	34,267	30,063	4,204	13.98
Net profit	32,547	26,592	5,955	22.39
Net profit attributable to shareholders of the Bank	32,523	26,600	5,923	22.27
Net cash from operating activities	79,590	(370,424)	450,014	—

Financial Highlights

In millions of RMB, except for percentages or otherwise specified

Item	June 30, 2018	December 31, 2017	Increase/ (decrease)	Change (%)
Data as at the end of the reporting period				
Total assets	9,326,163	9,012,551	313,612	3.48
Total loans to customers ⁽¹⁾	4,016,429	3,630,135	386,294	10.64
Allowance for impairment losses	104,989	88,564	16,425	18.55
Loans to customers, net	3,911,440	3,541,571	369,869	10.44
Financial instruments ⁽²⁾	3,149,953	3,167,033	(17,080)	(0.54)
Cash and deposits with central bank	1,265,721	1,411,962	(146,241)	(10.36)
Total liabilities	8,872,665	8,581,194	291,471	3.40
Customer deposits	8,332,830	8,062,659	270,171	3.35
Equity attributable to shareholders of the Bank	452,638	430,973	21,665	5.03
Net assets per share ⁽³⁾ (RMB)	5.00	4.73	0.27	—
Net capital	576,009	555,445	20,564	3.70
Net core tier 1 capital	401,758	381,673	20,085	5.26
Additional tier 1 capital, net	47,888	47,887	1	—
Risk-weighted assets	4,464,276	4,440,497	23,779	0.54

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

(2) 2018 data consists of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost; 2017 data consists of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

(3) Calculated by dividing equity attributable to shareholders of the Bank (after deducting other equity instruments) at the end of the period by total number of ordinary shares at the end of the period.

Financial Indicators

Item	For the six months ended June 30		Change
	2018	2017	
Profitability (%)			
Return on average total assets ⁽¹⁾⁽²⁾	0.72	0.64	0.08
Return on weighted average net assets ⁽¹⁾⁽³⁾	16.32	14.91	1.41
Net interest margin ⁽¹⁾⁽⁴⁾	2.64	2.31	0.33
Net interest spread ⁽¹⁾⁽⁵⁾	2.65	2.38	0.27
Net fee and commission income to operating income ratio	5.80	6.64	(0.84)
Cost-to-income ratio ⁽⁶⁾	55.80	61.10	(5.30)

Per share data (in RMB)			
Basic earnings per share ⁽⁷⁾	0.37	0.33	0.04
Diluted earnings per share ⁽⁸⁾	0.37	0.33	0.04

Item	June 30, 2018	December 31, 2017	Change
Asset quality (%)			
Non-performing loan ratio ⁽⁹⁾	0.97	0.75	0.22
Allowance coverage ratio ⁽¹⁰⁾	270.71	324.77	(54.06)
Allowance to loan ratio ⁽¹¹⁾	2.62	2.44	0.18

Capital adequacy ratio (%)			
Core tier 1 capital adequacy ratio ⁽¹²⁾	9.00	8.60	0.40
Tier 1 capital adequacy ratio ⁽¹³⁾	10.07	9.67	0.40
Capital adequacy ratio ⁽¹⁴⁾	12.90	12.51	0.39
Risk-weighted assets to total assets ratio ⁽¹⁵⁾	47.87	49.27	(1.40)
Total equity to total assets ratio	4.86	4.79	0.07

Financial Highlights

- (1) On annualized basis.
- (2) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (3) Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CSRC without deducting non-recurring gains and losses.
- (4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (6) Calculated by dividing total operating expenses (excluding taxes and surcharges) by operating income.
- (7) Calculated by dividing net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.
- (8) There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.
- (9) Calculated by dividing total non-performing loans by the total loans to customers.
- (10) Calculated by dividing total allowance for impairment losses on loans by total non-performing loans.
- (11) Calculated by dividing total allowance for impairment losses on loans by total loans to customers.
- (12) Calculated by dividing core tier 1 capital, net of core tier 1 capital deductions, by risk-weighted assets.
- (13) Calculated by dividing tier 1 capital, net of tier 1 capital deductions, by risk-weighted assets.
- (14) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
- (15) Calculated by dividing risk-weighted assets by total assets.

Other Main Indicators

Item	Regulatory Criteria	June 30, 2018	December 31, 2017
Liquidity ratio (%) ⁽¹⁾	≥25	52.08	42.10
Percentage of loans to the largest single customer (%) ⁽²⁾	≤10	33.96	35.04

Item		June 30, 2018	December 31, 2017
Loan migration ratio (%)	Normal	0.79	1.61
	Special mention	44.10	21.39
	Substandard	65.34	92.74
	Doubtful	66.83	88.95

Item		June 30, 2018	December 31, 2017
Credit rating	Standard & Poor's Rating Services	A (stable)	A (stable)
	Moody's Investors Service	A1 (stable)	A2 (positive)
	Fitch Ratings	A+ (stable)	A+ (stable)
	CCXI	AAA (stable)	AAA (stable)

- (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) Percentage of loans 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 June 30, 2018, China Railway Corporation was the Bank's largest single borrower. The outstanding loan balance with China Railway Corporation was RMB195,633 million, accounting for 33.96% of the Bank's net capital. The credit the Bank extended to China Railway Corporation includes RMB240.0 billion which the Bank historically provided to it and was approved by the CBIRC. As of June 30, 2018, the outstanding loan balance under such credit approved by the CBIRC for China Railway Corporation was RMB175 billion. After deduction of this RMB175 billion, the Bank's balance of loans to China Railway Corporation represented 3.58% of the Bank's net capital.

Overview of Operations

In the first half of 2018, the Bank thoroughly studied and implemented Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and spirit of the 19th National Congress of the Communist Party of China and fully implemented all policies proposed by the Party Central Committee and the State Council. It remained committed to the underlying principle of making progress while keeping performance stable, actively carried out the new development concept and confidently dealt with the complicated economic and financial situation. Adhering to the principle of serving the real economy and focusing on preventing and mitigating financial risks, the Bank made solid progress in reforms, transformations and development with steady business development as well as stable and improved operating performance.

Continuing to Improve Operating Performance

In the first half of 2018, the Bank, with its careful analysis on the macro economic environment and active response to changes in the financial market, steadily advanced business development and continued to improve operating performance. As of the end of June 2018, the Bank's total assets and total liabilities amounted to RMB9.33 trillion and RMB8.87 trillion respectively, representing an increase of 3.48% and 3.40% compared with the prior year-end. In the first half of 2018, the Bank realized a net profit of RMB32,547 million, a net interest income of RMB111,662 million and a net fee and commission income of RMB7,682 million, representing a year-on-year increase of 22.39%, 27.59% and 9.23% respectively.

Taking Solid and Effective Steps to Serve the Real Economy

In the first half of the year, the Bank actively fulfilled its responsibility as a large state-owned bank, made every effort to implement the national development strategy and effectively leveraged its special strengths to increase its support for the real economy and has achieved good results. As at the end of June, the Bank's loans to customers increased by RMB386,294 million or 10.64% compared with the prior year-end. The Bank deepened the Sannong financial services. Its agriculture-related loans increased by RMB112,803 million or 10.70% compared with the prior year-end. The Bank also effectively satisfied the financing needs of small and micro enterprises. The loans to small and micro enterprises with an aggregate single-customer credit line of RMB10 million and below increased by RMB54,317 million or 11.68% compared with the prior year-end. In addition, the Bank actively practiced the concept of green finance and continued to increase the extension of green credit, which helped to inject vitality into the green economy. As of the end of June, the balance of green credit was RMB197,728 million, representing an increase of 11.94% compared with the prior year-end.

Making Major Progress in Preventing and Controlling Risks

In the first half of the year, following market changes brought by the adjustment of macroeconomic policies, the Bank gave even greater priority to risk prevention and control, continuously strengthening comprehensive risk management and holding fast to the risk bottom line. The Bank sped up the establishment of the long-term mechanism

for case prevention, increased the role of “three lines of defense” in case prevention management, strengthened compliance management and ensured compliance operations. The Bank also actively cooperated with the CBIRC to deepen rectification of irregularities in the banking sector, adhered to the bottom-line thinking, strictly implemented accountability system and promoted the standardized development of various businesses. As of the end of June, the Bank’s balance of non-performing loans was RMB38,917 million and the non-performing loan ratio was 0.97%. The asset quality of the Bank maintained an industrial leading position.

Continuously Deepening System and Mechanism Reform

The Bank actively advanced system and mechanism reform and insisted on promoting development through reform. The Bank further deepened the reform of the Sannong Finance Department, setting up the operation mechanism of the “seven independence + two stronger support” at the head office and establishing the organizational and management structure of Sannong finance at the tier-1 branches. It fully carried out the zero-based budget management reform and smoothly promoted the “benchmarking” of the zero-based budget work. The Bank also established the concept of “paid use of resources and return of value” and actively reformed the mechanism for allocating resources such as credit, capital and expenses, improving the efficiency of resource allocation.

Discussion and Analysis

Environment and Prospect

The global economy as a whole continued to recover in the first half of 2018. US consumption and investment have returned to strength with robust economic recovery; the Eurozone economic recovery has slowed down but the employment situation has continued to improve; the Japanese economy has continued to recover moderately and the expansion of the manufacture sector has weakened; emerging market economies have been characterized by a continuation of overall rapid growth and internal differentiation, while some economies still face adjustment and transformation pressure. Looking forward into the second half of 2018, the downside risks to the global economy will grow due to factors such as macroeconomic policies of some developed economies, geopolitical conflicts, increased uncertainty of trade frictions and financial market volatility. In the World Economic Outlook released in July 2018, the International Monetary Fund (IMF) predicted that the global economy will grow by 3.9% in 2018, which is in line with the forecast in April, but it had revised downwards the economic growth projection in 2018 for Eurozone, Japan and some other economies.

In the first half of 2018, China's economy continued its stable development with good momentum for growth. The structural adjustments were further advanced, old growth drivers were replaced with new ones and the quality and efficiency of development improved steadily. Gross domestic product (GDP) increased by 6.8% year-on-year and the growth rate has been kept within a medium and high-speed range of 6.7% to 6.9% for 12 consecutive quarters; the tertiary industry contributed 54.3% to China's GDP, meanwhile, the added value of high-tech industry, equipment manufacturing industry and emerging industries of strategic importance increased by 11.6%, 9.2% and 8.7% year-on-year respectively, which were 4.9, 2.5 and 2.0 percentage points faster than the growth rate of industries above the designated size; the contribution of consumption to economic growth reached 78.5%, 14.2 percentage points higher than the same period last year. The stable and neutral monetary policy has achieved good results, with the liquidity in the banking system being reasonable and sufficient while the market interest rate being kept basically stable. Structural de-leveraging has advanced steadily and rectification of irregularities in the banking market has been further deepened. The momentum of the financial sector to go back to serve the real economy continued to be consolidated and the quality and effectiveness of serving the real economy were further improved. Major potential risks were effectively managed and controlled, and compliance awareness in the banking sector was gradually enhanced.

In the second half of 2018, in the face of new problems and new challenges arising from economic development, China will focus on strengthening areas of weakness to deepen the supply side structural reform, strengthen efforts in shoring up weak spots in the infrastructure sector, control the strength and pace of de-leveraging, coordinate the timing of the launch of various policies, so as to promote reform and opening up and push the economy to move towards high quality development. The People's Bank of China will continue to implement the prudent monetary policy, properly control the supply of currency, ensure that liquidity is kept at a reasonably adequate level and monetary credit and social financing are guided towards rational growth. China Banking and Insurance Regulatory Commission, following market laws and well controlling its work pace, will steadily rectify the irregularities in the banking industry. The above policy direction will create a more favorable business environment for commercial banks.

Looking forward to the second half of 2018, PSBC will continue to adhere to the general principle of “making progress while maintaining stability”, implement the decisions and plans made by the Party Central Committee and the State Council and push ahead with three major tasks of “serving the real economy, deepening reform and preventing risks” in financial sector, continue to deepen reforms and promote business transformation.

First, we will continuously improve our ability in serving the real economy. We will improve financial services for the weak links of the national economy including Sannong as well as small and micro business, enhance financial support to poverty reduction, vigorously develop inclusive finance and push ahead with green finance. We will focus on supporting major national strategies such as the coordinated development of Beijing-Tianjin-Hebei region and the development of the Yangtze River Economic Belt, enhancing the efficiency and quality of the Bank in serving the real economy. Second, we will keep pushing ahead with business transformation. We will transform retail business by enabling FinTech to play a greater role, strengthen corporate business and transform the operations and management of treasury business at a faster pace. Third, we will drive forward digital transformation. We will broaden the application of science and technology, step up the building of information technology system, focus on improving the ability of independent research and development and effectively improve automated operations and maintenance. Fourth, we will effectively prevent and control risks. Centering on the objectives of “ensuring compliance, holding the risk bottom line and controlling risks”, we will take solid steps to further rectify irregularities and mitigate and reduce risks in key areas.

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

During the first half of 2018, the Bank stuck to the strategic positioning of a large retail commercial bank, deepened the reform and strictly controlled risks with sound overall development. During the first half of the year, the profit recorded a steady increase with net profit achieving RMB32,547 million, representing a year-on-year increase of RMB5,955 million or 22.39%; the operating income reached RMB132,408 million, representing a year-on-year increase of RMB26,435 million or 24.95%; and the return on weighted average net assets was 16.32%, representing a year-on-year increase of 1.41 percentage points.

Discussion and Analysis

Changes of Principal Components in the Comprehensive Income Statement

In millions of RMB, except for percentages

Item	For the six months ended June 30		Increase/ (decrease)	Change (%)
	2018	2017		
Net interest income	111,662	87,514	24,148	27.59
Net fee and commission income	7,682	7,033	649	9.23
Other non-interest income, net	13,064	11,426	1,638	14.34
Operating income	132,408	105,973	26,435	24.95
Less: Operating expenses	74,770	65,544	9,226	14.08
Impairment losses on assets	23,371	10,366	13,005	125.46
Profit before income tax	34,267	30,063	4,204	13.98
Less: Income tax expense	1,720	3,471	(1,751)	(50.45)
Net profit	32,547	26,592	5,955	22.39
Attributable to shareholders of the Bank	32,523	26,600	5,923	22.27
Attributable to non-controlling interests	24	(8)	32	—
Other comprehensive income	2,024	(2,726)	4,750	—
Total comprehensive income	34,571	23,866	10,705	44.85

Net Interest Income

During the reporting period, the Bank's net interest income was RMB111,662 million, representing an increase of RMB24,148 million, or 27.59% compared with the same period of the prior year. The Bank's net interest margin and net interest spread were 2.64% and 2.65%, respectively, representing an increase of 33 basis points and 27 basis points compared with the same period of the prior year. During the reporting period, the Bank constantly optimized its investment portfolio, so the scale of the interest-earning assets realized relatively fast growth and the yield of interest-earning assets improved steadily. Meanwhile, the Bank further implemented refined interest rate management, so the cost of interest-bearing liabilities was effectively controlled.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30					
	Average balance	2018 Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	2017 Interest income/expense	Average yield/cost (%) ⁽¹⁾
Assets						
Loans to customers	3,770,239	94,478	5.05	3,135,159	75,354	4.85
Investment ⁽²⁾	2,652,577	50,997	3.88	2,562,782	46,885	3.69
Deposits with central bank ⁽³⁾	1,262,165	10,140	1.62	1,290,436	10,381	1.62
Amounts due from banks and other financial institutions ⁽⁴⁾	835,317	17,721	4.28	635,730	12,728	4.04
Total interest-earning assets	8,520,298	173,336	4.10	7,624,107	145,348	3.84
Allowance for impairment losses	(102,509)	—	—	(57,037)	—	—
Non-interest earning assets ⁽⁵⁾	764,699	—	—	720,951	—	—
Total assets	9,182,488	—	—	8,288,021	—	—
Liabilities						
Customer deposits	8,284,497	57,537	1.40	7,682,939	53,153	1.40
Amounts due to banks and other financial institutions ⁽⁶⁾	221,278	2,617	2.38	251,291	3,388	2.72
Debt securities issued ⁽⁷⁾	75,837	1,520	4.04	65,939	1,293	3.95
Total interest-bearing liabilities	8,581,612	61,674	1.45	8,000,169	57,834	1.46
Non-interest bearing liabilities ⁽⁸⁾	169,354	—	—	126,148	—	—
Total liabilities	8,750,966	—	—	8,126,317	—	—
Net interest income	—	111,662	—	—	87,514	—
Net interest spread⁽⁹⁾	—	—	2.65	—	—	2.38
Net interest margin⁽¹⁰⁾	—	—	2.64	—	—	2.31

(1) On an annualized basis.

(2) 2018 data consists of interest-earning assets in financial assets at fair value through other comprehensive income and financial assets at amortized cost; 2017 data consists of interest-earning assets in financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

Discussion and Analysis

- (3) Primarily consists of statutory deposit reserves and surplus deposit reserves.
- (4) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.
- (5) Consists primarily of cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payment, deferred tax assets and other assets.
- (6) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.
- (7) Consists of qualified tier 2 capital instruments issued and interbank certificates of deposits.
- (8) Consists of interest payable, settlement and clearance payables, financial liabilities at fair value through profit or loss, dividends payable, anticipated liabilities, employee benefits payable and other liabilities.
- (9) Calculated as per the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (10) Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

In millions of RMB

Item	For the six months ended June 30, 2018 vs 2017		
	Increase/(decrease)		Total ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Loans to customers	15,914	3,210	19,124
Investment	1,726	2,386	4,112
Deposits with central bank	(227)	(14)	(241)
Amounts due from banks and other financial institutions	4,234	759	4,993
Changes in interest income	21,647	6,341	27,988
Liabilities			
Customer deposits	4,178	206	4,384
Amounts due to banks and other financial institutions	(355)	(416)	(771)
Debt securities issued	198	29	227
Changes in interest expense	4,021	(181)	3,840
Changes in net interest income	17,626	6,522	24,148

- (1) Represents the difference between the average balance for the period and the average balance for the previous period, multiplied by the average yield/cost for the period.
- (2) Represents the difference between the average yield/cost for the period and the average yield/cost for the previous period, multiplied by the average balance for the previous period.
- (3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Discussion and Analysis

Interest Income

During the reporting period, the Bank's interest income amounted to RMB173,336 million, representing an increase of RMB27,988 million, or 19.26% compared with the same period of the prior year, primarily due to the increase in the average balance of interest-earning assets such as total loans to customers, bond investments and amounts due from banks and other financial institutions as well as the increase 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 RMB94,478 million, representing an increase of RMB19,124 million, or 25.38% compared with the same period of the prior year.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30					
	2018			2017		
	Average balance	Interest income	Average yield (%) ⁽¹⁾	Average balance	Interest income	Average yield (%) ⁽¹⁾
Corporate loans	1,509,001	33,631	4.49	1,179,503	25,397	4.34
Discounted bills	285,850	6,820	4.81	323,141	5,692	3.55
Personal loans	1,975,388	54,027	5.52	1,632,515	44,265	5.47
Total loans to customers	3,770,239	94,478	5.05	3,135,159	75,354	4.85

(1) On an annualized basis.

During the reporting period, the Bank's interest income from corporate loans amounted to RMB33,631 million, representing an increase of RMB8,234 million, or 32.42% compared with the same period of the prior year. Interest income from personal loans amounted to RMB54,027 million, representing an increase of RMB9,762 million, or 22.05% compared with the same period of the prior year. The Bank kept optimizing asset structure, prioritized the development of credit assets and increased credit support for the real economy. The average balances of both corporate loans and personal loans rose quickly and the yield on loans also increased.

Interest Income from Investment

During the reporting period, the Bank's interest income from investment amounted to RMB50,997 million, representing an increase of RMB4,112 million or 8.77% compared with the same period of the prior year. The Bank implemented the regulatory requirements, grasped market opportunities and optimized investment structure, further reducing the scale of non-standardized business and increasing bond investment. The average balance of investment increased by RMB89,795 million and the average yield of investment increased by 19 basis points.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB10,140 million, representing a decrease of RMB241 million, or 2.32% compared with the same period of the prior year, primarily due to a decrease of RMB28,271 million in the average balance of deposits with central bank caused by two times cuts to the reserve requirement ratio in the first half of the year.

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 RMB17,721 million, representing an increase of RMB4,993 million, or 39.23% compared with the same period of the prior year. The Bank seized market opportunities to carry out the interbank financing business such as deposits and placements with banks, and the average balance of amounts due from banks and other financial institutions increased by RMB199,587 million and the average yield rose by 24 basis points.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB61,674 million, representing an increase of RMB3,840 million, or 6.64% compared with the same period of the prior year, primarily due to an increase of RMB581,443 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 RMB57,537 million, representing an increase of RMB4,384 million, or 8.25% compared with the same period of the prior year, primarily due to an increase in the average balance of customer deposits.

Discussion and Analysis

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	For the six months ended June 30					
	2018			2017		
	Average balance	Interest expense	Average cost (%) ⁽¹⁾	Average balance	Interest expense	Average cost (%) ⁽¹⁾
Corporate deposits	1,215,563	8,778	1.46	1,121,245	6,261	1.13
Personal deposits	7,068,934	48,759	1.39	6,561,694	46,892	1.44
Total customer deposits	8,284,497	57,537	1.40	7,682,939	53,153	1.40

(1) On an annualized basis.

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 RMB2.617 billion, representing a decrease of RMB771 million, or 22.76% compared with the same period of the prior year. This was primarily due to a further decrease in the average balance of amounts due to banks and other financial institutions as the Bank optimized the liability structure as well as a drop in the average cost as the market yield decreased.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued amounted to RMB1,520 million, representing an increase of RMB227 million, or 17.56% compared with the same period of the prior year, primarily due to the increase in the average balance with the Bank's issuance of tier 2 capital bonds.

Net Fee and Commission Income

During the reporting period, the Bank realized net fee and commission income of RMB7,682 million, representing an increase of RMB649 million, or 9.23% compared with the same period of the prior year. In particular, fee and commission income increased by RMB3,348 million or 28.94% while the fee and commission expense increased by RMB2,699 million or 59.51%.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	For the six months ended June 30		Increase/ (decrease)	Change (%)
	2018	2017		
Bank cards and POS	6,518	4,045	2,473	61.14
Settlement and clearing	2,648	1,447	1,201	83.00
Wealth management	2,601	2,746	(145)	(5.28)
Agency service	2,420	2,673	(253)	(9.47)
Custodian business	407	479	(72)	(15.03)
Others	322	178	144	80.90
Fee and commission income	14,916	11,568	3,348	28.94
Less: Fee and commission expense	7,234	4,535	2,699	59.51
Net fee and commission income	7,682	7,033	649	9.23

During the reporting period, bank cards and POS fee income of the Bank amounted to RMB6,518 million, representing an increase of RMB2,473 million, or 61.14% compared with the same period of the prior year. This was primarily attributable to the Bank constantly diversifying products and tapping customers' potential, which contributed to the rapid development of bank card business.

During the reporting period, settlement and clearing fee income of the Bank amounted to RMB2,648 million, representing an increase of RMB1,201 million, or 83.00% compared with the same period of the prior year, primarily due to the rapid growth of the Bank's electronic payment business.

During the reporting period, agency service fee income of the Bank amounted to RMB2,420 million, representing a decrease of RMB253 million, or 9.47% compared with the same period of the prior year, primarily due to a decrease in the bancassurance income under the influence of regulatory policies.

During the reporting period, wealth management income of the Bank amounted to RMB2,601 million, representing a decrease of RMB145 million, or 5.28% compared with the same period of the prior year; custodian business income amounted to RMB407 million, representing a decrease of RMB72 million, or 15.03% compared with the same period of the prior year. This was primarily due to the decline in the fee income from wealth management and custody business under the influence of the new asset management rules.

During the reporting period, fee and commission expense of the Bank amounted to RMB7,234 million, representing an increase of RMB2,699 million, or 59.51% compared with the same period of the prior year, primarily due to the increase in the agency fees to China Post Group.

Discussion and Analysis

Net Other Non-Interest Income

During the reporting period, the Bank realized net other non-interest income of RMB13,064 million, representing an increase of RMB1,638 million, or 14.34% compared with the same period of the prior year.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	For the six months ended June 30		Increase/ (decrease)	Change (%)
	2018	2017		
Net trading gains	2,805	1,679	1,126	67.06
Net gains on investment securities	8,772	9,835	(1,063)	(10.81)
Net losses on derecognition of financial assets at amortized cost	(1)	N/A	(1)	N/A
Net other operating gains/(losses)	1,488	(88)	1,576	—
Total	13,064	11,426	1,638	14.34

During the reporting period, net trading gains of the Bank amounted to RMB2,805 million, representing an increase of RMB1,126 million compared with the same period of the prior year, primarily due to an increase in the trading gains and valuation gains of bonds and interbank certificates of deposits.

During the reporting period, net gains on investment securities of the Bank amounted to RMB8,772 million, representing a decrease of RMB1,063 million compared with the same period of the prior year, primarily due to a decrease in the scale of interbank investment business.

During the reporting period, net other operating gains of the Bank amounted to RMB1,488 million, representing an increase of RMB1,576 million compared with the same period of the prior year, primarily due to an increase in the exchange gains.

Operating Expenses

The Bank continuously strengthened cost control by improving the cost management system, implementing the overall plan targeting difficulties in cost management and optimizing the cost structure. During the reporting period, the cost-to-income ratio was 55.80%, representing a decrease of 5.30 percentage points compared with the same period of the prior year.

During the reporting period, the Bank's operating expenses totaled RMB74,770 million, representing an increase of RMB9,226 million, or 14.08% compared with the same period of the prior year. In particular, deposit agency fee costs and others increased by 7.64%, primarily due to the rapid growth in the balance of customer deposits absorbed through the agency outlets; staff costs was RMB22,254 million, representing an increase of RMB3,031 million, or 15.77% compared with the same period of the prior year, primarily due to the improvement in the Bank's performance and the increase in the base pay of social insurance and housing provident fund; other expenses increased by RMB3,488 million, or 971.59% compared with the same period of the prior year, primarily due to the Bank's prudent provision of liabilities considering defaults and risk events.

Major Components of Operating Expenses

In millions of RMB, except for percentages

Item	For the six months ended June 30		Increase/ (decrease)	Change (%)
	2018	2017		
Deposit agency fee costs and others	36,153	33,587	2,566	7.64
Staff costs	22,254	19,223	3,031	15.77
General operating and other administrative expenses	9,407	9,244	163	1.76
Depreciation and amortization	2,223	2,334	(111)	(4.76)
Taxes and surcharges	886	797	89	11.17
Others	3,847	359	3,488	971.59
Total operating expenses	74,770	65,544	9,226	14.08
Cost-to-income ratio (%)⁽¹⁾	55.80	61.10	(5.30)	—

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

Impairment Losses on Assets

During the reporting period, the Bank's impairment losses on assets amounted to RMB23,371 million, representing an increase of RMB13,005 million compared with the same period of the prior year, which was mainly because the Bank strengthened risk management in key areas on the basis of its consistently prudent credit risk management policy, and because the Bank became more proactive and forward-looking in the measurement of impairment allowances due to the implementation of International Financial Reporting Standard 9: Financial Instruments (IFRS 9).

Discussion and Analysis

Income Tax Expenses

During the reporting period, the income tax expenses of the Bank amounted to RMB1,720 million, representing a decrease of RMB1,751 million compared with the same period of the prior year. The effective tax rate was 5.02%. This was mainly affected by the income tax reduction and exemption for the interest income from government bonds, local government bonds, railway bonds, long-term special financial bonds, micro loans to farmers, etc., as well as the dividends of securities investment funds.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	79,985	60.41	72,855	68.75
Corporate banking	26,321	19.88	19,354	18.26
Treasury business	25,920	19.58	13,230	12.48
Others	182	0.13	534	0.51
Total operating income	132,408	100.00	105,973	100.00

For further details of business scope of each segment, please refer to “Notes to the Condensed Consolidated Financial Statements — 40.1 Business segment”.

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	For the six months ended June 30			
	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	27,238	20.57	14,346	13.54
Yangtze River Delta	15,646	11.82	13,449	12.69
Pearl River Delta	12,817	9.68	10,443	9.85
Bohai Rim	15,881	11.99	13,520	12.76
Central China	30,031	22.68	26,278	24.80
Western China	22,702	17.15	20,283	19.14
Northeastern China	8,093	6.11	7,654	7.22
Total operating income	132,408	100.00	105,973	100.00

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Bank's total assets amounted to RMB9,326,163 million, representing an increase of RMB313,612 million, or 3.48% compared with the prior year-end. Specifically, net loans to customers increased by RMB369,869 million, or 10.44% compared with the prior year-end; net financial instruments decreased by RMB17,080 million, or 0.54% compared with the prior year-end; cash and deposits with central bank decreased by RMB146,241 million, or 10.36% compared with the prior year-end; deposits and placements with banks and other financial institutions increased by RMB95,804 million, or 12.69% compared with the prior year-end.

In terms of the asset structure, the Bank kept optimizing the allocation of assets according to the changes in market environment and regulatory policies. Net loans to customers accounted for 41.94% of total assets, representing an increase of 2.64 percentage points compared with the prior year-end; financial instruments accounted for 33.78% of total assets, representing a decrease of 1.36 percentage points compared with the prior year-end; cash and deposits with central bank accounted for 13.57% of total assets; deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements accounted for 9.12% of total assets.

Discussion and Analysis

Principal Components of Assets

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	4,016,429	—	3,630,135	—
Less: Allowance for impairment losses	104,989	—	88,564	—
Loans to customers, net	3,911,440	41.94	3,541,571	39.30
Financial instruments	3,149,953	33.78	3,167,033	35.14
Cash and deposits with central bank	1,265,721	13.57	1,411,962	15.67
Deposits with banks and other financial institutions	266,361	2.86	296,758	3.29
Placements with banks and other financial institutions	290,552	3.11	315,999	3.51
Financial assets held under resale agreements	293,622	3.15	141,974	1.57
Other assets ⁽¹⁾	148,514	1.59	137,254	1.52
Total assets	9,326,163	100.00	9,012,551	100.00

- (1) Other assets primarily consist of property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred tax assets and other assets.

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB4,016,429 million, representing an increase of RMB386,294 million, or 10.64% compared with the prior year-end.

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,568,359	39.05	1,391,901	38.34
Discounted bills	292,429	7.28	291,761	8.04
Personal loans	2,155,641	53.67	1,946,473	53.62
Total loans to customers	4,016,429	100.00	3,630,135	100.00

As of the end of the reporting period, total corporate loans were RMB1,568,359 million, representing an increase of RMB176,458 million, or 12.68% compared with the prior year-end. The Bank took the initiative to adjust the industrial structure of loans, actively supported high-end manufacturers and emerging technology enterprises with financing demands. Loans extended to transportation, electricity, investment and asset management kept a rapid growth.

As of the end of the reporting period, the Bank's total discounted bills amounted to RMB292,429 million, representing an increase of RMB668 million, or 0.23% compared with the prior year-end. The Bank controlled the development pace of the discounted bills business at a reasonable level, constantly adjusted the credit asset structure and the direction of lending and balanced the extension of credit.

As of the end of the reporting period, the Bank's total personal loans amounted to RMB2,155,641 million, representing an increase of RMB209,168 million, or 10.75% compared with the prior year-end. The Bank deeply explored the personalized and diversified consumption needs of residents, and supported their reasonable demand for self-occupied housing. Moreover, the Bank resolutely implemented the work plan of the CPC Central Committee and the State Council on the rural revitalization strategy, increasing fund support for personal business loans and microloans.

Discussion and Analysis

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	413,465	26.37	382,006	27.45
Manufacturing	258,984	16.51	223,037	16.02
Production and supply of electricity, heating, gas and water	216,633	13.81	188,518	13.54
Financial services	151,047	9.63	169,855	12.20
Wholesale and retail	97,941	6.25	79,602	5.72
Construction	79,532	5.07	60,851	4.37
Mining	59,598	3.80	48,403	3.48
Real estate	60,999	3.89	45,788	3.29
Water conservancy, environmental and public facilities management	82,679	5.27	82,676	5.94
Leasing and commercial services	87,243	5.56	58,426	4.20
Others ⁽¹⁾	60,238	3.84	52,739	3.79
Total	1,568,359	100.00	1,391,901	100.00

(1) Others consist of agriculture and fishery, information transmission, computer services and software, 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 wholesale and retail. The balance of loans extended to the top five industries accounted for 72.57% of total corporate loans, representing a decrease of 2.58 percentage points compared with the prior year-end.

