



中国邮政储蓄银行

POSTAL SAVINGS BANK OF CHINA

中國郵政儲蓄銀行股份有限公司
Postal Savings Bank of China Co., Ltd.

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

Stock Code: 1658

Stock Code of Preference Shares: 4612

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BETTER

2019
Interim Report



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Company Profile

The postal savings business in China can be traced back to its start in 1919 with a history of one hundred years. In March 2007, based on the reform of the previous postal saving management system, the Postal Savings Bank of China was officially established. In January 2012, the Bank was transformed into a joint stock limited liability company. In September 2016, it went public and was listed on the Hong Kong Stock Exchange.

With approximately 40,000 outlets and services covering near 600 million individual customers, the Bank strategically focuses on providing financial services to Sannong customers, urban and rural residents and SMEs and is committed to meeting the financial needs of the most promising customers during China's economic transformation. In addition, the Bank is accelerating its transformation towards a new retail bank that is data driven and features synergy between channels, interlink between wholesale and retail as well as efficient operation. It has shown its superior asset quality and significant development potential, and is a leading retail and commercial bank in China.

The Bank is committed to serving the real economy, actively implements the national development strategy and supports the construction of the modern economic system of China in order to achieve its own sustainable development. The Bank adheres to the customer-centric philosophy and has established a financial service system where online and offline businesses connect with each other and achieve joint development, providing our customers with quality, convenient and efficient integrated financial services. The Bank adheres to the risk-based approach, establishes a "all aspects, whole process and all staff" risk management philosophy, and maintains the quality of assets at the best level of the industry. It continues to follow the principle of "providing inclusive service to urban and rural areas and offering benefits to the people", and actively fulfills its social responsibilities in providing inclusive financial services, developing green finance, and supporting accurate poverty alleviation, etc.

After 12 years of dedicated efforts, the Bank has become an important player in the market with marked influence. In 2019, it is ranked 22nd in The Banker's Top 1000 World Banks 2019 in terms of tier 1 capital. It has been rated A+ and A1 by Fitch and Moody's respectively, which is the same as China's sovereignty credit rating; it has been rated A by Standard & Poor's, which is the highest rating among the large state-owned commercial banks.

Faced with the period of strategic opportunities for China's economic and social development, the Bank will thoroughly implement the new development concept, comprehensively deepen reform and innovation, accelerate the transformation and development towards "uniqueness, comprehensiveness, lightness, intelligence, intensification", continue to improve the quality and effect of serving the real economy and the ability of serving customers, and commit to becoming a distinctive, prudent and safe first-tier large retail bank trusted by customers, driven by innovation and offering excellent value.

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

“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
“A Share Offering and Listing”	the Bank proposes to issue an initial public offering of not more than 5,172,164,200 A Shares (excluding over-allotment) in the PRC, and the A Shares will be listed on the Shanghai Stock Exchange
“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)
“CBRC”	China Banking Regulatory Commission, established as China Banking and Insurance Regulatory Commission with China Insurance Regulatory Commission in March 2018, in accordance with the Plan for Deepening the Institutional Reform of the Party and State
“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 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
“small and micro enterprises”	small and micro enterprises, individual business owners and owners of small and micro enterprises. under the Classification Standards of Small and Medium Enterprises”, small and micro enterprises are classified based on standards such as the number of employees, operating income, and total assets, whereas individual business owners and owners of small and micro enterprises are classified based on these standards

“County Area(s)”	areas designated as counties or county-level cities under China’s administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions
“CSRC”	China Securities Regulatory Commission
“Domestic Shares”	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
“the 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
“HKEX”	The Hong Kong Exchanges and Clearing Limited
“Stock Exchange/Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
“industries with high pollution, high energy consumption and overcapacity”	industries with high pollution, high energy consumption and overcapacity
“MOF”	Ministry of Finance of the PRC
“new financial instrument standards”	IFRS 9 Financial Instruments (IFRS 9)
“new leases standard”	IFRS 16 Leases (IFRS 16)
“PSBC Consumer Finance”	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015.

“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
“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

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 2019 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 20, 2019. The Bank has 14 directors in total, among which 13 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.

As approved at the 2018 Annual General Meeting held on May 30, 2019, the Bank has distributed cash dividends of RMB1.937 (tax inclusive) per ten shares, totaling approximately RMB15,696 million (tax inclusive), for the period from January 1, 2018 to December 31, 2018 to the ordinary shareholders whose names appeared on the share register on the record date.

The Bank will not declare or distribute an interim dividend of 2019 and will not convert its capital reserve into share capital.

The 2019 interim financial statements prepared by the Bank in accordance with IFRSs 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 20, 2019

Zhang Jinliang, Legal Representative of the Bank, Zhang Xuewen, the person 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 true, accurate and complete.

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

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

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

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”)
Legal representative:	Zhang Jinliang
Chairman:	Zhang Jinliang
President:	Zhang Xuewen ¹
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, Wan Chai, 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

¹ Upon the approval of the Board of Directors, Mr. Zhang Xuewen, Executive Director and Vice President of the Bank, started to perform the duties on behalf of the President, with effect from January 4, 2019. For details, please refer to “Changes in Directors, Supervisors and Senior Management” of this report.



Unified social credit code:	9111000071093465XC
Financial license institutional code:	B0018H111000001
Stock exchange on which H shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC
Stock code:	1658
Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Stock exchange on which preference shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC 17USDPREF
Stock code:	4612
Legal Advisor as to PRC laws:	Haiwen & Partners, Beijing
Legal Advisor as to Hong Kong laws:	Davis Polk & Wardwell
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP
International auditor:	PricewaterhouseCoopers

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

Financial Data and Indicators

(Financial data and indicators in this report have been prepared in accordance with the IFRSs. Unless otherwise specified, they are consolidated data of the Group. This report is presented in Renminbi.)

Key Financial Data

In millions of RMB, except for percentages or otherwise stated

For the six months ended June 30				
Item	2019	2018	Increase/ (decrease)	Change (%)
Interim operating results				
Operating income	141,704	132,408	9,296	7.02
Net interest income	119,082	111,662	7,420	6.65
Net fee and commission income	9,339	7,682	1,657	21.57
Operating expenses	73,222	74,770	(1,548)	(2.07)
Impairment losses on assets	27,696	23,371	4,325	18.51
Profit before income tax	40,786	34,267	6,519	19.02
Net profit	37,422	32,547	4,875	14.98
Net profit attributable to shareholders of the Bank	37,381	32,523	4,858	14.94
Net cash flow from operating activities	113,271	79,590	33,681	42.32
Per share data (in RMB)				
Basic and diluted earnings per share ⁽¹⁾	0.43	0.37	0.06	16.22

- (1) 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. Non-recurring gains and losses are not deducted. There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

In millions of RMB, except for percentages or otherwise stated

Item ⁽⁴⁾	As at June 30, 2019	As at December 31, 2018	Increase/ (decrease)	Change (%)
Data as at the end of the reporting period				
Total assets	10,067,175	9,516,211	550,964	5.79
Total loans to customers ⁽¹⁾	4,701,673	4,276,865	424,808	9.93
Allowance for impairment losses on loans to customers ⁽²⁾	151,292	127,327	23,965	18.82
Loans to customers, net	4,550,381	4,149,538	400,843	9.66
Investment instruments ⁽³⁾	3,761,871	3,387,487	374,384	11.05
Cash and deposits with central bank	1,163,545	1,202,935	(39,390)	(3.27)
Total liabilities	9,573,116	9,040,898	532,218	5.89
Customer deposits	9,101,191	8,627,440	473,751	5.49
Equity attributable to shareholders of the Bank	493,109	474,404	18,705	3.94
Net capital	618,414	593,729	24,685	4.16
Net core tier 1 capital	440,830	421,678	19,152	4.54
Additional tier 1 capital, net	47,933	47,927	6	0.01
Risk-weighted assets	4,765,613	4,316,219	449,394	10.41
Per share data (in RMB)				
Net assets per share ⁽⁵⁾	5.49	5.26	0.23	4.37

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

(2) Allowance for impairment losses of loans and advances to customers at amortized cost.

(3) Consists of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income-debt instruments, financial assets at fair value through other comprehensive income-equity instruments and financial assets at amortized cost.

(4) In accordance with the relevant regulations under the “Notice on Amending the Format of Financial Statements for Business Enterprises in 2018” (Caikuai [2018] No.36) issued by the Ministry of Finance, the book balance of each financial instrument consists of the corresponding assets and liabilities interest, and interest receivable and interest payable are no longer shown separately. The balance of interest receivable or interest payable shown in other assets or other liabilities are only interests due on relevant financial instruments or interest payable but not received nor paid on the date of the balance sheet.

(5) 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		
	2019	2018	Change
Profitability (%)			
Return on average total assets ⁽¹⁾⁽²⁾	0.77	0.72	Increased by 0.05 percentage point
Return on weighted average net assets ⁽¹⁾⁽³⁾	16.38	16.32	Increased by 0.06 percentage point
Net interest margin ⁽¹⁾⁽⁴⁾	2.55	2.64	Decreased by 0.09 percentage point
Net interest spread ⁽¹⁾⁽⁵⁾	2.51	2.65	Decreased by 0.14 percentage point
Net fee and commission income to operating income ratio	6.59	5.80	Increased by 0.79 percentage point
Cost-to-income ratio ⁽⁶⁾	50.95	55.80	Decreased by 4.85 percentage points

Item	As at June 30,		Change
	2019	As at December 31, 2018	
Asset quality (%)			
Non-performing loan ratio ⁽⁷⁾	0.82	0.86	Decreased by 0.04 percentage point
Allowance coverage ratio ⁽⁸⁾	396.11	346.80	Increased by 49.31 percentage points
Allowance to loan ratio ⁽⁹⁾	3.23	2.99	Increased by 0.24 percentage point
Capital adequacy ratio (%)			
Core tier 1 capital adequacy ratio ⁽¹⁰⁾	9.25	9.77	Decreased by 0.52 percentage point
Tier 1 capital adequacy ratio ⁽¹¹⁾	10.26	10.88	Decreased by 0.62 percentage point
Capital adequacy ratio ⁽¹²⁾	12.98	13.76	Decreased by 0.78 percentage point
Risk-weighted assets to total assets ratio ⁽¹³⁾	47.34	45.36	Increased by 1.98 percentage points
Total equity to total assets ratio	4.91	4.99	Decreased by 0.08 percentage point

- (1) On an annualized basis.
- (2) Represents net profit 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. Non-recurring gains and losses are not deducted.
- (4) Calculated by dividing net interest income by the average balance of interest-earning assets.
- (5) Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (6) Calculated by dividing total operating expenses (excluding taxes and surcharges) by operating income.
- (7) Calculated by dividing total non-performing loans by the total loans to customers.
- (8) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans. Total allowance for impairment losses on loans to customers included allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.
- (9) Calculated by dividing total allowance for impairment losses on loans to customers by total loans to customers.
- (10) Calculated by dividing core tier 1 capital (net of core tier 1 capital deductions) by risk-weighted assets.
- (11) Calculated by dividing tier 1 capital (net of tier 1 capital deductions) by risk-weighted assets.
- (12) Calculated by dividing total capital (net of capital deductions) by risk-weighted assets.
- (13) Calculated by dividing risk-weighted assets by total assets.

Other Major Indicators

Item	Regulatory Requirement	As at June 30, 2019	As at December 31, 2018	
Liquidity Ratios (%) ⁽¹⁾	RMB and foreign currency	≥25	63.55	61.17
Loan migration ratio (%) ⁽²⁾	Normal	0.59	1.24	
	Special mention	12.24	25.01	
	Substandard	53.36	75.09	
	Doubtful	68.10	83.55	

(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), fixed time deposits due within one month (excluding fiscal deposits), net placement and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interests payables and all kinds of payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(2) The data is based on the Bank's statistics.

Item	As at June 30, 2019	As at December 31, 2018	
Credit Rating	Standard & Poor's	A (stable)	A (stable)
	Moody's	A1 (stable)	A1 (stable)
	Fitch	A+ (stable)	A+ (stable)
	CCXI	AAA	AAA



Overview of Operations

In the first half of 2019, facing the complex economic and financial environments at home and abroad, the Bank adhered to Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully implemented all major policies and plans made by the Party Central Committee and the State Council. Keeping in mind the goal to facilitate social and economic development, the Bank adhered to the general principle of pursuing progress while ensuring stability, kept pushing ahead with business transformation and development, continuously increased support for the real economy, held the bottom line of no systemic risks, and achieved steady business development with improving results.

Continuing to improve operating performance

In the first half of 2019, the Bank made proper assessment of the macroeconomic and financial situation, strengthened the tracking and analysis of market conditions, captured market opportunities proactively and implemented transformational development effectively. Business performance kept a good momentum of steady growth. As at the end of the reporting period, the Group's total assets and total liabilities amounted to RMB10,067,175 million and RMB9,573,116 million respectively, representing an increase of 5.79% and 5.89% compared with the prior year-end. During the reporting period, the Group realized net profit of RMB37,422 million, representing a year-on-year increase of 14.98%; net interest income of RMB119,082 million and net fee and commission income of RMB9,339 million, representing a year-on-year increase of 6.65% and 21.57% respectively. The cost-to-income ratio was 50.95%, representing a decrease of 4.85 percentage points compared with the same period of the prior year.

Taking effective steps to serve the real economy

In the first half of 2019, the Bank followed national strategies and offered full support to the development of the real economy in accordance with the general requirements of "finance serves the real economy". It continued to increase loan supply, focused on meeting the financial needs of weak links in the economy such as Sannong, small and micro enterprises, and supported economic construction in China's major strategic areas. As at the end of the reporting period, various loans increased by RMB424,808 million compared with the prior year-end, representing an increase of 9.93% year-on-year, and the newly added loans increased by RMB38,514 million compared with the same period of the prior year. The Bank strengthened its financial services for Sannong customers and stepped up its input for the service of rural revitalization. Its agriculture-related loans increased by RMB93,584 million or 8.06% compared with the prior year-end. The Bank prioritized the financial needs of small and micro enterprises and proactively supported their development. The inclusive loans to small and micro enterprises with a maximum credit line of RMB10 million per customer recorded a net increase of RMB67,644 million or 12.41% compared with the prior year-end.

Significantly enhancing the ability to prevent and control risks

In the first half of 2019, the Bank focused on the key tasks of forestalling and defusing financial risks and firmly established the concept of comprehensive risk management. It accelerated the building of an all-round, full-process and all-employee comprehensive risk management system to prevent risks, promote compliance, ensure quality and closely guarded against risks. The Bank accelerated the improvement of the “three lines of defense” system, enhanced the accountability mechanism for non-compliance, maintained the high-handed posture on case prevention, deepened its efforts in rectifying market chaos and enhanced the compliance. The Bank strengthened its risk management and control in key areas and identified operational management responsibilities. As at the end of the reporting period, the balance of non-performing loans of the Group amounted to RMB38,372 million, with a non-performing loan ratio of 0.82%. The asset quality was better than the industry average.

Deepening institutional and mechanism reform

In the first half of 2019, the Bank actively advanced institutional and mechanism reform and continued to promote development through reform. Substantial progress was made for the A Share Offering and Listing with the first application to CSRC completed. Approval for the establishment of a wealth management subsidiary was formally obtained with preparations conducted orderly in accordance with regulatory requirements. Recruitment for mid-level and senior management was carried out and the organizational reform was advancing steadily and orderly. Cooperation with China Post Group was strengthened to create more synergies and vitality of outlets activated. Auxiliary microfinance at agency outlets was piloted.

Environment and Prospect

In the first half of 2019, the economic growth of major economies in the world was weak and the downward pressure on the economy was prominent. The regulation of banking industry became stricter. The assets of banks in developed countries saw moderate expansion while banks in emerging economies were making good profits. China continued the supply-side structural reform as the top priority, deepened the reform and opening up and focused on the work to maintain stable employment, a stable financial sector, stable foreign trade, stable foreign investment, stable domestic investment, and stable expectations (“Six Stables”). The main economic indicators were kept within an appropriate range, which kept the momentum of general stability with progress. The RMB exchange rate was relatively stable. The government maintained a prudent monetary policy which was eased or tightened to the right degree. The structural deleveraging policy continued, and financial risk prevention and control was steadily advanced. The banking sector has maintained a good momentum for development with the scale of assets steadily increased. The credit quality was generally stable, with the ability to withstand risks further enhanced and operating performance maintained stable.

Looking forward to the second half of 2019, the central banks of major economies in the world have cut interest rates to stabilize economic growth while there are uncertainties such as trade friction, Brexit and the situation in the Middle East, and the pressure of global economic downside risk still exists. In addition to the cyclical and structural problems, the domestic economy is also facing a greater downward pressure. The macroeconomic policies will further focus on policy coordination to strengthen countercyclical adjustment. The fiscal policy will be intensified to improve efficiency. Tax cut and fee reduction policies will be further put into effect with focus on mitigating the tax burden of manufacturing enterprises as well as small and micro enterprises. The monetary policy will be eased or tightened to the right degree and the valve on aggregate monetary supply should be well controlled. The transmission mechanism of monetary policy will be improved to maintain reasonably sufficient liquidity. There is room for further decline in the money market interest rate. The interest rate liberalization reform “merging two tracks” has been further advanced, and the pressure for deposit interest rates to rise and the loan interest rates to decrease is mounting.

Facing the complicated internal and external situation, in the second half of 2019, PSBC will take the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guide, adhere to the strategic positioning of retail banking, continue the transformation and development, further deepen its reform and improve the quality and efficiency of development. First, we will speed up business transformation and development. We are going to transform the retail business into a “new retail” mode, strengthen the capacity building of the corporate business, activate the urban business development mechanism and make breakthroughs in the development model of banking ecologies. Second, we will deepen the reform on all aspects. We are actively propelling the A Share Offering and Listing, accelerate the establishment of a wealth management subsidiary and steadily advance the institutional reform of the entire Bank. Third, we will strengthen the application of technologies. We are going to push forward the implementation of the 13th Five-Year IT planning with full efforts, continuously enhance the IT management, accelerate the application of big data and strengthen technological innovation. Fourth, we will strengthen the prevention and control of risks. We are going to deeply promote the building of long-term mechanisms, effectively manage and control risks in key areas, maintain the high-handed posture on case prevention, strengthen auditing and supervision and improve audit effectiveness.

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

In the first half of 2019, the Group deepened its reforms, effectively implemented transformational development, continuously improved its abilities to serve the real economy, enhanced its risk prevention and control capabilities, and achieved good business results amid stability. In the first half of 2019, the Group achieved a net profit of RMB37,422 million, representing an increase of RMB4,875 million or 14.98% as compared with the same period of the prior year. Operating income amounted to RMB141,704 million, representing an increase of RMB9,296 million or 7.02% from the same period of the prior year.

Changes of Principal Components in the Comprehensive Income Statement

In millions of RMB, except for percentages

Item	For the six months ended June 30			
	2019	2018	Increase/ (decrease)	Change (%)
Net interest income	119,082	111,662	7,420	6.65
Net fee and commission income	9,339	7,682	1,657	21.57
Other non-interest income	13,283	13,064	219	1.68
Operating income	141,704	132,408	9,296	7.02
Less: Operating expenses	73,222	74,770	(1,548)	(2.07)
Impairment losses on assets	27,696	23,371	4,325	18.51
Profit before income tax	40,786	34,267	6,519	19.02
Less: Income tax expenses	3,364	1,720	1,644	95.58
Net profit	37,422	32,547	4,875	14.98
Attributable to shareholders of the Bank	37,381	32,523	4,858	14.94
Attributable to non-controlling interests	41	24	17	70.83
Other comprehensive income	(479)	2,024	(2,503)	(123.67)
Total comprehensive income	36,943	34,571	2,372	6.86

Net Interest Income

During the reporting period, the Group's net interest income amounted to RMB119,082 million, representing an increase of RMB7,420 million or 6.65% compared with the same period of the prior year. Net interest margin and net interest spread were 2.55% and 2.51%, respectively, representing a decrease of 9 basis points and 14 basis points respectively over the same period the prior year. The Group continued to optimize its asset and liability structure. The scale of interest-earning assets grew moderately, and the proportion of high-yield assets increased further. However, due to factors such as the market environment and fierce competition in deposits, the yield of interest-earning assets declined slightly, and the cost of interest-bearing liabilities saw an increase.

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	2019 Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	2018 Interest income/expense	Average yield/cost (%) ⁽¹⁾
Assets						
Total loans to customers	4,501,629	108,014	4.84	3,770,239	94,478	5.05
Investment ⁽²⁾	3,229,665	62,842	3.92	2,652,577	50,997	3.88
Deposits with central bank ⁽³⁾	1,102,570	8,857	1.62	1,262,165	10,140	1.62
Amounts due from banks and other financial institutions ⁽⁴⁾	584,350	10,584	3.65	835,317	17,721	4.28
Total interest-earning assets	9,418,214	190,297	4.07	8,520,298	173,336	4.10
Allowance for impairment losses	(153,898)	–	–	(102,509)	–	–
Non-interest earning assets ⁽⁵⁾	508,729	–	–	764,699	–	–
Total assets	9,773,045	–	–	9,182,488	–	–

Item	For the six months ended June 30					
	Average balance	2019 Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	2018 Interest income/expense	Average yield/cost (%) ⁽¹⁾
Liabilities						
Customer deposits	8,916,370	67,679	1.53	8,284,497	57,537	1.40
Amounts due to banks and other financial institutions ⁽⁶⁾	185,009	1,995	2.17	221,278	2,617	2.38
Debt securities issued ⁽⁷⁾	78,160	1,541	3.98	75,837	1,520	4.04
Total interest-bearing liabilities	9,179,539	71,215	1.56	8,581,612	61,674	1.45
Non-interest bearing liabilities ⁽⁸⁾	137,581	–	–	169,354	–	–
Total liabilities	9,317,120	–	–	8,750,966	–	–
Net interest income	–	119,082	–	–	111,662	–
Net interest spread⁽⁹⁾	–	–	2.51	–	–	2.65
Net interest margin⁽¹⁰⁾	–	–	2.55	–	–	2.64

(1) On an annualized basis.