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	1,287,762	59.74	1,155,176	59.35
Other consumer loans	273,984	12.71	256,185	13.16
Personal business loans	330,273	15.32	300,990	15.46
Personal micro loans	177,745	8.25	156,427	8.04
Credit card overdrafts and others	85,877	3.98	77,695	3.99
Personal loans and advances	2,155,641	100.00	1,946,473	100.00

As of the end of the reporting period, the Bank's personal loans increased by RMB209,168 million, or 10.75% compared with the prior year-end.

The Bank strengthened the research and analysis of the real estate market and continuously implemented the differentiated housing credit policy to support residents' reasonable demand for self-occupied housing. As of the end of the reporting period, the balance of the Bank's residential mortgage loans was RMB1,287,762 million, representing an increase of RMB132,586 million or 11.48% compared with the prior year-end.

The Bank further explored the diversified consumption needs of residents and accelerated the layout of the consumer finance ecosystem. As of the end of the reporting period, the balance of the Bank's other consumer loans was RMB273,984 million, representing an increase of RMB17,799 million or 6.95% compared with the prior year-end.

To implement the work plan of the country's rural revitalization strategy, the Bank supported targeted poverty alleviation via financial services and sped up the innovation of Sannong financial products. As of the end of the reporting period, the balance of the Bank's personal business loans was RMB330,273 million, representing an increase of RMB29,283 million, or 9.73% compared with the prior year-end; the balance of the Bank's personal micro loans was RMB177,745 million, representing an increase of RMB21,318 million, or 13.63% compared with the prior year-end.

Discussion and Analysis

Distribution of Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	264,482	6.59	256,498	7.07
Yangtze River Delta	720,595	17.94	651,145	17.94
Pearl River Delta	457,042	11.38	400,766	11.04
Bohai Rim	625,696	15.58	559,898	15.42
Central China	947,648	23.59	838,929	23.10
Western China	725,089	18.05	662,034	18.24
Northeastern China	275,877	6.87	260,865	7.19
Total loans to customers	4,016,429	100.00	3,630,135	100.00

Financial Instruments

Financial instruments are one of the major components of the Bank's assets. In the first half of the year, in accordance with its annual investment strategy and risk policy requirements, the Bank actively responded to the regulatory and market changes, reasonably controlled the pace of investment and constantly optimized the investment portfolio. As of the end of the reporting period, the financial instruments amounted to RMB3,149,953 million, representing a decrease of RMB17,080 million or 0.54% compared with the prior year-end. In particular, the debt instruments increased by RMB211,919 million, or 7.77% compared with the prior year-end; the equity instruments decreased by RMB228,999 million, or 52.11% compared with the prior year-end.

Composition of Investments by Instrument Type

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	2,939,482	93.32	2,727,563	86.12
Equity instruments	210,471	6.68	439,470	13.88
Total	3,149,953	100.00	3,167,033	100.00

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	2,590,405	82.24	2,318,119	73.20
Government bonds	732,107	23.24	642,826	20.30
Debt securities issued by public institutions and quasi-government bonds	3,273	0.10	1,270	0.04
Debt securities issued by financial institutions	1,764,861	56.03	1,606,927	50.74
Corporate debt securities	90,164	2.86	67,096	2.12
Interbank certificates of deposits	109,180	3.47	85,263	2.69
Commercial bank wealth management products	76,810	2.44	292,545	9.24
Asset management plans	143,687	4.56	164,845	5.21
Trust investment plans	132,407	4.20	156,539	4.94
Security investment funds	81,584	2.59	105,903	3.34
Others	15,880	0.50	43,819	1.38
Total	3,149,953	100.00	3,167,033	100.00

Discussion and Analysis

During the reporting period, the Bank further optimized the investment structure. The scale of non-standardized business such as commercial bank wealth management products continued to decline while the bond investments saw steady development.

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	—	—	—	—
Within 3 months	37,533	1.45	81,357	3.51
3–12 months	120,624	4.66	109,839	4.74
1–5 years	1,458,084	56.29	1,157,497	49.93
More than 5 years	974,164	37.60	969,426	41.82
Total	2,590,405	100.00	2,318,119	100.00

As of the end of the reporting period, the balance of the Bank's investment in debt securities due within 3 months decreased by RMB43,824 million compared with the prior year-end; and the balance of the Bank's investment in debt securities due within 1 to 5 years increased by RMB300,587 million compared with the prior year-end. This was primarily because the Bank adjusted the term structure of its investment in debt securities and moderately extended duration.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	2,570,440	99.23	2,302,166	99.31
Foreign currencies	19,965	0.77	15,953	0.69
Total	2,590,405	100.00	2,318,119	100.00

Distribution of Financial Instruments by Measurement Approach

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	346,347	11.00	119,992	3.79
Financial assets at fair value through other comprehensive income	175,544	5.57	N/A	N/A
Financial assets at amortized cost	2,628,062	83.43	N/A	N/A
Available-for-sale financial assets	N/A	N/A	686,748	21.68
Held-to-maturity investments	N/A	N/A	935,735	29.55
Investment classified as receivables	N/A	N/A	1,424,558	44.98
Total	3,149,953	100.00	3,167,033	100.00

In accordance with the requirements in IFRS 9, financial instruments shall be classified into three categories, namely financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost based on business model and contractual cash flow.

As of the end of the reporting period, the Bank's financial assets at fair value through profit or loss amounted to RMB346,347 million, accounting for 11.00% of the financial instruments; the financial assets at fair value through other comprehensive income amounted to RMB175,544 million, accounting for 5.57% of the financial instruments; and the financial assets at amortized cost amounted to RMB2,628,062 million, accounting for 83.43% of the financial instruments.

Discussion and Analysis

Liabilities

As of the end of the reporting period, the Bank's total liabilities amounted to RMB8,872,665 million, representing an increase of RMB291,471 million, or 3.40% compared with the prior year-end. Specifically, customer deposits increased by RMB270,171 million, or 3.35% compared with the prior year-end; deposits and placements from banks and other financial institutions increased by RMB37,411 million, or 15.77% compared with the prior year-end.

Principal Components of Liabilities

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	8,332,830	93.92	8,062,659	93.96
Deposits from banks and other financial institutions	59,244	0.67	48,454	0.56
Placements from banks and other financial institutions	38,682	0.44	73,617	0.86
Financial assets sold under repurchase agreements	176,699	1.99	115,143	1.34
Debt securities issued	76,182	0.86	74,932	0.87
Other liabilities ⁽¹⁾	189,028	2.12	206,389	2.41
Total liabilities	8,872,665	100.00	8,581,194	100.00

- (1) Consists of interest payable, settlement and clearance payables, financial liabilities at fair value through profit or loss, dividends payable, anticipated liabilities, employee benefits payable and other liabilities.

Customer Deposits

As of the end of the reporting period, the Bank's total customer deposits was RMB8,332,830 million, representing an increase of RMB270,171 million, or 3.35% compared with the prior year-end.

Distribution of Customer Deposits by Products and Customers

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,222,199	14.67	1,199,781	14.88
Time	383,155	4.60	394,165	4.89
Demand	839,044	10.07	805,616	9.99
Personal deposits	7,109,252	85.32	6,861,404	85.10
Time	4,639,622	55.68	4,337,973	53.80
Demand	2,469,630	29.64	2,523,431	31.30
Other deposits ⁽¹⁾	1,379	0.01	1,474	0.02
Total	8,332,830	100.00	8,062,659	100.00

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

During the reporting period, the Bank's core liabilities grew steadily. In terms of customer structure, personal deposits increased by RMB247,848 million, or 3.61% compared with the prior year-end; and corporate deposits increased by RMB22,418 million, or 1.87% compared with the prior year-end.

Discussion and Analysis

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	909	0.01	971	0.01
Yangtze River Delta	1,198,286	14.38	1,182,603	14.67
Pearl River Delta	798,918	9.59	778,234	9.65
Bohai Rim	1,251,386	15.02	1,238,415	15.36
Central China	2,637,943	31.65	2,495,542	30.96
Western China	1,820,409	21.85	1,744,067	21.63
Northeastern China	624,979	7.50	622,827	7.72
Total customer deposits	8,332,830	100.00	8,062,659	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	3,352,403	40.23	3,374,194	41.85
Within 3 months	987,148	11.85	1,879,913	23.31
3–12 months	3,319,240	39.83	2,208,916	27.40
1–5 years	674,039	8.09	599,636	7.44
More than 5 years	—	—	—	—
Total	8,332,830	100.00	8,062,659	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's total shareholders' equity was RMB453,498 million, representing an increase of RMB22,141 million, or 5.13% compared with the prior year-end, primarily as a result of the increase in net profit and other comprehensive income during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	81,031	17.87	81,031	18.79
Other equity instruments	47,846	10.55	47,846	11.09
Capital reserve	74,648	16.46	74,659	17.31
Other reserve	127,808	28.18	121,126	28.08
Retained earnings	121,305	26.75	106,311	24.65
Equity attributable to shareholders of the Bank	452,638	99.81	430,973	99.91
Non-controlling interests	860	0.19	384	0.09
Total shareholders' equity	453,498	100.00	431,357	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 details of nominal amount and fair value of derivative financial instruments, please refer to "Notes to the Condensed Consolidated Financial Statements — 15 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 Condensed Consolidated Financial Statements — 38 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

Components of Off-Balance Sheet Commitments

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	388,590	62.08	429,839	66.74
Bank acceptances	25,748	4.11	32,933	5.11
Guarantees and letters of guarantee	18,415	2.94	18,593	2.89
Letters of credit	15,589	2.49	12,224	1.90
Unused credit card commitments	177,644	28.38	150,409	23.36
Total	625,986	100.00	643,998	100.00

Analysis of Cash Flow Statement

The Bank's net cash inflow from operating activities amounted to RMB79,590 million, representing an increase of RMB450,014 million compared with the same period of the prior year. This was primarily due to an increase in cash flow caused by a decrease in deposits with central bank and financial assets at fair value through profit or loss as well as an increase in deposits from banks and other financial institutions.

Net cash outflow from investing activities amounted to RMB13,121 million. In particular, cash inflow amounted to RMB554,433 million, representing a decrease of RMB252,395 million compared with the same period of the prior year, primarily due to a decrease in cash received from disposal of financial investments; cash outflow amounted to RMB567,554 million, representing an increase of RMB107,440 million compared with the same period of the prior year, primarily due to the increase in cash paid for financial investments.

Net cash inflow from financing activities amounted to RMB827 million. In particular, cash inflow amounted to RMB6,237 million, representing a decrease of RMB13,745 million compared with the same period of the prior year, primarily due to a decrease in proceeds raised from the issuance of debt securities; cash outflow amounted to RMB5,410 million, representing an increase of RMB5,407 million compared with the same period of the prior year, primarily due to the repayment of issued debt securities during the current period.

Other Financial Information

Explanation of Changes in Accounting Policies

For details of changes in accounting policies during the reporting period, please refer to "Notes to the Condensed Consolidated Financial Statements — 2 Basis of preparation and significant accounting policies".

Business Overview

Personal Banking Business

In the first half of 2018, adhering to its strategic positioning as a large retail commercial bank, the Bank leveraged its advantages in resources and contributed to economic transformation and upgrading. Capturing opportunities from rural revitalization, growth in personal income and consumption upgrading, the Bank prioritized tapping the potential of existing customers and increasing the value of outlets and further improved products and services, fostering the sustainable development of personal financial business. With the construction of credit factories and integrated marketing system, the Bank created an intensive and efficient operation and marketing system. As of the end of the reporting period, the Bank had 565 million retail customers, including 27,614,300 VIP customers.

Personal Loans

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

As of the end of the reporting period, the balance of the Bank's personal loans reached RMB2.16 trillion, representing an increase of RMB209,168 million, or 10.75% compared with the prior year-end. The Bank served the reasonable consumption needs of residents required by the relevant government plan to "leverage the fundamental role of consumption in promoting economic growth". The balance of consumer loans was RMB1.56 trillion, accounting for 72.45% of the total personal loans. In respect of residential mortgage loans, the Bank strengthened the market monitoring and analysis as well as risk assessment and implemented differentiated housing credit policies. The balance of residential mortgage loans amounted to RMB1.29 trillion, or 82.46% of total consumer loans, of which more than 90% was extended to first-time buyers in supporting residents' reasonable demand for self-occupied housing. In respect of other consumer loans, the Bank analyzed in depth the individualized and diversified demand of consumers with the better use of internal and external big data and improved the new model of "Internet finance + consumption" via the integration of "online + offline" distribution channels, accelerating the establishment of the consumer finance ecosystem. The balance of other consumer loans amounted to RMB273,984 million, accounting for 17.54% of total consumer loans.

The balance of personal business loans was RMB330,273 million, accounting for 15.32% of the total personal loans. The balance of personal micro loans was RMB177,745 million, accounting for 8.25% of the total personal loans. The Bank also worked actively to respond to opportunities and challenges arising from consumption upgrading and credit card business development. The balance of credit card overdraft loans was RMB85,877 million, accounting for 3.98% of the total personal loans.

Discussion and Analysis

Personal Deposits

During the reporting period, the Bank organized cross-year marketing activities, actively worked on the maintenance of migrant worker customers during the Spring Festival and stepped up the development of payroll customers via integrated marketing. It drove deposit growth with key projects such as ETC, development of business districts as well as summer grain purchase. It accelerated the research and development of new deposit products, like promoting the favorable interest-bearing products based on market competition conditions and introducing progressive interest-bearing products to maintain its competitiveness in deposit market. It also accelerated the transformation of bank outlets, strengthening the role of outlets in absorbing deposits. As of the end of the reporting period, the balance of the Bank's personal deposits was RMB7.11 trillion, representing an increase of RMB247,848 million or 3.61% compared with the prior year-end.

Bank Card Business

Debit Card

During the reporting period, the Bank launched the second generation of Serviceman Support Card and further promoted the issuance of IC debit card with domestic chips. The Bank also actively carried out marketing activities to encourage debit card consumption, continuously increasing the scale and activeness of debit card consumption transactions. During the reporting period, the number of newly-issued debit cards reached 28,985,900 and the number of debit cards in circulation stood at 945 million; the spending amount of debit cards was RMB2.98 trillion, representing a year-on-year increase of 60.65%.

Credit Card

During the reporting period, the Bank drove forward the rapid development of credit card business by constantly improving the credit card product system, diversifying customer acquisition channels and optimizing business processes. The Bank has customized a variety of new products, including the Dog Year Card, Youth Card, and Tencent Sports Co-branded Card, and developed new card benefits for different customer bases. It continued to explore the potential of customers and carried out cross-selling across different business lines, which contributed to the growth of card issuance. Focusing on customers' demands and interest, the Bank innovated its way of marketing and carried out various marketing activities such as the "10th Anniversary of Credit Card Business of PSBC" and "Youth Card Video Clip Challenge". In addition, the Bank further integrated online and offline channels and optimized online channels to expand the scale of installment business and increase its contribution to operating income. During the reporting period, the number of newly-issued credit cards reached 4,031,200, representing a year-on-year increase of 20.64%; the number of credit cards in circulation was 20,302,900 and the spending amount of credit cards amounted to RMB354,309 million, representing a year-on-year increase of 40.77%.

Personal Settlement Business

The Bank provides collection and payment agency services and various settlement services for retail customers. The collection and payment agency services primarily include payments of payrolls, benefits and allowances, as well as collection of utility bill payments and pensions. As a principal approach for maintaining customer relationships, collection and payment agency services brought the Bank a large number of customers and huge flow of funds. During the reporting period, the volume of the Bank's collection services was RMB425,552 million, representing a year-on-year increase of 15.63%, and the volume of payment services was RMB1.96 trillion, representing a year-on-year increase of 39.64%. In particular, the Bank provided collection agency services for pension transactions of RMB22,002 million and payment agency services for pension transactions of RMB407,238 million. The Bank also provided various international settlement services such as cross-border wire transfer, Western Union remittance and MoneyGram remittance for retail customers. During the reporting period, the number of personal international remittance transactions was 1,230,100 with a transaction amount of USD1,664 million.

Personal Investment and Wealth Management Services

Personal Wealth Management

During the reporting period, in accordance with the new regulation on asset management business, the Bank actively transformed wealth management products by increasing the issuance and sales of net value products. It also improved the management and training of sales personnel to enhance sales capabilities and ensure compliance. Moreover, the Bank made efforts to optimize wealth management functions on e-channels for improvement of customer experience. As of the end of the reporting period, the balance of wealth management products to retail customers was RMB758,786 million.

Bancassurance

During the reporting period, the Bank actively promoted the transformation and development of the bancassurance business by vigorously expanding its online and mobile banking sales channels and focusing on the development of regular-premium and guarantee-type products. As of the end of the reporting period, the Bank had entered into insurance business-related agreements with 61 insurance companies with products covering life, property, health and accident insurance. During the reporting period, the total written premiums of new policies of the Bank's bancassurance business were RMB278,304 million, ranking top in terms of market share in the banking industry. In particular, the volume of regular-premium insurance was RMB32,035 million, representing a year-on-year increase of 24.66%.

Distribution of Fund Products

The Bank has cooperated with renowned fund companies for successful initial issuance of custody fund and continuous sales of funds with good performance. It also offered favorable terms for automatic investment and fund subscription and sold fund products as an agent through multiple channels such as outlets as well as online and mobile banking. The fund distribution volume of the Bank has maintained a rapid growth. During the reporting period, the total volume of fund products distributed by the Bank was RMB68,261 million, representing a year-on-year increase of 127.19%.

Discussion and Analysis

Distribution of PRC Government Bonds

The Bank distributes PRC government savings bonds (certificate and electronic). During the reporting period, the Bank distributed 4 tranches of PRC government savings bonds (certificate) with total sales of RMB4,920 million and 4 tranches of PRC government savings bonds (electronic) with total sales of RMB9,493 million.

Distribution of Customer Asset Management Plans of Securities Companies

The Bank accelerated the introduction of high quality asset management plan products and acted as an agent for sales through outlets, online banking and mobile banking channels to meet the diverse investment and wealth management needs of customers. During the reporting period, the asset management plans distributed by the Bank was RMB13,422 million, representing a year-on-year increase of 23.49%.

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 specialized third-party institutions. The Bank also sells its own branded precious metals product “PSBC Gold Coin & Bar” and offers the automatic investment plans for gold. During the reporting period, the transaction volume of the Bank’s precious metals business was RMB10,137 million, among which the physical gold transactions amounted to RMB1,001 million, up 48.74% year-on-year with the help of marketing activities during the peak season. In terms of the automatic investment plans for gold, the total number of customers increased 247,700 in the first half of the year to 569,700.

Corporate Banking

The Bank provides diversified financial products and services for its corporate banking customers, mainly including corporate loans, corporate deposits as well as fee- and commission-based products and services such as settlement, cash management, investment banking and custody. During the reporting period, actively implementing the national strategies and adhering to the concept of serving the real economy, the Bank strengthened product innovation and customer expansion to transform corporate business and improve its ability in providing comprehensive financial service. As of the end of the reporting period, the Bank had 639,900 corporate customers (including foreign currency deposit accounts), representing an increase of 3,340 compared with the prior year-end.

Corporate Loans

The Bank provides corporate customers with credit products such as working capital loans, fixed asset loans and syndicated loans in support of high-end manufacturers and emerging technology companies with financing needs as well as infrastructure construction of the country. Under the guidance of the Bank's unified credit granting policy, the corporate loan business has developed steadily with rapid growth in areas of traditional advantages such as transportation, electricity and urban infrastructure construction. As of the end of the reporting period, the balance of the Bank's corporate loans was RMB1.57 trillion, representing an increase of RMB176,458 million, or 12.68% compared with the prior year-end, ranking among the top in China's banking industry in terms of the growth rate.

Corporate Deposits

The Bank provides time and demand deposits to corporate customers in Renminbi and other major foreign currencies. During the reporting period, the Bank actively cooperated with relevant authorities in terms of national treasury collection and payment reform, such as electronic collection and payment as well as self-service counters, which helped to improve the efficiency and security of treasury funds payment and consolidate its cooperative relationship with the government. Leveraging on its broad network, the Bank managed to retain funds with settlement products and channels such as cash management, e-banking and the connection between the Bank's e-banking and the company's financial system. It also accelerated product research, development and sales with a focus on promoting certificates of deposit, continued to build a stronger customer base and further improved services, achieving a steady growth in corporate deposits. As of the end of the reporting period, the balance of the Bank's corporate deposits was RMB1.22 trillion, representing an increase of RMB22,418 million compared with the prior year-end. Specifically, the institutional customer deposits amounted to RMB784,477 million, representing an increase of RMB56,455 million compared with the end of the prior year.

Settlement and Cash Management

During the reporting period, giving full play to its advantage in settlement network and supported by its comprehensive cash settlement products, the Bank customized cash management solutions for customers to help them manage funds effectively and scientifically, increase funds utilization rate and reduce financial risks. As of the end of the reporting period, the Bank had 175,200 contracted accounts for cash management business, representing an increase of 7,187 compared with the beginning of the year. At the same time, the Bank designed and promoted new settlement products such as e-bidding tender deposit management, housing transaction fund supervision and lottery account services to continuously extend customer coverage and expand cooperation areas and depth.

Discussion and Analysis

Trade Finance

During the reporting period, in compliance with the overall requirement of “enhancing the capacity of the financial sector in serving the real economy”, following the Belt and Road Initiative and under the guidance of “sticking to the fundamental purpose, cultivating the customer base, ensuring compliance and stability as well as strictly controlling risks”, the Bank focused on enhancing its sales, customer service, system support and risk management capability of the trade finance business. It continued to develop cross-border financing, advanced the development of traditional trade finance business such as factoring and domestic letter of credit, optimized products and operational procedures and kept developing online supply chain finance. It built the U-chain forfeiting asset trading platform with the use of blockchain technology, promoting innovation in forfeiting business. During the reporting period, the Bank’s trade finance business increased by RMB203,880 million.

Investment Banking

The Bank has implemented the policy of “improving the proportion of direct financing” and actively developed investment banking business to enrich measures of serving the real economy. It provides corporate customers with comprehensive financial services such as debt securities underwriting, M&A financing, structured financing and financial advisory services to meet the diversified financing needs of key customers in areas such as Sannong, high-tech and infrastructure construction, cut down the financing costs of enterprises in the real economy and facilitate transformation and upgrading of enterprises.

As of the end of the reporting period, the size of debt securities underwritten by the Bank amounted to RMB59,279 million, representing a year-on-year increase of 382.11%. The equity financing business (including M&A loans and structured financing) increased by RMB5,770 million with the balance totaling RMB12,599 million, as the Bank deeply participated in a number of major influential projects at home and abroad. M&A advisory services and institutional wealth management got off to a steady start as the Bank served as the M&A adviser for multiple listed companies and its comprehensive package of M&A services have been gradually recognized by the market and customers.

Custody Services

During the reporting period, against the background of the official release of the new asset management regulations and the return of the asset management industry to serve the real economy, the Bank accelerated the restructuring of the custody business and vigorously expanded such business areas as publicly offered funds and insurance funds with high standardization and in line with the development trend of the industry, keeping the market share of asset custody business at a steady level. Meanwhile, the Bank continued to deepen the construction of the “1+5” operating and service system and promoted the development of Phase II asset custody system based on blockchain, laying a foundation for the transformation and development of the Bank’s custody business.

As of the end of the reporting period, the total assets under custody were RMB4.18 trillion, of which the scale of publicly offered fund custody was RMB132,241 million, representing a year-on-year increase of 19.72%; and the scale of insurance fund custody was RMB468,916 million, representing a year-on-year increase of 16.37%.

Treasury Business

The Bank's treasury business consists primarily of financial market business such as trading, investment and interbank financing as well as asset management business. During the reporting period, the Bank went back to the fundamental purpose of financial services and continued to optimize the asset structure of its financial market business, with the proportion of standardized assets keeping rising and their contribution to income remaining at a high level. The Bank actively implemented the new regulations on asset management and steadily advanced the transformation of wealth management business so as to meet the diversified investment needs of different customers.

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 broad range of products, comprehensive business layout and extensive customer resources, the Bank is able to adapt to market changes and meet different customer needs. During the reporting period, the Bank was active in market trading and generated good returns.

Trading Business

The Bank trades standard 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 was RMB38.78 trillion with a total of 65,200 transactions.

Investment Business

Investments in Debt Securities and Interbank Certificates of Deposits

Within the guideline of "grasping opportunities, preventing risks, adjusting structure and improving returns", the Bank, based on enhanced market analysis and judgment as well as a close track on interest rate trends, seized the opportunities of bond yields being at a historically high level to increase investment, extend duration and reduce risk appetite. During the reporting period, the new investments in debt securities of the Bank mainly included low-risk rate bonds, highly rated central enterprise and local leading enterprise credit bonds as well as publicly offered interbank asset-backed securities with highly dispersed underlying assets, thus effectively improving portfolio returns while keeping risks at a controllable level. As of the end of the reporting period, the balance of the Bank's investments in debt securities and interbank certificates of deposits was RMB2.70 trillion.

Discussion and Analysis

Interbank Investment

Complying with regulatory requirements and following the principle of compliant and steady operations, the Bank strictly manages the list of its partner institutions for interbank investment and formulates a prudent investment strategy based on its risk appetite. During the reporting period, the Bank proactively adjusted the structure and reduced the scale of its interbank investment business. As of the end of the reporting period, the balance of the Bank's investment (or investments made through other financial institutions) in commercial bank wealth management products, trust investment plans, asset management plans and security investment funds totaled RMB434,488 million.

Interbank Financing Business

Interbank financing is a business where the Bank has inherent advantages in terms of interbank cooperation. During the reporting period, the Bank successfully seized market opportunities and engaged in such interbank financing business as deposits and placements with banks and interbank borrowings in a timely manner, thus increasing its yield on funds while establishing a well-structured interbank business system and interbank customer network. 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 RMB850,535 million.

Asset Management Business

During the reporting period, in line with its own characteristics and considering different risk levels, target customers and allocation strategies, the Bank established a wealth management product system that meets the increasingly diversified needs of investors. The Bank also accelerated the transformation of net value products by creating and issuing multi-variety and multi-term net value wealth management products. During the reporting period, the Bank has completely ceased the issuance of principal-guaranteed wealth management products and promoted the orderly phaseout of existing such products. As of the end of the reporting period, the balance of principal-guaranteed products accounted for 1.84% of the total balance. In addition, the Bank gradually controlled and compressed the scale of expected yield products with their balance dropping by more than 16% compared with the beginning of the reporting period. Meanwhile, the Bank increased the issuance of net value wealth management products. It has issued more than 50 net value products since the beginning of this year and increased the proportion of balance of such products to total balance by 4 times compared with the beginning of the year. During the reporting period, the Bank issued a total of RMB1.30 trillion of wealth management products. As of the end of the reporting period, assets under management amounted to RMB817,220 million.

Green Finance

During the reporting period, the Bank implemented national policies and regulatory requirements, actively practiced the concept of green development, vigorously developed green finance and contributed to the fight against pollution. The Bank formulated credit granting policies for green finance and optimized asset structure to increase support for green economy, low carbon economy and circular economy. It adopted stricter differentiated admission standards, approval process and authorization arrangements for sensitive fields like “industries with high pollution, high energy consumption and over-capacity” and stuck to the one-vote-down system whereby an environment index plays an important role in performance evaluation. It improved the incentive and restraint mechanism by increasing the allocation of credit resources to green finance, incorporating green finance into performance assessment, refining relevant functions in the information system and improving the policy incentive system for green finance. It also enriched environmental and social risk identification tools, conducted look-back special investigations on environmental risks and formulated timely risk prevention and mitigation measures to enhance environmental and social risk management capability. As of the end of the reporting period, the balance of the Bank’s green credit was RMB197,728 million, an increase of 11.94% compared with the prior year-end.

Sannong Financial Business

During the reporting period, to implement the rural revitalization strategy proposed by the Party Central Committee and the State Council, the Bank advanced the reform of Sannong Finance Department and created a specialized rural financial service system. Leveraging its advantage of a broad network in rural areas, the Bank focused on serving the agricultural supply-side structural reform, vigorously supported agricultural modernization and the development of new countryside and deepened the inclusive financial services in County Areas, continuously improving the level of Sannong financial service in the new era.

Improving the basic financial services in rural areas

The Bank has outlets that are widely distributed and accessible in less-developed areas and has actively developed the “online + offline” integrated network. The Bank has a total of 28,009 outlets in the County Areas, accounting for more than 70% of all outlets. The Bank has a unique operational model consisting of both directly-operated outlets and agency outlets. Most of the agency outlets are located at and below the county level, which helps the Bank carry out basic financial services in these areas as an integral part of its service network. In recent years, the Bank has been building a safe and convenient online banking service platform with full functions comprising personal online banking, mobile banking and WeChat banking, etc., providing rural residents with convenient and fast services from various channels. As of the end of the reporting period, the Bank had 134 million personal online banking customers in County Areas, with their accumulative number of transactions totaling 136 million and the transaction volume amounting to RMB572,716 million.

Discussion and Analysis

The Bank has actively offered basic financial services in rural areas. As of the end of the reporting period, the balance of personal deposits in County Areas of the Bank was RMB5.03 trillion. The Bank provided diversified financial services to customers in rural areas and issued exclusive debit card “Hometown Card” to migrant workers. As of the end of the reporting period, the number of the “Hometown Card” in circulation was 86,779,000. The Bank also participated in the promotion of the New Rural Endowment Insurance (“NREI”) and the New Rural Cooperative Medical Service (“NRCMS”). During the reporting period, the Bank acted as the collection agency for 8,146,800 NREI transactions with volume at RMB2,495 million, as the payment agency for 121 million NREI transactions with volume at RMB15,712 million, and as the payment agency for 309,400 NRCMS reimbursement and allowance payment transactions with volume at RMB582 million. In order to improve the rural financial service environment and expand the channels for migrant workers and rural residents to withdraw money, the Bank’s outlets at and below the county level have launched special migrant worker bank card services. During the reporting period, a total of 61,500 money withdrawal transactions were made through migrant worker bank cards, with volume at RMB124 million.

Increasing support for rural personal loans

Adhering to the Bank’s strategic positioning as a large retail commercial bank, the Bank continued to increase credit support for farmers and emerging forms of agribusiness with a focus on improving the coverage and availability of financial services for rural residents.

The Bank continued to increase credit support for farmers and emerging forms of agribusiness by promoting exclusive products such as small loans for farmers, family farm loans and farming cooperatives loans. The balance of the Bank’s personal operational loans, which mainly consist of loans to farmers and agriculture-related merchant loans, was RMB541,296 million, ranking high among nationwide commercial banks.

The Bank continued to deepen platform cooperation and built a coordinated ecosystem to support Sannong with the establishment of five cooperation models, namely cooperation with government, professional associations, enterprises, guarantee companies and insurance companies. The Bank introduced the government credit enhancement mechanism to ease the difficulties of providing collateral for farmers; it relied on professional associations to select customers with good credit; it controlled credit risks with the help of its core agricultural enterprise customers; and it advanced cooperation with insurance and guarantee companies to share risks and losses. The Bank continued its cooperation with the national agricultural credit guarantee system to leverage the role of the policy guarantee system in the sharing of agriculture-related risks. As of the end of the reporting period, the balance of loans originated in cooperation with the provincial agricultural credit guarantee companies was RMB10,606 million, with the cumulative loan amount at RMB13,772 million.