(2) Consists of interest-earning assets and financial assets at amortized cost in financial assets at fair value through other comprehensive income.

(3) Consists of statutory deposit reserve and surplus deposit reserve.

(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) Mainly consists of financial assets at fair value through profit or loss, cash, property and equipment, derivative financial assets, interest receivable, receivables and temporary payments, 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) Mainly consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, employee benefits payable, liabilities for agency services, tax payable, interest payable and other liabilities.

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

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

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

In millions of RMB

Item	For the six months ended June 30, 2019 vs 2018		Total ⁽³⁾
	Increase/(decrease) Volume ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Total loans to customers	17,549	(4,013)	13,536
Investment	11,229	616	11,845
Deposits with central bank	(1,282)	(1)	(1,283)
Amounts due from banks and other financial institutions	(4,545)	(2,592)	(7,137)
Changes in interest income	23,951	(5,990)	16,961
Liabilities			
Customer deposits	4,796	5,346	10,142
Amounts due to banks and other financial institutions	(391)	(231)	(622)
Debt securities issued	46	(25)	21
Changes in interest expense	4,451	5,090	9,541
Changes in net interest income	18,500	(11,080)	7,420

(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.

Interest Income

During the reporting period, the Group's interest income amounted to RMB190,297 million, representing an increase of RMB16,961 million, or 9.79% compared with the same period of the prior year, primarily due to the increase in average balance of interest-earning assets such as loans to customers and bonds investment.

Interest Income from Loans to Customers

During the reporting period, the Group's interest income from loans to customers amounted to RMB108,014 million, representing an increase of RMB13,536 million, or 14.33% compared with the same period of the prior year.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30					
	2019			2018		
	Average balance	Interest income	Average yield (%) ⁽¹⁾	Average balance	Interest income	Average yield (%) ⁽¹⁾
Corporate loans	1,628,112	35,476	4.39	1,509,001	33,631	4.49
Discounted bills	444,992	7,599	3.44	285,850	6,820	4.81
Personal loans	2,428,525	64,939	5.39	1,975,388	54,027	5.52
Total loans to customers	4,501,629	108,014	4.84	3,770,239	94,478	5.05

(1) On an annualized basis.

During the reporting period, in terms of line of business, the interest income of the corporate loans increased by RMB1,845 million from the same period of the prior year to RMB35,476 million, representing an increase of 5.49%. Interest income from personal loans increased by RMB10,912 million from the same period of the prior year to RMB64,939 million, representing an increase of 20.20%. The Group kept optimizing its asset structure and prioritized the growth demand of credit assets. It actively served the country's major strategies, increased credit support for the real economy, infrastructure construction and emerging strategic industries and assisted in the transformation and upgrading of household consumption. It strongly supported owners of small and micro enterprises, individual businesses, new agricultural business entities and traditional small-scale farmers to expand production. The average balances of both corporate loans and personal loans rose rapidly.

Interest Income from Investment

During the reporting period, the Group's interest income from investment amounted to RMB62,842 million, representing an increase of RMB11,845 million or 23.23% compared with the same period of the prior year. In line with the regulatory direction, the Group strengthened its market assessment, facilitated the development of the real economy, increased investment in bonds, with the average balance increasing by RMB577,088 million and the average yield up by 4 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 RMB8,857 million, representing a decrease of RMB1,283 million, or 12.65% compared with the same period of the prior year, primarily due to the central bank's cutting to the reserve requirement ratio. The average balance of deposits with central bank decreased by RMB159,595 million.

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 RMB10,584 million, representing a decrease of RMB7,137 million, or 40.27% compared with the same period of the prior year. This was mainly due to the impact of the market environment, the decrease in both the size of deposits and the average interest rate with banks and other financial institutions.

Interest Expense

During the reporting period, the Group's interest expense amounted to RMB71,215 million, representing an increase of RMB9,541 million, or 15.47% compared with the same period of the prior year, primarily due to an increase in both the average balance and cost of customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Group's interest expense on customer deposits amounted to RMB67,679 million, accounting for 95.03% of total interest expense and representing an increase of RMB10,142 million, or 17.63% compared with the same period of the prior year, primarily due to an increase of RMB631,873 million in the average balance of customer deposits of the Group and the increase of 13 basis points in the average cost caused by intensified deposit competition.

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					
	2019			2018		
	Average Balance	Interest expense	Average cost (%) ⁽¹⁾	Average Balance	Interest expense cost	Average cost (%) ⁽¹⁾
Corporate deposits	1,178,891	6,971	1.19	1,215,563	8,778	1.46
Personal deposits	7,737,479	60,708	1.58	7,068,934	48,759	1.39
Total customer deposits	8,916,370	67,679	1.53	8,284,497	57,537	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 RMB1,995 million, representing a decrease of RMB622 million or 23.77% from the same period of the previous year, mainly due to the impact of the market environment, a decrease in the average daily balance of amounts due to banks and other financial institutions as well as a drop in the average interest rate.

Interest Expense on Debt Securities Issued

During the reporting period, the Group's interest expense on debt securities issued totaled RMB1,541 million, representing an increase of RMB21 million, or 1.38% compared with the same period of the prior year.



Net Fee and Commission Income

During the reporting period, the Group realized net fee and commission income of RMB9,339 million, representing an increase of RMB1,657 million, or 21.57% compared with the same period of the prior year. In particular, fee and commission income increased by RMB1,784 million, representing an increase of 11.96%; fee and commission expense increased by RMB127 million, representing an increase of 1.76%.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

For the six months ended June 30				
Item	2019	2018	Increase/ (decrease)	Change (%)
Bank cards and POS	7,629	6,518	1,111	17.05
Settlement and clearing	3,546	2,648	898	33.91
Wealth management	2,077	2,601	(524)	(20.15)
Agency service	2,760	2,420	340	14.05
Custodian business	377	407	(30)	(7.37)
Others	311	322	(11)	(3.42)
Fee and commission income	16,700	14,916	1,784	11.96
Less: Fee and commission expense	7,361	7,234	127	1.76
Net fee and commission Income	9,339	7,682	1,657	21.57

During the reporting period, bank cards and POS fee income was RMB7,629 million, representing an increase of RMB1,111 million, or 17.05% over the same period of the previous year. This was mainly due to the rapid growth of credit card issuance, installment and consumption amounts, which contributed to an increase in related fee income.

During the reporting period, settlement and clearing fee income amounted to RMB3,546 million, representing an increase of RMB898 million, or 33.91% compared with the same period of the prior year, primarily due to the rapid growth of the electronic payment business.

During the reporting period, agency service fee income was RMB2,760 million, representing an increase of RMB340 million, or 14.05% compared with the same period of the prior year, primarily due to the increase in agency fees for bancassurance and sales of government bonds.

During the reporting period, wealth management income decreased by RMB524 million, or 20.15%, from the same period of the prior year to RMB2,077 million. Custodian business income was RMB377 million, representing a decrease of RMB30 million, or 7.37% compared with the same period of the prior year. The decrease in income from wealth management business and custodian business was primarily due to the impact of the new rules on asset management.

Net Other Non-Interest Income

During the reporting period, the Group's net other non-interest income amounted to RMB13,283 million, representing an increase of RMB219 million or 1.68% 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			
	2019	2018	Increase/ (decrease)	Change (%)
Net trading gains	2,572	2,805	(233)	(8.31)
Net gains on investment securities	9,087	8,772	315	3.59
Net profit or loss on derecognition of financial assets at amortized cost	28	(1)	29	–
Net other operating profit or loss	1,596	1,488	108	7.26
Total	13,283	13,064	219	1.68

During the reporting period, the net trading gains amounted to RMB2,572 million, representing a decrease of RMB233 million compared with the same period of the prior year, mainly due to the decrease in the size of financial assets at fair value through profit or loss.

During the reporting period, net gains on investment securities amounted to RMB9,087 million, representing an increase of RMB315 million compared with the same period of the prior year, mainly due to an increase in the valuation gains of interbank investment.

During the reporting period, net other operating profit or loss was RMB1,596 million, an increase of RMB108 million compared with the same period of the prior year, primarily due to the increase in exchange gains and losses realized by foreign exchange derivative financial instruments.

Operating Expenses

In 2019, the Group adhered to the principle of “total expense control, moderate investment, maintaining expenses in some areas while reducing costs in others”, deepened our effort on cost control and continuously optimised the cost benchmarking management. During the reporting period, the cost-to-income ratio was 50.95%, representing a decrease of 4.85 percentage points compared with the same period of the prior year.

During the reporting period, the Group’s operating expenses totaled RMB73,222 million, representing a decrease of RMB1,548 million, or 2.07% compared with the same period of the prior year, among which, deposit agency fee costs and others increased by RMB1,669 million, or 4.62% compared with the same period of the prior year, primarily due to the rapid increase in the balance of customer deposits taken through agency outlets. Staff costs amounted to RMB23,528 million, representing an increase of RMB1,274 million, or 5.72% compared with the same period of the prior year. General operating and other administrative expenses decreased by RMB1,779 million, or 18.91% compared with the same period of the prior year, while depreciation and amortization increased by RMB1,132 million, or 50.92% compared with the same period of the prior year, mainly due to the implementation of new lease standard. Other expenses decreased by RMB3,986 million, or 103.61% compared with the same period of the prior year, primarily because the Group reversed a part of estimated liabilities accrued in previous years in accordance with its business operation.

Major Components of Operating Expenses

In millions of RMB, except for percentages

For the six months ended June 30				
Item	2019	2018	Increase/ (decrease)	Change (%)
Deposit agency fee costs and others	37,822	36,153	1,669	4.62
Staff costs	23,528	22,254	1,274	5.72
General operating and other administrative expenses	7,628	9,407	(1,779)	(18.91)
Depreciation and amortization	3,355	2,223	1,132	50.92
Taxes and surcharges	1,028	886	142	16.03
Others	(139)	3,847	(3,986)	(103.61)
Total operating expenses	73,222	74,770	(1,548)	(2.07)
Cost-to-income ratio (%)⁽¹⁾	50.95	55.80	(4.85)	–

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

Impairment Losses on Assets

During the reporting period, the Group's impairment losses on assets amounted to RMB27,696 million, representing an increase of RMB4,325 million compared with the same period of the prior year, which was mainly because the Group strengthened the refined management of the impairment of financial assets, continuously optimised the model of financial assets impairment. It implemented differentiated strategy on asset impairment, strengthened risk management as well as increased allowance for impairment losses in key areas on the basis of its consistently prudent credit risk management policy, and became more proactive and forward-looking in terms of risk compensation.

Income Tax Expenses

During the reporting period, the income tax expenses of the Group amounted to RMB3,364 million, representing an increase of RMB1,644 million compared with the same period of the prior year, mainly due to an increase in the current profit before income tax of the Group as well as the effect of tax reduction and exemption for dividends of securities investment funds for the same period of the prior year.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30			
	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	86,859	61.30	79,985	60.41
Corporate banking	28,622	20.20	26,321	19.88
Treasury business	26,052	18.38	25,920	19.58
Others	171	0.12	182	0.13
Total operating income	141,704	100.00	132,408	100.00

For further details of business scope of each segment, please refer to “Notes to the 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			
	2019		2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	26,698	18.84	27,238	20.57
Yangtze River Delta	16,870	11.91	15,646	11.82
Pearl River Delta	15,315	10.81	12,817	9.68
Bohai Rim	16,957	11.97	15,881	11.99
Central region	33,371	23.54	30,031	22.68
Western region	24,190	17.07	22,702	17.15
Northeastern region	8,303	5.86	8,093	6.11
Total operating income	141,704	100.00	132,408	100.00

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Group's total assets amounted to RMB10,067,175 million, representing an increase of RMB550,964 million, or 5.79% compared with the prior year-end. In particular, the Bank's total loans to customers increased by RMB424,808 million, or 9.93% compared with the prior year-end. Investment instruments increased by RMB374,384 million, representing an increase of 11.05% compared with the prior year-end. Cash and deposits with central bank decreased by RMB39,390 million, representing a decrease of 3.27% compared with the prior year-end. Deposits and placements with banks and other financial institutions decreased by RMB101,207 million, representing a decrease of 23.76% compared with the prior year-end. Financial assets held under resale agreements decreased by RMB95,092 million, representing a decrease of 39.67% compared with the prior year-end.

From a structural point of view, net loans to customers accounted for 45.20% of the total assets, representing an increase of 1.60 percentage points compared with the prior year-end. Investment instruments accounted for 37.37% of the total assets, representing an increase of 1.77 percentage points compared with the prior year-end. Cash and deposits with central bank accounted for 11.56% of the total assets. Deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements accounted for 4.67% of the total assets.

Principal Components of Assets

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	4,701,673	–	4,276,865	–
Less: Allowance for impairment losses on loans to customers ⁽¹⁾	151,292	–	127,327	–
Loans to customers, net	4,550,381	45.20	4,149,538	43.60
Investment instruments	3,761,871	37.37	3,387,487	35.60
Cash and deposits with central bank	1,163,545	11.56	1,202,935	12.64
Deposits with banks and other financial institutions	49,361	0.49	140,351	1.47
Placements with banks and other financial institutions	275,405	2.74	285,622	3.00
Financial assets held under resale agreements	144,595	1.44	239,687	2.52
Other assets ⁽²⁾	122,017	1.20	110,591	1.17
Total assets	10,067,175	100.00	9,516,211	100.00

(1) Allowance for impairment losses of loans and advances to customers at amortized cost.

(2) Other assets consist primarily of property and equipment, deferred tax assets, right-of-use asset, settlement and clearance payables, other receivables and derivative financial assets.

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB4,701,673 million, representing an increase of RMB424,808 million, or 9.93% compared with the prior year-end.

Distribution of Loans to Customers by Line of Business

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,682,467	35.78	1,552,402	36.30
Discounted bills	469,092	9.98	404,623	9.46
Personal loans	2,550,114	54.24	2,319,840	54.24
Total loans to customers	4,701,673	100.00	4,276,865	100.00

As of the end of the reporting period, the Group's total corporate loans amounted to RMB1,682,467 million, representing an increase of RMB130,065 million, or 8.38%, compared with the prior year-end. The Group focused on advanced manufacturing industry, modern service industry, strategic emerging industries and new infrastructure construction, and increased its support for supply-side structural reform. It continued to serve the Belt and Road Initiative, vigorously promoted the development of cross-border financing, consistently put into action the idea of inclusive finance, and increased the funds for inclusive loans to small and micro enterprises.

As of the end of the reporting period, the Group's total discounted bills amounted to RMB469,092 million, representing an increase of RMB64,469 million, or 15.93% compared with the prior year-end. The Group enhanced its market sensitivity, strengthened its market assessment, actively explored the business needs for discounted bills of key customers, as well as expanded the scale of discounted and re-discounted commercial bills in order to support the real economy.

As of the end of the reporting period, the Group's total personal loans amounted to RMB2,550,114 million, representing an increase of RMB230,274 million, or 9.93% compared with the prior year-end. In line with the national policies of leveraging the fundamental role of consumption in promoting economic growth, the Group continued to facilitate household consumption and promoted the steady development of housing and consumer credit businesses. It continued to increase its investment in the credit card business, which achieved rapid development. It resolutely implemented the work arrangements of the Party Central Committee and the State Council on supporting the rural revitalization strategy, serving the real economy and carrying out targeted poverty alleviation via financial services, and increased funds for personal business loans and micro loans.

Distribution of Corporate Loans by Industry*In millions of RMB, except for percentages*

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	454,741	27.03	418,878	26.99
Manufacturing	271,684	16.15	240,122	15.47
Financial services	205,398	12.21	192,527	12.40
Production and supply of electricity, heating, gas and water	189,557	11.27	191,948	12.36
Wholesale and retail	102,765	6.11	88,551	5.70
Construction	100,142	5.95	82,399	5.31
Leasing and commercial services	91,701	5.45	86,909	5.60
Water conservancy, environmental and public facilities management	72,249	4.29	76,810	4.95
Real estate	65,322	3.88	56,345	3.63
Mining	62,536	3.72	56,100	3.61
Other industries ⁽¹⁾	66,372	3.94	61,813	3.98
Total	1,682,467	100.00	1,552,402	100.00

(1) Other industries consist of agriculture, fishery, information transmission, computer services and the software industry, etc.

As of the end of the reporting period, the top five industries to which the Group extended corporate loans were transportation, storage and postal services; manufacturing; financial services; production and supply of electricity, heating, gas and water; and wholesale and retail. The balance of loans extended to the top five industries accounted for 72.77% of total corporate loans, representing a decrease of 0.15 percentage point compared with the prior year-end.

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	1,567,370	61.46	1,417,898	61.12
Other consumer loans	276,540	10.84	275,544	11.88
Personal business loans	389,689	15.28	349,434	15.06
Personal micro loans	207,466	8.14	177,651	7.66
Credit card overdrafts and others	109,049	4.28	99,313	4.28
Total personal loans	2,550,114	100.00	2,319,840	100.00

As of the end of the reporting period, the Group's personal loans increased by RMB230,274 million, or 9.93% compared with the prior year-end.

The Group actively implemented the macro-control policy for housing loans. Catering to different needs of different cities, it implemented a differentiated real estate credit policy and focused on supporting rigid housing demand. As of the end of the reporting period, the balance of the Group's residential mortgage loans was RMB1,567,370 million, representing an increase of RMB149,472 million, or 10.54% compared with the prior year-end.

The Bank fully supported the development of small and micro enterprises, individual business owners, emerging forms of agribusiness and traditional small farmers, actively used advanced technologies such as big data and artificial intelligence to form an online and offline integrated development mode that is dedicated to serving Sannong customers. As of the end of the reporting period, the balance of the Bank's personal business loans was RMB389,689 million, representing an increase of RMB40,255 million, or 11.52% compared with the prior year-end. The balance of personal micro loans was RMB207,466 million, representing an increase of RMB29,815 million or 16.78% compared with the prior year-end.

The Group actively promoted the retail banking strategy and accelerated the development of the credit card business. As of the end of the reporting period, the balance of credit card overdrafts and other loans of the Group was RMB 109,049 million, representing an increase of RMB9,736 million, or 9.80% compared with the prior year-end.

Distribution of Customer Loans by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	279,789	5.95	270,476	6.32
Yangtze River Delta	883,167	18.78	796,752	18.63
Pearl River Delta	540,827	11.50	479,018	11.20
Bohai Rim	718,029	15.27	649,228	15.18
Central region	1,165,653	24.80	1,030,335	24.09
Western region	811,954	17.27	766,342	17.92
Northeastern region	302,254	6.43	284,714	6.66
Total loans to customers	4,701,673	100.00	4,276,865	100.00

Investment instruments

Investment instruments are one of the major components of the Group's assets. In the first half of 2019, the Group followed the guidance of regulatory supervision, actively responded to market changes and continuously optimized investment portfolio. As of the end of the reporting period, the Group's investment instruments amounted to RMB3,761,871 million, representing an increase of RMB374,384 million, or 11.05% compared with the prior year-end, accounting for 37.37% of the total assets of the Group. In particular, debt instruments increased by RMB374,383 million, representing an increase of 11.06% compared with the prior year-end.

Composition of Investments by Instrument Type

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	3,759,227	99.93	3,384,844	99.92
Equity instruments	2,644	0.07	2,643	0.08
Total	3,761,871	100.00	3,387,487	100.00

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	3,150,717	83.75	2,863,403	84.54
Government bonds	1,065,552	28.33	909,939	26.87
Debt securities issued by public institutions and quasi-government bonds	177	0.00	52	0.00
Debt securities issued by financial institutions	1,931,092	51.33	1,846,543	54.52
Corporate bonds	153,896	4.09	106,869	3.15
Interbank certificates of deposit	319,780	8.50	188,484	5.56
Wealth management products of commercial banks	12,646	0.34	31,964	0.94
Asset management plans	71,034	1.89	84,812	2.50
Trust investment plans	107,786	2.87	110,223	3.25
Security investment funds	96,183	2.56	102,709	3.03
Others	3,725	0.09	5,892	0.18
Total	3,761,871	100.00	3,387,487	100.00

During the reporting period, the Group's scale of interbank investments such as investment in wealth management products of commercial banks continued to decline while the bond investments developed steadily. As at the end of the reporting period, the balance of bond investments increased by RMB287,314 million or 10.03% from the end of the previous year. In particular, the balance of investment in debt securities issued by policy banks amounted to RMB1,788,562 million.

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

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	149	0.00	70	0.00
Within 3 months	123,580	3.92	41,753	1.46
3-12 months	225,872	7.17	279,608	9.76
1-5 years	1,609,533	51.09	1,477,541	51.61
Over 5 years	1,191,583	37.82	1,064,431	37.17
Total	3,150,717	100.00	2,863,403	100.00

As of the end of the reporting period, the balance of the Group's debt securities due within 1 to 5 years increased by RMB131,992 million or 8.93% compared with the prior year-end. The balance of the debt securities due over 5 years increased by RMB127,152 million or 11.95% compared with the prior year-end. The maturity structure of debt investment has remained relatively stable.

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

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	3,125,517	99.20	2,841,050	99.22
Foreign currencies	25,200	0.80	22,353	0.78
Total	3,150,717	100.00	2,863,403	100.00

Distribution of Investment Instruments by Measurement Approach

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	316,236	8.41	341,662	10.09
Financial assets at fair value through other comprehensive income	208,592	5.54	183,903	5.42
Financial assets at amortized cost	3,237,043	86.05	2,861,922	84.49
Total	3,761,871	100.00	3,387,487	100.00

As of the end of the reporting period, the Group's financial assets at fair value through profit or loss decreased by RMB25,426 million, representing a decrease of 7.44%, mainly due to the decline of investment in wealth management products of commercial banks. Financial assets at fair value through other comprehensive income increased RMB24,689 million, representing an increase of 13.43% compared with the prior year-end. Financial assets measured at amortized cost increased by RMB375,121 million, or 13.11%, from the end of the prior year. Financial assets measured at fair value through changes in other comprehensive income and financial assets measured at amortized cost are due to an increase in investment bonds.