The Bank actively utilized big data, cloud computing, mobile Internet and other technical means to optimize process, develop new products, control risks, reduce costs and improve operational efficiency of its Sannong financial services. The Bank promoted the Mobile Business Development system, which enables the loan officer to complete photo taking during on-site investigation as well as information uploading and verification via the mobile intelligent terminal. It also

continued efforts to develop the credit factory project, which assists or replaces human operations with automated and intelligent ones and achieves centralized processing via standard operations, thus improving operational efficiency and the Bank's ability in identifying customers with bad credit. Moreover, the Bank explored online agriculture-related loan products. It rolled out "Shop Owners Loan" in cooperation with e-commerce platforms and developed "E Convenient Loan" and "Speedy Loan" by studying internal customer data.

As of the end of the reporting period, the balance of the Bank's loans to farmers was RMB946,247 million, and the balance of the Bank's personal operational loans originated to family farms and farming cooperatives was RMB53,337 million.

Expanding the rural corporate financial business

In 2016, after the reform of its Sannong Finance Department, the Bank continued to expand business areas. It increased credit support for agricultural enterprises and projects, focused on key areas of rural revitalization strategy, continuously strengthened the comprehensive financial services for agricultural industry chain, and sustained support for agricultural and rural infrastructure projects such as large-scale water conservancy projects, power grid reconstruction, farmland renovation and irrigation projects.

The Bank continued to deepen the comprehensive financial services for the agricultural industry chain, focusing on serving the national leading enterprises of agricultural industrialization, obtaining relevant information on upper- and lower-stream customers through core enterprises, enriching the guarantee methods for farmers and agriculture-related merchants, achieving closed-loop operations of funds and developing business in batches. At the same time, the Bank stabilized its cooperative relationship with core enterprises through retail customer services in the upper- and lower-streams of the industry chain and provided customized comprehensive financial services to achieve interconnected and joint development of retail and wholesale businesses.

Carrying out targeted poverty alleviation via financial services

The Bank actively responded to the call of the Party Central Committee for poverty alleviation and increased allocation of funds to financial poverty alleviation. It cooperated with poverty reduction departments at all levels to offer targeted support for registered poor people, extending micro loans to those with the ability to work and have the willingness to improve life. It also supported infrastructure construction in poverty-stricken areas, offering stronger financial support for weak fields in areas such as railways, highways, power grids and water conservancy. As of the end of the reporting period, the balance of the Bank's targeted financial poverty alleviation loans was RMB50,133 million, of which RMB16,417 million were extended to individuals.

The Bank continued to work with local governments at all levels, village Party branches and village committees to reduce poverty. Leveraging their geographical and organizational advantages, the Bank recommended customers in batches, tracked loan process, controlled credit risks, jointly built a rural credit system and organized assessment and establishment of credit households and credit villages.

Discussion and Analysis

Financial Services to Small and Micro Business

During the reporting period, the Bank comprehensively implemented the central government's guideline of "three tough battles" (preventing and defusing financial risks, targeted poverty alleviation and pollution control), earnestly followed the regulatory requirements and closely adhered to its strategic objective of "building a first-tier large retail commercial bank". It gave full play to its advantages in funds and network and made substantial progress in financial services to small and micro business. As of the end of the reporting period, the balance of corporate loans to small and micro enterprises with a maximum credit line of RMB10 million for a single customer was RMB519,224 million, representing a net increase of RMB54,317 million compared with the end of last year, which showed that the Bank had completed the phase target of the "Two Increases" evaluation; there were 1,438,700 accounts with loan balance, representing a net increase of 4,104 accounts as compared with the end of last year.

Increasingly improved systems

The head office and tier-1 branches have both set up leading groups on financial services to small and micro enterprises to enhance unified leadership, high-level coordination and effective implementation. At present, except for Tibet branch, the other 35 tier-1 branches of the Bank have upgraded Small Enterprise Finance Department to the level-1 department, and tier-2 branches are also upgrading Small Enterprise Finance Department. All tier-1 sub-branches and directly-operated outlets can directly handle small and micro enterprise loan business.

The Bank continuously expanded the coverage and increased the availability of financial services to small and micro business and promoted the establishment of specialized sub-branches serving small and micro enterprises. As of the end of the reporting period, the Bank has 302 specialized sub-branches serving small and micro enterprises under construction, geographically covering all 36 tier-1 branches including areas such as Tibet, Qinghai and Xinjiang. In specialized sub-branches serving small and micro enterprises, the balance of corporate loans to small enterprises, individual businesses and micro enterprises was over RMB140.0 billion.

A better operational mechanism

During the reporting period, the Bank continued to provide favourable policies and more resources for the development of financial services to small and micro enterprises in terms of human resources, financial resources and credit quota, and highlighted the KPI of loans to small and micro enterprises, so as to guide the entire bank to promote the extension of loans to small and micro enterprises. During the reporting period, corporate loans to small and micro enterprises with a maximum credit line of RMB10 million for a single customer accumulated to RMB243,582 million, representing a year-on-year net increase of 11.02%.

Fully enhanced service capacity

During the reporting period, the Bank continued to focus on serving small and medium-sized enterprises in such four fields as traditional industry, people's livelihood, government-bank cooperation and "innovation and entrepreneurship" and accelerated the transformation of traditional businesses and structural adjustment. The net aggregate amount of micro loans to small and micro enterprises, personal business loans and corporate loans to small enterprises increased by nearly 80% year-on-year.

By launching sewage discharge loans, the Bank actively provided financial support for small and medium-sized sewage treatment enterprises, making its contributions to improving the living environment of county residents and building a beautiful countryside. As of the end of the reporting period, the Bank's sewage discharge loans to small and medium-sized sewage treatment enterprises totalled nearly RMB2 billion, representing an increase of balance of about RMB739 million during the period.

The Bank focused on key areas of "innovation and entrepreneurship" such as the national high-tech industrial development zones, economic and technological development zones and modern agriculture demonstration sites, and was committed to building a small and micro finance marketing system to extend unsecured loans to small and micro enterprises in such fields as technology innovation and civil-military integration. As at the end of the reporting period, the balance of corporate loans to small hi-tech enterprises was RMB13,805 million.

Active development of Internet finance

To provide easy operation and improve the loan application experience for small and micro enterprise customers, the Bank upgraded and released the fully online product "Easy Small and Micro Loan". It is an unsecured loan issued to small and high quality customers with the application of big data analysis technology. It takes only 1-2 workdays from customers' application for loans to loan extension and 5 minutes to complete online loan extension. As of the end of the reporting period, the Bank extended loans in 13 tier-1 branches in Hebei, Shaanxi, Anhui, Sichuan and other provinces, with the average loan per customer amounting to RMB791,300.

Sound control over asset quality

The Bank has been attaching great importance to the risk management of small and micro financing business. It actively leveraged big data and scoring model to select customers and identify risks by "setting strict standards for customer admission, ensuring termination of relationship with unqualified customers, strengthening post-loan management and focusing on key areas". As at the end of the reporting period, the ratio of non-performing corporate loans to small and micro enterprises was 2.70%, and the asset quality remained stable.

Discussion and Analysis

Information Technology

During the reporting period, the Bank continuously deepened IT governance and has set up a financial technology leading group to further promote Internet finance, big data application and technology innovation, accelerate the construction of smart bank, and promote digital transformation and upgrading. The Hefei and Chengdu sub-centers under Software Research and Development Center have been put into operation, further enhancing the Bank's independent controllable innovation capability.

Centering around digital transformation, the Bank has proposed business development strategies in striving to implement the dual drive composed of "IT planning + technology innovation", to create the dual core comprising "logical centralization + ITFIN platform", to use bimodal IT covering "tradition + agility" and to build double "distributive + credible and safe" risk control architectures, so as to build a "smart bank" featuring "experience" and "intelligence". During the reporting period, the Bank pushed for the construction of 166 projects, including "top ten platforms", "top ten programs" and "top five data marts".

The Bank increased scientific and technological innovation and deepened the research and application of new technologies. It actively applied new technologies such as cloud computing, big data, block chain and artificial intelligence. During the reporting period, 60% of the transactions of the Bank were completed through the cloud platform. It continuously improved "1+N+36" big data application organization management system, completed the online application of risk data mart and management cockpit, and promoted the construction of phase III big data platform. The business scenarios based on blockchain technology were further expanded, and the forfeiting application system was launched. In addition, an intelligent customer service system based on deep learning technology was introduced, improving the correct answer rate by nearly 20% compared with the traditional one.

Independent research and development capacity has been constantly improving. The self-developed Java development platform was fully launched, and the C development platform and mobile development platform have been piloted. The automated testing of mobile APP has been dramatically boosted and the stratification testing strategy of "UI + Interface" has been rolled out, as a result, 40% of our mobile APPs achieved automated regression test, providing quality assurance for the rapid innovation of Internet finance.

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%. The Bank carried out exercises of business system switch for 103 times throughout the first half of the year, effectively supporting and safeguarding business development.

Distribution Channels

Business Outlets

The Bank actively promoted the systematic transformation of outlets, promoted the development of outlets in the direction of precision, intelligence, lightness and functional integration and implemented the strategy of serving retail banking, so as to reduce costs, increase efficiency, and enhance competitiveness and customer satisfaction. As of the end of the reporting period, the Bank had a total of 39,776 outlets, including 8,029 directly-operated outlets, accounting for 20.19% of all outlets, and 31,747 agency outlets, accounting for 79.81% of all outlets, covering all cities and 98.90% of the County Areas in mainland China. In terms of the geographical distribution of outlets, the number of directly-operated outlets in cities, counties and rural areas is 3,544, 3,046 and 1,439 respectively; the number of agency outlets in cities, counties and rural areas is 8,223, 5,727 and 17,797 respectively. As of the end of the reporting period, the Bank has reduced business areas in 350 directly-operated outlets with a total decrease of 83,000 square meters. During the reporting period, the Bank reduced 1,261 counters and moved 1,556 tellers to other positions, including 863 people transferred to sales and marketing team at outlets.

During the reporting period, the Bank accelerated the construction of intelligent outlets. It further increased the use of new non-cash smart devices, the intelligent teller machine (ITM), and piloted the application of new cash-based smart devices, the super teller machine (STM), to continuously improve the processing efficiency of the network. It continuously optimized the self-service equipment functions and processes, piloted and put into operation the ITM electronic signature function, and promoted paperless transactions; it launched functions such as ATM face recognition money withdrawal and STM deposit receipt business acceptance to further enhance customer experience. As of the end of the reporting period, the number of self-service equipment reached 124,400 units, 9,600 units of which were new intelligent equipment. During the reporting period, the number of self-service equipment transactions reached 2,656 million with the transaction amount of RMB2.42 trillion.

Internet Banking

During the reporting period, under the guidance of its Internet finance development planning, the Bank accelerated the iteration speed of product optimization, innovated the “online + offline” marketing methods, promoted the Internet scenario construction, and actively promoted the implementation of the development planning of Internet finance with a focus on mobile banking.

Business Scale

As of the end of the reporting period, the Bank had 257 million electronic banking customers, among which, the number of mobile banking customers reached 198 million, the number of personal online banking customers reached 199 million, and the number of signed customers of WeChat banking reached 6,232,000.

Discussion and Analysis

During the reporting period, the Bank posted 12,179 million electronic banking transactions, up by 37.86% year-on-year, and the transaction amount totaled RMB8.81 trillion, up by 33.94% year-on-year. Specifically, the number of mobile banking transactions amounted to 2,727 million, up by 55.01% year-on-year, and the transaction amount totaled RMB2.81 trillion, up by 70.25% year-on-year; the number of personal online banking transactions amounted to 275 million, with a transaction amount of RMB1.02 trillion. The substitution ratio of electronic banking transactions was 88.88%, representing an increase of 1.91 percentage points compared with the prior year-end.

Product Innovation

During the reporting period, the Bank continued to promote product innovation. It launched a new generation of personal online banking with the overall update of page layout and design style as well as the newly-added function of logging in personal online banking via mobile banking scanning code, which further strengthened interconnection between channels. The Bank also added new functions such as mobile banking fingerprint payment and gesture registration, and optimized business functions such as fund, wealth management and loans to constantly enhance customer experience.

Marketing

During the reporting period, the Bank formulated the 2018 Internet Finance Marketing Plan to promote transformation from the aspects of “online + offline” integrated marketing, scenario-based marketing and targeted digital marketing. It pooled resources of various sectors of China Post Group to carry out multi-scenario integrated marketing in e-commerce shopping, online reading, business travel services and other aspects. It also actively promoted the development of Internet finance by leveraging advantages of big data targeted marketing.

Scenario Construction

During the reporting period, the Bank seized market opportunities and continued to promote the construction of scenarios with postal characteristic. It cooperated with China Post Group and China Postal Express & Logistics Co., Ltd. to pilot integrated payment services and launched the function of integrated QR code collection. It innovatively launched the O2O life service payment system to promote “online + offline” integration.

Human Resources Management and Institution Management

Human Resources Management

During the reporting period, focusing on the development strategy and the key operational work of the year, the Bank continuously optimized the salary distribution mechanism, strengthened the efficiency and value orientation, and improved the efficiency of labor cost allocation. It improved the incentive and restraint mechanism, explored the career development channels for employees and strengthened the construction of professional talent teams to provide strong talent support for the reform and development of the Bank.

In terms of talent training, the Bank continuously deepened talent development and training mechanism, innovated talent training methods, and continuously promoted the construction of four talent teams including management, specialization, marketing and operation teams. During the reporting period, the Bank focused on strengthening training on Party spirit and Party building, risk compliance and business regulations, strengthening consciousness of the need to maintain political integrity, comprehensive capability and professional competence of employees; strengthened cooperation with strategic investors to promote professional talent training and management transformation; built training platform, innovated working mechanism, explored mobile learning methods, launched micro-class case competitions, and promoted the construction of a learning-oriented bank.

Employees

As of the end of the reporting period, the Bank had a total of 168,580 employees (and 14,193 labor dispatched workers), including 114,429 employees with bachelor degree or above, accounting for 67.88%.

The Bank's Employees by Business Function

Item	Number of employees	Percentage (%)
Management	5,827	3.46
Personal banking	65,076	38.60
Corporation banking	11,430	6.78
Treasury business	1,371	0.81
Financial and accounting	16,577	9.83
Risk management and internal control	11,171	6.63
Others ⁽¹⁾	57,128	33.89
Total	168,580	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)	42,754	25.36
31-40	72,238	42.85
41-50	42,889	25.44
Over 51 (inclusive)	10,699	6.35
Total	168,580	100.00

Discussion and Analysis

The Bank's Employees by Education Level

Item	Number of employees	Percentage (%)
Master's degree and above	8,874	5.26
Bachelor's degree	105,555	62.62
Associate degree	45,953	27.26
Below associate degree	8,198	4.86
Total	168,580	100.00

The Bank's Employees by Geographical Region

Item	Number of employees	Percentage (%)
Head Office	2,098	1.25
Yangtze River Delta	18,311	10.86
Pearl River Delta	17,724	10.51
Bohai Rim	26,979	16.00
Central region	44,254	26.25
Western region	38,430	22.80
Northeastern region	20,784	12.33
Total	168,580	100.00

Institution Management

The Bank-wide decision-making and 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.

During the reporting period, the Bank implemented the retail banking and inclusive financial strategies to further strengthen the financial service organization system for Sannong and small and micro enterprises, and enhance the ability of serving the real economy. The organization structure of the Bank continued to be optimized and operational efficiency was effectively improved.

The table below sets forth the number of branches and sub-branches of the Bank as of the end of the reporting period:

Number of Branches and Sub-branches of the Bank

Item	Number of branches and sub-branches	Percentage (%)
Tier-1 branches	36	0.43
Tier-2 branches	322	3.86
Tier-1 sub-branches	2,082	24.97
Tier-2 sub-branches and others	5,898	70.74
Total	8,338⁽¹⁾	100.00

(1) Includes 8,029 business outlets.

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

Region	Number of branches and sub-branches	Percentage (%)
Yangtze River Delta	956	11.47
Pearl River Delta	777	9.32
Bohai Rim	1,159	13.90
Central region	2,426	29.10
Western region	2,137	25.63
Northeastern region	883	10.59
Total	8,338	100.00

Discussion and Analysis

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 residential mortgage and auto loans) to domestic residents for consumption purpose. As of the end of the reporting period, PSBC Consumer Finance had a registered capital of RMB3 billion, of which the Bank held 70.5%. As at the end of June 2018, it had total assets of RMB17,697 million, net assets of RMB2,920 million and recorded a net profit of RMB76,128,200 for the first half year.

Protection of Consumer Rights and Interests

During the reporting period, the Bank continued to intensify efforts in protection of rights and interests of financial consumers, strengthened the institutional system and improved the internal control mechanism. It intensively carried out rectification of irregularities in banking industry, protected the legitimate rights and interests of consumers, and improved the quality and efficiency of customer complaint management. When facing the public, the Bank fully utilized its advantages of wide coverage of outlets, earnestly carried out financial knowledge publicity activities such as protecting money and preventing illegal fund-raising, and actively raised financial consumers' awareness of risk identification and prevention.

Risk Management

Comprehensive Risk Management System

During the reporting period, following the overall plan on preventing and mitigating financial risks made by the central government, the Bank made strong moves to advance risk management and control. It continued to improve the comprehensive risk management system to make the management more proactive and effective. In accordance with regulatory requirements, the Bank made solid progress in deepening the rectification of market irregularities and investigated and rectified potential risks, effectively improving the level of compliant operations. It continuously improved risk management policy system by optimizing the management of risk strategies and risk appetite, improving requirements on asset risk classification and formulating the regulation on allowance made for financial assets impairment under IFRS 9 and other regulations. In addition, the Bank strengthened efforts to prevent and mitigate risks in key areas and held the bottom line of no systematic financial risks. The Bank also accelerated the development of risk management IT system and laid a more solid foundation for risk data management, thus continuously improving its capabilities for comprehensive risk management.

Risk Management Organizational Structure

The Board assumes the ultimate responsibilities for risk management. It performs the risk management functions through the Risk Management Committee under the Board of Directors, reviews significant risk management issues and supervises the operations of the Bank's risk management system and its risk profile.

The Board of Supervisors serves as our internal supervisory body and is responsible for supervising the Board on the formulation of the Bank's risk management strategies, policies and procedures, and supervising and evaluating the performance of the directors, supervisors and senior management in performing their respective risk management duties.

Senior management of the Bank carries out risk management activities pursuant to the Articles of Association and the authorization by the Board of Directors to ensure the Bank's operations and management are in line with the risk management strategies, risk appetite, risk policies and procedures formulated and approved by the Board of Directors. The risk management committee at the senior management level is responsible for reviewing fundamental policies and rules for risk management, evaluating the bank-wide risk management and reviewing the standards, methods and processes for managing various kinds of risks.

Credit Risk

Credit risk refers to 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 its loans, treasury business (including deposits and placements with banks, financial assets held under resale agreements and investments in corporate bonds and financial bonds) and off-balance sheet credit businesses (including guarantees and commitments).

Credit Risk Management

The Bank strictly follows various regulatory requirements on credit risk. Under the leadership of the Board of Directors and senior management, the Bank adopts a whole-process credit risk management mode following the principles of "division of duties, checks and balances and internal control".

During the reporting period, the Bank further improved its credit risk management by continuously adopting sound and prudent credit risk management policies, strictly implementing central government policies and regulatory requirements and improving its credit risk governance mechanism. It implemented the requirements of risk appetite and risk policies, strengthened limit management of asset portfolio and credit risk and diversified concentration risks. It improved the credit granting policy system, formulated policy guidelines on credit granting for key industries and optimized access standards and management requirements on credit granting. It refined the non-credit management mechanism, promoted differentiated authorization and dynamic management of authorization for credit approval and improved the support functions of IT systems. It improved the organizational structure of credit risk monitoring, diversified risk monitoring and early warning tools and strengthened monitoring on collateral risk to emphasize the role of risk mitigation. The Bank also accelerated the collection and disposal of non-performing loans and continued to improve the effectiveness of the Bank's asset quality control. Overall, notable progress was achieved in credit risk management.

Credit Risk Management for Corporate Loans

During the reporting period, the Bank continued to strengthen the corporate loan risk control and took a proactive approach in preventing and mitigating potential credit risks. Closely following the major national strategic policies and trends of industrial policy, the Bank optimized the structure of industries, products and customers, and prioritized the allocation of credit resources to areas such as the strategic emerging industries, advanced manufacturing industries, high-tech industries and green finance. It strengthened industrial limit management, strictly controlling the growth in loans granted to "industries with high pollution, high energy consumption and over-capacity" such as steel, coal, coal power and real estate industries as well as sensitive industries. It further strengthened the monitoring, early warning and control of risks in key areas and customers, actively carried out special inspections on various types of risks, thus effectively preventing and mitigating risks in local government's invisible debts, coal power, real estate and other areas. It also strengthened the management of large-scale risk exposure and established and improved the emergency management mechanism for risk events.

Discussion and Analysis

During the reporting period, the Bank strengthened the customer access management for small business loans by formulating more detailed requirements on customer access. It continued to terminate relationships with high risk customers to adjust and optimize customer structure. With the aim to consolidate off-site risk monitoring mechanism, the Bank set up a team to conduct off-site monitoring from multiple dimensions, thoroughly analyze identified risks and take prevention and control measures in a timely manner. In addition, the Bank established a product circuit breaker mechanism to strengthen the limit management of non-performing loans by products and institutions.

Credit Risk Management for Personal Loans

During the reporting period, the Bank continued to strengthen personal loan access management and actively explored new cooperation models and business models. It deepened cooperation with government, professional associations, enterprises, guarantee companies and insurance companies for customer information sharing and interconnected risk alarming, thus diversifying risks to some extent and reducing its loan risk exposure. It promoted the application of data-driven risk models and created a proactive, forward-looking, whole-process and intelligent credit risk prevention and control system by applying technologies such as artificial intelligence and big data. It extended the pilot scope of retail credit factories and adopted new technologies to optimize credit process, thus increasing the levels of automation, process management, specialization and centralization relating to the operations of credit granting business. The Bank also strengthened credit risk monitoring and early warning by closely tracking changes in risks and publishing risk prompts in a timely manner, so as to make its credit risk pre-warning more forward-looking and effective.

Credit Risk Management for Credit Card Business

During the reporting period, the Bank actively responded to changes in the industry's risk situation, enhanced risk analysis and judgment and formulated risk management strategies before, during and after loan approval. It strengthened the management and control of access and credit extension for customers with high risks and actively adjusted the structure of customer base to reduce risk exposure. It improved credit line management strategies for existing customers by taking measures such as investigation and early warning for customers with high risks and enhancing credit line services provided to quality customers so as to improve its asset structure. In addition, the Bank promoted the application of external data from the Internet and other sources to risk management and improved the quantitative risk management system, continuously improving its risk identification and judgment ability.

Credit Risk Management for Treasury Business

During the reporting period, the Bank continued to standardize the authorization management system, refining its internal classified authorization standards and strictly examining the authorization of external counterparties. It optimized the interbank customer management system by strengthening its name list management. It improved the review and approval system for non-credit business by refining operational management and standardizing operational procedures. It improved the unified credit extension management system and implemented penetration management. Based on the condition of underlying assets, the Bank made more detailed asset classification standards and formulated asset impairment measurement plan. The Bank also promoted the construction of the post-investment management system and strengthened the risk prediction and treatment capabilities with focus on risk situation and migration in key areas.

Credit Risk Analysis

Maximum Credit Risk Exposure Without Considering Any Collateral Held or Other Credit Enhancements

In millions of RMB

Item	June 30, 2018	December 31, 2017
Deposits with central bank	1,221,863	1,364,392
Deposits with banks and other financial institutions	266,361	296,758
Placements with banks and other financial institutions	290,552	315,999
Financial assets at fair value through profit or loss — debt instruments	135,929	119,992
Derivative financial assets	6,826	6,584
Financial assets held under resale agreements	293,622	141,974
Loans and advances to customers	3,911,440	3,541,571
Financial assets at fair value through other comprehensive income — debt instruments	175,491	N/A
Financial assets at amortized cost	2,628,062	N/A
Available-for-sale financial assets — debt instruments	N/A	247,278
Held-to-maturity investments	N/A	935,735
Investment classified as receivables	N/A	1,424,558
Other financial assets	63,400	56,356
Subtotal	8,993,546	8,451,197
Credit commitments	625,986	643,998
Total	9,619,532	9,095,195

Distribution of Non-performing Loans by Collateral

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Unsecured loans	4,262	10.95	2,075	7.61
Guaranteed loans ⁽²⁾	7,597	19.52	6,255	22.94
Loans secured by mortgages ⁽²⁾⁽⁴⁾	21,873	56.21	18,249	66.92
Loans secured by pledges ⁽²⁾⁽³⁾	5,185	13.32	691	2.53
Discounted bills	—	—	—	—
Total	38,917	100.00	27,270	100.00

Discussion and Analysis

- (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 total amount of non-performing loans secured by mortgages was RMB21,873 million, representing an increase of RMB3,624 million compared with the prior year-end; the total amount of non-performing loans secured by pledges was RMB5,185 million, representing an increase of RMB4,494 million compared with the prior year-end; the balance of non-performing guaranteed loans amounted to RMB7,597 million, representing an increase of RMB1,342 million compared with the prior year-end; the balance of non-performing unsecured loans amounted to RMB4,262 million, representing an increase of RMB2,187 million compared with the prior year-end.

Distribution of Overdue Loans by Overdue Period

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	15,963	0.40	12,716	0.35
Overdue for 91 days to 1 year	10,419	0.26	9,471	0.26
Overdue for 1 to 3 years	12,383	0.31	11,754	0.32
Overdue for more than 3 years	2,030	0.05	1,332	0.04
Total	40,795	1.02	35,273	0.97

As of the end of the reporting period, the balance of overdue loans of the Bank stood at RMB40,795 million, representing an increase of RMB5,522 million compared with the prior year-end. Specifically, the balance of loans overdue for 1 to 90 days was RMB15,963 million; the balance of loans overdue for 91 days to 1 year was RMB10,419 million; the balance of loans overdue for 1 to 3 years was RMB12,383 million; the balance of loans overdue for more than 3 years was RMB2,030 million.

Loan Concentration

In millions of RMB, except for percentages

Top ten single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital (%) ⁽¹⁾
Borrower A ⁽²⁾	Transportation, storage and postal services	195,633	4.87	33.96
Borrower B	Water conservancy, environmental and public facilities management	10,350	0.26	1.80
Borrower C	Transportation, storage and postal services	10,350	0.26	1.80
Borrower D	Leasing and commercial services	9,432	0.23	1.64
Borrower E	Mining	8,450	0.21	1.47
Borrower F	Leasing and commercial services	7,606	0.19	1.32
Borrower G	Production and supply of electricity, heating, gas and water	6,500	0.16	1.13
Borrower H	Real estate	6,500	0.16	1.13
Borrower I	Production and supply of electricity, heating, gas and water	6,002	0.15	1.04
Borrower J	Transportation, storage and postal services	5,930	0.15	1.03

(1) Represents loan balances as a percentage of the Bank's net capital, calculated in accordance with the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional).

(2) Percentage of loans 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 June 30, 2018, China Railway Corporation was the Bank's largest single borrower. The outstanding loan balance with China Railway Corporation was RMB195,633 million, accounting for 33.96% of the Bank's net capital. The credit the Bank extended to China Railway Corporation includes RMB240.0 billion which the Bank historically provided to it and was approved by the CBIRC. As of June 30, 2018, the outstanding loan balance under such credit approved by the CBIRC for China Railway Corporation was RMB175.0 billion. After deduction of this RMB175.0 billion, the Bank's balance of loans to China Railway Corporation represented 3.58% of the Bank's net capital.

Discussion and Analysis

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	3,951,675	98.39	3,578,275	98.57
Special mention	25,837	0.64	24,590	0.68
Non-performing loans	38,917	0.97	27,270	0.75
Substandard	14,653	0.37	4,606	0.13
Doubtful	6,958	0.17	5,585	0.15
Loss	17,306	0.43	17,079	0.47
Total	4,016,429	100.00	3,630,135	100.00

As of the end of the reporting period, the balance of the Bank's non-performing loans amounted to RMB38,917 million, representing an increase of RMB11,647 million compared with the prior year-end. Non-performing loan ratio was 0.97%, representing an increase of 0.22 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB25,837 million, representing an increase of RMB1,247 million compared with the prior year-end. Special mention loan ratio was 0.64%, representing a decrease of 0.04 percentage point compared with the prior year-end. The ratio of non-performing loans to loans overdue for over 90 days was 156.72%, representing an increase of 35.83 percentage points compared with the prior year-end.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2018			December 31, 2017		
	Non-Performing loan balance	Percentage (%)	Non-performing loan ratio (%) ⁽¹⁾	Non-Performing loan balance	Percentage (%)	Non-performing loan ratio (%) ⁽¹⁾
Corporate loans						
Working capital loans	10,751	27.63	1.59	8,311	30.48	1.48
Fixed asset loans	297	0.76	0.04	205	0.75	0.03
Trade finance loans	541	1.39	0.28	745	2.73	0.38
Others ⁽²⁾	5,142	13.21	25.41	20	0.07	0.12
Subtotal	16,731	42.99	1.07	9,281	34.03	0.67
Discounted bills	—	—	—	—	—	—
Personal loans						
Consumer loans						
Residential mortgage loans	3,864	9.93	0.30	2,693	9.87	0.23
Other consumer loans	2,587	6.65	0.94	1,671	6.13	0.65
Personal business loans	9,190	23.61	2.78	8,203	30.08	2.73
Micro loans	5,052	12.98	2.84	4,294	15.75	2.75
Credit card overdrafts and others	1,493	3.84	1.74	1,128	4.14	1.45
Subtotal	22,186	57.01	1.03	17,989	65.97	0.92
Total	38,917	100.00	0.97	27,270	100.00	0.75

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

(2) Consists of M&A loans, letters of credit, advance on acceptance bills and a loan asset portfolio the Bank purchased from a commercial bank.

As of the end of the reporting period, the balance of the Bank's non-performing corporate loans amounted to RMB16,731 million, representing an increase of RMB7,450 million compared with the prior year-end; non-performing corporate loan ratio was 1.07%, representing an increase of 0.40 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB22,186 million, representing an increase of RMB4,197 million compared with the prior year-end; non-performing personal loan ratio was 1.03%, representing an increase of 0.11 percentage point compared with the prior year-end.

Discussion and Analysis

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	1,495	3.84	1,131	4.15
Yangtze River Delta	4,090	10.51	3,012	11.05
Pearl River Delta	2,493	6.41	2,330	8.54
Bohai Rim	7,924	20.36	3,341	12.25
Central China	7,720	19.84	5,274	19.34
Western China	11,048	28.38	8,729	32.01
Northeastern China	4,147	10.66	3,453	12.66
Total	38,917	100.00	27,270	100.00

As of the end of the reporting period, the balance of non-performing loans originated in Western China was RMB11,048 million, the highest among all regions; the increases in the balance of non-performing loans originated in Bohai Rim and Central China were RMB4,583 million and RMB2,446 million respectively compared with the prior year-end, higher than that of other regions.

Distribution of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	898	5.37	107	1.15
Manufacturing	5,927	35.43	4,983	53.69
Production and supply of electricity, heating, gas and water	64	0.38	21	0.23
Financial services	4,113	24.59	8	0.09
Wholesale and retail	3,929	23.48	2,745	29.58
Construction	353	2.11	355	3.83
Real estate	19	0.11	18	0.19
Mining	79	0.47	57	0.61
Water conservancy, environmental and public facilities management	22	0.13	39	0.42
Leasing and commercial services	153	0.91	140	1.51
Agriculture, forestry, animal husbandry and fishery	640	3.83	438	4.72
Information transmission, computer services and software	55	0.33	41	0.44
Hotels and catering	278	1.66	207	2.23
Residential services and other services	94	0.56	69	0.74
Culture, sports and entertainment	16	0.10	16	0.17
Others ⁽¹⁾	91	0.54	37	0.40
Total	16,731	100.00	9,281	100.00

(1) mainly includes education; scientific research and technical services; public administration, social security and social organization; health and social work.

During the reporting period, the increase in the balance of non-performing corporate loans of the Bank mainly came from financial services, wholesale and retail as well as manufacturing. As of the end of the reporting period, the balances of non-performing corporate loans from financial services, wholesale and retail as well as manufacturing were RMB4,113 million, RMB3,929 million, and RMB5,927 million, respectively, representing an increase of RMB4,105 million, RMB1,184 million, and RMB944 million compared with the prior year-end.

Discussion and Analysis

Movements of Allowance for Impairment Losses on Loans

Corporate Loans and Advances – Financial Assets at Amortized Cost

In millions of RMB

Item	June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	35,052	1,959	8,815	45,826
Movements with P&L impact:				
Transfer to stage 1	4	(19)	—	(15)
Transfer to stage 2	(92)	659	(17)	550
Transfer to stage 3	(56)	(1,281)	8,399	7,062
Financial assets derecognized or settled during the period	(4,217)	(224)	(752)	(5,193)
New financial assets originated or purchased	7,436	126	57	7,619
Remeasurements	297	(34)	668	931
Write-offs	—	—	(1,255)	(1,255)
Loss allowance as at June 30, 2018	38,424	1,186	15,915	55,525

Personal Loans and Advances – Financial Assets at Amortized Cost

In millions of RMB

Item	June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	25,833	1,975	15,736	43,544
Movements with P&L impact:				
Transfer to stage 1	16	(376)	(50)	(410)
Transfer to stage 2	(120)	1,597	(20)	1,457
Transfer to stage 3	(130)	(916)	5,096	4,050
Financial assets derecognized or settled during the period	(3,925)	(353)	(1,427)	(5,705)
New financial assets originated or purchased	8,019	237	127	8,383
Remeasurements	(720)	(40)	469	(291)
Write-offs	—	—	(1,564)	(1,564)
Loss allowance as at June 30, 2018	28,973	2,124	18,367	49,464

Discussion and Analysis

Corporate Loans and Advances – Financial Assets at Fair Value through Other Comprehensive Income

In millions of RMB

Item	June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	428	—	—	428
Movements with P&L impact:				
Transfer to stage 1	—	—	—	—
Transfer to stage 2	—	—	—	—
Transfer to stage 3	—	—	—	—
Financial assets derecognized or settled during the period	(282)	—	—	(282)
New financial assets originated or purchased	217	—	—	217
Remeasurements	—	—	—	—
Write-offs	—	—	—	—
Loss allowance as at June 30, 2018	363	—	—	363

Market Risk

Market risk refers to the risk of losses to the Bank's on- and off-balance sheet businesses arising from unfavorable movements in the market prices (including interest rate, exchange rate, stock price and commodity price). The major types of market risks we are 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 risks 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 returns.

During the reporting period, the Bank strengthened analysis and judgment of the financial market trends and promoted the implementation of new regulatory requirements. It continued to improve the market risk management system and actively promoted the construction of the information system. With enhanced monitoring on market and intra-bank limits, improved risk reporting system, as well as adjusted and optimized market risk limit indicators, key risk limits were well executed and the bank-wide market risk remained relatively stable.

Separation of Trading Book and Banking Book

In order to take targeted measures to manage market risks and accurately measure regulatory capital required for market risks, 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 that are freely traded and held by the Bank for purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

Market Risk Management of Trading Book

The Bank manages the market risk of trading book by adopting multiple methods including limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing. During the reporting period, the Bank actively watched market changes such as changes in interest rates and exchange rates, monitored, reported and prompted changes in limits in a timely manner, took the initiative to carry out stress test, tracked and researched new trends in market risk regulation, implemented the new asset measurement requirements for the derivatives counterparty default risk, and promoted the IT application in market risk management, thereby controlling risk exposure of trading book within the tolerable range of the Bank.

Market Risk Management of Banking Book

The Bank manages the market risk of banking book through comprehensive use of measures including limit management, stress test, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk includes gap risk, basis risk and optional risk. During the reporting period, the Bank paid close attention to changes in external interest rate environment and timely monitored internal interest rate risk. It actively adjusted the term structure, continued to improve internal and external pricing mechanisms and enhanced its differentiated pricing ability. Furthermore, the Bank actively improved the policy system for interest rate risk management of the banking book and steadily promoted the upgrading of the existing asset and liability management system so as to continuously improve its interest rate risk measurement and management level, ensure higher refinement in interest rate risk management, thus controlling the overall interest rate risk level within the management objectives.

Discussion and Analysis

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
June 30, 2018	(776,088)	188,033	(245,574)	468,789	591,094	180,748
December 31, 2017	42,213	(164,549)	(704,986)	274,389	523,202	411,283

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

	June 30, 2018 Movements in net interest income	December 31, 2017 Movements in net interest income
Movements in yield rate basis points		
Increased by 100 basis points (subject to adjustment based on the situation of the Bank)	(6,869)	(3,686)
Decreased by 100 basis points (subject to adjustment based on the situation of the Bank)	6,869	3,686

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

The primary source of the Bank's exchange rate risk arises from mismatches between its USD assets and liabilities. During the reporting period, the Bank mainly adopted limit management and other means to control exchange rate risk, continuously improved the policy framework of exchange rate risk management and closely monitored external market changes and exchange rate trends. It also conducted regular foreign exchange risk exposure monitoring and sensitivity analysis, and based on the measurement and analysis results, regularly reported exchange rate risk and made flexible adjustment to exchange rate risk exposure. The overall exchange rate risk exposure of the Bank was controlled within an acceptable range.

Exchange Rate Risk Analysis

For analysis of the Bank's exchange rate risk, please refer to "Notes to the Condensed Consolidated Financial Statements – 41.4 Market Risk".

Liquidity Risk

Liquidity risk refers to the risk of failure to obtain sufficient funds at a reasonable cost in a timely manner to settle amounts due, fulfill other payment obligations and meet other financial needs during the commercial banks' ordinary course of business.

Liquidity risk of the Bank may arise from the following events or factors: deposit withdrawal by customers, loan withdrawal by customers, overdue payment of principal and interest by 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 identify, measure and control liquidity risk in a timely manner via the establishment of a scientific and comprehensive liquidity risk management system and to meet the liquidity needs and fulfill its payment obligation to external parties during the normal operation or at a highly stressed condition.

Discussion and Analysis

The governance structure of the Bank's liquidity risk management includes: the decision-making system consisting of the Board of Directors and its Risk Management Committee as well as the senior management at the head office and its asset and liability management committee and risk management committee; the implementation system consisting of the liquidity management department, departments that take the lead in managing on- and off-balance sheet businesses, risk management department, information technology department, operation management department at the head office and relevant departments at branches; and supervision system consisting of the Board of Supervisors, the Audit Office and the Legal Compliance Department. The above-mentioned system performs the decision-making, execution and supervision functions of liquidity risk management in accordance with the functional division of work.

During the reporting period, the Bank rationally grasped the monetary policy trends, closely monitored market liquidity conditions and strictly carried out the policy on risk limits so as to effectively strike a balance between safety, liquidity and profitability of the Bank. The major source of the Bank's funds is personal deposits and thus the Bank has stable liabilities; it also has adequate qualified high-quality liquid asset in its assets and thus has strong risk mitigation ability. During the reporting period, the Bank was in good liquidity condition, with all liquidity regulatory indicators in stable operation and complying with regulatory requirements.

Liquidity Risk Analysis

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

	Overdue	On demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
June 30, 2018	9,050	(3,300,906)	(38,452)	(154,361)	(1,519,652)	1,733,026	2,466,636	1,211,661	407,002
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

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 resulting from inadequate or problematic internal procedures, human or information system related factors, or external events. The operational risks which the Bank may be exposed to mainly arise from internal and external frauds, employment rules and work-place safety; customers, products and business activities; damages to physical assets; information technology system; as well as delivery, settlement and process management.

During the reporting period, in accordance with regulatory requirements and under the leadership of the Board of Directors and senior management, the Bank adopted the operational risk control mode characterized by “centralized management, multi-level control”, continued to improve operational risk management mechanism and implemented practical and effective operational risk management policies. In line with the new situation of “strict financial regulation and irregularities rectification”, the Bank well performed the work of rectifying irregularities, developing targeted management tools and optimizing business procedures and systems with a focus on areas such as credit management and employee behavior investigation. The Bank continued to strengthen the risk management of grassroots organizations. It fully implemented the mechanism of dispatching head of operations to outlets from higher level of branches, strengthened control and supervision via centralized authorization and audit, and optimized the risk management model at sub-branches, managing operational risks at every stage of operations so as to minimize operational risk incidents and reduce the losses to the largest extent.

Legal and Compliance Risk

Legal risk refers to the risk of the bank suffering from adverse legal consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws and regulations, administrative rules, regulatory provisions and terms of contract of its business operations; 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. Compliance risk refers to being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of the commercial bank’s failure to comply with applicable laws, regulations and rules.

During the reporting period, the Bank continuously optimized the working mechanism of legal risk management and further improved its legal risk prevention and control mechanism covering whole business process. It effectively improved the level of contract review, strengthened litigation management, especially risk prevention and control of cases in which the Bank was the defendant. It also improved its efficiency of assistance in enforcement according to practical needs and attached great importance to authorization management and intellectual property management. The overall level of legal risk management was steadily improved.

During the reporting period, the Bank continued to improve its compliance management. It further promoted various specialized rectification work such as deepened rectification of irregularities in the banking sector, continuously carried out supervision and inspection, strengthened compliance risk monitoring, standardized compliance review procedure and improved responsibility identification system to effectively support the healthy development of business as well as operations and management activities.

Anti-Money Laundering

The Bank has strictly abided by laws and regulations on anti-money laundering and earnestly fulfilled its anti-money laundering legal obligations and social responsibilities in accordance with “risk-based” work concept, continuously improving the bank-wide anti-money laundering and anti-terrorist financing ability.

Discussion and Analysis

During the reporting period, all anti-money laundering work was carried out in an orderly manner. The Bank continued to optimize its anti-money laundering working mechanism by further promoting centralized processing. It improved procedures for suspicious transaction analysis and identification to improve its risk identification ability. It also continued to improve the functions of the system to enhance management and control level of the system.

Information Technology Risk

Information technology risks include operational risks, reputational risks, legal risks 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, under the guidance of its plan on information technology risk management and strictly implementing regulatory requirements, the Bank further intensified technology risk management and control, strengthened the internal control compliance construction in terms of IT risks, promoted the construction of the safety management and control system and earnestly carried out hidden danger monitoring, analysis, investigation and rectification to further enhance its proactive risk prevention and control capabilities.

Reputational Risk

Reputational risk refers to the risk resulting from negative reports or perception on the bank's business, operations, management, personnel matters and other actions it takes, or external events relating to it. During the reporting period, the Bank continued to enhance its reputation risk control ability by further improving its management system, strengthening the establishment of regulations and offering relevant training.

Strategic Risk

Strategic risk refers to the risk of adverse impact on the bank's profitability, capital, reputation or market status, etc., arising from improper business and management strategy, implementation deviation or failure to respond to changes in external environment in a timely manner. As an important part of the comprehensive risk management system, strategic risk management covers the Bank's overall actions, business activities and business areas. the Bank proactively and effectively prevents strategic risks with the establishment of strategic risk management policy system.

During the reporting period, the Bank revised rules and regulations related to strategic risks, implemented its "13th Five-Year Plan" and made follow-up evaluation, formulated rolling plans as per the new situation and kept promoting strategic management, thereby effectively making the strategic risk management more scientific and rule-based.

Country Risk

Country risk refers to the risk of the inability or refusal of the borrowers or debtors of a country or region to repay their debts owed to the bank, or business loss or other losses suffered by the bank in that country or region due to changes and incidents occurred in its economy, politics and society.

During the reporting period, the Bank constantly carried out country risk management, developing management tools, conducting country risk assessment and rating, setting and monitoring risk limits, and collecting and reporting risk exposure statistics. The Bank closely monitored country risk changes in the countries or regions in connection with its businesses and promoted the development of cross-border business in a prudent manner, thus effectively keeping country risks under control.

Consolidated Risk Management

Consolidated risk management refers to the continuous promotion and optimization of the construction of comprehensive risk management system of a bank group and its affiliates and effectively identify, measure, monitor and control the overall risks of the bank group.

During the reporting period, the Bank continued to strengthen consolidated capital and risk management of the affiliates of the Bank Group. The Bank took multiple measures, including improving the governance structure and policy system of consolidated management, strengthening firewall and risk isolation mechanism, and improving risk reporting system, to continuously improve its consolidated risk management capacity and ensure the steady operation of the Bank Group.

Capital Management

The Bank implements a group capital management mechanism and engages in capital-based management activities such as measurement, allocation, application, monitoring and assessment, effectively supporting the development of banking operations. The Bank's capital management objective is to maintain a stable and ideal capital adequacy level, continuously meet regulatory policies and macro-prudential requirements; to focus on the balance between capital use and return, improve capital use efficiency, and raise the level of capital return; to continuously consolidate the capital base of the Bank, enhance the ability of retained profits internal capital replenishment, rely on both stocks and debts, and actively expand channels for supplementing capital via external sources. The Bank's capital management covers subsidiary and affiliates. The capital management content includes regulatory capital management, economic capital management, capital financing planning management and so on.

During the reporting period, the Bank continuously improved the capital management system, actively explored a capital-efficient business development model, optimized the asset and liability structure, strengthened the application of capital instruments, and achieved efficient development featuring low capital consumption and efficient capital use. The Bank continued to do well in capital planning, the plan management of capital adequacy ratio and leverage ratio, capital limit control and capital adequacy ratio monitoring to ensure that capital adequacy ratio and leverage ratio continuously meet the risk coverage and regulatory requirements. During the reporting period, various capital indicators were in good condition, the capital structure continued to be optimized and the capital adequacy ratio remained at a reasonable and appropriate level.

Discussion and Analysis

Capital Adequacy Ratio

According to the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional) and its supporting policy documents issued by the CBIRC in 2012, the Group measured the capital adequacy ratio by weighted approach, details of which are as follows:

Capital Adequacy

In millions of RMB, except for percentages

Item	June 30, 2018		December 31, 2017	
	The Group	The Bank	The Group	The Bank
Net core tier 1 capital	401,758	399,419	381,673	380,800
Net tier 1 capital	449,646	447,265	429,560	428,646
Net capital	576,009	573,459	555,445	554,400
Risk-weighted assets	4,464,276	4,456,799	4,440,497	4,434,942
Credit risk-weighted assets	4,153,738	4,146,740	4,116,135	4,111,059
Market risk-weighted assets	51,999	51,999	65,823	65,823
Operational risk-weighted assets	258,539	258,060	258,539	258,060
Core tier 1 capital adequacy ratio (%)	9.00	8.96	8.60	8.59
Tier 1 capital adequacy ratio (%)	10.07	10.04	9.67	9.67
Capital adequacy ratio (%)	12.90	12.87	12.51	12.50

Please refer to “Appendix IV: Composition of Capital” for information on the composition of capital.

Market Risk Capital Requirements

In millions of RMB

Item	June 30, 2018	December 31, 2017
Interest rate risk	1,222	2,161
Exchange rate risk	2,938	3,104

Leverage Ratio

As of the end of the reporting period, the leverage ratio calculated by the Bank Group pursuant to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Amended) issued by the CBIRC in 2015 was 4.64%, meeting the regulatory requirements. Please refer to “Appendix III: Leverage Ratio” for the leverage ratio of the Bank.

Capital Financing Management

On the basis of capital replenishment through retained earnings, the Bank utilized external financing methods to replenish its capital. The Bank considered and approved the proposal on the extension of the validity term of the proposal of Postal Savings Bank of China Co., Ltd. regarding initial public offering and listing of RMB ordinary shares (A Shares) at the 2018 fourth meeting of the Board of Directors held in March 2018, and such proposal was considered and approved at the annual general meeting of shareholders in June 2018. The Bank is currently promoting the listing of A Shares in an orderly manner.

Economic Capital Management

During the reporting period, the Bank strengthened the concept of rigid capital constraint and continuously promoted refined economic capital management in respect of measurement, deployment, monitoring, examination and assessment as well as system optimization. Through system support, the Bank continuously improved the means and methods of economic capital management; optimized the economic capital allocation mechanism, improved the efficiency of capital allocation, and strengthened the limit management; and continuously optimized the evaluation system of economic capital indicators under the guidance of capital efficiency and value creation. The economic capital management ability of the Bank was continuously improved, the role of structural optimization was constantly enhanced, and the return on capital was further improved.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

List of Changes in Share Capital

Unit: Share

	December 31, 2017		Increase or decrease during the reporting period (+, -)	June 30, 2018	
	Numbers of shares	Percentage (%)		Numbers of shares	Percentage (%)
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	6,254,480,000	7.72	—	6,254,480,000	7.72
II. Shares not subject to selling restrictions					
1. RMB ordinary shares	—	—	—	—	—
2. Overseas-listed foreign shares	13,601,687,000	16.79	—	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 3,030. Among them, there were 3,025 H shareholders and 5 domestic shareholders. The top 10 ordinary shareholders are as follows:

Shareholders	Class of shares	Number of shares held (shares)	Percentage of shares held (%)
China Post Group ⁽³⁾	Domestic Shares	55,847,933,782	68.92
HKSCC Nominees Limited ⁽²⁾	H Shares ⁽¹⁾	15,301,483,780	18.88
UBS AG	H Shares ⁽¹⁾	3,423,340,000	4.22
China Life Insurance Company Limited ⁽³⁾	Domestic Shares	3,341,900,000	4.12
China Telecommunications Corporation ⁽³⁾	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 ⁽¹⁾	642,670,000	0.79
International Finance Corporation	H Shares ⁽¹⁾	474,290,000	0.59
Shenzhen Tencent Domain Computer Network Company Limited	Domestic Shares	128,530,000	0.16
Yeung Chok Ming	H Shares ⁽¹⁾	380,000	0.0005

- (1) The shareholdings of H shareholders are based on the number of shares listed in the register of shareholders of the Bank set up by the H Share Registrar.
- (2) The total number of shares held by HKSCC Nominees Limited is the total number of H Shares held by all institutions and individual investors registered with the company as of June 30, 2018.
- (3) Indicates the state-owned shareholders.

Changes in Share Capital and Shareholdings of Shareholders

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

The Bank issued non-public offshore preference shares in the offshore market in September 2017 and was listed on the Hong Kong Stock Exchange. The net proceeds raised are approximately RMB47.8 billion, all of which are used to supplement the additional tier 1 capital of the Bank.

Stock code of the offshore preference shares	Preference shares abbreviation	Issuing date	Issuing price (USD/share)	Initial dividend rate (%)	Issuing quantity (shares)	Listing date	Permitted trading volume (shares)
4612	PSBC 17USDPREF	2017/9/27	20	4.5	362,500,000	2017/9/28	362,500,000

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. Top 10 offshore preference shareholders (or nominees) of the Bank are as follows:

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

- (1) Shareholding status of offshore preference shareholders are based on the statistics from information listed in the register of offshore preference shareholders.
- (2) As the issuance was non-public, the register of offshore preference shareholders presented the information on nominees of placees.
- (3) "Shareholding percentage" refers to the percentage of offshore preference shares held by offshore preference shareholders in total number of offshore preference shares.

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.

In accordance with the resolution and authorization of the shareholders' general meeting, the Bank reviewed and approved the dividend distribution plan for the Bank's offshore preference shares at the meeting of its Board of Directors on June 28, 2018, permitting the Bank to distribute dividends on the offshore preference shares for the period from September 27, 2017 (inclusive) to September 27, 2018 (exclusive) on September 27, 2018. Pursuant to relevant laws and regulations, the Bank shall withhold and pay income tax at a rate of 10% when distributing dividends on offshore preference shares, and under the relevant terms and conditions of the offshore preference shares, the Bank shall bear such tax. According to the interest-bearing principal amount of the offshore preference shares of the Bank, the dividend yield of 4.50% (after tax) and the tax rate for withholding and paying income tax, the dividends on the offshore preference shares to be distributed by the Bank will be USD362.5 million, of which USD326.25 million will be paid to the holders of offshore preference shares; and the income tax to be withheld and paid by the Bank will be USD36.25 million. For details of the dividend distribution on the offshore preference shares, please refer to the announcement of the Bank issued on June 28, 2018.

During the reporting period, the offshore preference shares issued by the Bank have not yet reached the dividend payment date, and no dividends on offshore preference shares have been distributed.

Redemption or Conversion of Offshore Preference Shares

During the reporting period, there was no redemption or conversion of the offshore preference shares issued by the Bank.

Restoration of Voting Rights of Offshore Preference Shares

During the reporting period, there was no restoration of voting rights of the offshore preference shares issued by the Bank.

Accounting Policies Adopted for Offshore Preference Shares and the Reasons Thereof

In accordance with the Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments promulgated by the Ministry of Finance, as well as the International Accounting Standards No. 32 Financial Instruments: Presentation and the International Financial Reporting Standards No. 7 — Financial Instruments: Disclosure issued by International Accounting Standards Board, the existing preference shares issued by the Bank conform to the accounting requirements as equity instruments in its provisions, and are calculated as equity instruments.

Changes in Share Capital and Shareholdings of Shareholders

Substantial Shareholders

According to the Interim Measures on Equity Management of Commercial Banks published by CBIRC, 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% shares in the Bank and one member of senior management from CSIC and SIPG each holds a concurrent post of director of the Bank.

Basic Information of Substantial Shareholders

Controlling Shareholder

The controlling shareholder of the Bank is China Post Group. China Post Group is a large-scale wholly state-owned enterprise established in accordance with the Law of the People’s Republic of China on Industrial Enterprises Owned by the Whole People on October 4, 1995. It engages in various postal businesses in accordance with law, undertakes the obligations of general postal services and provides special postal services entrusted by the government. China Post Group has a registered capital of RMB108,821.49 million, its registered address is No. 3 Financial Street, Xicheng District, Beijing, its unified social credit code is 911000000000192465, and its legal representative is Mr. Liu Aili. 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.

During the reporting period, there was no change in the controlling shareholder or the actual controller of the Bank.

Other Substantial Shareholders

CSIC is a wholly state-owned enterprise established under the Company Law on July 1, 1999. CSIC has with a registered capital of RMB63.0 billion, its registered address is No.72 Kunminghu Nan Lu, Haidian District, Beijing, its unified social credit code is 9111000071092446XA and its legal representative is Mr. Hu Wenming. CSIC is principally engaged in the research, development and production of naval products, merchant ships and supporting facilities as well as non-marine equipment. It is the only Global 500 firm in the shipping industry in the PRC.

SIPG, operator of the public terminals in the Port of Shanghai, is a large specialized business group established in January 2003 by restructuring the former Shanghai Port Administration Bureau. SIPG has its registered address at 4/F, Area A, Comprehensive Building, No. 1 Tonghui Road, Luchaogang Town, Pudong New Area, Shanghai, and its head office at No. 358 East Daming Road, Hongkou District, Shanghai (International Port Building). Its unified social credit code is 913100001322075806 and the legal representative of SIPG is Mr. Chen Xuyuan. SIPG has a registered capital of RMB23,173,674,650 and the ultimate controller is the Shanghai State-owned Assets Supervision and Administration Commission. In June 2005, SIPG was transformed into 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 port operator in the Chinese mainland and is also one of the largest port companies in the world. SIPG is mainly engaged in port-related business with four principal industrial segments, namely port handling, port service, port logistics and port commerce.

Share Pledge by Substantial Shareholders of the Bank

During the reporting period, the substantial shareholders of the Bank did not pledge their shares in the Bank.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at June 30, 2018, the Bank received notifications from the following persons regarding their interests or short positions in the shares and underlying shares of the Bank, which were recorded in the register required to be kept pursuant to Section 336 of the SFO as follows:

Name of shareholders	Capacity	Class of shares	Number of shares held (share)	Nature	Approximate percentage of total issued shares (%)	Approximate percentage of issued class shares (%)
China Post Group	Beneficiary owner	Domestic Shares	55,847,933,782	Long Position	68.92	91.29
China Life Insurance (Group) Company ⁽¹⁾	Interest of controlled corporations	Domestic Shares	3,341,900,000	Long Position	4.12	5.46
China Life Insurance Company Limited ⁽¹⁾	Beneficiary owner	Domestic Shares	3,341,900,000	Long Position	4.12	5.46
UBS Group AG ⁽²⁾	Guaranteed interest and interest of controlled corporations	H Shares	4,444,884,901	Long Position	5.49	22.39
	Interest of controlled corporations	H Shares	4,073,334,058	Short Position	5.03	20.51
CSIC Investment One Limited ⁽³⁾	Beneficiary owner	H Shares	3,423,340,000	Long Position	4.22	17.24
Shanghai International Port (Group) Co., Ltd. ⁽⁴⁾	Interest of controlled corporations	H Shares	3,349,490,000	Long Position	4.13	16.87
Shanghai International Port Group (H.K.) Co., Limited ⁽⁴⁾	Beneficiary owner and Interest of controlled corporations	H Shares	3,349,490,000	Long Position	4.13	16.87
Shanghai Port Group (BVI) Holding Co., Limited ⁽⁴⁾	Beneficiary owner	H Shares	1,600,000,000	Long Position	1.97	8.06

Changes in Share Capital and Shareholdings of Shareholders

Name of shareholders	Capacity	Class of shares	Number of shares held (share)	Nature	Approximate percentage of total issued shares (%)	Approximate percentage of issued class shares (%)
CITIC Securities Company Limited ⁽⁵⁾	Interest of controlled corporations	H Shares	2,423,591,985	Long Position	2.99	12.21
	Interest of controlled corporations	H Shares	3,696,194,714	Short Position	4.56	18.61
Li Ka-Shing ⁽⁶⁾	Interest of controlled corporations	H Shares	2,267,364,000	Long Position	2.80	11.42
Li Tzar Kuoi, Victor ⁽⁶⁾	Interest of controlled corporations	H Shares	2,267,364,000	Long Position	2.80	11.42
Li Ka Shing (Canada) Foundation ⁽⁶⁾	Beneficiary owner	H Shares	1,108,228,000	Long Position	1.37	5.58
China National Tobacco Corporation	Beneficiary owner	H Shares	1,296,000,000	Long Position	1.60	6.53
JPMorgan Chase & Co. ⁽⁷⁾	Beneficiary owner, investment manager and approved lending agent	H Shares	1,287,897,708	Long Position	1.59	6.49
	Beneficiary owner	H Shares	216,983,565	Short Position	0.27	1.09
	Approved lending agent	H Shares	85,288,489	Shares available for lending	0.11	0.43

- (1) 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 total 3,341,900,000 domestic shares held by China Life Insurance Company Limited under the SFO.
- (2) According to the disclosure of interests form submitted by UBS Group AG, UBS Group AG is interested the total 4,444,884,901 H Shares (long position) and 4,073,334,058 H Shares (short position), including 88,437,191 H Shares (long position) held as a guaranteed interest holder, as well as 4,356,447,710 H Shares (long position) and 4,073,334,058 H Shares (short position) held through its controlled corporation.
- (3) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (HK) 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 (HK) 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 total 3,423,340,000 H Shares held by CSIC Investment One Limited under the SFO.

- (4) According to the disclosure of interests form submitted by Shanghai International Port Group (HK) Co., Limited, Shanghai Port Group (BVI) Holding Co., Limited and Shanghai International Port (Group) Co., Ltd., Shanghai International Port Group (HK) Co., Limited is interested in the total 3,349,490,000 H Shares (long position), of which 1,749,490,000 H Shares are beneficially owned and 1,600,000,000 H Shares are held by Shanghai Port Group (BVI) Holding Co., Limited of which 100% shares are directly owned by it. The State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. Shanghai International Port (Group) Co., Ltd. is the controlling shareholder of Shanghai International Port Group (HK) Co., Limited. They are therefore deemed to be interested in the total 3,349,490,000 H Shares held by Shanghai International Port Group (HK) Co., Limited under the SFO.
- (5) According to the disclosure of interests form submitted by CITIC Securities Company Limited, CITIC Securities Company Limited is interested in the total 2,423,591,985 H Shares (long position) and 3,696,194,714 H Shares (short position) through its controlled corporation.
- (6) 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 under the SFO.
- (7) According to the disclosure of interests form submitted by JPMorgan Chase & Co., JPMorgan Chase & Co. is interested in the total 1,287,897,708 H Shares (long position), 216,983,565 H Shares (short position) and 85,288,489 H Shares (shares available for lending), including the 943,150,420 H Shares (long position) and 216,983,565 H Shares (short position) held as a beneficiary owner, the 259,458,799 H Shares (long position) held as an investment manager and the 85,288,489 H Shares (shares available for lending) held as an approved lending agent.

Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management of the Bank

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

The Board of Directors consists of 14 directors in total, including 3 executive directors, namely Mr. Lyu Jiajin, 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.

The Board of Supervisors has 9 supervisors in total, including Mr. Chen Yuejun, the Chairman; 3 shareholders representative supervisors, namely Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang; 3 external supervisors, namely Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; 3 employee representative supervisors, namely Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng.

The Bank has a total of 8 senior management personnel, namely Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Qu Jiawen, Mr. Xu Xueming, Mr. Shao Zhibao, Mr. Liu Hucheng and Mr. Du Chunye.

Changes in Directors, Supervisors and Senior Management

Directors

On June 28, 2018, Mr. Li Guohua was elected as a non-executive director at the shareholders' general meeting of 2017 of the Bank with the term of office starting from June 28, 2018. For details, please refer to the circular of the shareholders of the Bank dated May 14, 2018 and announcement of voting result of the Bank dated June 28, 2018. On August 17, 2018, Mr. Li Guohua resigned from the position of Chairman, non-executive director, and chairman and member of the Strategic Planning Committee of the Bank due to change of job. For details, please refer to the resignation announcement of the Bank dated August 17, 2018.

Supervisors

During the reporting period, there were no changes in supervisors.

Senior Management

During the reporting period, there were no changes to the senior management team.

Changes in Resumes of Directors and Supervisors

On May 29, 2018, Mr. Ma Weihua served as the chairman of Bison Finance Group Limited (formerly known as Roadshow Holdings Limited).

On January 8, 2018, Mr. Gan Peizhong served as the independent director of Suzhou Douson Drilling & Production Equipment Co., Ltd.

On May 11, 2018, Mr. Guo Tianyong resigned as an independent non-executive director of Bank of Tianjin Co., Ltd.

On February 26, 2018, Mr. Wu Yu resigned as the chairman of Beijing Zhongan Huiyin Investment Co., Ltd.; on May 23, 2018, Mr. Wu Yu resigned as chairman of Zhongan Runxin (Beijing) Venture Capital Investment Limited.

Significant Events

Corporate Governance

In accordance with the regulatory requirements, the Bank reviewed and approved the Resolution Proposal on the Amendments to the Articles of Association of Postal Savings Bank of China Co., Ltd. at the 2017 second extraordinary general meeting convened on October 27, 2017. Please refer to the circular of the Bank dated September 12, 2017 for details. Subsequently, the authorized persons of the Board of Directors of the Bank made further adjustments to certain wording of the amended provisions of the Articles of Association of Postal Savings Bank of China Co., Ltd. pursuant to the authorization to the Board of Directors by the 2017 second extraordinary general meeting and actual conditions of the Bank, and submitted the amended parts to the CBIRC for approval. The Amendments to the Articles of Association were approved by the CBIRC on June 21, 2018 and have taken effect since June 21, 2018. For details, please refer to the announcement of the Bank dated June 27, 2018 regarding CBIRC's approval of the amendments to the Articles of Association.

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

Internal Control and Internal Audit

Internal Control

The Bank has continued to improve the internal control organizational structure, specifying the internal control responsibilities among the Board of Directors, the Board of Supervisors and the senior management, and establishing an organizational structure with reasonable and distinct division of responsibilities, clear reporting lines as well as checks and balances. The Board of Directors is responsible for ensuring that the Bank establishes and implements an adequate and effective internal control system and that the Bank operates prudently within the framework of laws and policies. The Board of Supervisors is responsible for improving the supervision mechanism and effectively supervising the performance of duties. The senior management is responsible for implementing the decisions of the Board of Directors and effectively performing internal control-related responsibilities. Branches as well as head office departments and institutions are responsible for participating in the formulation of business systems and operating procedures relating to their own responsibilities, and strictly enforcing the rules of internal control. The Legal and Compliance Department, as the department taking the lead of internal control management, is responsible for leading the efforts for setting up the internal control system. The Audit Office and audit departments are responsible for supervising and evaluating the implementation of internal control. The risk and internal control committees established by branches are responsible for organizing, supervising, evaluating and reviewing the internal control at branches.