The Top Ten Financial Bonds Held by the Bank

In millions of RMB, unless otherwise stated

Debt securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses ⁽¹⁾
2015 Policy Financial Bonds	85,460	3.71	August 31, 2025	—
2009 Policy Financial Bonds	50,000	2.35	November 20, 2019	—
2009 Policy Financial Bonds	50,000	2.35	September 29, 2019	—
2012 Policy Financial Bonds	49,800	2.43	June 6, 2022	—
2015 Policy Financial Bonds	48,110	4.26	September 28, 2035	—
2010 Policy Financial Bonds	46,200	2.45	February 9, 2021	—
2011 Policy Financial Bonds	40,000	2.43	December 21, 2021	—
2015 Policy Financial Bonds	32,694	4.22	September 28, 2030	—
2015 Policy Financial Bonds	30,318	4.24	October 15, 2035	—
2015 Policy Financial Bonds	28,905	3.71	August 31, 2025	—

(1) Excludes allowance for impairment losses for the stage 1 set aside in accordance with the new financial instrument standards.

Liabilities

As of the end of the reporting period, the Group's total liabilities amounted to RMB9,573,116 million, representing an increase of RMB532,218 million, or 5.89% compared with the prior year-end. Among which, customer deposits increased by RMB473,751 million, representing an increase of 5.49% compared with the prior year-end; deposits and placements with banks and other financial institutions decreased by RMB8,357 million, representing a decrease of 7.33% compared with the prior year-end.

Principal Components of Liabilities

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	9,101,191	95.07	8,627,440	95.43
Deposits from banks and other financial institutions	71,965	0.75	74,165	0.82
Placements from banks and other financial institutions	33,688	0.35	39,845	0.44
Financial assets sold under repurchase agreements	172,299	1.80	134,919	1.49
Debt securities issued	102,280	1.07	76,154	0.84
Other liabilities ⁽¹⁾	91,693	0.96	88,375	0.98
Total liabilities	9,573,116	100.00	9,040,898	100.00

(1) Consist of dividend payable, prepaid liabilities, employee benefits payable, lease liabilities, agency business liabilities, taxes and dues payable and other liabilities.

Customer Deposits

As of the end of the reporting period, the Group's total customer deposits was RMB9,101,191 million, representing an increase of RMB473,751 million, or 5.49% compared with the prior year-end.

Distribution of Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,179,115	12.96	1,157,780	13.42
Time	380,034	4.18	386,863	4.48
Demand	799,081	8.78	770,917	8.94
Personal deposits	7,920,046	87.02	7,467,911	86.56
Time	5,413,034	59.48	4,852,585	56.25
Demand	2,507,012	27.54	2,615,326	30.31
Other deposits ⁽¹⁾	2,030	0.02	1,749	0.02
Total	9,101,191	100.00	8,627,440	100.00

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

During the reporting period, the Group's core liabilities grew steadily. In terms of customer structure, personal deposits increased by RMB452,135 million, or 6.05% compared with the prior year-end; corporate deposits increased by RMB21,335 million or 1.84% compared with the prior year-end.

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

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	3,316	0.04	1,107	0.01
Yangtze River Delta	1,339,265	14.72	1,256,850	14.57
Pearl River Delta	860,368	9.45	818,615	9.49
Bohai Rim	1,334,725	14.67	1,325,392	15.36
Central region	2,883,697	31.68	2,681,208	31.08
Western region	1,991,569	21.88	1,891,486	21.92
Northeastern region	688,251	7.56	652,782	7.57
Total customer deposits	9,101,191	100.00	8,627,440	100.00

Distribution of Customer Deposits by Remaining Maturity*In millions of RMB, except for percentages*

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	3,360,579	36.92	3,438,418	39.85
Within 3 months	1,007,564	11.07	1,977,228	22.92
3-12 months	3,471,070	38.14	2,350,883	27.25
1-5 years	1,261,978	13.87	860,911	9.98
Total	9,101,191	100.00	8,627,440	100.00

Shareholders' Equity

As of the end of the reporting period, the Group's total shareholders' equity amounted to RMB494,059 million, representing an increase of RMB18,746 million, or 3.94% compared with the prior year-end, primarily due to an increase of undistributed profits during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	81,031	16.40	81,031	17.05
Other equity instruments - preference shares	47,869	9.69	47,869	10.07
Capital reserve	74,648	15.11	74,648	15.71
Other comprehensive income	3,114	0.63	3,593	0.76
Surplus reserve	30,371	6.15	30,371	6.39
General reserve	103,959	21.04	103,959	21.86
Undistributed profits	152,117	30.79	132,933	27.97
Equity attributable to shareholders of the Bank	493,109	99.81	474,404	99.81
Non-controlling interests	950	0.19	909	0.19
Total shareholders' equity	494,059	100.00	475,313	100.00

Off-Balance Sheet Items

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

The derivative financial instruments of the Group mainly include interest rate contracts, exchange rate contracts, and others. For details of nominal amount and fair value of derivative financial instruments, please refer to "Notes to the Consolidated Financial Statements - 15 Derivative financial assets and liabilities".

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

Components of Credit Commitments

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	381,368	55.21	388,997	60.14
Bank acceptances	29,575	4.28	20,444	3.16
Guarantees and letters of guarantee	21,465	3.11	20,896	3.23
Letters of credit	16,531	2.39	12,100	1.87
Unused credit card commitments	241,848	35.01	204,358	31.60
Total	690,787	100.00	646,795	100.00



Analysis of Cash Flow Statement

During the reporting period, the net cash inflow from operating activities was RMB113,271 million, representing an increase of RMB33,681 million as compared with the same period of the prior year, mainly due to a year-on-year increase in the net increase of customer deposits.

Net cash outflow from investing activities amounted to RMB283,967 million. In particular, cash inflow amounted to RMB320,631 million, representing a decrease of RMB233,802 million compared with the same period of the prior year, primarily due to the decrease in cash received from disposal of investment instruments; cash outflow amounted to RMB604,598 million, representing an increase of RMB37,044 million compared with the same period of the prior year, primarily due to the increase in cash paid for investment instruments.

Net cash inflow from financing activities amounted to RMB23,437 million. In particular, cash inflow amounted to RMB31,938 million, representing an increase of RMB25,701 million which was primarily due to the increase in the cash received from issuance of debt securities during the period; cash outflow amounted to RMB8,501 million, representing an increase of RMB3,091 million. It was primarily due to the increase of issued debt securities during the period.

Other Financial Information

Explanation of Changes in Accounting Policies

There were changes in accounting policies during the reporting period. For details, please refer to “Notes to the Consolidated Financial Statements - 2 Basis of preparation and significant accounting policies”.

Business Overview

Personal Banking Business

The Bank leveraged its advantages in resources and accelerated the transformation and development to make the bank unique, comprehensive, light, intelligent and intensive so as to achieve the transformation and upgrading of retail business. The Bank continued to give play to its extensive network, expanded the platform to acquire customers in batches and developed open and innovative new scenarios for customer acquisition. The number of retail customers continued to grow. In response to the changes of customers' needs, the Bank improved its product and service system, accelerated the development of wealth management, and enhanced its capability to serve mid- to high-end customers. The Bank further promoted the systematic transformation of outlets, strengthened big data applications, deepened the application of data-driven customer portrait, targeted marketing, and improved its integrated customer marketing and value mining. As of the end of the reporting period, the Bank had 589 million personal customers, representing an increase of 11,094,300 compared with the prior year-end, among which 30,839,900 are VIP customers with an increase of 2,908,600 compared with the prior year-end.

Personal Loans

As of the end of the reporting period, the balance of personal loans amounted to RMB2.55 trillion, representing an increase of RMB230,274 million or 9.93% compared with the prior year-end. The Bank followed the national policy to leverage the fundamental role of consumption in promoting economic growth and continued to serve residents in their consumption and developed consumer credit business steadily. The balance of personal consumer loans amounted to RMB1.84 trillion, representing 72.30% of the balance of personal loans. The Bank introduced differential housing credit policy for personal mortgage, supporting the eligible rigid demand and credit demand for housing improvement. Residential loans were released in a steady manner, and the balance of personal residential mortgage loans reached RMB1.57 trillion. The Bank focused on the in-depth integration of financial technology and products, actively promoted the cooperation with online lending platforms and started cooperation projects with Tencent and Ant Financial. It pushed forward the scenario-based development of consumer credit business, driving forward a marketing transformation towards a direction combined with volume and precision. Meanwhile, the Bank promoted data-driven full-process risk management to achieve a steady business development. As of the end of the reporting period, the balance of other personal consumer loans amounted to RMB276,540 million.

The Bank strongly supported owners of small and micro enterprises, individual businesses, new agricultural business entities and traditional small-scale farmers to expand production, promoted the integrated development of the primary, secondary and tertiary industries, and helped alleviate the difficulties in accessing affordable financing in a reasonable time. During the reporting period, in order to meet the financing needs of various production operators effectively, the Bank continued to enrich its product categories, optimize its business processes, explore business transformation and upgrading, deepen its cooperation with platforms such as the government, guarantee companies, insurance companies, reducing business risks and reduce financing costs of the customers. To achieve digitization, intelligence and intensification throughout the process, the Bank made use of advanced technologies such as big data, Internet, mobile communication and artificial intelligence, forming a unique development mode that serves Sannong customers with online and offline integration. As of the end of the reporting period, the balance of personal business loans was RMB389,689 million, representing an increase of RMB40,255 million or 11.52% compared with the prior year-end. The balance of personal micro loans was RMB207,466 million, representing an increase of RMB29,815 million or 16.78% compared with the prior year-end.

Personal Deposits

During the reporting period, the Bank continued to retain and expand key customers in areas such as labourers, payroll for enterprises and institutions as well as trade settlement. It actively expanded key projects regarding social insurance, veterans and ETC, broadening its source of funds. It launched personal structured deposits, enriched the function of personal large-denomination certificate of deposit, adjusted the minimum threshold of flexi time deposit, maintaining the market competitiveness of its deposit products. As at the end of the reporting period, the balance of personal deposits amounted to RMB7.92 trillion, representing an increase of RMB452,135 million or 6.05% compared with the prior year-end.

Bank Card Business

Debit Card Business

During the reporting period, the Bank deepened cooperation with institutions such as the Ministry of Human Resources and Social Security and the Ministry of Veterans Affairs, promoted the issuance of the third generation financial social security card and launched the veteran service card. The Bank integrated the online and offline resources and cooperated with Tencent to launch a Tencent co-branded card. Together with China UnionPay, the Bank carried out marketing campaigns to promote debit card consumption, further enriched user-friendly payment scenarios with more benefits, continuously increasing the amount and activeness of debit card consumption. During the reporting period, the number of newly-issued debit cards reached 18,093,700 and the number of cards in circulation amounted to 988 million. The amount of consumption via debit cards stood at RMB3.64 trillion, representing a year-on-year increase of 22.33%.

Credit Card Business

During the reporting period, the Bank continued to step up its efforts in developing credit card business, expanded its product portfolio, integrated internal and external resources, expanded card issuance channels, and achieved a rapid development of credit card business. The Bank has successively launched new products such as Chinese Zodiac Card, Rilakkuma Theme Card and Auto-owner Card, and upgraded the EMS co-branded card, further improving the product system. The Bank increased the synergy between internal and external resources, leveraged on the strengths of postal resources, and strengthened the cooperation with agencies to issue cards. The Bank deepened the cross-selling of existing customers, and strengthened the joint marketing between retail and corporate lines. The Bank created a shopping brand with the theme of “Joyous Family Day” for business clusters, and stepped up its efforts in developing the consumption environment, which contributed to a steady growth in the transactions and a continuous increase of income from the credit card business. The Bank promoted the capability building of automated review and approval and launched online intelligent voice services to continuously improve customer service. During the reporting period, the number of newly-issued credit cards reached 5,197,800, representing a year-on-year increase of 28.94%. The number of credit cards in circulation reached 27,528,800, representing an increase of 19.17% compared with the prior year-end. Credit card spending amounted to RMB444,817 million, representing a year-on-year increase of 25.55%.

Personal Settlement

The Bank provides collection and payment agency services and various settlement services for individual customers. The collection and payment agency services primarily include payments of payrolls, benefits and allowances, collection of utility bill payments and collection and payment of social security pensions. As one of the major ways to serve individual customers, collection and payment agency services have brought the Bank a large number of customers and huge flow of funds. During the reporting period, the Bank actively expanded the collection and payment business, with the volume of the Bank’s collection agency service reaching RMB369,178 million and payment agency service reaching RMB865,183 million. In particular, collection agency service for social security pension amounted to RMB25,618 million, representing a year-on-year increase of 16.44%, and payment agency service for social security pension amounted to RMB454,245 million, representing a year-on-year increase of 11.54%. The Bank also provided various international settlement services such as cross-border telegraphic transfer, Western Union remittance and MoneyGram remittance for individual customers. During the reporting period, the number of international remittance transactions for individuals was 1,046,200 with a transaction amount of USD1,260 million.

Personal Investment and Wealth Management Services

Personal Wealth Management

During the reporting period, the Bank proactively implemented regulatory requirements such as the new rules on asset management and orderly advanced the transformation of its personal wealth management business. It improved the training of sales personnel to enhance sales capabilities of net value products. It released exclusive products for new clients, VIP customers and high net worth customers on a continual basis and launched net value wealth management products in the nature of cash management to meet different customer needs on wealth management. As of the end of the reporting period, the balance of wealth management products for individual customers was RMB780,839 million, representing an increase of RMB57,392 million compared with the prior year-end.

Bancassurance

During the reporting period, the Bank actively promoted the transformation and development of the bancassurance business by vigorously developing regular-premium and protection-type products. As of the end of the reporting period, the Bank had entered into partnership with 55 insurance companies on bancassurance business, with products covering life, property, health and accident insurance, etc. During the reporting period, the total written premiums of new policies bancassurance business were RMB293,561 million, representing a year-on-year increase of 5.48%. In particular, the total premiums of new regular-premium policies was RMB37,668 million, representing a year-on-year increase of 17.58%. The premiums of new policies and new regular-premium policies both ranked top in terms of market share in the banking industry.

Distribution of Fund Products

During the reporting period, the Bank cooperated with well-performed fund managers to select the best fund products, strengthened product customization, and sold products through various channels such as outlets, mobile banking and online banking. It continued to carry out promotions with preferential rates, optimized the online customer transaction experience and improved customer service. During the reporting period, the sales of fund products amounted to RMB30,716 million.

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 RMB6,076 million, representing a year-on-year increase of 23.50% and 8 tranches of PRC government savings bonds (electronic) with total sales of RMB18,044 million, representing a year-on-year increase of 90.08%.



Distribution of Customer Asset Management Plans of Securities Companies

The Bank meets clients' diversified investment and wealth management needs by selling products as agent through its outlets, mobile banking and online banking. During the reporting period, the asset management plans distributed by the Bank was RMB14,857 million, representing a year-on-year increase of 10.69%.

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 automatic investment plans of gold. During the reporting period, the precious metals transactions amounted to RMB5,643 million. In respect of the physical precious metal business, during the reporting period, the Bank achieved a sales amount of RMB731 million by introducing various products.

Corporate Banking

During the reporting period, the Bank actively implemented the national strategies, vigorously supported the development of small and micro businesses and private enterprises, increased the investment in technological innovation, enhanced product innovation, and actively expanded the new customer base and improved its ability in providing comprehensive financial service. As of the end of the reporting period, the Bank had 660,800 corporate customers, representing an increase of 13,800 compared with the prior year-end.

Corporate Loans

The Bank provides corporate customers with corporate loan products such as working capital loans, fixed asset loans, trade finance and corporate loans to small enterprises. As at the end of the reporting period, the balance of corporate loans amounted to RMB1.68 trillion, representing an increase of RMB130,065 million or 8.38% compared with the prior year-end.

The Bank focused on advanced manufacturing industry, modern service industry, emerging strategic industries and new infrastructure construction, and increased its support for supply-side structural reform. The Bank actively supported the major strategic and key projects of the country, increased its support for the Beijing-Tianjin-Hebei Coordinated Development Strategy, implemented the tasks in the strategic cooperation agreement with Xiongan New District, and actively supported the high quality development of Guangdong-Hong Kong-Macau Greater Bay Area and Yangtze Economic Belt. During the reporting period, the loans provided by the Bank to the companies in Beijing-Tianjin-Hebei region, Guangdong-Hong Kong-Macau Greater Bay Area and Yangtze Economic Belt, etc., amounted to RMB209,005 million, representing 59.92% of the new corporate loans.

The Bank attached great importance to the financial services for private enterprises, remained committed to supporting the private economy such as Sannong and small and micro businesses on a continuous basis. The Bank also improved financial services for large- and medium-sized private enterprises in an active and prudent way and formulated 20 measures to support private enterprises.

Corporate Deposits

The Bank provides time and demand deposits in Renminbi and other major foreign currencies to corporate customers. During the reporting period, the Bank continued to strengthen its customer base, accelerated product optimization and innovation, increased marketing efforts on corporate deposits, consolidated and upgraded institutional deposits, enhanced the level of integrated financial services, and achieved steady growth in corporate deposits. As at the end of the reporting period, the balance of corporate deposits amounted to RMB1.18 trillion, representing an increase of RMB21,335 million or 1.84% compared with the prior year-end. In particular, the balance of institutional deposits amounted to RMB757,079 million, representing an increase of 7.39% compared with the prior year-end.

Settlement and Cash Management

During the reporting period, by giving full play to its advantage in network and supported by its comprehensive cash settlement products, the Bank customized cash management solutions to help customers manage funds effectively and reasonably, increase funds utilization rate and reduce financial risks. At the same time, the Bank designed and promoted new settlement products such as e-bidding deposit management, housing transaction funds supervision and lottery account services to continuously expand customer coverage and improve customer services. As of the end of the reporting period, the Bank had 187,954 contracted accounts for cash management business, representing an increase of 7,298 accounts compared with the prior year-end.

Trade Finance

During the reporting period, the Bank's trade finance business was guided by the principle of "steady growth, coordinated development, optimization and integration, and enhancing management" to continuously improve the abilities to serve the real economy and prevent risks. The Bank continued to serve the Belt and Road Initiative, strengthened cooperation with financial institutions and promoted the development of cross-border financing such as cross-border guarantees and international syndicated loans. The Bank strengthened its support for the development of the real economy and cooperated with a number of high-quality core enterprises in transportation, high-end manufacturing and construction industries to provide financing services for its upstream and downstream customers. It continued to strengthen the application of technologies, developed online supply chain finance, improved the business efficiency and enhanced customer experience. During the reporting period, trade finance business increased by RMB220,741 million.



Investment Banking

To accelerate the transformation and upgrading of the corporate business and further increase the income from fee and commission-based business, the Bank was dedicated to key areas, including debt securities underwriting, mergers and acquisitions finance as well as financial advisory. During the reporting period, the volume of debt securities underwritten was RMB59,314 million, ranking 15th in the interbank market, up 5 places from the end of the prior year. The balance of equity financing was RMB12,511 million with the newly added funds reaching RMB1,690 million. In response to the government's call for green industrial development, the Bank issued green bonds of RMB2,250 million. It actively participated in the issuance of financial bonds by top issuers to ease the liquidity pressure of non-bank financial institutions. The Bank's multiple financial advisory businesses facilitated the reform of state-owned enterprises and alleviated the difficulties of private listed companies.

Treasury Business

During the reporting period, the Bank followed the regulatory guidance, put into action the concept of prudent operation, conducted business in compliance, actively engaged in financial market transactions and continuously optimized its asset structure. The Bank promoted the transformation of wealth management business on all aspects and continuously met the increasingly diversified investment needs of customers. It continued to increase the marketing of active managed custody services such as public funds and asset securitization.

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. Its range of products was broad, business layout was comprehensive, and customer resources were extensive. During the reporting period, the Bank actively expanded its counterparties, enriched its trading varieties and continued to optimize its interbank assets and interbank liability structure.

Trading Business

The Bank trades standard financial products in the interbank market. The five main 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 market, plays important roles including primary dealer, market maker, SHIBOR and USD-CIROR quoting firm and provides quotations and liquidity support to the domestic money, bond, foreign exchange markets and other markets, playing an important role in the interbank market. During the reporting period, the Bank optimized its management process, enhanced its trading capacity and maintained its trading activity under the market environment where interest rates and exchange rates were highly volatile. The total trading volume in the domestic and foreign currency markets was RMB32.11 trillion with a total of 132,500 transactions.

Investment Business

Investments in Debt Securities and Interbank Certificates of Deposits

In terms of debt securities investment, the Bank adhered to the principle of “seizing opportunities, preventing risks, restructuring and increasing returns”, strengthened market assessment, and tracked the trend of interest rates. During the reporting period, the new investments in debt securities of the Bank mainly included low-risk interest rate bonds, credit bonds of highly rated central government-owned enterprises and industry-leading enterprises. The financial bonds issued by policy banks and local government bonds are the Bank’s key investment categories. The Bank actively implemented requirements for the financial system to fully support the development of the real economy. On the basis of not exceeding the limit of credit risk, the Bank relied on the linkage of the head office and branches to expand the investment in credit bonds. As of the end of the reporting period, the balance of investments in debt securities and interbank certificates of deposits was RMB3.47 trillion.

Interbank Investment

The Bank strictly followed the regulatory guidance on inter-bank investment business, put product compliance and controllable risk first, and implemented refined management for each business category. During the reporting period, the Bank carried out businesses such as asset securitization, securities investment funds and securities companies’ credit products in an orderly manner and maintained a reasonable business scale. As of the end of the reporting period, the balance of interbank investment (or investments made through other financial institutions) in commercial banks’ wealth management products, trust investment plans, asset management plans and securities investment funds was RMB287,649 million.