During the reporting period, the Bank continued to promote the building of the internal control system. It formulated the Internal Control Management Manual to sort out current principal business and management activities and established internal control procedures to identify the risks, control measures and corresponding rules and regulations for relevant operations and management, thereby improving the effectiveness of risk prevention and control. The Bank also optimized policy system for internal control. It improved the mechanism for overall planning, review and approval as well as post-implementation evaluation of regulations, optimized management standards and processes and carried

Significant Events

out regular review and assessment, exercising a life cycle management of rules and regulations. In addition, the Bank organized internal control building activities with the theme of “internal control improvement” with the aim to strengthen employees’ compliance awareness and incorporate the compliance culture into the whole process of business management.

Internal Audit

The Bank implements an internal audit system and has built a three-tier audit structure consisting of the Audit Office at the head office, regional audit offices and audit departments at tier-1 branches. The Bank has established an independent and relatively vertical internal audit system that adapts to the development needs of the Bank, and also has set up an internal audit reporting system and reporting lines consistent with the internal audit system. The Audit Office at the head office is accountable to the Board of Directors and the Audit Committee under it, and reports, on a regular basis, to the Board of Directors, the Audit Committee thereunder and the Board of Supervisors, and notify the senior management.

The Audit Office at the head office is responsible for the overall audit work and coordination of audit resources of the Bank, and focuses on auditing the head office and key areas of the Bank according to the requirements of the annual general meeting, the Board of Directors, the Board of Supervisors and the senior management. There are 7 regional audit offices under the Audit Office, which are vital parts of the Audit Office at the head office as local offices thereof and are mainly responsible for the audit work of tier-1 branches within their authority. The audit departments of tier-1 branches, which are under the dual leadership of the Audit Office at the head office and their respective branch presidents, are responsible for the audit work at institutions under the management of tier-1 branches.

During the reporting period, the Audit Office and audit departments, centering on the strategic decisions of the Board of Directors, strictly implemented the regulatory requirements for rectifying irregularities in the banking industry. We also followed a problem-oriented approach to audit key areas such as credit assets, financial management, internal control and corporate governance and intensify problem rectification and accountability, thus effectively promoting relevant departments and branches to further improve business processes and management mechanisms. In addition, we continued to promote the development and application of audit IT systems, strengthened basic audit management and auditor training, providing a strong guarantee for the smooth implementation of the Bank’s strategies and steady business development.

Profit and Dividend Distribution

The 2017 annual general meeting held on June 28, 2018 considered and approved the Bank’s profit distribution plan of 2017, specifically distributing cash dividends of RMB1.471 (tax inclusive) for each ten shares of 81,030,574,000 ordinary shares, totaling approximately RMB11,920 million (tax inclusive), to all the ordinary shareholders whose names appeared on the register of members of the Bank on the shareholding registration day. The Bank distributed the above-mentioned dividends on August 17, 2018 (Friday).

The Bank will not declare or distribute interim dividends of 2018, nor will it convert capital reserve to share capital.

In accordance with the resolution and authorization of the shareholders' general meeting, the Bank reviewed and approved the dividend distribution plan for the Bank's offshore preference shares at the meeting of its Board of Directors on June 28, 2018, permitting the Bank to distribute dividends on the offshore preference shares for the period from September 27, 2017 (inclusive) to September 27, 2018 (exclusive) on September 27, 2018. Pursuant to relevant laws and regulations, the Bank shall withhold and pay income tax at a rate of 10% when distributing dividends on offshore preference shares, and under the relevant terms and conditions of the offshore preference shares, the Bank shall bear such tax. According to the interest-bearing principal amount of the offshore preference shares of the Bank, the dividend yield of 4.50% (after tax) and the tax rate for withholding and paying income tax, the dividends on the offshore preference shares to be distributed by the Bank will be USD362.5 million, of which USD326.25 million will be paid to the holders of offshore preference shares; and the income tax to be withheld and paid by the Bank will be USD36.25 million. For details of the dividend distribution on the offshore preference shares, please refer to the announcement of the Bank issued on June 28, 2018.

During the reporting period, the offshore preference shares issued by the Bank have not yet reached the dividend payment date, and no dividends on offshore preference shares have been distributed.

Material Legal Proceedings and Arbitration

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

As of June 30, 2018, the amount of pending and material proceedings or arbitration each with a claim amount of over RMB10 million in which the Bank acted as defendant or arbitration respondent totaled approximately RMB433 million. The Bank does not expect any material adverse effect from the above-mentioned pending legal proceedings on the Bank's business, financial position or operating results.

Material Assets Acquisition, Sale and Merger

During the reporting period, the Bank did not carry out any material assets acquisition, sale and merger.

Related Party Transactions

Please refer to "Notes to the Condensed Consolidated Financial Statements — 36 Transactions with related parties" for details of related party transactions during the reporting period.

Pledge of Assets

For information relating to the pledge of assets of the Bank, please refer to "Notes to the Condensed Consolidated Financial Statements — 38.5 Collateral".

Significant Events

Purchase, Sale or Redemption of the Bank's Listed Securities

During the reporting period, neither the Bank nor its subsidiary purchased, sold or redeemed any listed securities of the Bank.

Implementation of the Share Incentive Plan

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

Securities Transactions by Directors and Supervisors

The Bank has adopted a set of codes of conduct concerning the securities transactions by directors and supervisors which are no less stringent than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Hong Kong Listing Rules. The directors and supervisors of the Bank confirmed that they have complied with the aforesaid codes of conduct during the reporting period.

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

During the reporting period, no rights to acquire benefits by means of acquisition of shares or debentures of the Bank were granted to any directors, supervisors, chief executive or their respective spouses or children below the age of 18, and none of them exercised such rights; neither the Bank nor its subsidiary made any arrangement that enabled the directors, supervisors and chief executive or their respective spouses or children below the age of 18, to acquire such rights in any other body corporate.

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

As of the end of the reporting period, none of the directors, supervisors or chief executive of the Bank owned any interests or short positions (including interests and short positions which they were deemed to have, under provisions of the SFO) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or any interests or short positions which have to be recorded in the register under Section 352 of the SFO, or any interests or short positions which have 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 to the Hong Kong Listing Rules.

Interim Review

The 2018 interim financial statements of the Group have not been audited. The 2018 interim financial statements prepared by the Group in accordance with the IFRS have been reviewed by PricewaterhouseCoopers in accordance with the International Standards on Review Engagements.

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

Report on Review of Interim Financial Information

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

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

Introduction

We have reviewed the interim financial information set out on pages 98 to 246 which comprises the condensed consolidated statement of financial position of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (together, the "Group") as at June 30, 2018 and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes.

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

August 28, 2018

Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2018 (unaudited)	2017 (unaudited)
Interest income	3	173,336	145,348
Interest expense	3	(61,674)	(57,834)
Net interest income	3	111,662	87,514
Fee and commission income	4	14,916	11,568
Fee and commission expense	4	(7,234)	(4,535)
Net fee and commission income	4	7,682	7,033
Net trading gains	5	2,805	1,679
Net gains on investment securities	6	8,772	9,835
Net losses on derecognition of financial assets at amortized cost		(1)	N/A
Net other operating gains/(losses)	7	1,488	(88)
Operating income		132,408	105,973
Operating expenses	8	(74,770)	(65,544)
Impairment losses on assets	9	(23,371)	(10,366)
Profit before income tax		34,267	30,063
Income tax expense	10	(1,720)	(3,471)
Net profit		32,547	26,592
Net profit attributable to			
Shareholders of the Bank		32,523	26,600
Non-controlling interests		24	(8)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2018 (unaudited)	2017 (unaudited)
Net profit		32,547	26,592
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		(85)	(41)
Subtotal		(85)	(41)
Items that may be reclassified subsequently to profit or loss			
Net losses on investments in available-for-sale financial assets		N/A	(2,685)
Net gains on investments in financial assets at fair value through other comprehensive income		2,109	N/A
Subtotal		2,109	(2,685)
Total comprehensive income for the period		34,571	23,866
Total comprehensive income attributable to:			
Shareholders of the Bank		34,547	23,874
Non-controlling interests		24	(8)
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	11	0.37	0.33

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

Condensed Consolidated Statement of Financial Position

As at June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2018 (unaudited)	As at December 31, 2017 (audited)
Assets			
Cash and deposits with central bank	12	1,265,721	1,411,962
Deposits with banks and other financial institutions	13	266,361	296,758
Placements with banks and other financial institutions	14	290,552	315,999
Derivative financial assets	15	6,826	6,584
Financial assets held under resale agreements	16	293,622	141,974
Loans and advances to customers	17	3,911,440	3,541,571
Investment instruments			
– Financial assets at fair value through profit or loss	18.1	346,347	119,992
– Financial assets at fair value through other comprehensive income	18.2	175,544	N/A
– Financial assets at amortized cost	18.3	2,628,062	N/A
– Available-for-sale financial assets	18.4	N/A	686,748
– Held-to-maturity investments	18.5	N/A	935,735
– Investment classified as receivables	18.6	N/A	1,424,558
Property and equipment	20	44,023	43,804
Deferred tax assets	21	26,372	22,258
Other assets	22	71,293	64,608
Total assets		9,326,163	9,012,551
Liabilities			
Deposits from banks and other financial institutions	24	59,244	48,454
Placements from banks and other financial institutions	25	38,682	73,617
Financial liabilities at fair value through profit or loss	26	14,984	42,193
Derivative financial liabilities	15	6,645	6,616
Financial assets sold under repurchase agreements	27	176,699	115,143
Customer deposits	28	8,332,830	8,062,659
Debt securities issued	29	76,182	74,932
Other liabilities	30	167,399	157,580
Total liabilities		8,872,665	8,581,194

Condensed Consolidated Statement of Financial Position

As at June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2018 (unaudited)	As at December 31, 2017 (audited)
Equity			
Share capital	31	81,031	81,031
Other equity instruments			
Preference shares	31	47,846	47,846
Capital reserve	32	74,648	74,659
Other reserves	33	127,808	121,126
Retained earnings		121,305	106,311
Equity attributable to shareholders of the Bank		452,638	430,973
Non-controlling interests		860	384
Total equity		453,498	431,357
Total equity and liabilities		9,326,163	9,012,551

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

Approved and authorized for issue by the Board of Directors on August 28, 2018.

Lyu Jiajin

(On behalf of Board of Directors)

Zhang Xuewen

(On behalf of Board of Directors)

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank							Total	Non-controlling interests	Total equity
		Share capital	Other equity instruments - Preference Shares	Capital reserve	Surplus reserve	Other reserves - General reserve	Other comprehensive income:	Retained earnings			
As at December 31, 2017 (audited)		81,031	47,846	74,659	25,159	101,011	(5,044)	106,311	430,973	384	431,357
Change on application of new accounting policy	2.2.1	—	—	—	—	—	4,658	(3,218)	1,440	(59)	1,381
As at January 1, 2018 (restated)		81,031	47,846	74,659	25,159	101,011	(386)	103,093	432,413	325	432,738
Profit for the period		—	—	—	—	—	—	32,523	32,523	24	32,547
Other comprehensive income	33.3	—	—	—	—	—	2,024	—	2,024	—	2,024
Total comprehensive income for the period		—	—	—	—	—	2,024	32,523	34,547	24	34,571
Appropriation to surplus reserve	33.1	—	—	—	—	—	—	—	—	—	—
Appropriation to general reserve	33.2	—	—	—	—	—	—	—	—	—	—
Change of share proportion of the subsidiary	32	—	—	(11)	—	—	—	—	(11)	511	500
Dividends paid to ordinary shareholders	34	—	—	—	—	—	—	(11,920)	(11,920)	—	(11,920)
Dividends paid to preference shareholders	34	—	—	—	—	—	—	(2,391)	(2,391)	—	(2,391)
As at June 30, 2018 (unaudited)		81,031	47,846	74,648	25,159	101,011	1,638	121,305	452,638	860	453,498

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank						Retained earnings	Total	Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Other reserves	Other comprehensive income:				
As at January 1, 2017		81,031	74,659	20,395	93,803	70	76,572	346,530	358	346,888	
Profit for the period		—	—	—	—	—	26,600	26,600	(8)	26,592	
Other comprehensive income		—	—	—	—	(2,726)	—	(2,726)	—	(2,726)	
Total comprehensive income for the period		—	—	—	—	(2,726)	26,600	23,874	(8)	23,866	
Appropriation to surplus reserve		—	—	—	—	—	—	—	—	—	
Appropriation to general reserve		—	—	—	—	—	—	—	—	—	
Dividends paid to ordinary shareholders		—	—	—	—	—	(5,972)	(5,972)	—	(5,972)	
As at June 30, 2017 (unaudited)		81,031	74,659	20,395	93,803	(2,656)	97,200	364,432	350	364,782	

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Other equity instruments -Preference Shares	Capital reserve	Surplus reserve	Other reserves General reserve	Other comprehensive income	Retained earnings	Total		
As at January 1, 2017		81,031	—	74,659	20,395	93,803	70	76,572	346,530	358	346,888
Profit for the year		—	—	—	—	—	—	47,683	47,683	26	47,709
Other comprehensive income	33.3	—	—	—	—	—	(5,114)	—	(5,114)	—	(5,114)
Total comprehensive income for the year		—	—	—	—	—	(5,114)	47,683	42,569	26	42,595
Appropriation to surplus reserve	33.1	—	—	—	4,764	—	—	(4,764)	—	—	—
Appropriation to general reserve	33.2	—	—	—	—	7,208	—	(7,208)	—	—	—
Issuance of preference shares	31.2	—	47,846	—	—	—	—	—	47,846	—	47,846
Dividends paid to ordinary shareholders		—	—	—	—	—	—	(5,972)	(5,972)	—	(5,972)
As at December 31, 2017 (Audited)		81,031	47,846	74,659	25,159	101,011	(5,044)	106,311	430,973	384	431,357

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

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	34,267	30,063
Adjustments for:		
Amortization of intangible assets and other assets	451	535
Depreciation of property and equipment and investment properties	1,772	1,799
Impairment losses on assets	23,371	10,366
Interest income arising from investment instruments	(50,997)	(46,569)
Interest expense arising from debt securities issued	1,520	1,293
Net gains on investment securities	(8,291)	(8,491)
Unrealized exchange (gains)/losses	(445)	1,197
Net losses from disposal of property, equipment and other assets	4	8
Subtotal	1,652	(9,799)
NET CHANGES IN OPERATING ASSETS		
Net decrease/ (increase) in deposits with central bank	121,685	(85,254)
Net decrease/(increase) in deposits with banks and other financial institutions	33,890	(72,477)
Net increase in placements with banks and other financial institutions	(12,529)	(4,393)
Net decrease/(increase) in financial assets at fair value through profit or loss	97,669	(36,684)
Net increase in financial assets held under resale agreements	(29,034)	(27,542)
Net increase in loans and advances to customers	(370,383)	(331,679)
Net increase in other operating assets	(31,790)	(14,910)
Subtotal	(190,492)	(572,939)

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2018 (unaudited)	2017 (unaudited)
NET CHANGES IN OPERATING LIABILITIES		
Net increase/(decrease) in deposits from banks and other financial institutions	10,790	(226,066)
Net decrease in placements from banks and other financial institutions	(34,935)	(12,368)
Net decrease in financial liabilities at fair value through profit or loss	(27,179)	(3,242)
Net increase/(decrease) in financial assets sold under repurchase agreements	61,556	(49,162)
Net increase in customer deposits	270,172	519,924
Net decrease in other operating liabilities	(5,367)	(12,960)
Subtotal	275,037	216,126
CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	86,197	(366,612)
Income tax paid	(6,607)	(3,812)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	79,590	(370,424)
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	120,810	94,904
Interest paid	(71,113)	(69,746)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from disposal of investment instruments	489,781	753,068
Cash received from income arising from investment instruments	64,535	53,745
Cash paid for purchase of investment instruments	(565,114)	(457,346)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets	(2,440)	(2,768)
Cash received from disposal of property and equipment, intangible assets and other long-term assets	117	15
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(13,121)	346,714

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2018 (unaudited)	2017 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital received from non-controlling interests for investment in subsidiary		500	—
Interests paid on debt securities issued		(924)	—
Cash received from issuing debt securities		5,737	19,982
Repayments of debt securities		(4,486)	—
Cash paid relating to other financing activities		—	(3)
NET CASH GENERATED FROM FINANCING ACTIVITIES		827	19,979
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Balance of cash and cash equivalents at the beginning of period		322,935	184,893
Effect of foreign exchange rate changes		(2,896)	(1,188)
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	35	387,335	179,974

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

1 General information

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

In 2011, with the approval from the Ministry of Finance (the “MOF”) of the People’s Republic of China (“China” or the “PRC”) and China Banking and Insurance Regulatory Commission (the “CBIRC”, formally as China Banking Regulatory Commission), 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 CBIRC, holds a financial institution license of the PRC (No. B0018H111000001) and obtained its business license with unified social credit code 9111000071093465XC from the State Administration for Industry and Commerce. The address of the Bank’s registered office is No. 3 Jinrong Street, Xicheng District, Beijing, the PRC.

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

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

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 28, 2018.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

This unaudited condensed consolidated interim financial statements for the six months ended June 30, 2018 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”, and all applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial statements should be read in conjunction with the Group’s consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies

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

Except for those described below, the accounting policies and methods of computation used in preparing the condensed consolidated financial statements for the six months ended June 30, 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2017. The condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2017.

New and amended IFRSs effective by January 1, 2018 adopted by the Group

		Effective date
Amendment to IFRS 9	Financial Instruments	January 1, 2018
Amendment to IFRS 15	Revenue from contracts with customers	January 1, 2018

The adoption of IFRS 15 does 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 annual periods beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance contracts	January 1, 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	January 1, 2019

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies

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

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

IFRS 16 – Lease

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

As at June 30, 2018, the Group has non-cancellable operating lease commitments of RMB10.3 billion, see note 38.4. 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 or loss and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, the adoption of IFRS 16 will not have significant impact on the financial information.

2.2.1 Changes in accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 1, 2018 and has replaced the guidance of IAS 39 Financial Instruments: Recognition and Measurement, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) *Specific IFRS 9 accounting policies applied in the current period*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

(i) *Classification of financial instruments*

Financial assets are classified into the following three types on the basis of the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets or the purpose of assuming liabilities:

- Amortized cost;
- Fair value through other comprehensive income ("FVOCI");
- Fair value through profit or loss ("FVTPL").

The business model reflects how the Group manages the financial assets in order to generate cash flows. The business model determines whether the cash flows of financial assets managed by the Group solely come from collecting the contractual cash flows from the assets, selling the financial assets, or both. Factors considered by the Group in determining the business model of a set of financial assets include how the cash flows of the Group were collected in the past, how the Group's performance was assessed and reported to key management personnel, how the risks were assessed and managed, and the way the business managers are paid.

Contractual cash flow characteristics of financial assets, refer to the cash flow attributes agreed in the contracts of financial instruments that reflect the economic characteristics of the relevant financial assets. The related contractual cash flow at a certain date is only for the payment of principal and the interest on the outstanding principal amount. Among them, the principal refers to the fair value of financial assets on initial recognition, the principal amount may change due to prepayment within the duration of financial assets. Interest includes consideration of the time value of money, the credit risk associated with the amount of outstanding principal for a particular period, and other basic lending risks, costs, and profits.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(i) Classification of financial instruments (continued)

Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- (a) The business model for managing the financial assets is to collect contractual cash flows;
- (b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal .

Financial assets measured at FVOCI

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Financial assets are classified as financial assets measured at FVOCI when they are not designated at FVTPL and both of the following conditions are met:

- (a) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;
- (b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal .

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognize dividend income in accordance with the relevant policies specified in Note 2.2.1(1)(ii). Once the designation is made, it cannot be revoked.

Financial assets and liabilities at FVTPL

The Group classifies the financial assets and liabilities other than those measured at amortized cost and financial assets measured at FVOCI as financial assets and liabilities at FVTPL.

Financial assets and liabilities at FVTPL include those mandatory, and those designated at FVTPL.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(i) Classification of financial instruments (continued)

Financial assets and liabilities at FVTPL (continued)

The Group classifies the following financial assets at fair value through profit or loss:

- (a) debt instruments that do not qualify for measurement at either amortized cost or FVOCI;
- (b) equity instruments that are held for trading, and
- (c) equity instruments for which the entity has not designated at FVOCI.

At initial recognition, the Group may designate financial assets as financial assets at FVTPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities are designated at FVTPL upon initial recognition when one of the following conditions is met:

- (a) the designation can eliminate or significantly reduce accounting mismatch; or
- (b) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVTPL, which are measured at amortized cost, using the effective interest method. Other financial liabilities mainly comprise deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) *Specific IFRS 9 accounting policies applied in the current period (continued)*

(ii) *Measurement of financial instruments*

Initial recognition

Financial assets purchased or sold in regular way are recognized on the trading day, the date on which the Group commits to purchasing or selling the assets.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For financial assets or financial liabilities that are not measured at FVTPL, the transaction costs directly attributable to the acquisition or issuance of such financial assets or financial liabilities should also be added or deducted. Transaction costs of financial assets and financial liabilities carried at FVTPL are recognized in profit or loss. After initial recognition, an expected credit loss (“ECL”) allowance is immediately recognized in profit or loss for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI.

Subsequent measurement

Subsequent measurement of financial instruments depends on the categories:

Financial assets measured at amortized cost

The amortized cost is determined at the financial assets or financial liabilities at initial recognition after being adjusted as follows:

- (a) deducting the principal repaid;
- (b) adding or deducting the cumulative amortization of any difference between the amount at initial recognition and the amount at the maturity date using the effective interest method;
- (c) deducting any loss allowance (solely for financial assets).

The effective interest rate is the interest rate used to discount the estimated future cash flows of financial assets or financial liabilities over the estimated duration to the carrying amount (i.e. the amortized cost before any impairment allowance) of the financial assets or to the amortized cost of the financial liabilities. The expected credit losses are not considered in calculation, while the transaction costs, premiums or discounts, and fees paid or received that are integral to the effective interest rate are covered.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(ii) Measurement of financial instruments (continued)

Subsequent measurement (continued)

The interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, with the following exceptions:

- (a) a purchased or originated credit-impaired (“POCI”) financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortized cost; and
- (b) a financial asset that is not a POCI financial asset but has subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to its amortized cost. If, in a subsequent period, the financial asset improves its quality so that it is no longer credit-impaired and the improvement in credit quality can be related objectively to a certain event occurring after the application of the above-mentioned rule, then the interest income can again be calculated by applying the effective interest rate to its gross carrying amount.

Financial assets measured at FVOCI

Debt instruments

Movements in the carrying amount are recognized in other comprehensive income, except for the impairment gains or losses, interest income and foreign exchange gains and losses on the amortized cost of the financial assets which are recognized in profit or loss.

When the financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss for the current period.

Equity instruments

Where an investment in an equity investment not held for trading is designated as a financial asset measured at FVOCI, the changes in fair value of the financial asset are recognized in the other comprehensive income. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings. The dividend income on the investment is recognized in profit or loss only when the Group’s right to receive payment of the dividends is established.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) *Specific IFRS 9 accounting policies applied in the current period (continued)*

(ii) *Measurement of financial instruments (continued)*

Subsequent measurement (continued)

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, unless in the case of financial liabilities designated at FVTPL, where gains or losses on the financial liabilities are treated as follows:

- (a) changes in the fair value of such financial liabilities due to changes in the Group's own credit risk shall be recognized in other comprehensive income; and
- (b) other changes in fair value of such financial liabilities shall be recognized in profit or loss for the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group shall recognize all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated at FVTPL is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(iii) Impairment of financial instruments

For debt instrument carried at amortized cost and FVOCI and exposure arising from credit commitments, the Group assesses the expected credit losses in combination with the forward-looking information.

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, i.e., all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Group measures expected credit losses of a financial instrument in a way that reflects:

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

At each balance sheet date, the Group assesses whether there is a significant increase in the credit risk of its financial instruments since their initial recognition, and calculates the impairment allowance and recognizes the expected credit losses and changes as follows:

- (a) The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Irrespective of whether the Group assesses the credit losses of its financial instruments on an individual basis or collectively in a group, any increase or reversal of the allowance for credit losses shall be recognized in the profit or loss for the current period as impairment losses or gains.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(iii) Impairment of financial instruments (continued)

- (b) If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month (or the expected lifetime when it is shorter than 12 months) expected credit losses. Irrespective of whether the Group assesses the credit losses of its financial instruments on an individual basis or collectively in a group, any increase or reversal of the allowance for credit losses shall be recognized in the profit or loss for the current period as impairment losses or gains.

For debt instruments that are measured at FVOCI, the Group recognizes the loss allowance in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial assets in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, however it is determined that at the current reporting date the credit risk on the financial instruments has no longer increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to 12-month (or the expected lifetime when it is shorter than 12 months) expected credit losses at the current reporting date and the amount of expected credit losses reversed is recognized in profit or loss.

At the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Group recognizes the amount of the changes in lifetime expected credit losses in profit or loss as an impairment gain or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

Financial assets	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and deposits with central bank	Amortized cost	1,411,962	Amortized cost	1,411,962
Deposits with banks and other financial institutions	Amortized cost	296,758	Amortized cost	296,634
Placements with banks and other financial institutions	Amortized cost	315,999	Amortized cost	315,757
Derivative financial assets	FVTPL	6,584	FVTPL	6,584
Financial assets held under resale agreements	Amortized cost	141,974	Amortized cost	141,821
Loans and advances to customers	Amortized cost	3,541,571	Amortized cost FVOCI	3,120,206 419,917
Investment instruments	FVTPL (For trading)	77,959	FVTPL (Mandatory)	563,900
	FVTPL (Designated)	42,033	FVTPL (Designated)	42,033
	FVOCI (Available-for-sale financial assets)	686,748	FVOCI	180,022
	Amortized cost (Held-to-maturity investments)	935,735	Amortized cost	2,384,914
	Amortized cost (Investment classified as receivables)	1,424,558		
Other financial assets	Amortized cost	56,356	Amortized cost	56,356

With regard to the classification and measurement of financial liabilities, there is only one change in the application of IFRS 9. That is, the change in the fair value of the financial liabilities designated at FVTPL that are attributable to the changes in the own credit risks will be recognized in other comprehensive income. This change has no significant impact on the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost				
Cash and deposits with central bank				
Opening balance under IAS 39 and closing balance under IFRS 9	1,411,962			1,411,962
Deposits with Banks and Other Financial Institutions				
Opening balance under IAS 39	296,758			
Remeasurement: ECL allowance			(124)	
Closing balance under IFRS 9				296,634
Placements with Banks and Other Financial Institutions				
Opening balance under IAS 39	315,999			
Remeasurement: ECL allowance			(242)	
Closing balance under IFRS 9				315,757
Financial Assets Held Under Resale Agreements				
Opening balance under IAS 39	141,974			
Remeasurement: ECL allowance			(153)	
Closing balance under IFRS 9				141,821

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost (continued)				
Loans and advances to customers				
	3,541,571			
	Opening balance under IAS 39			
(h)		(420,069)		
	Less: Transfer to FVOCI (IFRS 9)			
	Remeasurement: ECL allowance		(1,296)	
	Closing balance under IFRS 9			3,120,206
Investment instruments — amortized cost				
	—			
	Opening balance under IAS 39			
(g)		837,509		
	Add: Transfer from held-to-maturity investments (IAS 39)			
	Remeasurement: ECL allowance		219	
(g)		1,405,509		
	Add: Transfer from investment classified as receivables (IAS 39)			
	Remeasurement: ECL allowance		(2,329)	
(c)		136,711		
	Add: Transfer from available-for-sale financial assets (IAS 39)			
	Remeasurement: Transfer from fair value to amortized cost		7,346	
	Remeasurement: ECL allowance		(51)	
	Closing balance under IFRS 9			2,384,914

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVTPL					
Investment instruments –					
FVTPL (mandatory)					
Opening balance under IAS 39		77,959			
Add: Transfer from available-for-sale financial assets (IAS 39)	(e)		447,680		
Remeasurement: Transfer from amortized cost to fair value				(672)	
Add: Transfer from held-to-maturity investments (IAS 39)	(a)		20,583		
Reclassification: Transfer from amortized cost to fair value				(386)	
Add: Transfer from investment classified as receivables (IAS 39)	(b)		18,663		
Reclassification: Transfer from amortized cost to fair value				73	
Closing balance under IFRS 9					563,900

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVTPL (continued)					
Investment instruments –					
FVTPL (designated)					
Opening balance under IAS 39		42,033			
Closing balance under IFRS 9					42,033
Derivative financial assets					
Opening balance under IAS 39		6,584			
Closing balance under IFRS 9					6,584
Total Financial Assets at					
FVTPL		126,576	486,926	(985)	612,517

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVOCI					
Investment instruments –					
FVOCI					
Opening balance					
under IAS 39		—			
Add: Transfer from held- to-maturity investments					
(IAS 39)	(d)		77,643		
Remeasurement: Transfer from amortized cost to fair value				(375)	
Add: Transfer from investment classified as receivables (IAS 39)	(d)		386		
Remeasurement: Transfer from amortized cost to fair value				11	
Add: Transfer from available- for-sale financial assets					
(IAS 39)	(g)		102,304		
Add: Transfer from available- for-sale financial assets (IAS 39) to designated at FVOCI (equity instruments)	(f)		53		
Closing balance under IFRS 9					180,022

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVOCI (continued)					
Investment instruments – available-for-sale financial assets					
Opening balance under IAS 39		686,748			
Less: Transfer to FVTPL (mandatory) (IFRS 9)	(e)		(447,680)		
Less: Transfer to amortized cost (IFRS 9)	(c)		(136,711)		
Less: Transfer to FVOCI (IFRS 9)	(g)		(102,304)		
Less: Transfer to FVOCI (equity instruments)	(f)		(53)		
Closing balance under IFRS 9					—
Loans and advances to customers					
Opening balance under IAS 39		—			
Add: Transfer from financial assets at amortized cost (IAS 39)	(h)		420,069		
Remeasurement: From amortized cost to fair value				(152)	
Closing balance under IFRS 9					419,917
Total financial assets at FVOCI		686,748	(86,293)	(516)	599,939

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

(a) Investments reclassified from held-to-maturity investments to FVTPL

The Group holds a portfolio of debt instruments that failed to meet the 'solely payments of principal and interest' (SPPI) requirement under IFRS 9. These instruments contain provisions that, in certain circumstances, can allow the issuer to defer interest payments, but which do not accrue additional interest. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to RMB20.58 billion, were classified as FVTPL from the date of initial application.

(b) Investments reclassified from investments classified as receivables to FVTPL

The Group holds a portfolio of debt instruments that failed to meet SPPI requirement under IFRS 9. Such instruments are contract-linked instruments, the underlying assets of which cannot satisfy SPPI requirement. As a result, these instruments, which amounted to RMB18.66 billion, were classified as FVTPL from the date of initial application.

(c) Investments reclassified from available-for-sale financial assets to financial assets at amortized cost

After assessing its business model for securities within the Group's liquidity portfolio, which are mostly held to collect the contractual cash flows and sell, the Group has identified certain securities which are managed separately and for which the past practice has been (and the Group's intention remains) to hold to collect the contractual cash flows. Consequently, the Group assessed that the appropriate business model for this group of securities is held to collect. These securities, which amounted to RMB136.71 billion, were reclassified from available-for-sale financial assets to financial assets at amortized cost from the date of initial application.

(d) Investments reclassified from held-to-maturity investments/investments classified as receivables to FVOCI

After assessing its business model for securities held by the Group, the business model of part of held-to-maturity investments (RMB77.64 billion) and investments classified as receivables (RMB0.39 billion) has changed to hold to collect the contractual cash flows and sell. Consequently, these securities were classified as FVOCI from the date of initial application.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

- (e) Investments reclassified from available-for-sale financial assets to FVTPL
- The Group reclassified the equity instruments from available-for-sale financial assets to FVTPL, which amounted to RMB439.32 billion. The contractual cash flow of these equity instruments failed to meet the SPPI requirement under IFRS 9 and was not designated as FVOCI. Therefore, these equity instruments were classified as FVTPL.
 - The Group holds a portfolio of asset-backed securities. These investments do not pass the SPPI test given these investments form part of one of the more subordinated tranches issued by the special purpose entity, so that the exposure to credit risk of the investment is greater than the exposure to credit risk of the underlying asset pool as a whole. As a result, this portfolio of securities, which were previously classified as available-for-sale financial assets and amounted to RMB3.00 billion, have been reclassified to FVTPL.
 - The group holds a portfolio of debt instruments previously classified as available-for-sale financial assets. These instruments contain provisions that, in certain circumstances, can allow the issuer to defer interest payments, but which do not accrue additional interest. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to RMB5.36 billion, were classified as FVTPL from the date of initial application.

(f) Designation of equity instruments at FVOCI

The Group has elected to irrevocably designate strategic investments of RMB53 million in a small portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These investments have not been classified as available-for-sale financial assets since the application of IFRS 9.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

(g) Reclassification from retired categories with no change in measurement

As their previous categories under IAS 39 were 'retired', the following debt instruments have been reclassified to new categories under IFRS 9, with no changes to their measurement basis:

- Those previously classified as available-for-sale financial assets are now classified as FVOCI; and
 - Those previously classified as held-to-maturity investments and loans and receivables are now classified as financial assets at amortized cost.
- (h) The Group's forfeiting and discounted bills used to be measured at amortized cost in line with IAS 39. According to the requirements of IFRS 9, on the transition day their business model was recognized as both collecting contractual cash flows and potentially selling the assets. They are both recognized at Fair Value through Other Comprehensive Income (FVOCI).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

2.2.1 Changes in accounting policies (continued)

(2) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance and provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

	Allowance for impairment losses under IAS 39/ Provision under IAS 37	Reclassifications	Remeasurements	Allowance for impairment losses under IFRS 9
Deposits with banks and other financial institutions	1,047	—	125	1,172
Placements with banks and other financial institutions	433	—	242	675
Financial assets held under resale agreements	—	—	153	153
Loans and advances to customers Held-to-maturity investments	88,564	(490)	1,296	89,370
Investments classified as receivables	4,157	(4,157)	—	—
Financial assets at amortized cost	—	4,430	2,161	6,591
Subtotal	94,616	(632)	3,977	97,961
Loan commitments	1,366	—	45	1,411
Other off-balance sheet items	101	—	175	276
Subtotal	1,467	—	220	1,687
Total	96,083	(632)	4,197	99,648

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.3 Use of estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and disclosed amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those disclosed as a result of the use of estimates and assumptions about future conditions.

In the preparation of the condensed consolidated interim financial statements, apart from the undermentioned accounting estimation and judgements, the key sources of uncertainty derived from significant judgements and estimation made by the management while applying the Group's accounting policies are the same as these applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2017.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 41.2 Credit Risk, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of financial assets for the purposes of measuring ECL and dividing items with similar characters in credit risk in one group.

Detailed information about the above judgements and estimates made by the Group is set out in note 41.2 Credit Risk.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

3 Net interest income

	Six months ended June 30	
	2018	2017
Interest income		
Deposits with central bank	10,140	10,381
Deposits with banks and other financial institutions	7,320	3,445
Placements with banks and other financial institutions	6,823	5,524
Financial assets held under resale agreements	3,578	3,759
Loans and advances to customers		
Including: Corporate loans and advances	40,451	31,089
Personal loans and advances	54,027	44,265
Investment instruments		
— Financial assets at fair value through profit or loss	N/A	316
— Financial assets at fair value through other comprehensive income	3,578	N/A
— Financial assets at amortized cost	47,419	N/A
— Available-for-sale financial assets	N/A	4,028
— Held-to-maturity investments	N/A	14,279
— Investment classified as receivables	N/A	28,262
Subtotal	173,336	145,348
Interest expense		
Deposits from banks and other financial institutions	(307)	(1,474)
Placements from banks and other financial institutions	(759)	(341)
Financial assets sold under repurchase agreements	(1,551)	(1,573)
Customer deposits	(57,537)	(53,153)
Debt securities issued	(1,520)	(1,293)
Subtotal	(61,674)	(57,834)
Net interest income	111,662	87,514
Including: Interest income accrued on impaired financial assets	92	79
Included in interest income		
Interest income from listed investments	28,179	19,922
Interest income from unlisted investments	22,818	26,647

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

	Note	Six months ended June 30	
		2018	2017
Bank cards and POS fee income		6,518	4,045
Settlement and clearing fee income	(1)	2,648	1,447
Wealth management fee income		2,601	2,746
Agency service fee income	(2)	2,420	2,673
Custodian business fee income		407	479
Others		322	178
Fee and commission income		14,916	11,568
Fee and commission expense	(3)	(7,234)	(4,535)
Net fee and commission income		7,682	7,033

(1) Settlement and clearing fee income refers to income derived from settlement services provided for institutional and individual customers, mainly including fee and commission derived from electronic payment services and unit settlement services.

(2) Agency fee income mainly refers to fee and commission income from various agency services, including insurances, funds, government bonds underwriting, and collection and payment services.

(3) Fee and commission expense is expense incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 36.3(1) for expenses paid by the Bank to China Post Group.

5 Net trading gains

	Six months ended June 30	
	2018	2017
Debt securities	2,526	1,346
Derivative financial instruments	279	333
Total	2,805	1,679

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

6 Net gains on investment securities

	Six months ended June 30	
	2018	2017
Net gains from financial assets at fair value through profit or loss	8,442	N/A
Net gains from financial assets at fair value through other comprehensive income	290	N/A
Amortization of unrealized gains arising from the portion transferred to financial assets at amortized cost	40	N/A
Net gains from available-for-sale financial assets	N/A	9,645
Net re-valuation gains arising from reclassification from other comprehensive income to profit or loss	N/A	93
Net gains from investment classified as receivables	N/A	49
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	N/A	48
Total	8,772	9,835

7 Net other operating gains/(losses)

	Six months ended June 30	
	2018	2017
Net exchange gains/(losses)	495	(961)
Government subsidies	480	311
Precious metal sales income	290	335
Leasing income	80	72
Others	143	155
Total	1,488	(88)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

8 Operating expenses

	Note	Six months ended June 30	
		2018	2017
Deposit agency fee costs and others	(1)	36,153	33,587
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	22,254	19,223
General operating and other administrative expenses		9,407	9,244
Depreciation and amortization		2,223	2,334
Taxes and surcharges		886	797
Others		3,847	359
Total		74,770	65,544

- (1) 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

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

	Six months ended June 30	
	2018	2017
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	15,975	13,880
Housing funds	1,306	1,144
Social security contributions	1,032	872
Including: Medical insurance	939	800
Maternity insurance	61	46
Work injury insurance	32	26
Labour union funds and employee education funds	649	408
Staff welfare	605	593
Subtotal	19,567	16,897
Defined contribution benefits		
Basic pensions	2,120	1,803
Annuity scheme	502	455
Unemployment insurance	52	61
Subtotal	2,674	2,319
Supplementary retirement benefits	13	7
Total	22,254	19,223

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

9 Impairment losses on assets

	Six months ended June 30	
	2018	2017
Expected credit losses		
Deposits with banks and other financial institutions	(307)	—
Placements with banks and other financial institutions	210	133
Financial assets held under resale agreements	402	—
Loans and advances to customers	16,775	9,502
Investment instruments		
— Financial assets at fair value through other comprehensive income	106	N/A
— Financial assets at amortized cost	4,994	N/A
— Investment classified as receivables	N/A	654
Credit commitments	1,045	(4)
Other financial assets	141	70
Others	5	11
Total	23,371	10,366

10 Income tax expense

	Six months ended June 30	
	2018	2017
Current income tax	6,785	4,893
Deferred income tax (Note 21)	(5,065)	(1,422)
Total	1,720	3,471

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

10 Income tax expenses (continued)

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

	Note	Six months ended June 30	
		2018	2017
Profit before income tax		34,267	30,063
Income tax expense calculated at the statutory tax rate of 25%		8,567	7,516
Tax effect of non-taxable income and tax reduction	(1)	(5,498)	(4,097)
Tax return		(1,513)	—
Tax effect of items not deductible for tax purpose	(2)	164	52
Income tax expense		1,720	3,471

- (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 is subject to income tax levied at half in accordance with the relevant PRC tax regulations.
- (2) Non-deductible expenses mainly include losses resulting from write-off of loans, staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

11 Basic and diluted earnings per share

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

	Six months ended June 30	
	2018	2017
Net profit attributable to shareholders of the Bank (in RMB millions)	32,523	26,600
Less: Net profit for the period attribute to preference shareholders of the Bank (in RMB millions)	(2,391)	—
Net profit attributable to ordinary shareholders of the Bank (in RMB millions)	30,132	26,600
Weighted average number of ordinary shares in issue (in millions)	81,031	81,031
Basic earnings per share (in RMB Yuan)	0.37	0.33

- (2) For the six months ended June 30, 2018 and 2017, as there were no potential diluted ordinary shares, the diluted earnings per share were the same as the basic earnings per share.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

12 Cash and deposits with central bank

	Note	As at June 30, 2018	As at December 31, 2017
Cash on hand		43,859	47,570
Statutory reserve with central bank	(1)	1,210,378	1,331,917
Surplus reserve with central bank	(2)	10,028	30,873
Fiscal deposits with central bank		1,456	1,602
Total		1,265,721	1,411,962

(1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at June 30, 2018, the ratio for RMB deposits statutory reserve was 14.5% (December 31, 2017: 16.5%), whereas the ratio for foreign currency deposits was 5% (December 31, 2017: 5%).

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

13 Deposits with banks and other financial institutions

	As at June 30, 2018	As at December 31, 2017
Deposits with:		
Domestic banks	260,292	291,140
Other domestic financial institutions	234	234
Overseas banks	6,700	6,431
Gross amount	267,226	297,805
Allowance for impairment losses (Note 23)	(865)	(1,047)
Carrying amount	266,361	296,758

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

14 Placements with banks and other financial institutions

	As at June 30, 2018	As at December 31, 2017
Placements with:		
Domestic banks	45,609	109,724
Other domestic financial institutions	243,360	205,600
Overseas banks	2,468	1,108
<hr/>		
Gross amount	291,437	316,432
<hr/>		
Allowance for impairment losses (Note 23)	(885)	(433)
<hr/>		
Carrying amount	290,552	315,999
<hr/>		

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities

The Group primarily enters into derivative contracts of foreign exchange rate 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 June 30, 2018		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	516,091	6,384	(6,301)
Interest rate contracts	102,815	442	(344)
Total	618,906	6,826	(6,645)

	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 June 30, 2018 and December 31, 2017, the Group did not have any netting arrangements or similar agreements with counterparties.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities (continued)

Analyzed by credit risk-weighted amount for counterparty

	As at June 30, 2018	As at December 31, 2017
Credit risk-weighted amount for counterparty		
Exchange rate contracts	2,839	2,613
Interest rate contracts	153	58
Subtotal	2,992	2,671
Credit value adjustments	6,250	5,296
Total	9,242	7,967

The contractual/notional amounts of derivatives only represent the volume of unsettled transactions as at the end of the reporting period, rather than their risk adjusted amounts. The Group adopted Administrative Measures for the Capital Management of Commercial Banks (Provisional) and other related regulations since January 1, 2013. According to CBIRC 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.

16 Financial assets held under resale agreements

	As at June 30, 2018	As at December 31, 2017
By collateral:		
Bills	65,318	14,540
Debt securities	228,859	127,434
Gross amount	294,177	141,974
Allowance for impairment losses (Note 23)	(555)	—
Carrying amount	293,622	141,974

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 38.5 Contingent liabilities and commitments - Collateral". As at June 30, 2018 and December 31, 2017, the Group did not have any netting arrangements or similar agreements with counterparties.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers

17.1 Loans and advances by types

Loans and advances to customers

	Notes	As at June 30, 2018	As at December 31, 2017
Loans and advances to customers			
– At amortized cost	(1)	3,563,301	3,541,571
– At fair value through other comprehensive income	(2)	348,136	N/A
– At fair value through profit or loss	(3)	3	N/A
Total		3,911,440	3,541,571

(1) Loans and advances to customers at amortized cost

	As at June 30, 2018	As at December 31, 2017
Corporate loans and advances		
– Loans	1,450,454	1,391,901
– Discounted bills	62,195	291,761
Subtotal	1,512,649	1,683,662
Personal loans and advances		
Consumer loans	1,561,746	1,411,361
– Residential mortgage loans	1,287,762	1,155,176
– Other consumer loans	273,984	256,185
Personal business loans	330,273	300,990
Micro loans	177,745	156,427
Credit cards overdrafts and others	85,877	77,695
Subtotal	2,155,641	1,946,473
Gross loans and advances to customers at amortized cost	3,668,290	3,630,135

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.1 Loans and advances by types (continued)

- (1) Loans and advances to customers at amortized cost (continued)

	As at June 30, 2018	As at December 31, 2017
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
— Stage 1	(67,397)	N/A
— Stage 2	(3,310)	N/A
— Stage 3	(34,282)	N/A
Individual assessment	N/A	(3,136)
Collective assessment	N/A	(85,428)
Net loans and advances to customers at amortized cost	3,563,301	3,541,571

- (2) Loans and advances to customers at fair value through other comprehensive income

	As at June 30, 2018	As at December 31, 2017
Corporate loans and advances		
— Loans	117,905	N/A
— Discounted bills	230,231	N/A
Gross loans and advances to customers at fair value through other comprehensive income	348,136	N/A

- (3) Loans and advances to customers at fair value through profit or loss

	As at June 30, 2018	As at December 31, 2017
Corporate loans and advances		
— Discounted bills	3	N/A

Part of the Group's discounted bills increased in this period with business model that is held neither “only for the collection of contractual cash flows” nor “both for collecting contractual cash flows and selling halfway” should be classified as FVTPL. As at June 30, 2018, the balance of this type of financial asset was RMB3 million.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.2 Detailed information regarding loans and advances to customers by geographical regions, industries, types of collateral and overdue situations is set out in Note 41.2.2(2) and Note 41.2.2(3).

17.3 Loans and advances by allowance for impairment losses

	As at June 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers at amortized cost	3,606,078	21,092	41,120	3,668,290
Allowance for impairment losses	(67,397)	(3,310)	(34,282)	(104,989)
Net loans and advances to customers at amortized cost	3,538,681	17,782	6,838	3,563,301
Gross loans and advances to customers at fair value through other comprehensive income	348,100	36	—	348,136
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	(363)	—	—	(363)

	As at December 31, 2017				
	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
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	

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments

18.1 Financial assets at fair value through profit or loss

	Note	As at June 30, 2018	As at December 31, 2017
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
– Listed in Hong Kong		98	N/A
– Listed outside Hong Kong		41,179	N/A
Subtotal		41,277	N/A
Interbank certificates of deposits			
– Listed outside Hong Kong		64,784	N/A
– Unlisted		12,542	N/A
Subtotal		77,326	N/A
Asset-backed securities			
– Listed outside Hong Kong		2,633	N/A
Equity instruments			
– Unlisted	(1)	210,418	N/A
Subtotal		331,654	N/A

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

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

	Note	As at June 30, 2018	As at December 31, 2017
Financial assets designated at fair value through profit or loss			
Asset management plans			
— Unlisted		3,467	N/A
Placements with banks and other financial institutions			
— Unlisted		8,733	N/A
Beneficiary certificates			
— Unlisted		2,493	N/A
Subtotal	(2)	14,693	N/A
Total		346,347	N/A

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

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

Analyzed by types of issuers:

	Note	As at June 30, 2018	As at December 31, 2017
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
— Government		720	N/A
— Public institutions and quasi-government		10	N/A
— Financial institutions		32,678	N/A
— Corporates		7,869	N/A
Subtotal		41,277	N/A
Interbank certificates of deposits			
— Financial institutions		77,326	N/A
Asset-backed securities			
— Financial institutions		2,633	N/A
Equity instruments			
— Financial institutions	(1)	210,418	N/A
Subtotal		331,654	N/A
Financial assets designated at fair value through profit or loss			
Asset management plans			
— Financial institutions		3,467	N/A
Placements with banks and other financial institutions			
— Financial institutions		8,733	N/A
Beneficiary certificates			
— Financial institutions		2,493	N/A
Subtotal	(2)	14,693	N/A
Total		346,347	N/A

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

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

	Note	As at June 30, 2018	As at December 31, 2017
Financial assets held for trading			
Debt securities			
– Listed in Hong Kong		N/A	218
– Listed outside Hong Kong		N/A	8,819
Subtotal		N/A	9,037
Interbank certificates of deposits			
– Listed outside Hong Kong		N/A	59,163
– Unlisted		N/A	9,759
Subtotal		N/A	68,922
Subtotal	(3)	N/A	77,959
Financial assets designated at fair value through profit or loss			
Asset management plans			
– Unlisted		N/A	17,762
Placements with banks and other financial institutions			
– Unlisted		N/A	11,709
Beneficiary certificates			
– Unlisted		N/A	12,562
Subtotal	(2)	N/A	42,033
Total		N/A	119,992

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

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

Analyzed by types of issuers:

	Note	As at June 30, 2018	As at December 31, 2017
Debt securities			
– Government		N/A	250
– Financial institutions		N/A	3,594
– Corporates		N/A	5,193
Subtotal		N/A	9,037
Interbank certificates of deposits			
– Financial institutions		N/A	68,922
Subtotal	(3)	N/A	77,959
Financial assets designated at fair value through profit or loss			
Assets management plans			
– Financial institutions		N/A	17,762
Placements with banks and other financial institutions			
– Financial institutions		N/A	11,709
Beneficiary certificates			
– Financial institutions		N/A	12,562
Subtotal	(2)	N/A	42,033
Total		N/A	119,992

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

(2) The Group designates its investment proceeds from principal-guaranteed wealth management products as financial assets at fair value through profit or loss. As at June 30, 2018 and December 31, 2017, 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.

(3) There were no significant constraints on the liabilities of the Group to convert its financial assets held for trading into cash.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.2 Financial assets at fair value through other comprehensive income

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Listed in Hong Kong	8,523	N/A
– Listed outside Hong Kong	158,305	N/A
– Unlisted	664	N/A
Subtotal	167,492	N/A
Interbank certificates of deposits		
– Listed outside Hong Kong	2,483	N/A
Asset-backed securities		
– Listed outside Hong Kong	5,516	N/A
Equity instruments		
– Unlisted	53	N/A
Total	175,544	N/A

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.2 Financial assets at fair value through other comprehensive income (continued)

Analyzed by types of issuers:

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Government	41,718	N/A
– Public institutions and quasi-government	205	N/A
– Financial institutions	114,697	N/A
– Corporates	10,872	N/A
Subtotal	167,492	N/A
Interbank certificates of deposits		
– Financial institutions	2,483	N/A
Asset-backed securities		
– Financial institutions	5,516	N/A
Equity instruments		
– Financial institutions	53	N/A
Total	175,544	N/A

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.3 Financial assets at amortized cost

	Note	As at June 30, 2018	As at December 31, 2017
Debt securities			
– Listed in Hong Kong		6,332	N/A
– Listed outside Hong Kong		1,400,590	N/A
– Unlisted	(1)	975,602	N/A
Subtotal		2,382,524	N/A
Interbank certificates of deposits			
– Listed outside Hong Kong		29,511	N/A
Asset-backed securities			
– Listed outside Hong Kong		29,633	N/A
– Unlisted		21,479	N/A
Subtotal		51,112	N/A
Other debt instruments			
– Unlisted	(2)	176,500	N/A
Gross amount		2,639,647	N/A
Allowance for impairment losses (Note 23)		(11,585)	N/A
Carrying amount		2,628,062	N/A

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

(1) Debt securities included long-term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.

(2) Other debt instruments mainly include trust investment plans, asset management plans, etc.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.3 Financial assets at amortized cost (continued)

Analyzed by types of issuers:

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Government	689,699	N/A
– Public institutions and quasi-government	3,059	N/A
– Financial institutions	1,617,641	N/A
– Corporates	72,125	N/A
Subtotal	2,382,524	N/A
Interbank certificates of deposits		
– Financial institutions	29,511	N/A
Asset-backed securities		
– Financial institutions	51,112	N/A
Other debt instruments		
– Financial institutions	176,500	N/A
Gross amount	2,639,647	N/A
Allowance for impairment losses (Note 23)	(11,585)	N/A
Carrying amounts	2,628,062	N/A

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.4 Available-for-sale financial assets

	Note	As at June 30, 2018	As at December 31, 2017
Debt securities			
– Listed in Hong Kong		N/A	9,346
– Listed outside Hong Kong		N/A	194,126
– Unlisted		N/A	657
Subtotal		N/A	204,129
Interbank certificates of deposits			
– Listed outside Hong Kong		N/A	8,898
Asset-backed securities			
– Listed outside Hong Kong		N/A	34,251
Equity instruments			
– Unlisted	(1)	N/A	439,470
Total		N/A	686,748

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.4 Available-for-sale financial assets (continued)

Analyzed by types of issuers:

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Government	N/A	90,254
– Financial institutions	N/A	101,281
– Corporates	N/A	12,594
Subtotal	N/A	204,129
Interbank certificates of deposits		
– Financial institutions	N/A	8,898
Asset-backed securities		
– Financial institutions	N/A	34,251
Equity instruments		
– Financial institutions	N/A	439,470
Total	N/A	686,748

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.5 Held-to-maturity investments

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Listed in Hong Kong	N/A	1,937
– Listed outside Hong Kong	N/A	925,244
– Unlisted	N/A	326
Subtotal	N/A	927,507
Interbank certificates of deposits		
– Listed outside Hong Kong	N/A	7,443
Asset-backed securities		
– Listed outside Hong Kong	N/A	1,200
Gross amount	N/A	936,150
Allowance for impairment losses (Note 23)	N/A	(415)
Carrying amounts	N/A	935,735
Fair value of listed held-to-maturity investments	N/A	913,774

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.5 Held-to-maturity investments (continued)

Analyzed by types of issuers:

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Government	N/A	539,278
– Public institutions and quasi-government	N/A	1,270
– Financial institutions	N/A	342,492
– Corporates	N/A	44,467
Subtotal	N/A	927,507
Interbank certificates of deposits		
– Financial institutions	N/A	7,443
Asset-backed securities		
– Financial institutions	N/A	1,200
Gross amount	N/A	936,150
Allowance for impairment losses (Note 23)	N/A	(415)
Carrying amounts	N/A	935,735

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.6 Investment classified as receivables

	Note	As at June 30, 2018	As at December 31, 2017
Debt securities			
– Listed outside Hong Kong		N/A	120,406
– Unlisted	(1)	N/A	1,057,518
Subtotal		N/A	1,177,924
Asset-backed securities			
– Unlisted		N/A	33,854
Other debt instruments			
– Unlisted	(2)	N/A	216,937
Allowance for impairment losses (Note 23)		N/A	(4,157)
Carrying amounts		N/A	1,424,558

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.6 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at June 30, 2018	As at December 31, 2017
Debt securities		
– Government	N/A	13,044
– Financial institutions	N/A	1,159,560
– Corporates	N/A	5,320
Subtotal	N/A	1,177,924
Asset-backed securities		
– Financial institutions	N/A	33,854
Other debt instruments		
– Financial institutions	N/A	216,937
Allowance for impairment losses (Note 23)	N/A	(4,157)
Carrying amounts	N/A	1,424,558

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

19 Investment in subsidiary

The Bank

	As at June 30, 2018	As at December 31, 2017
Investment cost	2,115	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; authorised issuance of financial bonds; lending to domestic financial institutions; and investments in fixed income securities.

As at June 30, 2018, the Bank owns 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2017: 61.50%).

On January 4, 2018, the CBIRC Guangdong Office approved PSBC Consumer Finance to increase its registered capital from RMB1 billion to RMB3 billion. The Bank increased its share capital injection by RMB1.5 billion on January 18, 2018, and business license was updated on March 16, 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

20 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2018	37,881	10,102	1,243	5,395	13,193	67,814
Add: Additions	210	89	9	82	1,798	2,188
Transfer-in from investment properties	7	—	—	—	—	7
Transfer-in from construction in progress	979	46	2	48	(1,075)	—
Less: Disposals	(11)	(103)	(6)	(134)	—	(254)
Transfer-out to investment properties	(1)	—	—	—	—	(1)
Transfer-out from construction in progress	—	—	—	—	(112)	(112)
As at June 30, 2018	39,065	10,134	1,248	5,391	13,804	69,642
Accumulated depreciation						
As at January 1, 2018	(11,287)	(7,966)	(1,178)	(3,579)	—	(24,010)
Add: Charge for the period	(947)	(515)	(8)	(270)	—	(1,740)
Transfer-in from investment properties	(3)	—	—	—	—	(3)
Less: Disposals	4	96	6	28	—	134
As at June 30, 2018	(12,233)	(8,385)	(1,180)	(3,821)	—	(25,619)
Carrying value						
As at June 30, 2018	26,832	1,749	68	1,570	13,804	44,023
As at January 1, 2018	26,594	2,136	65	1,816	13,193	43,804

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

20 Property and equipment (continued)

	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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

20 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 as at June 30, 2018 (December 31, 2017: RMB0.4 billion).

In addition, as at June 30, 2018, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with net book value of RMB2.3 billion (December 31, 2017: RMB2.3 billion).

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

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

The cost and carrying amount of property and equipment held under finance leases as at June 30, 2018 and December 31, 2017 were not significant.

21 Deferred taxation

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

	As at June 30, 2018	As at December 31, 2017
Deferred tax assets	26,372	22,258

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

21 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
December 31, 2017	18,279	418	1,725	1,474	362	—	22,258
Change on application of new accounting policy	991	—	(1,261)	—	—	—	(270)
January 1, 2018	19,270	418	464	1,474	362	—	21,988
Credit to profit or loss	3,221	—	882	884	78	—	5,065
Charge to other comprehensive income	—	—	(681)	—	—	—	(681)
June 30, 2018	22,491	418	665	2,358	440	—	26,372

	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/(charge) 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

21 Deferred taxation (continued)

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

	As at June 30, 2018		As at December 31, 2017	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	89,962	22,491	73,118	18,279
Provisions	9,431	2,358	5,896	1,474
Fair value changes of financial instruments	4,482	1,120	7,807	1,952
Deferred income	1,760	440	1,447	362
Staff cost accrued but not paid	1,672	418	1,672	418
Total	107,307	26,827	89,940	22,485
Deferred tax liabilities				
Fair value changes of financial instruments	(1,820)	(455)	(907)	(227)
Total	(1,820)	(455)	(907)	(227)
Net	105,487	26,372	89,033	22,258

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

22 Other assets

	Note	As at June 30, 2018	As at December 31, 2017
Interest receivable		46,766	41,878
Other accounts receivable		7,205	6,187
Accounts receivable and temporary payment		6,162	6,427
Prepaid expenses		2,229	2,217
Land use rights	(1)	1,771	1,796
Intangible assets	(2)	1,703	1,758
Receivable of fee and commission		1,662	1,046
Long-term prepaid expenses	(3)	943	1,053
Investment properties		648	682
Low-value consumables		450	461
Foreclose assets		178	191
Others		2,070	1,321
Gross amount		71,787	65,017
Allowance for impairment losses		(494)	(409)
Net value		71,293	64,608

(1) Land use rights are classified in other assets and amortized over a straight-line basis over the respective lease periods, which range from 10 to 40 years.

(2) Intangible assets of the Group mainly include computer software which is amortized over 10 years.

(3) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating leases and prepaid rental fees.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses

23.1 The loss allowance recognized in the period is impacted by a variety of factors, as described below:

Transfers among Stage 1, Stage 2, and Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;

Financial assets derecognized or settled during the period;

Additional allowance for new financial instruments recognized during the period;

Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

Write-offs of allowance related to assets that were written off during the period.

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Deposits with banks and other financial institutions	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	1,172	—	—	1,172
Movements with profit and loss (“P&L”) impact				
Transfer to stage 1	—	—	—	—
Transfer to stage 2	—	—	—	—
Transfer to stage 3	—	—	—	—
Financial assets derecognized or settled during the period	(517)	—	—	(517)
New financial assets originated or purchased	210	—	—	210
Remeasurements	—	—	—	—
Write-offs	—	—	—	—
Loss allowance as at June 30, 2018	865	—	—	865

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

Placements with banks and other financial institutions	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	675	—	—	675
Movements with P&L impact				
Transfer to stage 1	—	—	—	—
Transfer to stage 2	(1)	66	—	65
Transfer to stage 3	—	—	—	—
Financial assets derecognized or settled during the period	(247)	—	—	(247)
New financial assets originated or purchased	405	—	—	405
Remeasurements	(13)	—	—	(13)
Write-offs	—	—	—	—
Loss allowance as at June 30, 2018	819	66	—	885

Financial assets held under resale agreements	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	153	—	—	153
Movements with P&L impact				
Transfer to stage 1	—	—	—	—
Transfer to stage 2	—	—	—	—
Transfer to stage 3	—	—	—	—
Financial assets derecognized or settled during the period	(142)	—	—	(142)
New financial assets originated or purchased	555	—	—	555
Remeasurements	(11)	—	—	(11)
Write-offs	—	—	—	—
Loss allowance as at June 30, 2018	555	—	—	555

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

Corporate loans and advances to customers – financial assets at amortized cost	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	35,052	1,959	8,815	45,826
Movements with P&L impact				
Transfer to stage 1	4	(19)	–	(15)
Transfer to stage 2	(92)	659	(17)	550
Transfer to stage 3	(56)	(1,281)	8,399	7,062
Financial assets derecognized or settled during the period	(4,217)	(224)	(752)	(5,193)
New financial assets originated or purchased	7,436	126	57	7,619
Remeasurements	297	(34)	668	931
Write-offs	–	–	(1,255)	(1,255)
Loss allowance as at June 30, 2018	38,424	1,186	15,915	55,525

Personal loans and advances to customers – financial assets at amortized cost	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	25,833	1,975	15,736	43,544
Movements with P&L impact				
Transfer to stage 1	16	(376)	(50)	(410)
Transfer to stage 2	(120)	1,597	(20)	1,457
Transfer to stage 3	(130)	(916)	5,096	4,050
Financial assets derecognized or settled during the period	(3,925)	(353)	(1,427)	(5,705)
New financial assets originated or purchased	8,019	237	127	8,383
Remeasurements	(720)	(40)	469	(291)
Write-offs	–	–	(1,564)	(1,564)
Loss allowance as at June 30, 2018	28,973	2,124	18,367	49,464

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

Corporate loans and advances to customers – financial assets at fair value through other comprehensive income	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	428	–	–	428
Movements with P&L impact				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(282)	–	–	(282)
New financial assets originated or purchased	217	–	–	217
Remeasurements	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at June 30, 2018	363	–	–	363

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

Investment instruments — financial assets at fair value through other comprehensive income	As at June 30, 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2018	110	16	—	126
Movements with P&L impact				
Transfer to stage 1	—	—	—	—
Transfer to stage 2	(1)	4	—	3
Transfer to stage 3	—	—	—	—
Financial assets derecognized or settled during the period	(45)	(13)	—	(58)
New financial assets originated or purchased	61	71	—	132
Remeasurements	1	28	—	29
Write-offs	—	—	—	—
Loss allowance as at June 30, 2018	126	106	—	232

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

Investment instruments – financial assets at amortized cost	As at June 30, 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance as at January 1, 2018	3,298	1,093	2,200	6,591
Movements with P&L impact				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(250)	2,997	–	2,747
Transfer to stage 3	(53)	(432)	2,861	2,376
Financial assets derecognized or settled during the period	(263)	–	–	(263)
New financial assets originated or purchased	197	–	–	197
Remeasurements	(62)	(1)	–	(63)
Write-offs	–	–	–	–
Loss allowance as at June 30, 2018	2,867	3,657	5,061	11,585

As at June 30, 2018, the changes in the loss allowance of other assets would not have a significant impact on the financial position and operating performance of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors (continued):

	Balance at the beginning of the year	Current year provision	2017		Balance at the end of the year
			Current year increase	Current year decrease	
Allowance for impairment losses					
Deposits with banks and other financial institutions	—	1,047	—	—	1,047
Placements with banks and other financial institutions	140	293	—	—	433
Loans and advances to customers	71,431	21,127	2,501	(6,495)	88,564
Held-to-maturity investments	—	415	—	—	415
Investment classified as receivables	1,821	2,336	—	—	4,157
Other assets	336	148	—	(75)	409
Total	73,728	25,366	2,501	(6,570)	95,025

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

24 Deposits from banks and other financial institutions

	As at June 30, 2018	As at December 31, 2017
Deposits from:		
Domestic banks	24,091	12,955
Other domestic financial institutions	35,153	35,499
Total	59,244	48,454

25 Placements from banks and other financial institutions

	As at June 30, 2018	As at December 31, 2017
Placements from:		
Domestic banks	33,671	68,708
Overseas banks	5,011	4,909
Total	38,682	73,617

26 Financial liabilities at fair value through profit or loss

	As at June 30, 2018	As at December 31, 2017
Principal-guaranteed wealth management products	14,984	42,193

The Group designates its principal-guaranteed wealth management products as financial liabilities at fair value through profit or loss, and designates its investments made with proceeds from these wealth management products as financial assets at fair value through profit or loss. As at June 30, 2018 and December 31, 2017, there was no significant discrepancy between the fair value of the Group's wealth management products and the contractual amount payable to the holders of these products upon maturity.