Interbank Financing Business

The interbank financing is a business where the Bank has an inherent advantage in terms of interbank cooperation. During the reporting period, the Bank analyzed and made right judgment on the change of the market price, actively adapted to the trend of interbank business going online. At the same time, it optimized the interbank liability structure, moderately issued interbank certificate of deposit and implemented the “two-wheel drive” strategy on assets and liabilities. The Bank continued to strengthen cooperation with various financial institutions to form a relatively complete interbank customer system. As of the end of the reporting period, the total balance of deposits and placements with banks and other financial institutions amounted to RMB324,766 million.



Asset Management Business

During the reporting period, the Bank focused on advancing the transformation of wealth management on all aspects and stepped up its efforts in transforming into net value products. The scale of net value products showed relatively good growth momentum, while the scale of products with expected return decreased steadily. The Bank was mainly engaged in cash management and “Fixed income+” products, supplemented by equity products, with its investment scope covering fixed income, equity, derivatives, alternatives and other kinds of assets. By strengthening the research and management of large-scale asset allocation, we focused on our positioning on low-risk, low-volatility products, creating inclusive, pension and anti-inflation wealth management brands. As of the end of the reporting period, the scale of net value products increased by 3.6 times, the principal-guaranteed wealth management products all expired, and the balance of closed-end products with expected return decreased by 67.85%. Assets under management amounted to RMB883,955 million, representing an increase of RMB69,420 million compared with the prior year-end.

On December 7, 2018, the Bank published an announcement on the establishment of a wealth management subsidiary. On May 28, 2019, the establishment of PSBC Wealth Management Corporation Limited was approved. In accordance with the relevant requirements of the CBIRC, the Bank accelerated the building of organization system, business system, IT system and talent team of the wealth management subsidiary, while at the same time continued to promote product transformation, enhance investment and research capabilities, and set up an independent risk management system to strive for early commencement of operation of the wealth management subsidiary.

Custodian Business

The Bank actively implemented the requirements of the new rules on asset management, closely followed the development trend of asset management industry, and vigorously expanded the business scope of the actively managed businesses such as public funds. It strictly fulfilled the responsibilities as a custodian, optimized and perfected the functions of the custodian system, and improved the capability of professional custodian service. The scales of public fund, asset securitization as well as net value wealth management and custody grew steadily, representing a year-on-year increase of 10.92%, 192.21% and 340.66% respectively. During the reporting period, there were 9 newly established public funds and 17 asset securitization products, both of which were higher than the same period the prior year. As of the end of the reporting period, the volume of asset custodian business was RMB3.98 trillion, and the income of the custodian business was RMB377 million.

Green Finance

During the reporting period, the Bank adhered to the concept of green development, vigorously developed green finance, accelerated the building of a green bank, and contributed to the fight against pollution. The Bank continued to optimize the policy system, formulated credit policy guidelines for green finance, as well as increased financial support in fields such as green transportation, clean energy, green building, energy saving and environmental protection, and green agriculture. It improved the incentive and restraint mechanism by incorporating green finance into its business management and the appraisal and assessment system of credit management. The Bank completed the appraisal for the implementation of green credit, and the up-to-standard performance regarding key indicators was further enhanced. The Bank carried out special investigations on environmental, social and governance risks, and effectively prevented and mitigated these risks. In addition, the Bank adhered to the policy of not extending loans to non-environmental-friendly industries, and strictly restricted the financing to clients and projects in industries with high pollution, high energy consumption and overcapacity. As of the end of the reporting period, the balance of green credit (energy saving and environmental protection projects and service loans) was RMB210,432 million, representing an increase of 10.52% compared with the prior year-end.

Sannong Financial Business

During the reporting period, in line with the arrangements proposed by the Party Central Committee and the State Council, the Bank proactively implemented the rural revitalization strategy, served the real economy and carried out targeted poverty alleviation via financial services. It continuously enhanced the capability of Sannong financial services, improved the quality of services and created a specialized rural financial service system. Leveraging its advantage of a broad and deeply penetrated network in County Areas, the Bank actively adopted the Internet, big data, cloud computing, artificial intelligence and other advanced technologies, and vigorously promoted in-depth collaboration between platforms, the development of Internet product and digitalized transformation, comprehensively upgrading the business mode of Sannong financial services.

Deeply promoting the implementation of the rural vitalization strategy

Adhering to its market positioning to serve Sannong customers, the Bank continuously improved the basic financial services in rural areas with a focus on improving the coverage and availability of financial services for rural residents. It increased the supply of agriculture-related loans, actively promoted the “ten major models” of rural vitalization and earnestly supported the rural vitalization strategy.



Continuously improving the basic financial services in rural areas

With the business operation model consisting of both directly-operated outlets and agency outlets, the Bank's outlets cover extensive County Areas, forming a large service network with a multitude of outlets connecting urban and rural areas. As of the end of the reporting period, the Bank had a total of 27,745 outlets at and below the county level, accounting for 69.92% of all outlets, as well as approximately 88,000 self-service terminals at and below the county level. The Bank actively initiated the construction of "online + offline" integrated network, providing comprehensive and multi-level financial services for rural area. In addition, the Bank had been building a safe and convenient online banking service platform with comprehensive functions comprising personal online banking, mobile banking and WeChat banking, etc., providing rural residents with convenient and fast financial services in various forms. During the reporting period, the Bank proactively participated in the promotion of the New Rural Social Endowment Insurance (NREI) and the New Rural Cooperative Medical Service (NRCMS). The Bank acted as the collection agency for 4,850,200 NREI transactions with a volume of RMB1,764 million; as the payment agency for 114,000,000 NREI transactions with a volume of RMB17,172 million; as the payment agency for 282,900 NRCMS reimbursement and allowance payment transactions with a volume of RMB394 million.

Increasing supply of agriculture-related loans

The Bank established a product portfolio of five major agro-related loans, including farm household loans, emerging forms of agribusiness loans, agriculture-related merchant loans, agriculture-related small and micro-sized enterprise loans in County Areas and corporate loans for leading agricultural enterprises. It also steadily promoted loans secured against rural property rights such as operating rights of contracted rural land and farmers' housing property rights. The Bank proactively supported the key areas of rural revitalization strategy such as national food security, integration of primary, secondary and tertiary industries, connection between small farmers and modern agriculture as well as the construction of a beautiful countryside. As of the end of the reporting period, the balance of the agriculture-related loans was RMB1.26 trillion, representing an increase of RMB93,584 million or 8.06% compared with prior year-end; the balance of the loans to emerging forms of agribusiness such as family farms and farming cooperatives was RMB63,667 million, representing an increase of RMB7,015 million or 12.38% compared with the prior year-end, and the balance of personal operational loans was RMB625,713 million, ranking high among national commercial banks.

The Bank firmly supported the rural revitalization strategy and has developed "ten major models" supporting the strategy, including "one-point access to nationwide business" agricultural industry chain model and modern agricultural leading model aimed to support agricultural industry; rural housing aggregation model and "agritainment" ecotourism development model for creating pleasant living environment; creditworthy villages and towns model and e-commerce platform model for building rural areas with social etiquette and civility; "financial service grid" model and "credit + village self-governance" model that advance effective governance; as well as "farm produce market and business circle" model and "emerging forms of agribusiness + guarantee" model contributing to improving people's well-being.

Continuously building a coordinated agriculture support ecosystem

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 deepened cooperation with the Ministry of Agriculture and Rural Affairs, the China Association for Science and Technology, the National Agricultural Credit Guarantee Alliance and major insurance companies and strengthened cooperation with leading agricultural enterprises such as Yili, TQLS Group and COFCO to achieve risk sharing. It actively promoted cooperation regarding small and micro loans with MYBank, WeBank, Ping An Puhui and China Everbright Bank. The Bank focused on strengthening cooperation with the National Agricultural Credit Guarantee System and became the largest partner of the System. As of the end of the reporting period, the balance of loans originated in cooperation with provincial agricultural credit guarantee companies was close to RMB20,000 million, with the cumulative loan amount approximately at RMB35,000 million. The Bank further deepened its cooperation with platforms to achieve system interconnection, data sharing and collaborative operation.

The Bank strengthened the cooperation and synergy with China Post Group. By making full use of the advantages of wide network of agency outlets, penetration of towns and proximity to farmers, supported by regulators and with strict risk control, the Bank, together with China Post Group, actively promoted the pilot of small loans and auxiliary loans and developed microfinance at agency outlets. The Bank has piloted auxiliary microfinance at agency outlets in six provinces and plans to promote the model nationwide to further unlock the potential of outlets.

Actively promoting the development of digital transformation

The Bank focused on strengthening its online service capabilities, continued to build upon its offline advantages, and made every effort to create a core competitive advantage with online-offline integration. It accelerated the promotion of list-based small-scale cooperative loans which support the “one-point access to nationwide business” model and the “E Convenient Loan” which enables convenient online drawdown. It also promoted the online only loan products such as “Shop Owners Loan” and “Speedy Loan”. In addition, the Bank continued to develop new online loan products. Using new technologies and operating methods such as big data risk control and scenario-based customer acquisition, combined with innovative fin-tech concept, the Bank fully tapped the potential of its customers and actively moved business from “offline” to “online”. As of the end of the reporting period, the Bank had extended a total of RMB223,209 million loans with the model of “offline approval and online use” and a total of RMB15,015 million online only loans accumulatively.

The Bank fully utilized big data, mobile Internet, cloud computing and other technical means to optimize process, develop new products and control risks of Sannong financial service. It accelerated the optimization of end-to-end customer journeys and promoted the digital transformation of Sannong financial business model. It also steadily promoted the application of electronic signature app, and improved the intelligent risk prevention and control through automatic positioning and facial recognition. Besides, the Bank actively promoted the mobile business development in the Sannong financial services. The loan officers can complete on-the-spot investigation, photo taking and the uploading and verification of information through mobile intelligent terminals. The Bank also actively promoted cooperative projects with International Finance Corporation, optimized models and promoted the pilot application of the model.



Actively helping to win the fight against poverty

The Bank stepped up its input in targeted poverty alleviation via financial services and adopted the basic strategy of "targeted poverty reduction and alleviation" to coordinate and promote targeted poverty alleviation via financial services. The Bank steadily developed micro loans for poverty alleviation and focused on developing other microfinance businesses that can help lift poor farmers out of poverty. It actively promoted the "Village Loan" campaign, and selected poor villages and towns with a concentration of competitive industries and good credit environment to extend credit to the whole village and build creditworthy villages, contributing to the continuous improvement of credit environment in rural areas. It vigorously developed industry-targeted poverty alleviation loans, and focused on "one village, one product" campaign aimed at boosting industry development to achieve effective integration of poverty alleviation via financial services and industry-based poverty alleviation. The Bank also accelerated the development of project-based poverty alleviation loans by accurately providing financial services to infrastructure projects and basic public service projects in distressed area, especially severely impoverished areas. In addition, the Bank actively promoted the "five major models" of financial poverty alleviation and promoted typical cases of financial poverty alleviation. As of the end of the reporting period, targeted poverty alleviation loans via financial services (including loans for people who have been out of poverty and loans contributing to poverty alleviation efforts) totaled RMB73,969 million, an increase of 20.87% compared with the end of the previous year. Among them, the balance of individual-targeted poverty alleviation loans (including loans for people who have been out of poverty and for other individuals who have contributed to poverty alleviation) was RMB46,374 million, an increase of 9.87% from the end of the previous year; the balance of the non-individual targeted poverty alleviation loans (including industrial loans and project loans contributing to poverty alleviation) was RMB27,595 million, an increase of 45.31% from the end of the previous year.

Small and Micro Financial Business

In the first half of 2019, the Bank conscientiously implemented the decisions and arrangement of the Party Central Committee and the State Council, strictly implemented the requirements of the regulatory authorities and confirmed the goal of "transformation and development". Focusing on the target of "expanding the business scope and increasing the volume, reducing risks and cutting costs", the Bank increased its efforts in serving small and micro enterprises and has made remarkable results. As of the end of the reporting period, the balance of inclusive corporate loans to small and micro enterprises with a maximum credit line of RMB10 million per customer amounted to RMB612,636 million, representing a net increase of RMB67,644 million or 12.41% compared with the prior year-end. There were 1,509,700 accounts with loan balance, representing an increase of 52,000 accounts as compared with the end of the prior year. During the reporting period, Bank has extended loans to 601,300 small and micro enterprises accumulatively, an increase of 12.88% year-on-year, with the average loan balance per enterprise amounting to RMB405,800. In the first half of the year, the average interest rate of the inclusive corporate loans to small and micro enterprises was 6.25%. As at the end of the reporting period, the non-performing loan ratio of inclusive corporate loans to small and micro enterprises was 2.81%. The asset quality was kept stable.

Constantly improving the institutional building

The Bank has set up small-enterprise finance departments (tier-1 department) in 35 tier-1 branches, initiated the tasks of improving the capabilities of retail loan services at outlets, and further expanded retail credit service coverage at outlets.

The Bank continued to expand the breadth and depth of micro-finance services and promoted the construction of special sub-branches serving small and micro enterprises. As of the end of the reporting period, the Bank had a total of 302 sub-branches (branches) serving small and micro enterprises under construction, covering 36 tier-1 branches.

Continuing to strengthen the guarantee mechanism and policies

During the reporting period, the Bank provided favorable policies and more resources for the development of financial services to small and micro enterprises on all aspects. It optimized the performance assessment of corporate loans to small and micro enterprises and increased its weighting in the overall assessment. It provided special quota support and gave priority to meeting the credit needs of small and micro enterprises. The Bank also implemented preferential internal fund transfer pricing and the head office shared part of the allowance for small and micro enterprise loans. In addition, the due diligence and liability exemption system of credit extension has been developed to incorporate all the personnel involved in the credit authorization process in the scope of due diligence and liability exemption.

Strongly promoting online loan products

The Bank used new technologies and operation means such as big data, cloud platforms and scenario-based customer acquisition to accelerate the promotion of online products such as “Small and Easy Loan” and “Speedy Loan”, fully exploited existing and potential customer resources, and actively migrated offline business to online, thus enhancing the efficiency of serving small and micro enterprise customers. As of the end of the reporting period, the Bank had extended RMB241,296 million of online loans accumulatively, an increase of 97.43% from the end of the previous year. The balance of online loans reached RMB137,361 million, with an increase of 76.05% from the end of the previous year. The asset quality was good.



Further optimizing business mode

In terms of marketing, the Bank embedded its service into scenarios and selected preferred clients with the aid of platform. Using tax, invoice, electricity consumption, government affairs and other data, the Bank relied on platforms such as government departments and core enterprises so as to carry out scenario-based marketing. In terms of products, regarding the lack of mortgages and distinctive geographical features of small and micro enterprises, the Bank continued to improve its online, standardized and specialized product systems based on customer stratification. In terms of operation, led by big data technology, the Bank used mobile devices in business development, strengthened cost management and control, advanced the transformation of operation system to the “efficient operation + intelligent review + refined management”, saved operational costs through online products, targeted marketing, online drawdown and repayment, automatic post-loan monitoring and early warning. In terms of risk management, the Bank focused on “four key points”, namely products, customers, branches and industries, strengthened both the on-site inspection and off-site risk monitoring, established three risk alert mechanisms namely pre-loan screening, product alert and post-loan management, kept improving the ability of the risk control team, phased out high-risk customers in an orderly way and continued to operate in compliance with the laws.

Information Technology

The Bank adhered to the digital transformation as the main line and took the 13th Five-Year IT Plan as a guide to continuously deepen IT governance and established an institutional mechanism that is compatible with digital transformation. The Bank actively deployed financial technology, promoted deep integration of technology and business, continued to use new technologies to transform traditional businesses. It focused on enhancing the core competitiveness of information technology, reengineered the customer journey from end to end, innovated business models, and built an intelligent bank.

The Bank continued to promote the construction of an information technology governance system. It continuously optimized the information technology organization system, and newly established the Financial Technology Innovation Department and the Management Information Department in the head office to enhance its financial technology innovation capability, the data governance and data analysis capabilities of the entire bank. The Bank pushed forward the implementation of its 13th Five-Year IT Plan with full efforts, launched the construction of a new generation core system, built an enterprise structure, accelerated financial technology innovation, promoted the deep integration of business and technology, and promoted technological empowerment.

It continued to develop financial technology innovation and furthered the research and application of new technologies such as cloud computing, big data, artificial intelligence, blockchain and Internet of Things proactively. In terms of cloud computing, as of the end of the reporting period, 42 systems such as channel management platform, mobile banking, personal online banking, self-service banking, mobile exhibition industry, POS business and international payment were incorporated into the private cloud platform, with the number of daily transaction exceeding 175 million. More than 64% of transactions across the Bank were completed on the cloud platform. In terms of big data, we aimed to provide a full-process, one-stop, self-service, and intelligent big data service, and build the system of management cockpit, big data portals, data labs, and monthly profit & loss reports for outlets to support top level decision-making, business analysis and basic service needs. We deepened the construction of the “1+N+36” organization management system for big data application, and the head office and branches were linked to support our big data application. In terms of artificial intelligence, the intelligent customer service volume based on deep learning technology accounts for 38% of the customer service center’s business volume, and the question and answer accuracy rate is 94%, which enhances the customer experience. The remote authorization robot project based on intelligent bill identification has been promoted nationwide, replacing nearly 20% of manual input operations, and the recognition success rate is 93%. In the blockchain business, we actively studied the cross-chain networking of the U-chain Forfeiting business system and the external alliance chain, further expanding the scale of our Forfeiting transaction and creating a systematic ecosystem. In the aspect of the Internet of Things, RFID technology is being used to realize batch scanning, intelligent verification and error warning of physical carrier warehousing, in order to meet the Bank’s intelligent management and control of physical logistics and treasury management, reduce operational risks and improve business operation efficiency.

The Bank further enhanced its capacity in independent R&Ds, improved basic R&D tools, further expanded the scope of agile development, improved product delivery capabilities to help improve customer experience and optimize service processes. The Bank established a micro-service club to stimulate innovation and promote innovative practice projects with financial technology. The Bank continued to improve the software development capability of the Hefei Branch and Chengdu Branch of the Software Research and Development Center, and actively prepared for the establishment of Suzhou Branch of the Software Research and Development Center.

In order to further expand the financial technology team, the Bank formulated a two-year plan for the construction of IT team. It will double the number of IT staff in the head office by the end of 2019 and that of IT staff of the entire bank by the end of 2020. During the reporting period, the Bank actively expanded financial technology talents in batches through various channels.

During the reporting period, the Bank’s information system operated smoothly without any material systematic failure or incidents of information security risk loophole. The service availability of important information systems was over 99.99%. The Bank carried out emergency exercises of information system, network and infrastructure for 52 times, which has effectively supported and safeguarded its business development.



Distribution Channels

Business Outlets

The Bank actively promoted the systematic transformation of outlets, highlighted the transformation direction of intelligence, lightness and integration, and accelerated the promotion of outlets to “marketing service centers that establish and deepen customer relationships, provide professional financial planning services, and meet customers’ comprehensive financial needs” transformation. During the reporting period, the Bank reduced 5,540 counters and moved 3,384 tellers to other positions, including 2,372 people transferred to sales and marketing team at outlets. As of the end of the reporting period, the Bank had 39,680 outlets in total, which include 7,945 directly-operated outlets, accounting for 20.02%; 31,735 agency outlets, accounting for 79.98%. In terms of the geographical distribution, the Bank had 11,935 outlets in cities, 8,742 outlets in counties and 19,003 outlets in rural areas respectively.

During the reporting period, the Bank continued the construction of intelligent outlets. As of the end of the reporting period, the number of self-service equipment reached 134,500, 21,900 of which were new intelligent equipment including ITMs, further enhancing the service capabilities of self-service channel. The Bank continuously optimized the transaction functions and business processes of self-service equipment. It completed the promotion of the e-signature function on ITM to promote paperless transactions; it also enlarged the scope of money withdrawal via facial recognition on ATM to further enhance customer experience. During the reporting period, the number of self-service equipment transactions reached 2,396 million with the transaction amount of RMB2.15 trillion.

Internet Finance Channel

During the reporting period, the Bank took the Internet financial development plan as the guide, coordinated online and offline service channels, and continuously optimized the network financial channel system including mobile banking, online banking, self-service banking, telephone banking and WeChat banking.

Business Scale

As of the end of the reporting period, the Bank had 297 million electronic banking customers. In particular, the number of mobile banking customers reached 239 million, the number of personal online banking customers reached 220 million, and the number of signed customers of WeChat banking reached 7,699,900.

During the reporting period, the Bank posted 14,043 million electronic banking transactions, up by 15.31% year-on-year, with a transaction amount of RMB10.69 trillion, up by 21.34% year-on-year. Specifically, the number of mobile banking transactions amounted to RMB3,019 million, up by 10.71% year-on-year, with a transaction amount of RMB3.10 trillion, up by 10.32% year-on-year; the number of personal online banking transactions amounted to 281 million, with a transaction amount of RMB0.78 trillion. The substitution ratio of electronic banking transactions was 91.27%, representing an increase of 0.83 percentage points compared with the prior year-end.

Product Innovation

During the reporting period, the Bank continued to promote product innovation. The Bank launched an upgraded version of Mobile Banking 4.0 large font version and VIP version to better meet the needs of the middle-and-old-aged, VIPs and other customer groups. The Bank increased cross-bank fund collection function and optimized business functions such as transfer, payment, fund, and wealth management. At the same time, the Bank optimized the interface design of the new generation personal online banking so as to continuously enhance the customer experience.

Scenario Construction

During the reporting period, the Bank, on the one hand, identified the merchant expansion and acquiring business as its basic and strategic business, fully integrated its existing merchant resources, prepared the Merchant Development Center to co-ordinate the business and acquiring business of the Bank, as well as developed and promoted products for integrated payment and acquiring business nationwide. On the other hand, the Bank continued to promote the external scenario construction, focused on the public livelihood payment business, and actively developed party fees, property fees, tuition fees and other payments of living expenses to promote the development of inclusive finance.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent recruitment, the Bank adhered to an open and inclusive attitude and recruited talents from the society. It focused on increasing the recruitment of senior professionals and attracting talents with rich experience in financial industry management. The Bank prioritized the strategic development of business talents that are urgently needed for transformation and development and improved the pertinence of recruited talents. It strengthened the construction of IT team and allocated more high-end talents to the IT team.

In terms of remuneration and benefits management, focusing on its development strategy and the business priorities of the year, the Bank continuously optimized the salary distribution mechanism, highlighted the efficiency and value orientation, and improved the efficiency of labor cost allocation. It optimized the performance assessment system and improved the incentive and restraint mechanism, explored the career development paths for employees and strengthened the team of professionals to provide strong human capital support for the reform and development of the Bank.

In terms of training, the Bank continuously deepened development and training of human capital and strengthened human capital building in an all-around way. During the reporting period, the Bank closely followed business management and development trend, innovated training mechanisms, strengthened compliance and risk training, and built a high-quality professional talent team. Through various means of face-to-face group training, qualification certification, distant learning, on-the-job training with mentors, examinations and competitions and external training, the Bank systematically trained its workforce. We strengthened the training of trainers and the development of courses and case studies as well as built a mobile learning platform to provide training support.

Employees

As of the end of the reporting period, the Bank had a total of 168,315 employees (and 13,698 labor dispatched workers), including 120,764 employees with bachelor's degree or above, accounting for 71.75%.

The Bank's Employees by Function

Item	Number of employees	Percentage (%)
Management	5,815	3.45
Personal banking	80,751	47.98
Corporate banking	13,095	7.78
Treasury business	1,315	0.78
Financial and accounting	16,109	9.57
Risk management and internal control	11,265	6.69
Others ⁽¹⁾	39,965	23.74
Total	168,315	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)	34,486	20.49
31-40	78,832	46.84
41-50	43,009	25.55
Over 51 (inclusive)	11,988	7.12
Total	168,315	100.00

The Bank's Employees by Education Level

Item	Number of employees	Percentage (%)
Postgraduate degree and above	9,601	5.70
Bachelor's degree	111,163	66.04
Associate degree	40,873	24.28
Others	6,678	3.97
Total	168,315	100.00

The Bank's Employees by Geographical Region

Item	Number of employees	Percentage (%)
Head Office	2,373	1.41
Yangtze River Delta	18,235	10.83
Pearl River Delta	17,748	10.54
Bohai Rim	26,517	15.75
Central region	44,282	26.31
Western region	38,718	23.00
Northeastern region	20,442	12.15
Total	168,315	100.00

Institution Management

The Bank's head office is located in Beijing and is the center of bank-wide decision-making and management. The Bank has established tier-1 branches in the capital cities of provinces, 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 of the Bank are generally located in prefecture-level cities under the jurisdiction of provinces and autonomous regions. They are responsible for their own operations and management and the management of lower-level 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 strategy of headquarters leadership, optimized the head office's segment setup and institutional setup, and improved the inter-departmental collaboration mechanism. 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 June 30, 2019:

Number of Branches and Sub-branches of the Bank

Item	Number of branches and sub-branches	Percentage (%)
Head Office	1	0.01
Tier-1 branches	36	0.44
Tier-2 branches	322	3.90
Tier-1 sub-branches	2,068	25.04
Tier-2 sub-branches and others	5,830	70.61
Total	8,257	100.00

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

Region	Number of branches and sub-branches	Percentage (%)
Yangtze River Delta	947	11.47
Pearl River Delta	770	9.33
Bohai Rim	1,146	13.87
Central region	2,415	29.25
Western region	2,127	25.76
Northeastern region	852	10.32
Total	8,257	100.00

Majority-owned Subsidiary

The Bank currently has one majority-owned subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015, which mainly provides unsecured loan service (excluding 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 the reporting period, it had total assets of RMB26,365 million, net assets of RMB3,224 million; recorded a net profit of RMB138,845,200 during the reporting period.

Protection of Consumer Rights and Interests

During the reporting period, the Bank further incorporated the concept of financial consumer rights protection into its corporate governance, corporate culture cultivation and business development strategies. It optimized the system and mechanisms of consumer protection, improved the institutional system, strengthened operational behavior management, standardized consumer protection review, improved financial products and services, enhanced the complaint handling mechanism, and steadily promoted the classification of financial consumer complaints and the implementation of coding industry standards. The Bank continued to carry out educational activities such as the “publicity month for preventing illegal fund-raising”, “advocacy for preventing the new illegal and criminal activities via telecommunications and the Internet”, “popularizing financial knowledge to safeguard the wallet” and “field trips to spread financial knowledges”, and actively built a harmonious and stable financial consumption environment. The Bank was granted the accolade of “Outstanding Organization” by CBIRC in the “March 15th” Week of Consumer Protection Education and Promotion in the Banking and Insurance Industries.

Risk Management

Comprehensive Risk Management System

During the reporting period, the Bank earnestly implemented the central government’s guideline and regulatory requirements, steadily established a comprehensive risk management philosophy, and continued to improve the long-term mechanism for internal control compliance management. The Bank improved the risk management structure, optimized the risk management arrangement and division of labor, and put the managerial responsibilities into effect. We will improve the accountability mechanism of the person in charge, strictly adjust the asset risk classification standards, comprehensively investigate and deal with potential risks, implement joint asset quality control, and comprehensively improve asset quality. We will continue to promote the work of chaos rectification, strengthen the accountability for violations of regulations, and effectively enhance the operation in compliance. The Bank also accelerated the development of IT system for risk management and promoted the implementation of advanced approach of capital management, thus continuously improving its capabilities for comprehensive risk management.



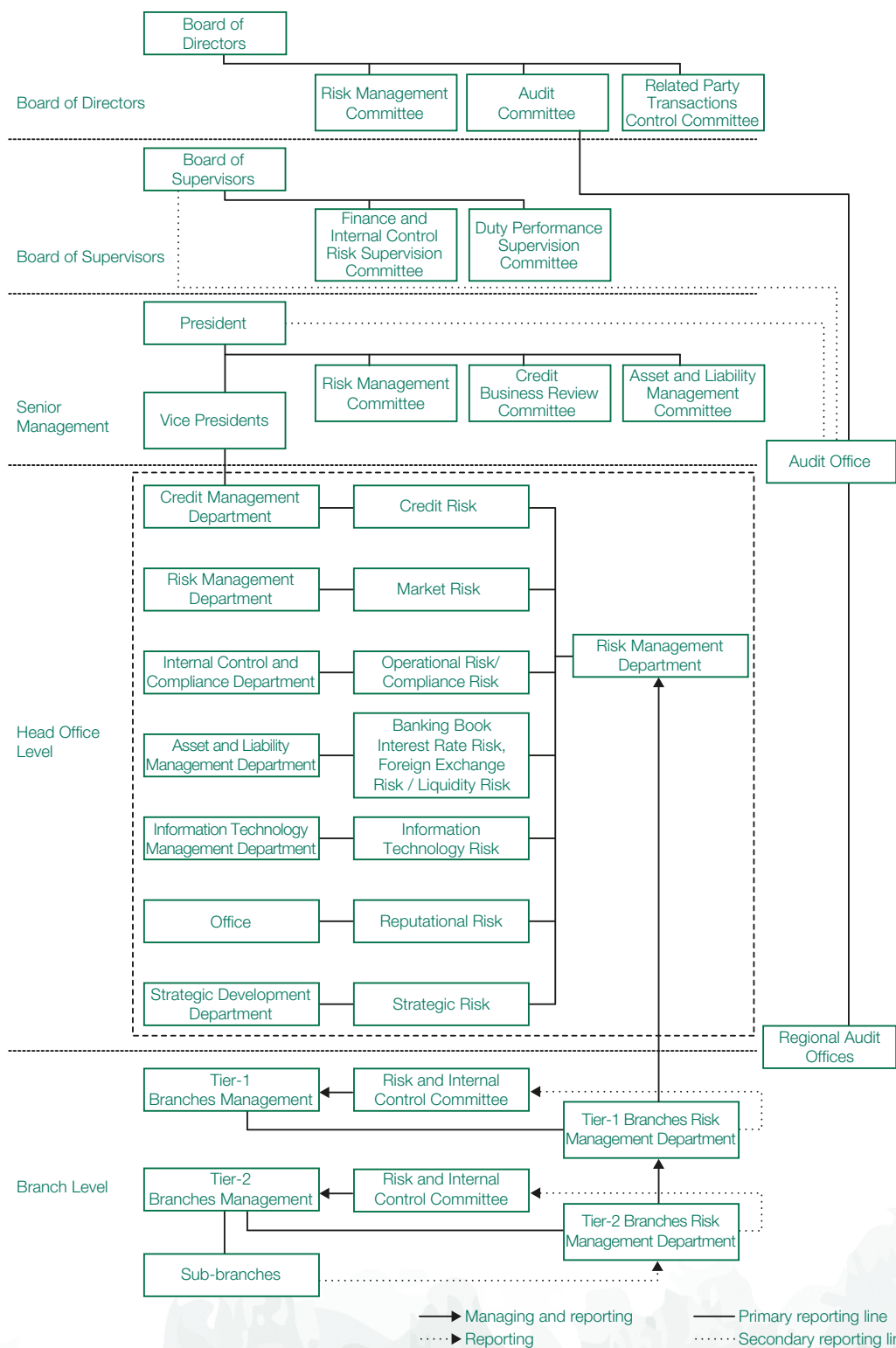
Risk Management Organizational Structure

The Board of Directors assumes the ultimate responsibilities for overall risk management, formulates the general management systems and policies, risk management and internal control policies of the Bank and supervises the implementation of such systems and policies, and considers and approves the internal audit rules of the Bank. The Bank listens to the risk management report presented by the senior management and evaluates the effectiveness of risk management in the Bank in order to improve the Bank's risk management.

The Board of Supervisors assumes the supervisory responsibilities for overall risk management and is responsible for supervising the Board of Directors in respect of the formulation of the Bank's risk management strategies, policies and procedures; supervising, inspecting and urging rectifications for the Bank's risk management and internal control; assessing the performance of the directors, supervisors and senior management members in carrying out their risk management duties.

The senior management assumes the implementation responsibilities for overall risk management and is responsible for establishing an operation and management structure that meets the needs of risk management, implements the construction of risk management system, develops risk management policies and procedures, evaluates risk management, and establishes an adequate management information system and data quality control mechanism.

Risk Management Organizational Structure



Note: Other risks not mentioned above have been incorporated into the Bank's comprehensive risk management framework.



Credit Risk Management

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 national policies and regulatory requirements on credit risk. Under the leadership of the Board of Directors and senior management, the Bank strengthens the full-process credit risk management under the principle of “segregation of duties, checks and balances, and internal control”.

During the reporting period, the Bank persisted in adopting a prudent and stable credit risk management policies, optimized the credit risk management system and implemented special rectification requirements of the regulatory authorities. It actively implemented national strategies and industrial policies, improved the credit extension policy, and proactively guided the allocation of credit resources. It strengthened the full process management of credit extension, implemented unified credit extension, strengthened control of concentration risk and prevented regional and systematic risks. It optimized the risk rating and risk limit management system for corporate and SME customers and improved the construction of the internal rating platform for retail business, and deepened the application of the internal rating-based approach. It improved credit risk monitoring and early warning mechanism, further implemented classification of risk assets, strengthened the quality of credit assets and enhanced the capacity of risk compensation. In addition, it intensified efforts of asset preservation, enriched the means of collection and disposal, and enhanced the effect of risk mitigation.

Credit Risk Management of Corporate Loans

During the reporting period, the Bank continued to strengthen the risk management and control of corporate loans. It implemented national macro-control policies, perfected its product policy system, and supported green credits, private enterprises and targeted poverty alleviation; strengthened pre-loan customer investigation, tightened customer access and executed limit management in high-risk areas; strengthened post-loan management and risk monitoring and early warning, increased its control on key areas such as coal, steel, real estate, non-ferrous metal, concrete and construction, implemented tailored policies for different enterprises, and guarded proactively against risk exposure in substantial amount. It proactively improved its credit risk management system for small enterprise business, adopted the big data and scenario-based approach, established a whitelist mechanism and introduced higher standards for customer access; improved the big data risk control model, regularly conducted off-site risk monitoring, continued to phase out credit relationships with high-risk customers, and improved risk handling capabilities.

Credit Risk Management of Personal Loans

During the reporting period, the Bank continuously strengthened the credit risk management of personal loans. It strictly implemented the national policies of real estate regulation, developed and implemented differentiated credit policies for personal mortgages, and created an internal risk management assessment system. It improved business rules, promoted parallel operation mode, and enhanced the full-process risk prevention. It strengthened off-site risk monitoring and on-site inspection, enhanced early warning and mitigation of risks in key branches, products, industries and customers, and implemented a mechanism for the suspension and resumption of personal business loans. It continued to promote a new generation retail credit factory project, and strengthened the application of mobile Internet technology and data analysis technology to establish an online, full-process and intelligent risk control system.

Credit Risk Management of Credit Card Business

During the reporting period, the Bank further strengthened the risk management of credit card business. It enhanced risk analysis and judgment, improved risk control strategy, enhanced standards on customer access, lowered risk exposures and prevented risk transmission across industries. It strengthened the risk management of online channels, optimized credit line management and increased policy support for high-quality customers. It standardized the requirements on the submission of credit card applications, enhanced the early warning of customers with high risks, accelerated the collection and disposal of non-performing loans and enhanced capabilities of risk mitigation and response.

Credit Risk Management of Treasury Business

During the reporting period, the Bank continued to strengthen the credit risk management of its treasury business, implemented the regulatory policies of CBIRC, strengthened management requirements on key links of business, and carried out pre-investment investigation, investment review and approval and post-investment management so as to cover the entire process of credit risk management. It properly arranged the business category, maturity structure, industry distribution, and controlled the concentration of investment in a single product in accordance with the regulatory guidance. It standardized the risk classification of assets, provided allowance for impairment of assets based on the principle of prudence and strengthened risk mitigation capabilities.

Credit Risk Analysis

Maximum Credit Risk Exposure before Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	As at June 30, 2019	As at December 31, 2018
Deposits with central bank	1,121,107	1,155,444
Deposits with banks and other financial institutions	49,361	140,351
Placements with banks and other financial institutions	275,405	285,622
Derivative financial assets	3,755	7,166
Financial assets held under resale agreements	144,595	239,687
Loans and advances to customers	4,550,381	4,149,538
Investment instruments		
Financial assets at fair value through profit or loss – debt instruments	314,145	339,572
Financial assets at fair value through other comprehensive income - debt instruments	208,039	183,350
Financial assets at amortized cost	3,237,043	2,861,922
Other financial assets	16,117	13,343
Subtotal	9,919,948	9,375,995
Credit commitments	690,787	646,795
Total	10,610,735	10,022,790

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

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Unsecured loans	5,830	15.19	4,839	13.12
Guaranteed loans ⁽²⁾	7,949	20.71	7,658	20.76
Loans secured by mortgages ⁽²⁾⁽⁴⁾	23,385	60.95	23,154	62.77
Loans secured by pledges ⁽²⁾⁽³⁾	1,208	3.15	1,237	3.35
Discounted bills	–	–	–	–
Total	38,372	100.00	36,888	100.00

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

As of the end of the reporting period, the Group's collateralized non-performing loan balance was RMB23,385 million, representing an increase of RMB231 million compared with the prior year-end. The balance of non-performing guaranteed loans amounted to RMB7,949 million, representing an increase of RMB291 million compared with the prior year-end. The balance of non-performing credit loans amounted to RMB5,830 million, representing an increase of RMB991 million compared with the prior year-end.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	14,755	0.31	14,564	0.34
Overdue for 91 days to 1 year	13,435	0.28	13,121	0.31
Overdue for 1 to 3 years	14,020	0.30	11,905	0.28
Overdue for over 3 years	3,591	0.08	2,766	0.06
Total	45,801	0.97	42,356	0.99

As of the end of the reporting period, the balance of overdue loans of the Group stood at RMB45,801 million, representing an increase of RMB3,445 million compared with the prior year-end. Specifically, the balance of loans overdue for 1 to 90 days was RMB14,755 million; the balance of loans overdue for 91 days to 1 year was RMB13,435 million; the balance of loans overdue for 1 to 3 years was RMB14,020 million; the balance of loans overdue for more than 3 years was RMB3,591 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	176,803	3.76	28.59
Borrower B	Transportation, storage and postal services	11,172	0.24	1.81
Borrower C	Leasing and commercial services	10,918	0.23	1.77
Borrower D	Transportation, storage and postal services	10,005	0.21	1.62
Borrower E	Mining	8,500	0.18	1.37
Borrower F	Information transmission, software and information technology services	8,000	0.17	1.29
Borrower G	Transportation, storage and postal services	7,539	0.16	1.22
Borrower H	Production and supply of electricity, heating, gas and water	5,900	0.13	0.95
Borrower I	Transportation, storage and postal services	5,760	0.12	0.93
Borrower J	Leasing and commercial services	5,759	0.12	0.93

- (1) Represents loan balances as a percentage of the Group's net capital, calculated in accordance with the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional).
- (2) As of June 30, 2019, China Railway Corporation was the Bank's largest single borrower. The outstanding loan balance with China Railway Corporation was RMB176,803 million, accounting for 28.59% 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 regulatory authorities. As of June 30, 2019, the outstanding loan balance to China Railway Corporation under such credit approved by the regulatory authorities was RMB165.0 billion. After deduction of this RMB165.0 billion, the Bank's balance of loans to China Railway Corporation represented 1.91% of the Group's net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	4,631,943	98.51	4,213,246	98.51
Special mention	31,358	0.67	26,731	0.63
Non-performing loans	38,372	0.82	36,888	0.86
Substandard	8,794	0.19	9,380	0.22
Doubtful	8,017	0.17	5,981	0.14
Loss	21,561	0.46	21,527	0.50
Total	4,701,673	100.00	4,276,865	100.00

As of the end of the reporting period, the balance of the Group's non-performing loans amounted to RMB38,372 million, representing an increase of RMB1,484 million compared with the prior year-end. Non-performing loan ratio was 0.82%, representing a decrease of 0.04 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB31,358 million, representing an increase of RMB4,627 million compared with the prior year-end. Special mention loan ratio was 0.67%, representing an increase 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 123.60%, representing a decrease of 9.13 percentage points compared with the prior year-end.

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

Item	As at June 30, 2019			As at December 31, 2018		
	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	9,360	24.39	1.38	9,695	26.28	1.58
Fixed asset loans	234	0.61	0.03	274	0.75	0.04
Trade finance loans	555	1.45	0.23	561	1.52	0.25
Others ⁽²⁾	1,596	4.16	7.84	1,549	4.20	7.59
Subtotal	11,745	30.61	0.70	12,079	32.75	0.78
Discounted bills	-	-	-	-	-	-
Personal Loans						
Consumer loans						
Residential mortgage loans	5,613	14.63	0.36	5,053	13.70	0.36
Other consumer loans	3,663	9.55	1.32	3,286	8.91	1.19
Personal business loans	9,484	24.71	2.43	9,470	25.67	2.71
Micro loans	5,852	15.25	2.82	5,343	14.48	3.01
Credit card overdrafts and others	2,015	5.25	1.85	1,657	4.49	1.67
Subtotal	26,627	69.39	1.04	24,809	67.25	1.07
Total	38,372	100.00	0.82	36,888	100.00	0.86

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

(2) Consist of M&A loans, letters of credit, advance on acceptance bills.

As of the end of the reporting period, the balance of the Group's non-performing corporate loans amounted to RMB11,745 million, representing a decrease of RMB334 million compared with the prior year-end; non-performing corporate loan ratio was 0.70%, representing a decrease of 0.08 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB26,627 million, representing an increase of RMB1,818 million compared with the prior year-end; non-performing personal loan ratio was 1.04%, representing a decrease of 0.03 percentage point compared with the prior year-end.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	2,017	5.26	1,658	4.49
Yangtze River Delta	4,827	12.58	4,662	12.64
Pearl River Delta	3,099	8.08	3,101	8.41
Bohai Rim	4,444	11.58	4,300	11.65
Central region	7,357	19.17	7,042	19.09
Western region	12,012	31.30	11,559	31.34
Northeastern region	4,616	12.03	4,566	12.38
Total	38,372	100.00	36,888	100.00

As of the end of the reporting period, the Group's balance of non-performing loans originated in Western China was RMB12,012 million, the highest among all regions; the increases in the balance of non-performing loans originated in Western China and Head Office were RMB453 million and RMB359 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	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	139	1.18	157	1.30
Manufacturing	5,698	48.51	5,759	47.68
Production and supply of electricity, heating, gas and water	110	0.94	108	0.89
Financial services	–	–	–	–
Wholesale and retail	4,256	36.24	4,304	35.63
Construction	234	1.99	319	2.64
Real estate	16	0.14	18	0.15
Mining	68	0.58	78	0.65
Water conservancy, environmental and public facilities management	28	0.24	28	0.23
Leasing and commercial services	98	0.83	148	1.22
Agriculture, forestry, animal husbandry and fishery	576	4.90	629	5.21
Information transmission, computer services and software	75	0.64	60	0.50
Hotels and catering	217	1.85	267	2.21
Residential services and other services	84	0.72	81	0.67
Culture, sports and entertainment	25	0.21	17	0.14
Others ⁽¹⁾	121	1.03	106	0.88
Total	11,745	100.00	12,079	100.00

(1) mainly include education, scientific research and technical services, as well as health and social work.

As of the end of the reporting period, the two industries with the highest balance of non-performing corporate loans of the Group were manufacturing industry as well as wholesale and retail industry respectively. The balance of the non-performing loans amounted to RMB5,698 million and RMB4,256 million respectively, representing a decrease of RMB61 million and RMB48 million compared with the prior year-end respectively.

Allowance for Impairment Losses of Loans and Advances to Customers at Amortized Cost*In millions of RMB*

Item	As at June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2019	85,115	8,905	33,307	127,327
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	532	(400)	(132)	–
Transfer to stage 2	(1,511)	1,583	(72)	–
Transfer to stage 3	(961)	(1,199)	2,160	–
Changes of ECL arising from transfer of stages	(500)	2,391	4,784	6,675
Financial assets derecognized or settled during the period	(10,351)	(1,363)	(1,773)	(13,487)
New financial assets originated or purchased	20,656	–	–	20,656
Remeasurement	11,910	2,071	(562)	13,419
Write-off	–	–	(3,298)	(3,298)
Loss allowance as at June 30, 2019	104,890	11,988	34,414	151,292

Allowance for Impairment Losses of Loans and Advances to Customers at Fair Value Through Other Comprehensive Income

In millions of RMB

Item	June 30, 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance as at January 1, 2019	599	–	–	599
Movements with P&L impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(9)	9	–	–
Transfer to stage 3	(24)	–	24	–
Changes of ECL arising from transfer of stages	–	4	29	33
Financial assets derecognized or settled during the period	(402)	–	–	(402)
New financial assets originated or purchased	473	–	–	473
Remeasurement	–	–	–	–
Write-off	–	–	–	–
Loss allowance as at June 30, 2019	637	13	53	703

Market Risk Management

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 principal market risks the Bank is exposed to include interest rate risk and foreign exchange risk (including gold).

During the reporting period, the Bank closely monitored changes in the external market environment, fully implemented the regulatory requirements, further improved the market risk limit management, continued to strengthen the monitoring of market risk and accelerated the development of the IT system. On the whole, the Bank's major market risk limits were well executed and the market risk was 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-balance 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 commodity positions that can be 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 closely monitored the price fluctuations in the financial market, monitored, reported and prompted changes in limits in a timely manner, took the initiative to carry out stress testing, tracked and researched new trends in market risk regulation, conducted market risk assessment of trading book business, and continued to promote the IT application in market risk management, thereby controlling risk exposure of trading book within the Bank's tolerable range.

Market Risk Management of Banking Book

Market risk in the banking book refers to the risk of losses to the overall income and economic value of the banking books arising from the adverse changes in the interest rate, exchange rate and maturity structure. The Bank manages the market risk of banking book through comprehensive use of measures including limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk refers to the risk that may cause losses to the Bank due to adverse changes in interest rate and maturity structure, etc, or affect the income or economic value of the Bank, mainly including gap risk, benchmark rate risk and option 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 continued to improve internal and external pricing mechanisms and enhanced its differentiated pricing ability. Furthermore, the Bank actively improved the policy system and limit system for interest rate risk management of the banking book, so as to continuously improve its interest rate risk measurement and refined management level, thus controlling the overall interest rate risk level within the target range.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest earning/ bearing
June 30, 2019	(1,879,529)	484,045	733,571	148,067	810,925	133,775
December 31, 2018	167,165	(351,365)	(600,001)	394,630	660,893	152,727

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

	As at June 30, 2019	As at December 31, 2018
Movements in yield rate basis points	Movements in net interest income	Movements in net interest income
Increased by 100 basis points	(11,394)	(3,641)
Decreased by 100 basis points	11,394	3,641

Foreign Exchange Risk Management

Foreign exchange 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 foreign exchange risk management is to ensure the impact of exchange rate movements on the Bank's financial situation and shareholders' equity is kept within an acceptable range.

The primary source of the Bank's foreign exchange risk arises from the unbalance between its USD assets and liabilities. The Bank continuously improved the foreign exchange risk management framework, closely monitored market changes and exchange rate trends, timely monitored the changes in foreign exchange risk exposure of the Bank, and regularly conducted stress testing. During the reporting period, the proportion of assets in foreign currencies was low and the overall foreign exchange risk of the Bank was controllable.

Foreign Exchange Risk Analysis

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

Liquidity Risk Management

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: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, over-mismatch of maturity between assets and liabilities, difficulties in assets realization, and weakening in financing ability.

Objective, Strategy and Policy of 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 ensure the liquidity demand is satisfied and its payment obligation to external parties fulfilled under the normal business scenario and the stress scenario. The Bank adheres to a prudent liquidity risk management strategy to strike a balance between fund sources and utilizations in terms of their maturities and structure. The Bank, in accordance with regulatory compliance requirements, external macro environment as well as the characteristics of the Bank's business, formulates liquidity risk management policies such as those on limit management, daytime liquidity risk management, stress testing and contingency plans, manages the liquidity risk of the Bank in a centralized manner and clarifies that the affiliates assume primary responsibilities for their own liquidity risk management.

During the reporting period, the Bank, against the backdrop of a prudent monetary policy that was eased or tightened to the right degree, closely monitored market liquidity conditions and strictly carried out the policy on risk limits so as to effectively strike a balance among safety, liquidity and profitability.

Liquidity Risk Stress Testing

The Bank performs liquidity risk stress testing on a quarterly basis to identify potential liquidity risks and constantly improves stress testing methods based on regulatory and internal management requirements. It has been proven that the Bank can pass the shortest survival period testing under various stress scenarios as required by regulatory authorities. During the reporting period, the liquidity reserve of the Bank was sufficient and its risk mitigation capability was strong.

Liquidity Risk Analysis

The Bank's liabilities are stable, as its major source of funds is personal deposits. It also has a large proportion of high-quality bonds in its assets, which can be readily converted into cash. During the reporting period, all of the Bank's liquidity indicators monitored by the regulator were within the normal range and the overall liquidity of the Bank was sufficient, secured and under control.

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

Item	Overdue	Repayable on demand	Within 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
June 30, 2019	12,167	(3,257,308)	(121,792)	(128,755)	(1,356,011)	1,280,971	2,914,642	1,086,940	430,854
December 31, 2018	10,070	(3,316,863)	(43,686)	(1,033,733)	(493,679)	1,525,380	2,660,971	1,115,589	424,049

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

Operational Risk Management

Operational risk refers to the risk resulting from inadequate or problematic internal procedures, misconduct of employees or IT system failures, or from 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; IT system failures; as well as delivery, settlement and process management, etc.

During the reporting period, following relevant regulatory requirements including the Guidance on the Operational Risk Management of Commercial Banks issued by the CBIRC and under the leadership of the Board of Directors and senior management, the Bank continued to improve the operational risk management system, improved the long-term mechanism for case prevention and control, and implemented the management measures for case risk investigation. Each line of business actively carried out trainings related to the operational risk, cultivated operational risk management culture and awareness, established a correct operational risk management concept, incorporated the operational risk management into every aspect of our business operation and management, and kept the Bank’s loss arising from operational risk at a low level.

In addition, the operational risk management of the Bank also includes legal risk management. Legal risk refers to the risk that a bank will be liable for breach of laws and regulations, breach of contract, infringement of the legal rights of others or the risk of legal obligation due to the involvement of contractual or business activities by the Bank.

During the reporting period, the Bank established a steering group for the law-based governance and comprehensively promoted the building of a bank by the rule of law. The Bank continued to carry out standardization of contracts, conducted in-depth legal review and effectively improved the professionalism of legal review; The Bank reinforced the prevention and control of litigation risks, strengthened management of various types of litigation, especially the major and complex litigation, and effectively reduced the economic and reputational losses; The Bank further promoted the authorization management and intellectual property management, and continued to enhance legal risk management.

Compliance Risk Management

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 continued to improve its compliance management, established and improved the compliance management mechanisms, improved the compliance review capabilities and ensured support for compliance review. The Bank closely followed the new regulatory requirements and rules, strengthened compliance risk monitoring, and issued risk warnings in a timely manner; the Bank organized compliance knowledge tests for all its employees and asked them to sign the letter of compliance commitment. The Bank comprehensively strengthened the management and control of systems and processes, continuously improved the scientific nature of the system of institutions, established a centralized repository of systems of the Bank, and improved the IT-based institutional management.

Anti-Money Laundering (AML)

During the reporting period, the Bank adhered to the "risk-based" anti-money laundering concept, further improved the system of AML institutions, clarified the responsibility for managing money laundering risk, improved the money laundering risk assessment mechanism, enhanced the support of information systems, accelerated the promotion of customer information governance and centralized analysis of suspicious transactions, strengthened the AML team building and internal assessment and supervision, continued to carry out AML awareness campaign and training, and comprehensively improved the ability to prevent money laundering risks.

Reputational Risk Management

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 improve reputational risk management system, enhanced the Bank's reputational risk prevention awareness and recognition capabilities, enhanced system building, offered relevant training, strengthened reputational risk investigation and rectification as well as worked to address both the symptoms and root causes of reputational risks.

Country Risk Management

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 updated country risk rating, improved the country risk limit system, monitored and kept statistics for country risk exposure on a continual basis and effectively kept country risks under control.



Consolidated Risk Management

Consolidated risk management refers to the comprehensive risk management of the bank group and its affiliates carried out by the Bank to continue to push forward and optimize system construction, and effectively identify, measure, and monitor the overall risks of the bank group. The Bank actively promoted the construction of the Group's risk consolidation system, and included its subsidiary PSBC Consumer Finance into the scope of risk consolidation management and clarified its strategic and business positioning. During the reporting period, the Bank improved the consolidated management governance structure and policy system, improved the firewall and risk isolation mechanism as well as strengthened the risk information reporting mechanism among other measures to continuously improve consolidated risk management.

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 objectives regarding capital management is to maintain sound and ideal capital adequacy and to continue to meet regulatory policies and macroprudential regulation requirements; to focus on the balance between capital occupation and return and work to improve the efficiency in capital usage and enhance capital returns; to continuously consolidate the capital base of the Bank, strengthen its capital replenishment capability through retained profits as an internal source, make use of both stocks and debts to proactively expand external capital replenishment channels. The scope of the Bank's capital management covers its subsidiaries and affiliates and includes regulatory capital management, economic capital management and capital financing management.

During the reporting period, the Bank continued to perfect its capital management system, proactively explored development models for its capital-efficient businesses, optimized its asset and liability structure, strengthened its capital instrument application, and achieved efficient and intensive development with low capital consumption; by capital limit control and day-to-day monitoring, the Bank continued to strengthen its capital planning and its planning and management regarding its capital adequacy ratio and leverage ratio, effectively implemented capital constraint close-loop operation system, i.e. capital planning, allocation, monitoring and assessment, to ensure its capital adequacy ratio and leverage ratio levels continue to meet risk coverage and regulatory requirements. During the reporting period, various capital indicators were in good condition, with the capital structure further optimized and the capital adequacy ratio remained at a reasonable and appropriate level.

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 CBRC in 2012, the Group adopted the weighted approach to measure credit risk, the standard method to measure market risk and the basic indicator approach to measure operational risk. As of the end of the reporting period, the details of the Group's capital adequacy ratio are as follows:

Capital Adequacy

In millions of RMB, except for percentages

Item	As at June 30, 2019		As at December 31, 2018	
	The Group	The Bank	The Group	The Bank
Net core tier 1 capital	440,830	438,176	421,678	419,107
Net tier 1 capital	488,763	486,045	469,605	466,976
Net capital	618,414	615,415	593,729	590,842
Risk-weighted assets	4,765,613	4,751,511	4,316,219	4,302,873
Credit risk-weighted assets	4,421,153	4,408,827	3,974,794	3,963,224
Market risk-weighted assets	53,950	53,950	50,915	50,915
Operational risk-weighted assets	290,510	288,734	290,510	288,734
Core tier 1 capital adequacy ratio (%)	9.25	9.22	9.77	9.74
Tier 1 capital adequacy ratio (%)	10.26	10.23	10.88	10.85
Capital Adequacy Ratio (%)	12.98	12.95	13.76	13.73

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

Market Risk Capital Requirements

In millions of RMB

Item	As at	As at
	June 30, 2019	December 31, 2018
Interest rate risk	2,139	1,768
Foreign exchange risk	2,177	2,305



Leverage Ratio

As of the end of the reporting period, the leverage ratio calculated by the Group pursuant to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Amended) issued by the CBRC in 2015 was 4.67%, meeting the regulatory requirements. Please refer to “Appendix III: Leverage Ratio” for the leverage ratio.

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 its means and methods of economic capital management; optimized the economic capital allocation mechanism, improved its efficiency in capital allocation; strengthened its management through measures such as limit management; and continuously optimized the evaluation system of economic capital indicators under the guidance of capital conservation and value creation. The economic capital management ability of the Bank was continuously improved, with the role of structural optimization constantly enhanced and the return on capital further improved.

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 2019 sixth meeting of the Board of Directors held in March 2019, and such proposal was considered and approved at the annual general meeting of shareholders in May 2019. The Bank is currently promoting A Share Offering and Listing in an orderly manner.

For details of the A Share Offering and Listing, please refer to the “Changes in Share Capital and Shareholdings of Shareholders – Issuance and Listing of Securities”.

Changes in Share Capital and Shareholdings of Shareholders



Ordinary Shares

List of Changes in Share Capital

Unit: Share

	As at December 31, 2018		Increase or decrease during the reporting period (+,-)	As at June 30, 2019	
	Number of shares	Percentage (%)		Number of shares	Percentage (%)
I. Shares subject to selling restrictions					
1. RMB ordinary shares	-	-	-	-	-
2. Overseas-listed foreign shares	-	-	-	-	-
II. Shares not 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	19,856,167,000	24.50	-	19,856,167,000	24.50
III. Total shares	81,030,574,000	100.00	-	81,030,574,000	100.00



Shareholdings of the Top 10 Ordinary Shareholders

As of the end of the reporting period, the Bank's total ordinary shareholders amounted to 2,934, among which, there were 2,929 H shareholders and 5 domestic shareholders. The top 10 ordinary shareholders are as follows:

Unit: Share

Shareholders	Class of shares	Number of shares held	Percentage of shares held(%)	Increase or decrease in shares during the reporting period	Number of shares pledged or locked-up
China Post Group *	Domestic Shares	55,847,933,782	68.92	0	None
HKSCC Nominees Limited	H Shares	19,842,535,660	24.49	1,117,091,900	Unknown
China Life Insurance Company Limited *	Domestic Shares	3,341,900,000	4.12	0	None
China Telecommunications Corporation *	Domestic Shares	1,117,223,218	1.38	0	None
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	Domestic Shares	738,820,000	0.91	0	None
Shenzhen Tencent Domain Computer Network Company Limited	Domestic Shares	128,530,000	0.16	0	None
LI KIU	H Shares	207,000	0.0003	0	Unknown
KWOK CHEE YIN	H Shares	200,000	0.0002	0	Unknown
CHENG SUI SUN	H Shares	173,000	0.0002	0	Unknown
WONG WAI FUK	H Shares	173,000	0.0002	0	Unknown

- Notes:
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, as the nominee, is the total number of H Shares held by all institutions and individual investors registered with the company as of June 30, 2019.
 3. *indicates the state-owned shareholders.

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

The Bank issued non-public Offshore Preference Shares in overseas markets and was listed on the Hong Kong Stock Exchange in September 2017. The net proceeds amounted to approximately RMB47.8 billion, all of which were used to supplement our other tier-1 capital.

Stock code of the offshore preference shares	Preference shares abbreviation	Issuing date	Issue price (USD/share)	Initial dividend rate (%)	Issuing quantity (share)	Issuing amount (USD)	Listing date	Permitted trading volume (share)
4612	PSBC 17USDPRF	September 27, 2017	20	4.50	362,500,000	7,250,000,000	September 28, 2017	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 proxies) of the Bank was 1. The top 10 offshore preference shareholders (or proxies) of the Bank are as follows:

Name of shareholders	Nature of shareholders	Class of shares	Increase or decrease during the reporting period (share)	Number of shares held at the end of the period (share)	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) Shareholdings of offshore preference shareholders are based on the statistics from information listed in the register of offshore preference shareholders.
- (2) As the issuance of offshore preference shares 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

Dividends on the Bank's offshore preference shares are paid annually in cash, and calculated based on the aggregate value of the issued offshore preference shares. Dividends of the Bank's offshore preference shares are non-cumulative. Holders of the Bank's offshore preference shares are only entitled to dividends at the prescribed dividend rate, but are not entitled to any distribution of residual profits of the Bank together with the holders of ordinary shares. According to the dividend distribution plan in the offshore preference share issuance proposal, the Bank distributed a dividend of USD362.5 million (tax inclusive) on the offshore preference shares. According to relevant laws and regulations, when the Bank distributes dividends for the offshore preference shares, the income tax shall be withheld by the Bank at a rate of 10%. According to the requirements in the terms and conditions of the offshore preference shares, the Bank will pay the relevant taxes, in addition to the dividends for offshore preference shares.

During the reporting period, according to the resolution and authorization of the Shareholders' General Meeting, upon the review and approval at the 9th meeting of the Board of Directors of the Bank in 2019, the Bank was approved to distribute dividends on the offshore preference shares for the period from September 27, 2018 (inclusive) to September 27, 2019 (exclusive) on September 27, 2019, totaling USD362.5 million (before tax), of which USD326.25 million (after tax) were paid to the holders of offshore preference shares. For details, please refer to the announcement on distribution of dividends for offshore preference shares of the Bank dated May 24, 2019.

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

According to the provisions including the provisions of the International Financial Reporting Standards No. 9 – Financial Instruments, the International Accounting Standards No. 32 – Financial Instruments: Presentation and the International Financial Reporting Standards No. 7 – Financial Instruments: Disclosures formulated by International Accounting Standards Board, the issued and existing preference shares of the Bank conform to the accounting requirements of equity instruments, and shall be calculated as equity instruments.

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% of interest in the Bank and one member of senior management from CSIC and SIPG each holds a concurrent post of director of the Bank.

Basic Information of Substantial Shareholders

Controlling Shareholders

The controlling shareholder of the Bank is China Post Group. China Post Group, a large-scale wholly state-owned enterprise, was established in accordance with the Law on Industrial Enterprises Owned by the Whole People of the People’s Republic of China 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 the legal representative is Mr. Liu Aili. China Post Group is principally engaged in domestic and international mail delivery and parcel express delivery, distribution of publications such as newspapers, journals and books, stamp issuance, postal remittance, confidential correspondence, postal financial business, postal logistics, e-commerce, postal agency and other businesses as stipulated by the state.

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

Other Substantial Shareholders

Founded on July 1, 1999, CSIC is a wholly state-owned enterprise established under the Company Law and financed by the state with a registered capital of RMB63 billion. Its registered address is No. 72 Kunminghu Nan Lu, Haidian District, Beijing. Its uniform social credit code is 9111000071092446XA and the 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 and is one of the Global 500 companies in the shipping industry in the PRC.

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 is Mr. Chen Xuyuan. The registered capital of SIPG is RMB23,173,674,650 and its ultimate controller is Shanghai State-owned Assets Supervision and Administration Commission. SIPG, the operator of 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. 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 company in the port industry in Mainland China and is also one of the largest port companies in the world. SIPG is mainly engaged in port-related business with main business including port handling, port service, port logistics and port commerce.



Share Pledge by Substantial Shareholders of the Bank

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

Related Parties of Substantial Shareholders and Transactions with Related Parties

The Bank managed approximately 1,400 enterprises as the related parties of the Bank including the above substantial shareholders and the controlling shareholder, actual controllers, related parties, persons acting in concert and ultimate beneficiaries. During the reporting period, the types of transactions between the Bank and the above related parties mainly included credit extension, service provision, and asset transfer, etc. These related transactions were included in the daily connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or filing.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at June 30, 2019, 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	Beneficial 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⁾	Beneficial owner	Domestic Shares	3,341,900,000	Long position	4.12	5.46
CSIC Investment One Limited ⁽²⁾	Beneficial owner	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding Capital Limited ⁽²⁾	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding & Offshore International (H.K.) Co., Limited ⁽²⁾	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding & Offshore International Co., Limited ⁽²⁾	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding Industry Corporation ⁽²⁾	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
Shanghai International Port Group (HK) Co., Limited ⁽³⁾	Beneficial 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 ⁽³⁾	Beneficial owner	H Shares	1,600,000,000	Long position	1.97	8.06
Shanghai International Port (Group) Co., Ltd. ⁽³⁾	Interest of controlled corporations	H Shares	3,349,490,000	Long position	4.13	16.87
CITIC Securities Company Limited ⁽⁴⁾	Interest of controlled corporations	H Shares	2,967,680,817	Long position	3.66	14.95
	Interest of controlled corporations	H Shares	4,213,821,506	Short position	5.20	21.22



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 (%)
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⁾	Beneficial owner	H Shares	1,108,228,000	Long position	1.37	5.58
China National Tobacco Corporation	Beneficial owner	H Shares	1,296,000,000	Long position	1.60	6.53
JPMorgan Chase & Co. ⁽⁶⁾	Interest of controlled corporations, investment manager, guaranteed interest and approved lending agent	H Shares	1,184,792,809	Long position	1.46	5.97
	Interest of controlled corporations, investment manager	H Shares	104,768,378	Short position	0.13	0.53
	Approved lending agent	H Shares	157,771,495	Lending pool	0.19	0.79
BNP PARIBAS SA ⁽⁷⁾	Interest of controlled corporations	H Shares	1,080,331,001	Long position	1.33	5.44
	Interest of controlled corporations	H Shares	982,278,292	Short position	1.21	4.94

(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 forms submitted by CSIC Investment One Limited, China Shipbuilding Capital Limited, China Shipbuilding & Offshore International (HK) Co., Limited, China Shipbuilding & Offshore International Co., Ltd. and China Shipbuilding Industry Corporation, China Shipbuilding Industry Corporation indirectly held a total of 3,574,515,000 H Shares (long position) held by CSIC Investment One Limited as a beneficial owner through its controlled corporations, including China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (HK) Co., Limited and China Shipbuilding Capital Limited. China Shipbuilding Industry Corporation, China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (HK) Co., Limited and China Shipbuilding Capital Limited are therefore deemed to be interested in the total 3,574,515,000 H Shares held by CSIC Investment One Limited under the SFO.

- (3) According to the disclosure of interests forms 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 its 100% owned Shanghai Port Group (BVI) Holding Co., Limited. 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.
- (4) According to the disclosure of interests form submitted by CITIC Securities Company Limited, CITIC Securities Company Limited is interested in the total 2,967,680,817 H Shares (long position) and 4,213,821,506 H Shares (short position) through its controlled corporation. Such interests include derivative interests, of which 1,193,860,093 H Shares (long position) and 1,297,692,946 H Shares (short position) are derived from listed derivatives (convertible instruments); 1,625,000,000 H Shares (long position) and 1,624,998,000 H Shares (short position) derived from unlisted and physically settled derivatives; and 148,750,725 H Shares (long position) and 1,291,130,560 H Shares (short position) derived from unlisted and cash settled derivatives.
- (5) 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.
- (6) According to the disclosure of interests form submitted by JPMorgan Chase & Co., JPMorgan Chase & Co. is interested in the total 1,184,792,809 H Shares (long position), 104,768,378 H Shares (short position) and 157,771,495 H Shares (lending pool), including the 696,986,236 H Shares (long position) and 84,768,378 H Shares (short position) held as a controlled corporation, the 328,395,078 H Shares (long position) and 20,000,000 H Shares (short position) held as an investment manager, 1,640,000 H Shares (long position) held as a guaranteed interest holder of shares, and 157,771,495 H Shares (lending pool) held as an approved lending agent. The interests include derivative interests, of which 4,000,000 H Shares (long position) and 4,000,000 H Shares (short position) are derived from listed and physically settled derivatives; 8,109,000 H Shares (short position) derived from listed and cash settled derivatives; 8,450,000 H Shares (long position) and 46,743,993 H Shares (short position) derived from unlisted and physically settled derivatives; 2,070,753 H Shares (long position) and 25,597,590 H Shares (short position) derived from unlisted and cash settled derivatives; 150,034,984 H Shares (long position) and 1,036,305 H Shares (short position) are derived from listed derivatives (convertible instruments).
- (7) According to the disclosure of interests form submitted by BNP PARIBAS SA, BNP PARIBAS SA is interested in the total 1,080,331,001 H Shares (long position) and 982,278,292 H Shares (short position) through its controlled corporations. The interests include derivative interests, of which 219,080,982 H Shares (long position) underlying shares are derived from listed derivatives (convertible instruments); 52,002,370 H Shares (long position) and 173,030,643 H Shares (short position) underlying shares are derived from unlisted and cash settled derivatives.



Issuance and Listing of Securities

During the reporting period, the Bank actively promoted the A Share Offering and Listing. The Bank's 6th meeting of the Board of Directors of 2019 held on March 26, 2019 and the 2018 Annual General Meeting, the first Domestic Shareholders' Meeting of 2019, and the first H Shareholders Class Meeting of 2019 held on May 30, 2019 reviewed and approved, among other things, the relevant resolution on extending the validity period of the initial public offering of A Shares in the listing plan. For details, please refer to the Bank's announcements dated April 12, 2019, May 15, 2019, May 30, 2019 and June 12, 2019.

The Bank has submitted an application to the CSRC for A Share Offering and Listing, pursuant to which, received a letter of acceptance from the CSRC regarding the application for A Share Offering and Listing submitted by the Bank on June 25, 2019. The A Share prospectus (application proof) has been published on the website of the CSRC at www.csrc.gov.cn for pre-disclosure. For details, please refer to the announcements of the Bank dated June 26, 2019 and June 28, 2019. Further details and progress of the A Share Offering and Listing will be disclosed in due course.

For details of the issuance of securities of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 29 Debt securities issued" and "Notes to the Consolidated Financial Statements – 31.2 Other equity instruments".

Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management

As of the date of the reporting period, the compositions of the Board of Directors, Board of Supervisors and senior management are as follows:

The Board of Directors of the Bank consists of 13 directors, including the Chairman Mr. Zhang Jinliang; 2 Executive Directors, namely Mr. Zhang Xuewen and Ms. Yao Hong; 6 Non-executive Directors, namely Mr. Zhang Jinliang, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Liu Yue and 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 consists of 9 supervisors, including the Chairman Mr. Chen Yuejun; 3 Shareholder Representative Supervisors, namely Mr. Chen Yuejun, Mr. Li Yujie and Zhao Yongxiang; 3 External Supervisors, namely Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; 3 Employee Supervisors, namely Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng.

The Bank has a total of 7 senior management personnel, namely Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Qu Jiawen, Mr. Xu Xueming, Mr. Shao Zhibao, Mr. Liu Hucheng and Mr. Du Chunye.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On January 4, 2019, Mr. Lyu Jiajin resigned from his position as an Executive Director and his duties on behalf of the Chairman due to change of job. Prior to the appointment of the new Chairman of the Board, Mr. Zhang Xuewen (an Executive Director and the Vice President), pursuant to the Articles of Association of the Bank, was elected by more than half of the Directors to perform the duties on behalf of the Chairman, with effect from January 4, 2019.

On April 8, 2019, Mr. Zhang Jinliang was elected as a Non-executive Director of the Bank at the 2019 First Extraordinary General Meeting. On the same date, Mr. Zhang Jinliang was elected by the Board of Directors of the Bank as the Chairman of the Board of Directors of the Bank. The qualification of Mr. Zhang Jinliang has been approved by the CBIRC.

On August 20, 2019, Mr. Zhang Xuewen and Ms. Yao Hong were nominated as Executive Director candidates of the Bank; Mr. Fu Tingmei, Mr. Chung Shui Ming Timpson, Ms. Pan Yingli and Mr. Wen Tiejun were nominated as Independent Non-executive Director candidates of the Bank at the thirteenth meeting of the Board of Directors of the Bank in 2019. The above Director candidates are subject to election at the Shareholders' General Meeting of the Bank. For details, please refer to the announcement dated August 20, 2019 and the circular of the Bank dated September 12, 2019.

On August 21, 2019, Mr. Chin Hung I David resigned from his positions as Non-executive Director, member of the Audit Committee of the Board of Directors and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors due to work needs.



Changes in Supervisors

From May 25 to May 26, 2019, Mr. Li Yue and Mr. Song Changlin were re-elected as Employees Supervisors of the Bank at the First Meeting of the First Employee Representative Assembly of the Bank. The term of office of Mr. Li Yue and Mr. Song Changlin started on May 26, 2019.

On August 20, 2019, Mr. Chen Yuejin, Mr. Li Yujie, Mr. Zhao Yongxiang were nominated as Shareholder Representative Supervisor candidates of the Bank; Mr. Wu Yu, Mr. Bai Jianjun, Mr. Chen Shimin were nominated as External Supervisor candidates of the Bank at the sixth meeting of the Board of Supervisors of the Bank in 2019. The above Supervisor candidates are subject to election at the Shareholders' General Meeting of the Bank. For details, please refer to the announcement dated August 20, 2019 and the circular of the Bank dated September 12, 2019.

Changes in Senior Management

On January 4, 2019, Mr. Lyu Jiajin resigned from his position as the President of the Bank due to change of job. Prior to the appointment of the new President, pursuant to the Articles of Association of the Bank and upon the consideration and approval at the first meeting of the Board of Directors in 2019, Mr. Zhang Xuewen (an Executive Director and the Vice President) performed the duties on behalf of the President, with effect from January 4, 2019.

Changes in Biographies of Directors, Supervisors and Senior Management

Changes in Directors' Biographical Information

Mr. Gan Peizhong retired from Peking University in June 2019, and served as a professor at Lanzhou University Law School in July 2019 and then the Dean of the Law School in August 2019.

Mr. Fu Tingmei resigned from his position as an independent non-executive director of CPMC Holdings Limited in July 2019.

Changes in Supervisors' Biographical Information

Mr. Wu Yu resigned from his position as a director of Sichuan Tianyi Science & Technology Co., Ltd. (now Haohua Chemical Science & Technology Corp., Ltd.) in February 2019.

Changes in Senior Management's Biographical Information

In June 2019, Mr. Qu Jiawen served as the Vice President of the Payment & Clearing Association of China and no longer served as an Executive Council member of the Payment & Clearing Association of China, after the election for member representatives during the third meeting of the Payment & Clearing Association of China.

Corporate Governance

In accordance with the regulatory requirements, the Proposal on the Amendments to the Articles of Association of Postal Savings Bank of China Co., Ltd. has been reviewed and approved at the 2019 First Extraordinary General Meeting convened by the Bank on April 8, 2019. For details, please refer to the circular of the Bank dated March 22, 2019. Subsequently, the authorized persons of the Board of Directors of the Bank made further adjustments to the amended provisions of the Articles of Association pursuant to the recommendations from the regulatory authorities and actual conditions of the Bank. The amendments to the Articles of Association were approved by the CBIRC on June 6, 2019 and have taken effect since June 6, 2019. For details, please refer to the announcement of the Bank dated June 12, 2019 regarding the A Share Offering and Listing and CBIRC's approval of the amendments to the Articles of Association.

Pursuant to code provision A.4.2 of the Corporate Governance Code, every Director, including those with a specific term of office, is subject to retirement by rotation at least once every three years. Since the disclosure date of this report, certain directors and supervisors of the Bank have served for three years. The directors and supervisors have not been re-elected at the expiration of their terms of office, pursuant to the Articles of Association of the Bank. Before the re-elected directors and supervisors commence their office, the original directors and supervisors shall still perform their duties in accordance with laws and regulations. The Bank has been actively propelling the procedures of the re-election of directors and supervisors, and would propose the resolutions in connection with the re-election of directors and supervisors for consideration and approval during the shareholders' general meeting pursuant to the regulatory procedures where practicable. Saved as disclosed above, the Bank complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules during the reporting period.

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 the decision making body of the internal control of the Bank, and 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; for establishing a clear and acceptable level of risk to ensure that the senior management takes necessary risk control measures; for overseeing the senior management the adequacy and effectiveness of the internal control system. The Board of Supervisors is the supervisory body of the Bank and it is responsible for supervising the Board of Directors and senior management to improve the internal control system and supervise the internal control responsibilities of the Board of Directors, senior management and its members. The senior management is responsible for implementing the decisions of the Board of Directors; for formulating a systematic system, process and method to take corresponding risk control measures according to the acceptable risk level as determined by the Board of Directors; for the establishment and improvement of internal organization to ensure the effective discharge of various responsibilities under internal control; for monitoring and evaluating the adequacy and effectiveness of the internal control system. 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. Internal Control and Compliance Department, as the department taking the lead of internal control management, is responsible for leading the efforts for the construction of the internal control system. The Audit Office and audit departments are responsible for supervising and evaluating the situation 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 construction of the internal control system. The system established is guided by comprehensive risk management and focuses on elements such as internal environment, risk evaluation, control activities, information and communication, and internal supervision as the core, with the purpose of promoting a steady operation and long-run development of the Bank. The Bank, centering on its objective of internal control, strengthened the internal control measures, promoted the application of the Internal Control Management Manual, enhanced the ability to execute internal control, and improved the effectiveness of risk prevention and control. It further advanced the idea of “Taking compliance culture into grassroots.” with the aim to strengthen employees’ awareness in internal control and compliance, and incorporate the internal control and 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 thereunder, 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 the coordination of audit resources of the Bank. It mainly audits the head office and key areas of the Bank with the lead of the focus of those in charge of governance. 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 and its institutions 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 at the head office, closely centered on the strategic decisions of the central government, regulatory requirements and various work plans of the head office, steadily advanced various audit work. During the reporting period, it conducted audit supervision on key areas such as implementation of major policies, risk management, internal control, information technology, and continued to follow up with the rectification of problems found in audit, thus effectively playing the role of supervision, evaluation and consultation of internal audit and providing a strong guarantee for a steady operation and high-quality development of the Bank.

Profit and Dividend Distribution

The 2018 Annual General Meeting held on May 30, 2019 considered and approved the Bank's profit distribution plan of 2018, distributing cash dividends of RMB1.937 (tax inclusive) for each ten shares of 81,030,574,000 ordinary shares, totaling approximately RMB15,696 million (tax inclusive), to all the ordinary shareholders whose names appeared on the register of members of the Bank on the record date. The Bank has distributed the above-mentioned dividends on July 19, 2019 (Friday).

The Bank will not declare or distribute interim dividends of 2019 and will not convert its capital reserve to share capital.

For details on the distribution of dividends on offshore preference shares of the Bank, please refer to "Changes in Share Capital and Shareholdings of Shareholders – Offshore Preference Shares – Profit Distribution of Offshore Preference Shares".

Material Legal Proceedings and Arbitration

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

As of the end of the reporting period, the Bank was the defendant or arbitration respondent in several pending and material legal proceedings or arbitration each with a claim amount of over RMB10 million, and the claim amount was approximately RMB434 million. The Bank considers that these pending cases will not have any material adverse impact on the business, financial position or results of operations of the Bank.

Material Asset Acquisition, Sale and Merger

During the reporting period, the Bank did not carry out any material asset acquisition, sale or merger activities.

Related Party Transactions

For information on related party transactions during the reporting period, please see "Notes to the Consolidated Financial Statements – 36 Transactions with related parties".

Pledge of Assets

For information relating to the pledge of assets of the Bank, please see "Notes to the Consolidated Financial Statements – 38.5 Collateral".

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

During the reporting period, the Bank and its subsidiary did not repurchase, sell or redeem any of its listed securities.

Implementation of the Share Incentive Plan

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

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct concerning the securities transactions by directors and supervisors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules. The directors and the supervisors of the Bank have confirmed that they have complied with the aforesaid code 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.

Event After the Reporting Period

On August 20, 2019, the proposed issuance of write-down undated capital bonds was considered and approved at the thirteenth meeting of the Board of Directors in 2019. The Bank intends to issue write-down undated capital bonds with a total amount of up to RMB80 billion (RMB80 billion included) or equivalent in foreign currencies. The funds raised will be used to replenish additional Tier 1 capital of the Bank. The issuance plan of the write-down undated capital bonds is subject to consideration and approval at the Shareholders' General Meeting of the Bank. Upon the consideration and approval at the Shareholders' General Meeting, it is also subject to the approval by relevant regulatory authorities. For details of the issuance of write-down undated capital bonds, please refer to the announcement of dated August 20, 2019 and the circular of the Bank dated September 12, 2019.

Interim Review

The 2019 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 Audit Committee of the Board of Directors of the Bank has reviewed, considered and approved the 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 accompanying interim financial information set out on pages 102 to 255, which comprises the condensed consolidated interim statement of financial position of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (together, the "Group") as at June 30, 2019 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month 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 this 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 accompanying 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, China

August 20, 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2019 (unaudited)	2018 (unaudited)
Interest income	3	190,297	173,336
Interest expense	3	(71,215)	(61,674)
Net interest income	3	119,082	111,662
Fee and commission income	4	16,700	14,916
Fee and commission expense	4	(7,361)	(7,234)
Net fee and commission income	4	9,339	7,682
Net trading gains	5	2,572	2,805
Net gains on investment securities	6	9,087	8,772
Net gains/(losses) on derecognition of financial assets at amortized cost		28	(1)
Net other operating gains	7	1,596	1,488
Operating income		141,704	132,408
Operating expenses	8	(73,222)	(74,770)
Credit impairment losses	9	(27,693)	(23,366)
Impairment losses on other assets		(3)	(5)
Profit before income tax		40,786	34,267
Income tax expense	10	(3,364)	(1,720)
Net profit		37,422	32,547
Net profit attributable to:			
Shareholders of the Bank		37,381	32,523
Non-controlling interests		41	24

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2019 (unaudited)	2018 (unaudited)
Net profit		37,422	32,547
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		-	(85)
Subtotal		-	(85)
Items that may be reclassified subsequently to profit or loss			
Net (losses)/gains on investments in financial assets at fair value through other comprehensive income		(479)	2,109
Subtotal		(479)	2,109
Total comprehensive income for the period		36,943	34,571
Total comprehensive income attributable to:			
Shareholders of the Bank		36,902	34,547
Non-controlling interests		41	24
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	11	0.43	0.37

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2019 (unaudited)	As at December 31, 2018 (audited)
Assets			
Cash and deposits with central bank	12	1,163,545	1,202,935
Deposits with banks and other financial institutions	13	49,361	140,351
Placements with banks and other financial institutions	14	275,405	285,622
Derivative financial assets	15	3,755	7,166
Financial assets held under resale agreements	16	144,595	239,687
Loans and advances to customers	17	4,550,381	4,149,538
Investment instruments			
Financial assets at fair value through profit or loss	18.1	316,236	341,662
Financial assets at fair value through other comprehensive income-debt instruments	18.2	208,039	183,350
Financial assets at fair value through other comprehensive income-equity instruments	18.3	553	553
Financial assets at amortized cost	18.4	3,237,043	2,861,922
Property and equipment	20	44,744	45,399
Deferred tax assets	21	40,780	35,887
Other assets	22	32,738	22,139
Total assets		10,067,175	9,516,211
Liabilities			
Deposits from banks and other financial institutions	24	71,965	74,165
Placements from banks and other financial institutions	25	33,688	39,845
Financial liabilities at fair value through profit or loss	26	–	2,360
Derivative financial liabilities	15	4,049	6,463
Financial assets sold under repurchase agreements	27	172,299	134,919
Customer deposits	28	9,101,191	8,627,440
Debt securities issued	29	102,280	76,154
Other liabilities	30	87,644	79,552
Total liabilities		9,573,116	9,040,898

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2019 (unaudited)	As at December 31, 2018 (audited)
Equity			
Share capital	31.1	81,031	81,031
Other equity instruments			
Preference shares	31.2	47,869	47,869
Capital reserve	32	74,648	74,648
Other reserve	33	137,444	137,923
Retained earnings		152,117	132,933
Equity attributable to shareholders of the Bank		493,109	474,404
Non-controlling interests		950	909
Total equity		494,059	475,313
Total equity and liabilities		10,067,175	9,516,211

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 20, 2019.

Zhang Jinliang

(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, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank									Total equity
		Other equity instruments		Other reserves						Non-controlling interests	
		Share capital	-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other		Retained earnings		
							comprehensive income	earnings		Total	
As at January 1, 2019 (audited)		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313
Profit for the period		-	-	-	-	-	-	37,381	37,381	41	37,422
Other comprehensive income	33.3	-	-	-	-	-	(479)	-	(479)	-	(479)
Total comprehensive income for the period		-	-	-	-	-	(479)	37,381	36,902	41	36,943
Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	(15,696)	(15,696)	-	(15,696)
Dividends paid to preference shareholders	34	-	-	-	-	-	-	(2,501)	(2,501)	-	(2,501)
As at June 30, 2019 (unaudited)		81,031	47,869	74,648	30,371	103,959	3,114	152,117	493,109	950	494,059

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Attributable to shareholders of the Bank										
	Note	Other equity instruments		Other reserves					Retained earnings	Non-controlling interests	Total equity
		Share capital	-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Total			
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		-	-	-	-	-	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
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, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank									Total equity
		Other equity instruments		Other reserves					Retained earnings	Non-controlling interests	
		Share capital	-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Total			
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		-	-	-	-	-	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 year		-	-	-	-	-	-	52,311	52,311	73	52,384
Other comprehensive income	33.3	-	-	-	-	-	3,979	-	3,979	-	3,979
Total comprehensive income for the year		-	-	-	-	-	3,979	52,311	56,290	73	56,363
Appropriation to surplus reserve	33.1	-	-	-	5,212	-	-	(5,212)	-	-	-
Appropriation to general reserve	33.2	-	-	-	-	2,948	-	(2,948)	-	-	-
Issuance of preference shares	31.2	-	23	-	-	-	-	-	23	-	23
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 December 31, 2018 (Audited)		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313

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, 2019 (All amounts in millions of RMB unless otherwise stated)

	Six months ended June 30	
	2019	2018
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	40,786	34,267
Adjustments for:		
Amortization of intangible assets and other assets	356	451
Depreciation of property and equipment, investment properties and right-of-use assets	2,999	1,772
Impairment losses on assets	27,696	23,371
Interest income arising from investment instruments	(62,842)	(50,997)
Interest expense arising from debt securities issued	1,541	1,520
Net gains on investment securities	(9,087)	(8,291)
Unrealized exchange gains	(511)	(445)
Net losses from disposal of property, equipment and other assets	-	4
Subtotal	938	1,652
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	28,651	121,685
Deposits with banks and other financial institutions	87,589	33,890
Placements with banks and other financial institutions	(8,654)	(12,529)
Financial assets at fair value through profit or loss	(16,222)	97,669
Financial assets held under resale agreements	(19,185)	(29,034)
Loans and advances to customers	(426,496)	(370,383)
Other operating assets	(11,200)	(31,790)
Subtotal	(365,517)	(190,492)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Deposits from banks and other financial institutions	(2,071)	10,790
Placements from banks and other financial institutions	(6,194)	(34,935)
Financial liabilities at fair value through profit or loss	(2,360)	(27,179)
Financial assets sold under repurchase agreements	37,331	61,556
Customer deposits	475,981	270,172
Other operating liabilities	(5,487)	(5,367)
Subtotal	497,200	275,037
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	132,621	86,197
Income tax paid	(19,350)	(6,607)
NET CASH GENERATED FROM OPERATING ACTIVITIES	113,271	79,590
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	125,868	120,810
Interest paid	(71,948)	(71,113)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	Six months ended June 30	
		2019 (unaudited)	2018 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of investment instruments		252,574	489,781
Cash received from income arising from investment instruments		68,043	64,535
Cash paid for purchase of investment instruments		(602,811)	(565,114)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		(1,787)	(2,440)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		14	117
NET CASH USED IN INVESTING ACTIVITIES		(283,967)	(13,121)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital received from non-controlling interests for investment in subsidiary		–	500
Interests paid on debt securities issued		(917)	(924)
Cash received from issuance of debt securities		31,938	5,737
Repayments of debt securities		(6,436)	(4,486)
Cash paid relating to other financing activities		(1,148)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		23,437	827
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		150	(2,896)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(147,109)	64,400
Balance of cash and cash equivalents at the beginning of period		402,420	322,935
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	35	255,311	387,335

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, 2019 (All amounts in millions of RMB unless otherwise stated)

1 General information

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

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

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

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

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

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 20, 2019.

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, 2019 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, 2018, 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, 2019 (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, 2019 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2018. The condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2018.

New and amended IFRSs effective by January 1, 2019 adopted by the Group

		Effective date
IFRIC 23	Uncertainty over Income Tax Treatment	January 1, 2019
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	January 1, 2019

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

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	January 1, 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after January 1, 2019. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (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:

2.2.1 Changes in accounting policies

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening statement of financial position on January 1, 2019.

(1) Specific IFRS 16 accounting policies applied in the current period

(i) Identifying a lease

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right of control the use of an identified asset for a period of time, the Group assesses the following:

- a) Whether there is an identified asset in a contract. An identified asset is typically identified by being explicitly or implicitly specified in a contract. A capacity or other portion of an asset that is not physically distinct is not an identified asset, unless it represents substantially all of the capacity of the asset. The Group does not have the right to use an identified asset if the leaser has the substantive right to substitute the asset throughout the period of use;
- b) the right to obtain substantially all of the economic benefits from use of the identified asset;
and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 16 accounting policies applied in the current period (continued)

- (i) Identifying a lease (continued)
 - c) the right to direct the use of an identified asset. The Group has the right to direct the use of an identified asset throughout the period of use only if either the Group has the right to direct how and for what purpose the asset is used; or the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - i) the Group has the right to operate the asset;
 - ii) the Group designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

This standard is applied to contracts existing before January 1, 2019, and contracts signed or changed on or after January 1, 2019.

For a contract that is, or contains, a lease, the Group does not elect to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

- (ii) The Group as a lessee

At the commencement date, the Group recognizes a right-of-use asset and a lease liability. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the Group; an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments need to be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 16 accounting policies applied in the current period (continued)

(ii) The Group as a lessee (continued)

The lease payments comprise the following:

- a) fixed payments (including in-substance fixed payments);
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) the exercise price of a purchase or an extension option if the Group is reasonably certain to exercise that option; and the payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The Group remeasures the lease liability by discounting the revised lease payments, if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessments about whether to exercise an option about purchase, extension or termination.

The Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognizes any remaining amount of the remeasurement in profit or loss.

The Group elects not to apply the requirements to short-term leases and leases for which the underlying asset is of low value. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 16 accounting policies applied in the current period (continued)

(iii) The group as a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

As a lessor of an operating lease, the Group recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. For the initial direct costs, the Group adds the costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognize those costs as an expense over the lease term on the same basis as the lease income. For the depreciable underlying assets subject to operating leases, the depreciation policy is consistent with the Group's for similar assets. For the variable lease payments not including in lease payments but related to operating lease, the Group recognizes the amount in profit or loss when it actually happens.

The sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

(2) Adjustment recognized on adoption of IFRS 16

On adoption of IFRS 16, the Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 3.85%. The Group has no finance leases before January 1, 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) Adjustment recognized on adoption of IFRS 16 (continued)

Operating lease commitments disclosed as at December 31, 2018	10,805
<hr/>	
Discounted using the Group's incremental borrowing rate of at the date of initial application	8,927
(Less): short-term leases recognized on a straight-line basis as expense	(770)
<hr/>	
Lease liability recognized as at January 1, 2019	8,157

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

	As at June 30, 2019	As at January 1, 2019
Properties	8,891	8,998
Land use rights	1,712	1,739
<hr/>		
Total	10,603	10,737

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) Adjustment recognized on adoption of IFRS 16 (continued)

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

	As at January 1, 2019
Other assets (land use rights)	(1,739)
Other assets (right-of-use assets)	10,737
Other assets (prepaid expenses)	(684)
Other assets (deferred expenses)	(157)
Other liabilities (lease liabilities)	8,157

There is no impact on retained earnings on January 1, 2019.

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, 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, 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

3 Net interest income

	Six months ended June 30	
	2019	2018
Interest income		
Deposits with central bank	8,857	10,140
Deposits with banks and other financial institutions	1,527	7,320
Placements with banks and other financial institutions	6,442	6,823
Financial assets held under resale agreements	2,615	3,578
Loans and advances to customers		
Including: Corporate loans and advances	43,075	40,451
Personal loans and advances	64,939	54,027
Investment instruments		
Financial assets at fair value through other comprehensive income-debt instruments	3,547	3,578
Financial assets at amortized cost	59,295	47,419
Subtotal	190,297	173,336
Interest expense		
Deposits from banks and other financial institutions	(446)	(307)
Placements from banks and other financial institutions	(685)	(759)
Financial assets sold under repurchase agreements	(864)	(1,551)
Customer deposits	(67,679)	(57,537)
Debt securities issued	(1,541)	(1,520)
Subtotal	(71,215)	(61,674)
Net interest income	119,082	111,662
Included in interest income		
Interest income from listed investments	42,767	28,179
Interest income from unlisted investments	20,075	22,818

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

	Note	Six months ended June 30	
		2019	2018
Bank cards and POS fee income		7,629	6,518
Settlement and clearing fee income	(1)	3,546	2,648
Wealth management fee income		2,077	2,601
Agency service fee income	(2)	2,760	2,420
Custodian business fee income		377	407
Others		311	322
Fee and commission income		16,700	14,916
Fee and commission expense	(3)	(7,361)	(7,234)
Net fee and commission income		9,339	7,682

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

5 Net trading gains

	Six months ended June 30	
	2019	2018
Debt securities	2,640	2,526
Derivative financial instruments	(68)	279
Total	2,572	2,805

6 Net gains on investment securities

	Six months ended June 30	
	2019	2018
Net gains from financial assets at fair value through profit or loss	8,597	8,482
Net gains from financial assets at fair value through other comprehensive income	490	290
Total	9,087	8,772

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

7 Net other operating gains

	Six months ended June 30	
	2019	2018
Net exchange gains	686	495
Government subsidies	374	480
Precious metal sales income	307	290
Leasing income	78	80
Others	151	143
Total	1,596	1,488

8 Operating expenses

	Note	Six months ended June 30	
		2019	2018
Deposit agency fee costs and others	(1)	37,822	36,153
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	23,528	22,254
General operating and other administrative expenses	(3)	7,628	9,407
Depreciation and amortization	(4)	3,355	2,223
Taxes and surcharges		1,028	886
Others		(139)	3,847
Total		73,222	74,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

- (1) Deposit agency fee costs and others mainly are payments by the Group to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group.
- (2) Staff costs (including emoluments of directors, supervisors and senior management)

	Six months ended June 30	
	2019	2018
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	16,945	15,975
Housing funds	1,429	1,306
Social security contributions	1,112	1,032
Including: Medical insurance	1,013	939
Maternity insurance	72	61
Work injury insurance	27	32
Labour union funds and employee education funds	597	649
Staff welfare	615	605
Subtotal	20,698	19,567
Defined contribution benefits		
Basic pensions	2,202	2,120
Annuity scheme	558	502
Unemployment insurance	61	52
Subtotal	2,821	2,674
Retirement benefits	9	13
Total	23,528	22,254

- (3) General operating and other administrative expenses mainly include expenses of agency operation and market development, etc. For the six months ended June 30, 2019, the Group recognized rental expenses included in the expenses of agency operation amount to RMB752 Million for the short-term leases or leases for which the underlying asset is of low value (for the six months ended June 30, 2018: N/A).
- (4) For the six months ended June 30, 2019, the depreciation of right-of-use assets were amount to RMB1,214 Million due to the application of IFRS 16 (for the six months ended June 30, 2018: N/A).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

9 Credit impairment losses

	Six months ended June 30	
	2019	2018
Deposits with banks and other financial institutions	(185)	(307)
Placements with banks and other financial institutions	134	210
Financial assets held under resale agreements	(439)	402
Loans and advances to customers	25,850	16,775
Investment instruments		
Financial assets at fair value through other comprehensive income-debt instruments	97	106
Financial assets at amortized cost	521	4,994
Credit Commitments	1,523	1,045
Other financial assets	192	141
Total	27,693	23,366

10 Income tax expense

	Six months ended June 30	
	2019	2018
Current income tax	8,031	6,785
Deferred income tax (Note 21)	(4,667)	(5,065)
Total	3,364	1,720

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, 2019 (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	
		2019	2018
Profit before income tax		40,786	34,267
Income tax expense calculated at the statutory tax rate of 25%		10,197	8,567
Tax effect of non-taxable income and tax reduction	(1)	(6,870)	(5,498)
Tax refund	(2)	-	(1,513)
Tax effect of items not deductible for tax purpose	(3)	37	164
Income tax expense		3,364	1,720

- (1) Interest income from government bonds and local government bonds is not subject to income tax; and interest income from railway construction bonds, long term special bonds and micro loans to farmers is subject to income tax levied for reduction in accordance with the relevant PRC tax regulations.
- (2) The income from the distribution of the securities investment fund shall not be subject to enterprise income tax temporarily in accordance with the provisions of the "Notice of the Ministry of Finance and the State Administration of Taxation on certain preferential policies for Enterprise income tax" (Fiscal and Taxation (2008) No. 1). In 2018, the tax bureau refunded the relevant income tax payments paid in 2015 and 2016.
- (3) Non-deductible expenses mainly include staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.

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	
	2019	2018
Net profit attributable to shareholders of the Bank (in RMB millions)	37,381	32,523
Less: Net profit for the period attribute to preference shareholders of the Bank (in RMB millions)	(2,501)	(2,391)
Net profit attributable to ordinary shareholders of the Bank (in RMB millions)	34,880	30,132
Weighted average number of ordinary shares in issue (in millions)	81,031	81,031
Basic earnings per share (in RMB Yuan)	0.43	0.37

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

11 Basic and diluted earnings per share (continued)

- (2) For the six months ended June 30, 2019 and June 30, 2018, as there were no potential diluted ordinary shares, the diluted earnings per share were the same as the basic earnings per share.

12 Cash and deposits with central bank

	Note	As at June 30, 2019	As at December 31, 2018
Cash on hand		42,438	47,491
Statutory reserve with central bank	(1)	1,082,561	1,110,977
Surplus reserve with central bank	(2)	35,977	41,620
Fiscal deposits with central bank		2,569	2,847
Total		1,163,545	1,202,935

- (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, 2019, the ratio for RMB deposits statutory reserve was 12% (December 31, 2018: 13%), whereas the ratio for foreign currency deposits was 5% (December 31, 2018: 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, 2019	As at December 31, 2018
Deposits with:		
Domestic banks	46,321	135,625
Other domestic financial institutions	73	162
Overseas banks	3,108	4,890
Gross amount	49,502	140,677
Allowance for impairment losses	(141)	(326)
Carrying amount	49,361	140,351

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

14 Placements with banks and other financial institutions

	As at June 30, 2019	As at December 31, 2018
Placements with:		
Domestic banks	46,856	74,266
Other domestic financial institutions	229,890	212,024
Overseas banks	273	812
Gross amount	277,019	287,102
Allowance for impairment losses	(1,614)	(1,480)
Carrying amount	275,405	285,622

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 date 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities (continued)

By types of contracts

	As at June 30, 2019		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	607,647	3,209	(3,564)
Interest rate contracts	128,280	546	(485)
Total	735,927	3,755	(4,049)

	As at December 31, 2018		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	508,038	6,565	(5,986)
Interest rate contracts	100,636	601	(477)
Total	608,674	7,166	(6,463)

As at June 30, 2019 and December 31, 2018, 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, 2019 (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, 2019	As at December 31, 2018
Credit risk-weighted amount		
Exchange rate contracts	4,992	2,733
Interest rate contracts	6	206
Subtotal	4,998	2,939
Credit value adjustments	4,100	4,414
Total	9,098	7,353

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

16 Financial assets held under resale agreements

	As at June 30, 2019	As at December 31, 2018
By collateral:		
Bills	55,053	33,340
Debt securities	89,925	207,169
Gross amount	144,978	240,509
Allowance for impairment losses	(383)	(822)
Carrying amount	144,595	239,687

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, 2019 and December 31, 2018, the Group did not have any netting arrangements or similar agreements with counterparties.

17 Loans and advances to customers

17.1 Loans and advances by types

	Notes	As at June 30, 2019	As at December 31, 2018
Loans and advances to customers			
– At amortized cost	(1)	3,978,238	3,620,003
– At fair value through other comprehensive income	(2)	571,998	526,672
– At fair value through profit or loss	(3)	145	2,863
Total		4,550,381	4,149,538

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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

	As at June 30, 2019	As at December 31, 2018
Corporate loans and advances		
– Loans	1,503,117	1,384,501
– Discounted bills	76,299	42,989
Subtotal	1,579,416	1,427,490
Personal loans and advances		
Consumer loans	1,843,910	1,693,442
– Residential mortgage loans	1,567,370	1,417,898
– Other consumer loans	276,540	275,544
Personal business loans	389,689	349,434
Micro loans	207,466	177,651
Credit cards overdrafts and others	109,049	99,313
Subtotal	2,550,114	2,319,840
Gross loans and advances to customers at amortized cost	4,129,530	3,747,330

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019	As at December 31, 2018
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
– Stage 1	(104,890)	(85,115)
– Stage 2	(11,988)	(8,905)
– Stage 3	(34,414)	(33,307)
Net loans and advances to customers at amortized cost	3,978,238	3,620,003

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

	As at June 30, 2019	As at December 31, 2018
Corporate loans and advances		
– Loans	179,350	167,901
– Discounted bills	392,648	358,771
Loans and advances to customers at fair value through other comprehensive income	571,998	526,672

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.1 Loans and advances by types (continued)

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

	As at June 30, 2019	As at December 31, 2018
Corporate loans and advances – Discounted bills	145	2,863

Part of the Group's discounted bills as at June 30, 2019 and December 31, 2018 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.

17.2 Detailed information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation is set out in Note 41.2.3.

17.3 Loans and advances by allowance for impairment losses

	As at June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
Gross loans and advances to customers at amortized cost	4,057,262	32,410	39,858	4,129,530
Allowance for impairment losses of loans and advances to customers at amortized cost	(104,890)	(11,988)	(34,414)	(151,292)
Net loans and advances to customers at amortized cost	3,952,372	20,422	5,444	3,978,238
Gross loans and advances to customers at fair value through other comprehensive income	570,089	914	995	571,998
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	(637)	(13)	(53)	(703)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.3 Loans and advances by allowance for impairment losses (continued)

	As at December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Gross loans and advances to customers at amortized cost	3,674,913	34,110	38,307	3,747,330
Allowance for impairment losses of loans and advances to customers at amortized cost	(85,115)	(8,905)	(33,307)	(127,327)
Net loans and advances to customers at amortized cost	3,589,798	25,205	5,000	3,620,003
Loans and advances to customers at fair value through other comprehensive income	526,672	–	–	526,672
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	(599)	–	–	(599)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
– Listed in Hong Kong		223	163
– Listed outside Hong Kong		54,172	49,435
Subtotal		54,395	49,598
Interbank certificates of deposits			
– Listed outside Hong Kong		79,378	97,368
– Unlisted		20,412	4,109
Subtotal		99,790	101,477
Asset-backed securities			
– Listed outside Hong Kong		7,031	11,076
Fund investments			
– Unlisted		97,264	103,745
Trust investment plans and asset management plans			
– Unlisted		43,019	39,499
Commercial bank wealth management products			
– Unlisted		12,646	31,964
Equity instruments			
– Unlisted		2,091	2,090
Subtotal		316,236	339,449
Financial assets designated at fair value through profit or loss			
Placements with banks and other financial institutions			
– Unlisted		–	2,213
Subtotal	(1)	–	2,213
Total		316,236	341,662

The above debt securities 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, 2019 (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, 2019	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
– Government		1,595	1,036
– Public institutions and quasi-government		177	52
– Financial institutions		35,093	35,989
– Corporates		17,530	12,521
Subtotal		54,395	49,598
Interbank certificates of deposits			
– Financial institutions		99,790	101,477
Asset-backed securities			
– Financial institutions		7,031	11,076
Fund investments			
– Financial institutions		97,264	103,745
Trust investment plans and asset management plans			
– Financial institutions		43,019	39,499
Commercial bank wealth management products			
– Financial institutions		12,646	31,964
Equity instruments			
– Financial institutions		14	13
– Corporates		2,077	2,077
Subtotal		2,091	2,090
Subtotal		316,236	339,449
Financial assets designated at fair value through profit or loss			
Placements with banks and other financial institutions			
– Financial institutions		–	2,213
Subtotal	(1)	–	2,213
Total		316,236	341,662

- (1) 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, 2019, all principal guaranteed wealth management products issued by the Group reached their maturities. As at December 31, 2018, the fair value of the Group's financial assets designated at fair value through profit or loss has no significant changes due to changes arising from their credit risk exposures.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.2 Financial assets at fair value through other comprehensive income-debt instruments

	As at June 30, 2019	As at December 31, 2018
Debt securities		
– Listed in Hong Kong	8,322	8,710
– Listed outside Hong Kong	198,582	170,930
– Unlisted	–	693
Subtotal	206,904	180,333
Asset-backed securities		
– Listed outside Hong Kong	1,135	3,017
Total	208,039	183,350

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

Analyzed by types of issuers:

	As at June 30, 2019	As at December 31, 2018
Debt securities		
– Government	63,245	59,470
– Financial institutions	113,334	107,552
– Corporates	30,325	13,311
Subtotal	206,904	180,333
Asset-backed securities		
– Financial institutions	1,135	3,017
Total	208,039	183,350

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.3 Financial assets at fair value through other comprehensive income-equity instruments

	As at June 30, 2019	As at December 31, 2018
Equity instruments – Unlisted	553	553
Total	553	553

Analyzed by types of issuers:

	As at June 30, 2019	As at December 31, 2018
Equity instruments – Financial institutions	553	553
Total	553	553

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.4 Financial assets at amortized cost

Note	As at June 30, 2019	As at December 31, 2018
Debt securities		
– Listed in Hong Kong	11,606	7,939
– Listed outside Hong Kong	1,974,999	1,658,228
– Unlisted (1)	903,881	968,147
Subtotal	2,890,486	2,634,314
Interbank certificates of deposits		
– Listed outside Hong Kong	220,738	87,313
Asset-backed securities		
– Listed outside Hong Kong	40,613	35,823
– Unlisted	3,922	7,282
Subtotal	44,535	43,105
Other debt instruments		
– Unlisted (2)	98,925	114,170
Gross amount	3,254,684	2,878,902
Allowance for impairment losses (Note 23)	(17,641)	(16,980)
Carrying amount	3,237,043	2,861,922

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 China Development Bank and Agricultural Development Bank of China 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, 2019 (All amounts in millions of RMB unless otherwise stated)

18 Investments instruments (continued)

18.4 Financial assets at amortized cost (continued)

Analyzed by types of issuers:

	As at June 30, 2019	As at December 31, 2018
Debt securities		
– Government	1,000,775	849,483
– Financial institutions	1,782,995	1,703,296
– Corporates	106,716	81,535
Subtotal	2,890,486	2,634,314
Interbank certificates of deposits		
– Financial institutions	220,738	87,313
Asset-backed securities		
– Financial institutions	44,535	43,105
Other debt instruments		
– Financial institutions	98,925	114,170
Gross amount	3,254,684	2,878,902
Allowance for impairment losses (Note 23)	(17,641)	(16,980)
Carrying amount	3,237,043	2,861,922

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

19 Investment in subsidiary

The Bank

	As at June 30, 2019	As at December 31, 2018
Investment cost	2,115	2,115

On November 19, 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). PSBC Consumer Finance mainly engages in personal consumer loans; accept the deposits of shareholder's domestic subsidiaries and domestic shareholders; lending to domestic financial institutions; authorised issuance of financial bonds; placements with banks and other financial institutions; consumer financing advisory and agency services; agency sales of consumer loans related insurance products investments in fixed income securities and other businesses approved by banking regulators.

On December 28, 2017, the CBRC 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, and business license was updated on March 16, 2018.

As at June 30, 2019, the Bank owns 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2018: 70.50%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019	44,406	10,244	1,184	4,372	12,080	72,286
Add: Additions	79	64	23	42	1,102	1,310
Transfer-in from investment properties	19	-	-	-	-	19
Transfer-in from construction in progress	908	30	-	20	(958)	-
Less: Deductions	(33)	(73)	(10)	(31)	(210)	(357)
As at June 30, 2019	45,379	10,265	1,197	4,403	12,014	73,258
Accumulated depreciation						
As at January 1, 2019	(14,043)	(8,573)	(1,112)	(3,159)	-	(26,887)
Add: Charge for the period	(1,153)	(414)	(10)	(177)	-	(1,754)
Transfer-in from investment properties	(6)	-	-	-	-	(6)
Less: Disposals	25	69	10	29	-	133
As at June 30, 2019	(15,177)	(8,918)	(1,112)	(3,307)	-	(28,514)
Carrying amount						
As at June 30, 2019	30,202	1,347	85	1,096	12,014	44,744
As at January 1, 2019	30,363	1,671	72	1,213	12,080	45,399

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2018	37,881	10,102	1,243	5,395	13,193	67,814
Add: Additions	1,643	503	24	195	4,781	7,146
Transfer-in from investment properties	7	–	–	–	–	7
Transfer-in from construction in progress	5,044	116	2	121	(5,283)	–
Less: Deductions	(163)	(477)	(85)	(1,339)	(611)	(2,675)
Transfer-out to investment properties	(6)	–	–	–	–	(6)
As at December 31, 2018	44,406	10,244	1,184	4,372	12,080	72,286
Accumulated depreciation						
As at January 1, 2018	(11,287)	(7,966)	(1,178)	(3,579)	–	(24,010)
Add: Charge for the year	(2,800)	(1,059)	(16)	(401)	–	(4,276)
Transfer-in from investment properties	(3)	–	–	–	–	(3)
Less: Disposals	45	452	82	821	–	1,400
Transfer-out to investment properties	2	–	–	–	–	2
As at December 31, 2018	(14,043)	(8,573)	(1,112)	(3,159)	–	(26,887)
Carrying amount						
As at December 31, 2018	30,363	1,671	72	1,213	12,080	45,399
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, 2019 (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 original book value amounted to RMB1 billion as at June 30, 2019 (December 31, 2018: RMB1 billion), with net book value amounted to RMB0.5 billion as at June 30, 2019 (December 31, 2018: RMB0.5 billion).

In addition, as at June 30, 2019, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with original book value of