During the six months ended June 30, 2018, and the year ended December 31, 2017, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in the Group's own credit risks.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

27 Financial assets sold under repurchase agreements

	As at June 30, 2018	As at December 31, 2017
Analyzed by type of collateral:		
Debt securities	168,754	83,219
Bills	7,945	31,924
Total	176,699	115,143

The collateral pledged under repurchase agreement is disclosed in “Note 38.5 Contingent liabilities and commitments — Collateral”.

28 Customer deposits

	As at June 30, 2018	As at December 31, 2017
Demand deposits		
Corporates	839,044	805,616
Personal	2,469,630	2,523,431
Subtotal	3,308,674	3,329,047
Time deposits		
Corporates	383,155	394,165
Personal	4,639,622	4,337,973
Subtotal	5,022,777	4,732,138
Other deposits	1,379	1,474
Total	8,332,830	8,062,659

As at June 30, 2018, customer deposits received by the Group included pledged deposits of RMB34.2 billion (December 31, 2017: RMB33.3 billion).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

29 Debt securities issued

	Note	As at June 30, 2018	As at December 31, 2017
Debt securities issued	(1)	74,933	74,932
Interbank certificates of deposits issued	(2)	1,249	—
Total		76,182	74,932

(1)

	Note	As at June 30, 2018	As at December 31, 2017
10-year tier 2 capital bonds of at a fixed interest rate	(i)	24,979	24,978
10-year tier 2 capital bonds of at a fixed interest rate	(ii)	29,972	29,972
10-year tier 2 capital bonds of at a fixed interest rate	(iii)	19,982	19,982
Subordinated debts		74,933	74,932

- (i) In September 2015, upon the approval from CBIRC 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 CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from September 2020 onward.
- (ii) In October 2016, upon the approval from CBIRC 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 CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.30% from October 2021 onward.
- (iii) In March 2017, upon the approval from CBIRC and PBOC, the Group issued RMB20 billion of 10-year tier 2 capital bonds of at a fixed interest rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2022 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBIRC. 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 CBIRC and are qualified as tier-two capital instruments.

- (2) The interbank certificate of deposit was issued by the Group. As at June 30, 2018, the term of the certificate was 3 months, with interest rate at 3.85% (as at December 31, 2017: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities

	Note	As at June 30, 2018	As at December 31, 2017
Interest payable		78,177	88,541
Settlement and clearance payables		19,366	12,095
Dividends payable		14,318	—
Provisions	(1)	12,196	7,385
Employee benefits payable	(2)	10,498	8,040
Tax payable		9,096	9,083
Payables for agency services		7,355	16,359
Dormant deposit payables		2,009	1,547
Payables to China Post Group (Note 36.4(2))		1,675	2,012
Deferred income		1,504	1,219
Exchange transaction payables		1,027	1,070
Payable for construction cost		617	719
Others		9,561	9,510
Total		167,399	157,580

(1) Provisions

	Note	Six months ended June 30, 2018		
		Balance at beginning of period	Current period provisions	Balance at end of period
Guarantee and Commitments		1,467	1,297	2,764
Litigation and others	(i)	5,918	3,514	9,432
Total		7,385	4,811	12,196

	Note	2017		
		Balance at beginning of year	Current year provisions	Balance at end of year
Guarantee and Commitments		122	1,345	1,467
Litigation and others		—	5,918	5,918
Total		122	7,263	7,385

(i) As at June 30, 2018, the Group established accruals according to best estimation for a variety of risk events.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Employee benefits payable

	Note	As at June 30, 2018	As at December 31, 2017
Short-term employee benefits	(i)	9,213	6,878
Defined contribution benefits	(ii)	706	667
Supplementary retirement benefits	(iii)	579	495
Total		10,498	8,040

(i) Short-term employee benefits

	Six months ended June 30, 2018			
	Balance at the beginning of the period	Increase in current period	(Decrease) in current period	Balance at the end of the period
Wages and salaries, bonus, allowance and subsidies	5,910	15,975	(14,045)	7,840
Staff welfare	—	605	(603)	2
Social security contributions	88	1,032	(979)	141
Including: Medical insurance	84	939	(890)	133
Work injury insurance	2	32	(29)	5
Maternity insurance	2	61	(60)	3
Housing funds	18	1,306	(1,274)	50
Labour union funds and employee education funds	862	649	(331)	1,180
Total	6,878	19,567	(17,232)	9,213

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	Balance at the beginning of the year	2017		Balance at the end of the 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

(ii) Defined contribution benefits

	Six months ended June 30, 2018			
	Balance at the beginning of the period	Increase in current period	(Decrease) in current period	Balance at the end of the period
Basic pensions	90	2,120	(2,092)	118
Unemployment insurance	5	52	(49)	8
Annuity scheme	572	502	(494)	580
Total	667	2,674	(2,635)	706

	Balance at the beginning of the year	2017		Balance at the end of the 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Employee benefits payable (continued)

(iii) Supplementary retirement benefits

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

	As at June 30, 2018	As at December 31, 2017
Balance at the beginning of period/year	495	481
Interest expenses	10	16
Gain or loss from actuarial calculation	88	28
— Charge to profit or losses	3	(4)
— Charge to other comprehensive income	85	32
Benefits paid	(14)	(30)
Balance at the end of period/year	579	495

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

	As at June 30, 2018	As at December 31, 2017
Discount rate — retirement benefit plan	3.75%	4.25%
Discount rate — early retirement benefit plan	3.25%	3.75%
Annual growth rate of average medical expenses	8.00%	8.00%
Annual growth rates of retiree expenses	3% and 0%	3% and 0%
Annual growth rates of early-retiree expenses	6%,3% and 0%	6%,3% and 0%
Normal retirement age		
— Male	60	60
— Female	55,50	55,50

Assumption for future mortality rate is based on the China Life Insurance Mortality Table (2010-2013), which is the statistical information publicly available in China.

As at June 30, 2018 and December 31, 2017, the Group has no default on the staff costs payable above.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments

31.1 Share capital

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

	Six months ended June 30, 2018	2017
Number of shares registered, issued and fully paid at par value (in millions)		
At beginning of period/year	81,031	81,031
Addition in current period/year	—	—
At the end of period/year	81,031	81,031

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

31.2 Other equity instruments

(a) Preference shares outstanding as at the end of period

Financial instruments	Issue date	Classification	Initial dividend rate	Issue price	Quantity (million shares)	Total amount (million)		Conversion condition	Maturity date	Conversion
						Original currency (USD million)	Equivalent (RMB million)			
Offshore preference shares	September 27, 2017	Equity instruments	4.50%	USD20/share	362.5	7,250	47,989	Mandatory	No Maturity Date	No
							143			
							47,846			

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of period (continued)

The key terms are as below:

(1) *Dividend*

Fixed rate is applied for a certain period after the issuance of the offshore preference shares. Dividend is 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 Bank could pay dividends to offshore preference shareholders while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel all or part of dividends to be distributed at the interest payment date. Such cancellation requires a shareholder's resolution to be passed, and is not considered as an event of default.

(3) *Dividend stopper*

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

(4) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier 1 Capital Instrument Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the issued and outstanding offshore preference shares into H shares not subject to the approval of offshore preference shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If the offshore preference shares were converted to H shares, they could not be converted to preference shares again.

Upon the occurrence of a Tier 2 Capital Instrument Trigger Event (Earlier of the two situations: (1) CBIRC has determined that the Bank would become non-viable if there is no conversion or write-down of shares; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all issued and outstanding offshore preference shares into H shares. Approval from offshore preference shareholders is not required. If offshore preference shares were converted to H shares, they could not be converted to preference shares again.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of period (continued)

(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 CBIRC and condition of redemption, the Bank has right to redeem all or some of offshore preference shares at the first redemption date and any subsequent dividend payment date until all offshore preference shares are redeemed or converted. Redemption price of offshore preference shares is equal to issue price plus accrued dividend in current period.

The First Redemption Date of USD Preference Shares is five years after issuance.

(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, offshore preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

The Bank shall distribute dividends for the Offshore Preference Shares in cash, based on the total amount of the issued and outstanding offshore preference shares on the corresponding times (i.e. the product of the issue price of offshore preference shares and the number of the issued and outstanding offshore preference shares).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(b) Changes in preference shares outstanding

Financial instruments	January 1, 2018		Increase in current period		June 30, 2018	
	Quantity (million shares)	Carrying amount (RMB million)	Quantity (million shares)	Carrying amount (RMB million)	Quantity (million shares)	Carrying amount (RMB million)
Offshore preference shares	362.5	47,846	—	—	362.5	47,846

(c) Equity attributable to the holders of equity instruments

Items	As at June 30, 2018	As at December 31, 2017
1. Total equity attributable to equity holders of the Bank	452,638	430,973
(1) Equity attributable to ordinary equity holders of the Bank	404,792	383,127
(2) Equity attributable to other equity holders of the Bank	47,846	47,846
Including: Net profit	2,391	—
Dividends paid	2,391	—
2. Total equity attributable to non-controlling interests	860	384
(1) Equity attributable to non-controlling interests of ordinary shares	860	384
(2) Equity attributable to non-controlling interests of preference shares	—	—

32 Capital reserve

	As at June 30, 2018	As at December 31, 2017
Net asset revaluation appreciation from the Bank's joint stock restructuring	3,448	3,448
Share premium from 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
Change of share proportion of the subsidiary	(11)	—
Total	74,648	74,659

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

33 Other reserves

33.1 Surplus reserve

	Six months ended June 30, 2018	Year ended December 31, 2017
At the beginning of period/year	25,159	20,395
Appropriations in current period/year	—	4,764
At the end of period/year	25,159	25,159

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 statutory financial report year to the statutory surplus reserve, and can cease appropriation when the statutory surplus reserve accumulates to more than 50% of the registered capital.

33.2 General reserve

	Six months ended June 30, 2018	Year ended December 31, 2017
At the beginning of period/year	101,011	93,803
Appropriations in current period/year	—	7,208
At the end of period/year	101,011	101,011

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

33 Other reserves (continued)

33.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
December 31, 2017	(6,691)	1,647	(5,044)
Impact of changes in accounting policies	6,034	(1,376)	4,658
January 1, 2018	(657)	271	(386)
Remeasurement of retirement benefit obligations	(85)	—	(85)
Gains arising from changes in fair value of financial assets at fair value through other comprehensive income	2,764	(691)	2,073
Changes in impairment provision of financial assets at fair value through other comprehensive income	66	—	66
Transferred to profit or loss	(40)	10	(30)
June 30, 2018	2,048	(410)	1,638

	Gross amount	Taxation effect	Net carrying amount
January 1, 2017	116	(46)	70
Remeasurement of retirement benefit obligations	(32)	—	(32)
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	(6,691)	1,647	(5,044)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

34 Dividends distribution

Upon the approval of the annual shareholders' meeting on June 28, 2018, the Bank distributed RMB11.92 billion (tax included) of cash dividends for the year ended December 31, 2017 to all the ordinary shareholders whose names appeared on the register of members with RMB1.471 per ten shares (tax included). The Bank has distributed the cash dividends on August 17, 2018.

In the Board of Directors' Meeting held on June 28, 2018, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first reset date which is determined in accordance with the terms and conditions of the offshore preference shares and equals to 4.50% (after tax), the dividends payments amounted to RMB2,391 million (including tax). The dividend payment date is September 27, 2018.

35 Cash and cash equivalents

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

	As at June 30, 2018	As at December 31, 2017
Cash	43,859	47,570
Surplus reserve with central bank	10,028	30,873
Deposits with banks and other financial institutions	12,428	9,117
Placements with banks and other financial institutions	69,587	107,111
Financial assets held under resale agreements	251,433	128,264
Total	387,335	322,935

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties

36.1 Information of the parent company

(1) General information of the parent company

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

China Post Group is wholly-owned by MOF.

- (2) In both this reporting period and last year, China Post Group held 68.92% of the equity shares and voting rights in the Bank.

36.2 Information of major related parties

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

36.3 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 issuance, 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 CBIRC, 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 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 Types (固定費率、分檔計費)”, i.e. different deposit agency fee rates are applicable to savings deposits with different maturities. 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 multiplied by the number of days of deposit × the respective deposit agency fee rate of the relevant type of deposit /365) - aggregate cash (including that in transit) multiplied by the number of days at the relevant branch × 1.5%/365.

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

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

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

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

	Six months ended June 30	
	2018	2017
Deposit agency fee costs and others	36,153	33,587
Fees for agency savings settlement	4,030	1,622
Fees for agency sales and other commissions	1,857	1,971
Total	42,040	37,180

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 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 ordinary course of business.

As lessor

	Six months ended June 30	
	2018	2017
Buildings	35	39
Others	1	10
Total	36	49

As lessee

	Six months ended June 30	
	2018	2017
Buildings	446	459
Others	74	19
Total	520	478

(3) Comprehensive services and goods transactions with related parties

Rendering other comprehensive services and selling general office materials to related parties

	Note	Six months ended June 30	
		2018	2017
Services rendered to related parties	(i)	10	14
General office materials sold to related parties		1	1
Total		11	15

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

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

Receiving other comprehensive services and purchasing products from related parties

	Note	Six months ended June 30	
		2018	2017
Services received from related parties	(ii)	393	367
Marketing services received from related parties		222	222
Goods purchased from related parties		59	23
Total		674	612

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

(4) Credit facilities granted to related parties

- (i) As at June 30, 2018 and as at December 31, 2017, no loans and advances were granted to related parties by the Group.
- (ii) As at June 30, 2018, the amount of performance guarantee was RMB1.26 million provided by the Group to related parties (as at December 31, 2017, RMB1 million).
- (iii) As at June 30, 2018 and as at December 31, 2017, no bank acceptance were provided by the Group to related parties.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(5) Deposits from related parties

	As at June 30, 2018	As at December 31, 2017
China Post Group	10,736	13,464
China Postal Express & Logistics Company Limited and its subsidiaries	1,103	1,540
Other related parties	1,296	5,429
Total	13,135	20,433
Interest rates per annum	0.30%~2.85%	0.30%~2.85%

During the six months ended June 30, 2018, and the year ended December 31, 2017, interest expenses on deposits paid to related parties were not significant.

(6) Income from agency services provided to related parties

	Six months ended June 30	
	2018	2017
Insurance agency sales for		
China Post Life Insurance Company Limited	65	71
Fund agency sales for		
China Post & Capital Fund Management Co., Ltd.	3	7

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.4 Balance with related parties

(1) Accounts receivable

	As at June 30, 2018	As at December 31, 2017
China Post Group and its subsidiaries	272	284

(2) Accounts payable

	As at June 30, 2018	As at December 31, 2017
China Post Group and its subsidiaries (Note 30)	1,675	2,012

36.5 Commitments in relation to related parties

As at the balance sheet date, commitments in relation to related parties were mainly operating lease commitments:

	As at June 30, 2018	As at December 31, 2017
China Post Group and its subsidiaries	917	1,004

36.6 The Group and other government related entities

Other than related party transactions disclosed above and also in other relevant notes, a great 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, derivative product transactions, agency services, underwriting and distribution of bonds issued by government authorities, purchase, sales and redemption of securities issued by government authorities.

The Group considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.7 Key management personnel compensation

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended June 30, 2018 and for the year ended December 31, 2017, there were no material transactions and balances with key management personnel.

37 Structured entities

(1) Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles (“WMP vehicles”) formed to issue and distribute wealth management products (“non-principal guaranteed WMPs”) which are not subject to any guarantee by the Group in respect the principal invested or yield to be paid. The WMP vehicles invest in a range of fixed-yield 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 distributes the yield to investors based on product operation. The variable return earned by the Group under the non-principal guaranteed WMPs is not significant, and therefore, the non-principal guaranteed WMPs are not consolidated by the Group.

As at June 30, 2018 and December 31, 2017, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB785.1 billion and RMB732.0 billion, respectively. The Group earned fee and commission of RMB2.6 billion and RMB2.7 billion from these non-principal guaranteed WMPs for the six months ended June 30, 2018 and 2017, respectively.

As at June 30, 2018 and December 31, 2017, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group’s risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. As at June 30, 2018 and December 31, 2017, the non-principal guaranteed WMP Vehicles did not incur any losses, or experience any difficulties in financing their activities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

(2) Unconsolidated structured entities held by the Group

Unconsolidated structured entities invested by the Group comprise trust investment plans, fund investment, asset-backed securities, asset management plans, and WMPs held by the Group as investments, and the Group records trading gains or losses and interest income therefrom. As at June 30, 2018 and December 31, 2017, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2018			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Equity instruments	210,418	—	—	210,418
Asset-backed securities	2,633	49,950	5,516	58,099
Other debt instruments	—	168,301	—	168,301
Total	213,051	218,251	5,516	436,818

	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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

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

For the six months ended June 30, 2018 and 2017, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six months ended June 30	
	2018	2017
Interest income	4,952	9,701
Net gain arising from investment securities	7,337	9,739
Other comprehensive income	14	20
Total	12,303	19,460

(3) Consolidated structured entities held by the Group

The consolidated structured entities issued and managed by the Group consist of principal guaranteed WMPs and a special purpose trust founded by a third party trust company for conducting asset securitization business by the Group. For the six months ended June 30, 2018 and for the year ended December 31, 2017, the Group did not provide any financial support to any of these principal guaranteed WMPs and the special purpose trust.

38 Contingent liabilities and commitments

38.1 Lawsuits and claims

The Group was involved in a number of lawsuits and claims during its normal business operations. Provisions for expected losses from cases and lawsuits are disclosed in Note 30 Other Liabilities.

38.2 Capital commitments

	As at June 30, 2018	As at December 31, 2017
Contracts signed but not executed	2,957	2,360

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.3 Credit commitments

	As at June 30, 2018	As at December 31, 2017
Loan commitments		
– With an original maturity of less than 1 year	8,450	12,215
– With an original maturity of 1 year or above	380,140	417,624
Subtotal	388,590	429,839
Bank acceptance	25,748	32,933
Guarantee and letters of guarantee	18,415	18,593
Letters of credit	15,589	12,224
Unused credit card commitments	177,644	150,409
Total	625,986	643,998

Credit commitments of the group 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.

38.4 Operating lease commitments

The Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at June 30, 2018	As at December 31, 2017
Within 1 year	3,093	3,399
1 to 2 years	2,411	2,584
2 to 3 years	2,084	1,946
3 to 5 years	1,697	2,105
Over 5 years	1,054	1,091
Total	10,339	11,125

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.5 Collateral

Assets pledged as collaterals

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

	As at June 30, 2018	As at December 31, 2017
Debt securities	181,333	85,035
Bills	8,008	32,292
Total	189,341	117,327

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at June 30, 2018, the carrying amount of debt securities pledged as collaterals amounted to RMB51.6 billion (December 31, 2017: RMB38.6 billion). The pledged debt securities are mainly classified as financial assets at amortized cost.

Collaterals received

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

The Group obtains debt securities from counterparts which could be resold or re-pledged as collaterals during the operation of financial assets held under resale agreements from banks. As at June 30, 2018 and December 31, 2017, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB41.0 billion and RMB78.1 billion, separately.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.6 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 honouring such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at June 30, 2018, the nominal value of treasury bonds the Group was obligated to redeem was RMB102.9 billion (December 31, 2017: RMB101.9 billion). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

38.7 Credit risk-weighted amounts for financial guarantees and credit commitments

	As at June 30, 2018	As at December 31, 2017
Financial guarantees and credit commitments	257,576	274,635

The credit risk-weighted figures are amounts calculated in accordance with the CBIRC'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%.

39 Transfer of financial assets

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

39 Transfer of financial assets (continued)

39.1 Outright repurchase agreements

The Group has entered into the following repurchase agreements, and the recourse rights of the counterparties are not limited to the transferred assets (Note 27).

	As at June 30, 2018	As at December 31, 2017
	Financial assets at amortized cost	Held-to-maturity investments
Carrying amount of the collateral	156	3,048
Financial assets sold under repurchase agreements	(156)	(3,116)

39.2 Credit assets securitization transactions

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

The Group may maintain continuing involvement in its transferred assets as it may hold subordinated tranches of the asset-backed securities ("ABS"). The Group recognizes these credit assets in other assets and other liabilities of its balance sheet to the extent of its continuing involvement, while derecognizes the remaining parts. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred financial assets.

As at June 30, 2018 and December 31, 2017, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at June 30, 2018	As at December 31, 2017
ABS issued-par value	21,097	6,800
Assets retained by the Group, net	1,687	273

As at June 30, 2018, the par value of the issued ABS that had been derecognized through holding the ABS at all levels of the special purpose trust was RMB3,817 million and the balance of related assets was RMB115 million (December 31, 2017: RMB115 million). The Group acts as a credit service provider of the special purpose trust, manages the credit assets transferred to the special purpose trust, and collects the corresponding fee as the loan asset manager. For the six months ended June 30, 2018 and for the year ended December 31, 2017, the Group did not provide financial support to the above-mentioned special purpose trust.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

39 Transfer of financial assets (continued)

39.3 Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or re-pledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at June 30 2018, the carrying amount of debt securities lent to counterparties was RMB2.1 billion. These debt securities are included in financial assets at fair value through other comprehensive income (Note 18.2) and amortized cost (Note 18.3) (As at December 31 2017, the carrying amount of debt securities lent to counterparties was RMB15.5 billion, which were included in available-for-sale financial assets (Note 18.4) and held-to-maturity investments (Note 18.5)).

40 Segment analysis

40.1 Business segment

From the business perspective, the Group provides services through four main business segments listed below:

Personal banking

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

Corporate banking

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

Treasury

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

Others

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

	Six months ended June 30, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	56,724	42,763	73,849	—	173,336
Interest expense to external customers	(48,962)	(8,575)	(4,137)	—	(61,674)
Intersegment net interest income/(expense)	65,582	(8,278)	(57,304)	—	—
Net interest income	73,344	25,910	12,408	—	111,662
Net fee and commission income	5,773	362	1,547	—	7,682
Net trading gains	—	—	2,805	—	2,805
Net gains from investment securities	—	—	8,772	—	8,772
Net losses on derecognition of financial assets at amortized cost	—	—	(1)	—	(1)
Net other operating gains	868	49	389	182	1,488
Operating expenses	(58,717)	(6,937)	(9,025)	(91)	(74,770)
Impairment losses on assets	(6,575)	(11,381)	(5,415)	—	(23,371)
Profit before income tax	14,693	8,003	11,480	91	34,267

	As at June 30, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,543,196	2,097,793	4,658,802	—	9,299,791
Deferred tax assets					26,372
Total assets					9,326,163
Segment liabilities	(7,246,793)	(1,246,605)	(379,267)	—	(8,872,665)
Supplementary information					
Depreciation and amortization	1,880	307	36	—	2,223
Capital expenditures	2,064	337	39	—	2,440
Credit commitments	177,644	448,342	—	—	625,986

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

	Six months ended June 30, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	46,837	33,307	65,204	—	145,348
Interest expense to external customers	(46,822)	(6,331)	(4,681)	—	(57,834)
Intersegment net interest income/(expense)	67,356	(8,307)	(59,049)	—	—
Net interest income	67,371	18,669	1,474	—	87,514
Net fee and commission income	5,253	780	1,000	—	7,033
Net trading gains	—	—	1,679	—	1,679
Net gains from investment securities	—	—	9,835	—	9,835
Net other operating gains/(losses)	231	(95)	(758)	534	(88)
Operating expenses	(54,285)	(5,002)	(6,170)	(87)	(65,544)
Impairment losses on assets	(4,444)	(5,135)	(787)	—	(10,366)
Profit before income tax	14,126	9,217	6,273	447	30,063
	As at 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment

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

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

	Six months ended June 30, 2018								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	84,746	15,636	11,740	13,668	23,090	17,699	6,757	—	173,336
Interest expense to external customers	(6,122)	(8,612)	(5,090)	(8,460)	(17,869)	(11,688)	(3,833)	—	(61,674)
Intersegment net interest (expense)/income	(62,403)	6,976	4,639	9,189	22,622	14,575	4,402	—	—
Net interest income	16,221	14,000	11,289	14,397	27,843	20,586	7,326	—	111,662
Net fee and commission income	(905)	1,459	1,416	1,349	1,923	1,748	692	—	7,682
Net trading gains/(losses)	2,753	—	(2)	21	—	33	—	—	2,805
Net gains/(losses) from investment securities	8,655	82	46	(18)	29	(58)	36	—	8,772
Net losses on derecognition of financial assets at amortized cost	(1)	—	—	—	—	—	—	—	(1)
Net other operating gains	515	105	68	132	236	393	39	—	1,488
Operating expenses	(7,010)	(10,411)	(7,830)	(9,501)	(19,018)	(15,011)	(5,989)	—	(74,770)
Impairment losses on assets	(6,924)	(2,639)	(1,426)	(3,735)	(4,791)	(2,912)	(944)	—	(23,371)
Profit before income tax	13,304	2,596	3,561	2,645	6,222	4,779	1,160	—	34,267

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	As at June 30, 2018								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	5,901,203	1,407,475	940,660	1,544,670	2,940,554	2,137,863	736,259	(6,308,893)	9,299,791
Deferred tax assets									26,372
Total assets									9,326,163
Segment liabilities	(5,581,651)	(1,387,966)	(920,990)	(1,526,882)	(2,908,496)	(2,122,693)	(732,880)	6,308,893	(8,872,665)
Supplementary information									
Depreciation and amortization	450	340	156	243	412	459	163	—	2,223
Capital expenditures	310	530	221	249	615	344	171	—	2,440
Credit commitments	177,644	62,364	80,999	98,279	112,479	83,363	10,858	—	625,986

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 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									<u>9,012,551</u>
Segment liabilities	(6,871,547)	(1,362,106)	(877,450)	(1,530,263)	(2,751,212)	(2,022,396)	(728,257)	7,562,037	<u>(8,581,194)</u>
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

41 Financial risk management

41.1 Overview

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

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

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

The Group’s framework of financial risk management, risk management policies and process except for credit risk as at June 30, 2018 do not significantly change as compared with those followed in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2017.

The following analysis on financial risks of FVTPL, FVOCI and amortized cost only refers to investment instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk

41.2.1 Expected credit loss measurement

The Group has applied “Expected Credit Loss Model” to measure the impairment of debt instruments carried at amortized cost and FVOCI, as well as credit commitments.

Based on whether a significant increase in credit risk has occurred since initial recognition of financial instrument, the Group has classified it in three stages to calculate the ECL.

Stage 1 includes financial assets that have not had a significant increase in credit risk since initial recognition. They can easily fulfill the short-term contractual cash flow requirement, and this ability may not be necessarily undermined given the economic situation and business environment adversely changed over a long period of time.

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition, measured by the changes of default risk over their expected life. These changes have been determined by comparing the default risk at the balance sheet date with it at the date of initial recognition. Please refer to note 41.2.1(1) for the criteria of a significant increase in credit risk.

Stage 3 includes financial assets that are credit-impaired, and even if various measures are applied, a certain degree of loss is inevitable. Please refer to note 41.2.1(2) for the Group’s criteria of financial assets’ impairment.

(1) Significant Increase in Credit Risk (SICR)

At each balance sheet date, the Group evaluates whether a significant increase in credit risk of relative financial instruments has occurred since initial recognition, which mainly includes: impacts of regulation and operating environment, internal and external credit rating grade, insolvency, business performance, loan contractual terms, etc. Based on individual financial instrument or financial instrument portfolios with similar credit risk characteristics, the Group determines changes of the risk of default by comparing the risk on the balance sheet date with that at the date of initial recognition.

The Group has set up quantitative and qualitative standards according to features of financial assets’ credit risk and status of its risk management, mainly including whether a substantial decrease has occurred in credit rating, whether risk classification has been changed adversely, and whether overdue days exceed 30 days, etc., to determine whether a significant increase in credit risk of financial assets has occurred.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.1 Expected credit loss measurement (continued)

(2) Definition of Default and Impaired Assets

The Group defines a financial instrument as in default or being credit-impaired when it meets one or more of the following criteria. Financial asset overdue for more than 90 days is regarded as in default. When evaluating whether credit impairment of a borrower occurred, the following factors are taken into consideration:

- credit rating grade is D;
- a borrower evades bank debts maliciously through merger, reorganization, division, bankruptcy, or any abnormal related party transactions to transfer assets;
- a borrower has significant financial difficulties;
- the Group makes concessions to the borrower for economic or contractual considerations related to the borrower's financial difficulties that it would not otherwise consider under normal circumstances;
- active market of financial asset disappears due to financial difficulties of the issuer or a borrower;
- a borrower or his family members suffer from a major accident and become insolvency;
- a borrower and his guarantor declares bankruptcy, closure, dissolution or cancellation according to law;
- the Group purchases or issues a financial asset at a large discount, which reflects the fact that credit loss occurred;
- other factors that impair financial assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.1 Expected credit loss measurement (continued)

(3) Description of Parameters, Assumptions, and Estimation Techniques

ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk (SICR) has occurred since initial recognition or whether an asset is considered to be impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

Related definitions are as follows:

- The PD represents the likelihood of a borrower breaching the contractual terms or defaulting on its financial obligation over a specific time, either the next 12 months, or the remaining lifetime of the obligation. The Group's PD has adopted the results of internal rating model, or for financial asset that does not use this model, historical analysis is adopted, where the historical default records are calculated by historical data of asset portfolios with similar credit risk characteristics, incorporating forward-looking information and removing prudent adjustments, to reflect the PD at a specific point of time under the current macroeconomic environment.
- Loss Given Default (LGD) refers to the ratio of the expected loss in the total amount of a loan which is the extent of loss on a defaulted exposure. The Group's LGD is calculated by internal rating model. For financial asset that does not use this model, historical analysis is adopted, where the loss of default has been calculated over a certain period from the time of default, in line with one-by-one recovery amount and date computed according to customer type, guarantee method, and historical non-performing loan collection experience, etc.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The discount rate used in the ECL calculation is contractual rate.

The Group monitors the related assumptions concerning the calculation of expected credit loss on a quarterly basis.

During the reporting period, no substantial changes occurred on the estimation techniques or key assumptions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.1 Expected credit loss measurement (continued)

(4) *Forward-looking Information*

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio, mainly including Gross Domestic Product, Consumer Price Index, Producer Price Index, Corporate Commodity Price Index, House Price Index, etc.

These economic variables and their associated impact on the PD vary by product types. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “basic economic scenario”) are made by the Group every year, and the relationship between these economic variables and PD is identified through performing statistical regression analysis with the purpose of understanding the impact that the historical changes of these variables have on PD.

The Group has adopted three economic scenarios (Central, Upside and Downside) and set probability for them respectively, on the basis of the macroeconomic information analysis and expert judgment. Based on the weighted average credit losses under the three scenarios in next year, the Group accrues the credit impairment allowance for Stage 1, and as to Stage 2 and 3, it's accrued in accordance with the lifetime weighted average credit losses.

The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(5) *Write-off policy*

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and is still capable of reasonably estimating the partial or while amount of financial assets that can be recovered. The Group may write-off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off during the six months ended June 30, 2018 were RMB2,819 million (June 30, 2017: RMB3,099 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures

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

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

	As at June 30, 2018	As at December 31, 2017
Deposits with central bank	1,221,863	1,364,392
Deposits with banks and other financial institutions	266,361	296,758
Placements with banks and other financial institutions	290,552	315,999
Financial assets at fair value through profit or loss — debt instruments	135,929	119,992
Derivative financial assets	6,826	6,584
Financial assets held under resale agreements	293,622	141,974
Loans and advances to customers	3,911,440	3,541,571
Financial assets at fair value through other comprehensive income — debt instruments	175,491	N/A
Financial assets at amortized cost	2,628,062	N/A
Available-for-sale financial assets — debt instruments	N/A	247,278
Held-to-maturity investments	N/A	935,735
Investment classified as receivables	N/A	1,424,558
Other financial assets	63,400	56,356
Subtotal	8,993,546	8,451,197
Credit commitments	625,986	643,998
Total	9,619,532	9,095,195

The table above presents the Group's maximum credit risk exposures before considering any collaterals, netting agreements or other credit enhancements as at June 30, 2018, and December 31, 2017. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(2) Loans and advances to customers

(a) Loans and advances by geographical regions:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Head Office	264,482	7%	256,498	7%
Central China	947,648	24%	838,929	23%
Western China	725,089	18%	662,034	18%
Yangtze River Delta	720,595	18%	651,145	18%
Bohai Rim	625,696	15%	559,898	16%
Pearl River Delta	457,042	11%	400,766	11%
Northeastern China	275,877	7%	260,865	7%
Total	4,016,429	100%	3,630,135	100%

(b) Loans and advances by types:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	1,568,359	39%	1,391,901	38%
Discounted bills	292,429	7%	291,761	8%
Personal loans and advances	2,155,641	54%	1,946,473	54%
Total	4,016,429	100%	3,630,135	100%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(2) Loans and advances to customers (continued)

(c) Loans and advances by industries:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services (i)	413,465	10%	382,006	11%
Manufacturing	258,984	7%	223,037	6%
Production and supply of electricity, heating, gas and water	216,633	5%	188,518	5%
Financial services	151,047	4%	169,855	5%
Wholesale and retail	97,941	3%	79,602	2%
Leasing and business services	87,243	2%	58,426	2%
Management of water conservancy, environmental and public facilities	82,679	2%	82,676	2%
Construction	79,532	2%	60,851	2%
Real estate	60,999	2%	45,788	1%
Mining	59,598	1%	48,403	1%
Other industries	60,238	1%	52,739	1%
Subtotal	1,568,359	39%	1,391,901	38%
Discounted bills	292,429	7%	291,761	8%
Personal loans and advances				
Consumer loans				
— Residential mortgage loans	1,287,762	32%	1,155,176	33%
— Other consumer loans	273,984	7%	256,185	7%
Personal business loans	330,273	8%	300,990	8%
Micro loans	177,745	5%	156,427	4%
Credit card overdraft and others	85,877	2%	77,695	2%
Subtotal	2,155,641	54%	1,946,473	54%
Total	4,016,429	100%	3,630,135	100%

(i) As at June 30, 2018, the balance included loans to China Railway Corporation of RMB195,633 million (December 31, 2017: RMB194,633 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(2) Loans and advances to customers (continued)

(d) Loans and advances by types of collateral:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Unsecured loans	1,092,010	27%	956,629	26%
Guaranteed loans	297,970	8%	265,272	7%
Loans secured by mortgages	1,975,155	49%	1,797,803	50%
Loans secured by pledges	358,865	9%	318,670	9%
Discounted bills	292,429	7%	291,761	8%
Total	4,016,429	100%	3,630,135	100%

(3) Loans and advances by overdue and impairment status

	As at June 30, 2018	As at December 31, 2017
Corporate loans and advances		
— Neither overdue nor impaired	1,840,848	1,668,920
— Overdue but not impaired	1,009	5,461
— Impaired	18,931	9,281
Subtotal	1,860,788	1,683,662
Personal loans and advances		
— Neither overdue nor impaired	2,127,912	1,923,897
— Overdue but not impaired	5,540	4,587
— Impaired	22,189	17,989
Subtotal	2,155,641	1,946,473
Total	4,016,429	3,630,135

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

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

(a) Loans and advances overdue but not impaired

The overdue status is as follows:

	As at June 30, 2018			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	742	267	—	1,009
Personal loans and advances	4,303	1,237	—	5,540
Total	5,045	1,504	—	6,549

	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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

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

(b) Impaired loans and advances

Impaired loans and advances by geographical regions are as follows:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Head Office	1,495	4%	1,131	4%
Central China	9,870	24%	5,274	19%
Western China	11,050	27%	8,729	32%
Yangtze River Delta	4,140	10%	3,012	11%
Bohai Rim	7,924	19%	3,341	12%
Pearl River Delta	2,494	6%	2,330	9%
Northeastern China	4,147	10%	3,453	13%
Total	41,120	100%	27,270	100%

Concentration of impaired loans and advances is as follows:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances	18,931	46%	9,281	34%
Personal loans and advances				
Consumer loans				
— Residential mortgage loans	3,864	10%	2,693	10%
— Other consumer loans	2,589	6%	1,671	6%
Personal business loans	9,190	22%	8,203	30%
Micro loans	5,053	12%	4,294	16%
Credit card overdraft and others	1,493	4%	1,128	4%
Total	41,120	100%	27,270	100%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

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

(c) Overdue loans and advances

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

	As at June 30, 2018					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	2,701	1,659	900	86	5,346	
Guaranteed loans	1,765	2,756	2,048	676	7,245	
Loans secured by mortgages	6,833	5,944	9,236	993	23,006	
Loans secured by pledges	4,618	61	199	275	5,153	
Discounted bills	45	—	—	—	45	
Total	15,962	10,420	12,383	2,030	40,795	

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

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

(c) Overdue loans and advances (continued)

	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

(4) Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. As at June 30, 2018, rescheduled loans and advances of the Group were RMB1,165 million (December 31, 2017: RMB1,670 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(5) Deposits and placements with banks and other financial institutions, and financial assets held under resale agreements

As at June 30, 2018 and December 31, 2017, there were neither overdue nor impaired assets in deposits and placements with banks and other financial institutions, and financial assets held under resale agreements.

(6) Debt instruments

The table below represents the carrying amounts and accumulated impairment charges of financial assets at amortized cost:

	Note	As at June 30, 2018	As at December 31, 2017
Neither overdue nor impaired	(a)	2,631,820	2,362,665
Impaired	(b)	7,827	2,200
Subtotal		2,639,647	2,364,865
Allowance for impairment losses		(11,585)	(4,572)
Total carrying amount of financial assets at amortized cost/held-to-maturity investments and investment classified as receivables		2,628,062	2,360,293

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(6) Debt instruments (continued)

(a) Debt instruments neither overdue nor impaired

	As at June 30, 2018			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Total
Government bonds	720	41,718	689,699	732,137
Public sector and quasi-government bonds	10	205	3,059	3,274
Financial institution bonds	32,678	114,697	1,617,641	1,765,016
Corporate bonds	7,869	10,872	72,125	90,866
Interbank certificates of deposits	77,326	2,483	29,511	109,320
Asset-backed securities	2,633	5,516	50,585	58,734
Asset management plans	3,467	—	—	3,467
Placements with banks and other financial institutions	8,733	—	—	8,733
Beneficiary certificates	2,493	—	—	2,493
Other debt instruments	—	—	169,200	169,200
Total	135,929	175,491	2,631,820	2,943,240

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(6) Debt instruments (continued)

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

	As at December 31, 2017				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	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
Interbank certificates of deposits	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
Placements with banks and 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 Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(6) Debt instruments (continued)

(b) Impaired debt instruments

	As at June 30, 2018	As at December 31, 2017
Asset-backed securities	527	—
Other debt instruments	7,300	2,200
Gross amount	7,827	2,200
Allowance for impairment losses	(5,062)	(2,200)
Impaired financial assets at amortized cost, net/ Impaired investment classified as receivables, net	2,765	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(6) Debt instruments (continued)

(c) Debt instruments analyzed by credit rating

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

	As at June 30, 2018					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	539,575	192,562	—	—	—	732,137
Public sector and quasi-government bonds	—	2,959	—	315	—	3,274
Financial institution bonds	1,696,844	51,258	5,967	4,502	6,445	1,765,016
Corporate bonds	16,686	66,675	3,897	2,940	668	90,866
Interbank certificates of deposits	109,320	—	—	—	—	109,320
Asset-backed securities	21,496	30,621	7,144	—	—	59,261
Asset management plans	3,467	—	—	—	—	3,467
Placements with banks and other financial institutions	8,733	—	—	—	—	8,733
Beneficiary certificates	2,493	—	—	—	—	2,493
Other debt instruments	176,500	—	—	—	—	176,500
Total	2,575,114	344,075	17,008	7,757	7,113	2,951,067

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.2 Credit risk exposures (continued)

(6) Debt instruments (continued)

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

	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
Interbank certificates of deposits	85,263	—	—	—	—	85,263
Asset-backed securities	33,870	28,816	6,619	—	—	69,305
Asset management plans	17,762	—	—	—	—	17,762
Placements with banks and 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

- (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, the principal and income of which are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

(7) Concentration of credit risk

The credit risk exposure of financial assets mainly concentrates in Mainland China.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk

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

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

	As at June 30, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	53,887	—	—	—	—	—	1,211,834	1,265,721
Deposits with banks and other financial institutions	—	12,428	2,786	23,831	227,316	—	—	—	266,361
Placements with banks and other financial institutions	—	—	74,401	39,417	56,224	120,510	—	—	290,552
Financial assets at fair value through profit or loss	—	81,584	5,077	55,225	94,146	26,939	83,363	13	346,347
Derivative financial assets	—	—	1,671	1,932	2,877	346	—	—	6,826
Financial assets held under resale agreements	—	—	250,230	24,460	18,932	—	—	—	293,622
Loans and advances to customers	7,975	—	166,420	290,012	1,234,342	733,782	1,478,909	—	3,911,440
Financial assets at fair value through other comprehensive income	—	—	9,719	15,653	46,399	101,702	2,018	53	175,544
Financial assets at amortized cost	—	—	4,289	38,120	163,064	1,445,470	977,119	—	2,628,062
Other financial assets	1,075	7,035	20,216	16,954	15,349	550	2,058	163	63,400
Total financial assets	9,050	154,934	534,809	505,604	1,858,649	2,429,299	2,543,467	1,212,063	9,247,875
Deposits from banks and other financial institutions	—	54,701	61	182	1,890	2,410	—	—	59,244
Placements from banks and other financial institutions	—	—	27,183	4,045	7,304	150	—	—	38,682
Financial liabilities at fair value through profit or loss	—	—	1,786	7,654	5,544	—	—	—	14,984
Derivative financial liabilities	—	—	1,957	1,746	2,537	405	—	—	6,645
Financial assets sold under repurchase agreements	—	—	170,954	3,874	1,871	—	—	—	176,699
Customer deposits	—	3,352,403	356,450	630,698	3,319,240	674,039	—	—	8,332,830
Debt securities issued	—	—	1,249	—	—	—	74,933	—	76,182
Other financial liabilities	—	48,736	13,621	11,766	39,915	19,269	1,898	402	135,607
Total financial liabilities	—	3,455,840	573,261	659,965	3,378,301	696,273	76,831	402	8,840,873
Net liquidity	9,050	(3,300,906)	(38,452)	(154,361)	(1,519,652)	1,733,026	2,466,636	1,211,661	407,002

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

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

	As at December 31, 2017								
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	—	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

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

	As at June 30, 2018								Total
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial assets									
Cash and deposits with central bank	—	53,887	—	550	—	—	—	1,211,834	1,266,271
Deposits with banks and other financial institutions	—	12,428	2,798	26,709	230,321	—	—	—	272,256
Placements with banks and other financial institutions	—	—	74,607	42,320	64,941	127,467	—	—	309,335
Financial assets at fair value through profit or loss	—	81,584	5,378	55,395	96,233	33,832	87,755	13	360,190
Financial assets held under resale agreements	—	—	250,390	24,464	18,938	—	—	—	293,792
Loans and advances to customers	9,053	—	179,425	317,437	1,338,072	1,123,331	2,021,316	—	4,988,634
Financial assets at fair value through other comprehensive income	—	—	9,719	16,184	51,636	108,947	2,225	53	188,764
Financial assets at amortized cost	47	—	16,434	41,213	252,727	1,750,543	1,216,314	—	3,277,278
Other financial assets	—	7,035	5,422	1,405	35	525	2,049	163	16,634
Total non-derivative financial assets	9,100	154,934	544,173	525,677	2,052,903	3,144,645	3,329,659	1,212,063	10,973,154
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	54,717	62	187	1,981	2,705	—	—	59,652
Placements from banks and other financial institutions	—	—	27,268	4,183	7,665	163	—	—	39,279
Financial liabilities at fair value through profit or loss	—	—	1,789	7,720	5,642	—	—	—	15,151
Financial assets sold under repurchase agreements	—	—	171,048	3,903	1,889	—	—	—	176,840
Customer deposits	—	3,356,562	361,959	642,602	3,401,692	736,012	—	—	8,498,827
Debt securities issued	—	—	1,262	1,125	1,890	12,060	85,935	—	102,272
Other financial liabilities	—	44,561	8,258	1,569	117	625	1,898	402	57,430
Total non-derivative financial liabilities	—	3,455,840	571,646	661,289	3,420,876	751,565	87,833	402	8,949,451
Net liquidity	9,100	(3,300,906)	(27,473)	(135,612)	(1,367,973)	2,393,080	3,241,826	1,211,661	2,023,703

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Cash flow of derivative financial instruments

Derivative financial instruments settled on a net basis

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

	As at June 30, 2018					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	3	1	17	52	—	73

	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

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 rates. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	As at June 30, 2018					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	137,418	153,136	211,203	14,335	—	516,092
— Cash outflow	(137,700)	(152,936)	(210,931)	(14,277)	—	(515,844)
Total	(282)	200	272	58	—	248

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Cash flow of derivative financial instruments (continued)

Derivative financial instruments settled on a gross basis (continued)

	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	144,243	103,870	188,001	3,892	—	440,006
— Cash outflow	(144,144)	(103,662)	(188,171)	(3,955)	—	(439,932)
Total	99	208	(170)	(63)	—	74

Credit commitments

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

	As at June 30, 2018			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	83,096	263,096	42,398	388,590
Bank acceptance	25,748	—	—	25,748
Guarantee and letters of guarantee	9,207	9,203	5	18,415
Letters of credit	15,589	—	—	15,589
Unused credit card commitments	177,644	—	—	177,644
Total	311,284	272,299	42,403	625,986

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Credit commitments (continued)

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

	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

41.4 Market risk

Sensitivity analysis on net interest income

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

	Increase/(Decrease) in net interest income	
	As at June 30, 2018	As at December 31, 2017
Upward parallel shift of 100 bps for yield curves	(6,869)	(3,686)
Downward parallel shift of 100 bps for yield curves	6,869	3,686

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Interest rate risk

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

	As at June 30, 2018						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	1,219,618	—	—	—	—	46,103	1,265,721	
Deposits with banks and other financial institutions	15,214	247,869	3,278	—	—	—	266,361	
Placements with banks and other financial institutions	74,401	44,708	50,933	120,510	—	—	290,552	
Financial assets at fair value through profit or loss	4,674	19,207	57,883	9,666	44,458	210,459	346,347	
Derivative financial assets	—	—	—	—	—	6,826	6,826	
Financial assets held under resale agreements	250,230	24,460	18,932	—	—	—	293,622	
Loans and advances to customers	697,626	392,789	2,744,159	69,224	7,642	—	3,911,440	
Financial assets at fair value through other comprehensive income	9,430	15,653	42,695	94,480	13,233	53	175,544	
Financial assets at amortized cost	913,941	89,653	172,266	851,508	600,694	—	2,628,062	
Other financial assets	—	—	—	—	—	63,400	63,400	
Total financial assets	3,185,134	834,339	3,090,146	1,145,388	666,027	326,841	9,247,875	
Deposits from banks and other financial institutions	54,762	182	1,890	2,410	—	—	59,244	
Placements from banks and other financial institutions	27,183	4,045	7,304	150	—	—	38,682	
Financial liabilities at fair value through profit or loss	1,764	7,507	5,415	—	—	298	14,984	
Derivative financial liabilities	—	—	—	—	—	6,645	6,645	
Financial assets sold under repurchase agreements	170,954	3,874	1,871	—	—	—	176,699	
Customer deposits	3,705,310	630,698	3,319,240	674,039	—	3,543	8,332,830	
Debt securities issued	1,249	—	—	—	74,933	—	76,182	
Other financial liabilities	—	—	—	—	—	135,607	135,607	
Total financial liabilities	3,961,222	646,306	3,335,720	676,599	74,933	146,093	8,840,873	
Interest rate risk gap	(776,088)	188,033	(245,574)	468,789	591,094	180,748	407,002	

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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			
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	
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	

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at June 30, 2018, and December 31, 2017.

	As at June 30, 2018			Total
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	
Cash and deposits with central bank	1,264,722	922	77	1,265,721
Deposits with banks and other financial institutions	255,464	9,539	1,358	266,361
Placements with banks and other financial institutions	244,554	45,998	—	290,552
Financial assets at fair value through profit or loss	331,057	15,290	—	346,347
Derivative financial assets	376	6,449	1	6,826
Financial assets held under resale agreements	293,622	—	—	293,622
Loans and advances to customers	3,888,257	18,640	4,543	3,911,440
Financial assets at fair value through other comprehensive income	163,924	11,620	—	175,544
Financial assets at amortized cost	2,619,814	8,248	—	2,628,062
Other financial assets	54,007	9,390	3	63,400
Total financial assets	9,115,797	126,096	5,982	9,247,875

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

	As at June 30, 2018			Total
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	
Deposits from banks and other financial institutions	59,244	—	—	59,244
Placements from banks and other financial institutions	20,107	18,575	—	38,682
Financial liabilities at fair value through profit or loss	14,984	—	—	14,984
Derivative financial liabilities	344	6,146	155	6,645
Financial assets sold under repurchase agreements	176,699	—	—	176,699
Customer deposits	8,292,868	39,408	554	8,332,830
Debt securities issued	76,182	—	—	76,182
Other financial liabilities	123,847	11,729	31	135,607
Total financial liabilities	8,764,275	75,858	740	8,840,873
Net on-balance sheet position	351,522	50,238	5,242	407,002
Net notional amount of derivative financial instruments	2,034	3,277	(4,372)	939
Credit commitments	607,699	13,296	4,991	625,986

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2017			Total
	RMB	USD (RMB equivalent)	Other currencies (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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2017			Total
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	
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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange rate risk (continued)

Exchange Rate Sensitivity Analysis

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

Exchange rate changes	As at June 30, 2018	As at December 31, 2017
5% of appreciation of USD against RMB	198	1,086
5% of depreciation of USD against RMB	(198)	(1,086)

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 exchange exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

41.5 Fair value of financial instruments

(1) During the six months ended June 30, 2018, and the year ended December 31, 2017, there was no significant change in the valuation techniques or inputs used to determine fair value measurements in the financial statements of the Group.

(2) Fair value hierarchy

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Fair value of financial instruments (continued)

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

	Carrying amount	As at June 30, 2018			
		Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	2,628,062	2,608,080	7,787	1,395,946	1,204,347
Financial liabilities					
Debt securities issued	76,182	74,528	—	74,528	—

	Carrying amount	As at December 31, 2017			
		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	—

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Fair value of financial instruments (continued)

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

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

	As at June 30, 2018			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	287	40,990	—	41,277
— Interbank certificates of deposits	12,542	64,784	—	77,326
— Assets-backed securities	—	2,608	25	2,633
— Equity instruments	—	81,584	128,834	210,418
— Asset management plans	—	—	3,467	3,467
— Placements with banks and other financial institutions	—	—	8,733	8,733
— Beneficiary certificates	—	—	2,493	2,493
— Loans and advances to customers	—	3	—	3
Subtotal	12,829	189,969	143,552	346,350
Derivative financial assets				
— Exchange rate derivatives	—	6,384	—	6,384
— Interest rate derivatives	—	442	—	442
Subtotal	—	6,826	—	6,826
Financial assets at fair value through other comprehensive income				
— Debt securities	11,620	155,872	—	167,492
— Interbank certificates of deposits	—	2,483	—	2,483
— Assets-backed securities	—	5,516	—	5,516
— Equity instruments	—	—	53	53
— Loans and advances to customers	—	348,136	—	348,136
Subtotal	11,620	512,007	53	523,680
Total financial assets	24,449	708,802	143,605	876,856

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Fair value of financial instruments (continued)

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

	As at June 30, 2018			Total
	Level 1	Level 2	Level 3	
Financial liabilities				
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(14,984)	(14,984)
Derivative financial liabilities				
— Exchange rate derivatives	—	(6,301)	—	(6,301)
— Interest rate derivatives	—	(344)	—	(344)
Subtotal	—	(6,645)	—	(6,645)
Total financial liabilities	—	(6,645)	(14,984)	(21,629)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Fair value of financial instruments (continued)

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

	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
— Interbank certificates of deposits	9,758	59,164	—	68,922
— Asset management plans	—	—	17,762	17,762
— Placements with banks and 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
— Interbank 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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Fair value of financial instruments (continued)

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

	As at December 31, 2017			Total
	Level 1	Level 2	Level 3	
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)

There were no significant movements among levels of the fair value hierarchy for the six months ended June 30, 2018, and the year ended December 31, 2017.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.6 Capital management

The Group's regulatory capital as calculated according to the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法(試行)) promulgated by the CBIRC and Accounting Standards for Business Enterprises as issued by the MOF at June 30, 2018 and December 31, 2017 is as follows:

	As at June 30, 2018	As at December 31, 2017
Core tier 1 capital adequacy ratio	9.00%	8.60%
Tier 1 capital adequacy ratio	10.07%	9.67%
Capital adequacy ratio	12.90%	12.51%
Core tier 1 capital	403,461	383,431
Deductions of core tier 1 capital	(1,703)	(1,758)
Core tier 1 capital — net	401,758	381,673
Other tier 1 capital	47,888	47,887
Tier 1 capital — net	449,646	429,560
Tier 2 capital		
— Excess provision for loan loss	51,281	50,816
— Directly issued qualifying tier 2 instruments including related premium	75,000	75,000
— Non-controlling interest given recognition in tier 2 capital	82	69
Net capital	576,009	555,445
Risk-weighted assets	4,464,276	4,440,497

42 Events after the balance sheet date

Up to the date of the approval for the consolidated financial statements, there was no material event subsequent to the balance sheet date.

43 Reclassification of comparative figures

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

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2018 (All amounts in millions of RMB unless otherwise stated)

1 Liquidity ratios and leverage ratio

(1) Liquidity ratios

	Average for the six months ended June 30, 2018	Average for the year ended December 31, 2017
Liquidity ratios (RMB and foreign currency)	50.18%	42.99%

	As at June 30, 2018	As at December 31, 2017
Liquidity ratios (RMB and foreign currency)	52.08%	42.10%

Pursuant to the relevant regulations published by the CBIRC, the above liquidity ratio was calculated based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

(2) Leverage ratio

	As at June 30, 2018	As at December 31, 2017
Leverage ratio	4.64%	4.55%

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 CBIRC since April 1, 2015 (effective date of the Measures), the above leverage ratio was calculated based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

2 Currency concentration

	As at June 30, 2018			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	90,684	1,157	5,484	97,325
Spot liabilities	(49,197)	(220)	(1,133)	(50,550)
Forward purchases	260,846	42	2	260,890
Forward sales	(255,994)	(557)	(4,763)	(261,314)
Net long/(short) position	46,339	422	(410)	46,351

	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

The Group had no structural position for the six months ended June 30, 2018, and the year ended December 31, 2017.

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

3 International claims

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

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

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at June 30, 2018			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	3,104	82,256	17,391	102,751
of which attributed to Hong Kong	—	1,553	639	2,192
North and South America	—	3,490	4,441	7,931
Europe	—	4,656	4,285	8,941
Total	3,104	90,402	26,117	119,623

	As at December 31, 2017			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
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

Appendix I: Unreviewed Supplementary Financial Information

For the six months ended June 30, 2018

(All amounts in millions of RMB unless otherwise stated)

4 Gross amount of overdue loans and advances to customers

	As at June 30, 2018	As at December 31, 2017
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods		
within 3 months (inclusive)	15,963	12,716
from 3 months to 6 months (inclusive)	4,432	3,296
from 6 months to 12 months (inclusive)	5,987	6,175
over 12 months	14,413	13,086
Total	40,795	35,273
As a percentage of total gross loans and advances to customers for periods		
within 3 months (inclusive)	0.40%	0.35%
from 3 months to 6 months (inclusive)	0.11%	0.09%
from 6 months to 12 months (inclusive)	0.15%	0.17%
over 12 months	0.36%	0.36%
Total	1.02%	0.97%

Overdue loans and advances to customers by geographical regions:

	As at June 30, 2018	As at December 31, 2017
Head office	1,858	1,351
Yangtze River Delta	4,576	3,527
Pearl River Delta	2,855	2,760
Bohai Rim	8,284	8,182
Central China	7,764	6,067
Western China	11,234	9,649
Northeastern China	4,224	3,737
Total	40,795	35,273

Appendix II: Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2018 After adjustment	December 31, 2017 After adjustment
High-quality liquid assets	1,387,787	1,272,410
Net cash outflow	790,372	872,748
Liquidity coverage ratio (%)	175.59	145.79

Appendix III: Leverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2018	December 31, 2017
Net tier 1 capital	449,646	429,560
Balance of adjusted on- and off-balance sheet	9,688,986	9,444,741
Leverage ratio (%)	4.64	4.55

No.	Item	June 30, 2018	December 31, 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	9,090,985	8,878,533
2	Less: Deduction from tier 1 capital	1,703	1,758
3	Balance of adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)	9,089,282	8,876,775
4	Replacement cost associated with all derivative transactions (net of eligible cash variation margin)	6,826	6,584
5	Add-on amounts for potential future exposure associated with all derivative transactions	12,702	11,235
6	Gross-up for derivative collateral provided where deducted from the balance sheet assets	—	—
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	—	—
8	Less: Derivative assets resulting from transactions with the central counterparty when providing clearance services to clients	—	—
9	Effective notional amount of written credit derivatives	—	—
10	Less: Deductible amounts for written credit derivatives	—	—
11	Total derivative exposures	19,528	17,819
12	Accounting balance for securities financing transaction assets	228,352	127,434
13	Less: Deducted amounts for securities financing transaction assets	—	—
14	Counterparty credit risk exposure for securities financing transaction	41,345	70,237
15	Securities financing transaction assets resulting from agent transaction	—	—
16	Balance of assets in securities financing transactions	269,697	197,671
17	Off-balance sheet items	982,876	1,079,518
18	Less: Adjustments for conversion to credit equivalent amounts	672,397	727,041
19	Balance of adjusted off-balance sheet assets	310,479	352,476
20	Net tier 1 capital	449,646	429,560
21	Balance of adjusted on- and off-balance sheet assets	9,688,986	9,444,741
22	Leverage ratio (%)	4.64	4.55

Appendix IV: Composition of Capital

Composition of Capital

In millions of RMB

	Amount
Core tier 1 capital:	
1 Paid-in capital	81,031
2 Retained earnings	247,475
2a Surplus reserve	25,159
2b General reserve	101,011
2c Undistributed profits	121,305
3 Accumulated other comprehensive income and disclosed reserve	74,648
3a Capital reserve	74,648
3b Others	0
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 interests	307
6 Core tier 1 capital before regulatory adjustments	403,461
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)	1,703
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 Direct or indirect investments 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 non-significant 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

	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	1,703
29 Core tier 1 capital	401,758
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 Valid portion of minority interests	42
35 Including: invalid portion to additional tier 1 capital excluded after the transition period	—
36 Additional tier 1 capital before regulatory adjustments	47,888
Additional tier 1 capital: Regulatory adjustments	
37 Direct or indirect investments in own additional tier 1 instruments	—
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

Appendix IV: Composition of Capital

	Amount
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
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	47,888
45 Tier 1 capital (core tier 1 capital + additional tier 1 capital)	449,646
Tier 2 capital:	
46 Tier 2 capital instruments and related premium	75,000
47 Invalid instruments to tier 2 capital after the transition period	—
48 Valid portion of minority interests	82
49 Including: Invalid portion to tier 2 capital after the transition period	—
50 Valid portion of surplus provision for loan impairment	51,281
51 Tier 2 capital before regulatory adjustments	126,363
Tier 2 capital: Regulatory adjustments	
52 Direct or indirect investments in own tier 2 instruments	—
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	126,363
59 Total capital (tier 1 capital + tier 2 capital)	576,009
60 Total risk-weighted assets	4,464,276
Requirements for capital adequacy ratio and reserve capital (%)	
61 Core tier 1 capital adequacy ratio	9.00
62 Tier 1 capital adequacy ratio	10.07
63 Capital adequacy ratio	12.90

Appendix IV: Composition of Capital

	Amount
64 Institution specific capital requirement	2.50
65 Including: Capital conservation buffer requirement	2.50
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
Domestic minimum requirements for regulatory capital (%)	
69 Core tier 1 capital adequacy ratio	7.50
70 Tier 1 capital adequacy ratio	8.50
71 Capital adequacy ratio	10.50
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	30,347
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)	26,372
Valid caps of surplus provision for loan impairment to tier 2 capital	
76 Provision for loan impairment under the weighted approach	104,989
77 Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	51,281
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

	Regulatory and Consolidated Balance sheet	Code
Goodwill	0	a
Intangible assets	1,703	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	74,648	g
Others	0	h
Surplus reserve	25,159	i
General reserve	101,011	j
Undistributed profits	121,305	k

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	247,475	i+j+k
2a Surplus reserve	25,159	i
2b General reserve	101,011	j
2c Undistributed profits	121,305	k
3 Accumulated other comprehensive income and disclosed reserve	74,648	g+h
3a Capital reserve	74,648	g
3b Others	0	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)	—	

Appendix IV: Composition of Capital

	Amount	Code
5 Valid portion of minority interests	307	
6 Core Tier 1 capital before regulatory adjustments	403,461	
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)	1,703	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 Direct or indirect investments 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 non-significant 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 related premium	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 (Offshore)
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	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 noncontractual 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

Appendix IV: Composition of Capital

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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
8 Amount that can be included in regulatory capital (in 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

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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 CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become nonviable; 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

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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

Appendix IV: Composition of Capital

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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
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

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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 CBIRC 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 CBIRC 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 CBIRC 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

Appendix IV: Composition of Capital

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
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

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
35 Hierarchy of claims (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and 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 and are in the same priority as other tier 2	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 and are in the same priority as other tier 2	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 and are in the same priority as other tier 2	After depositor, general creditor, and holders of tier 2 capital instrument

Appendix IV: Composition of Capital

	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (Offshore)
		capital instruments that may be issued in the future and in the same repayment order as the current bonds	capital instruments that may be issued in the future and in the same repayment order as the current bonds	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

進步
與您同步

TOGETHER
WE MAKE IT
BETTER

 中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA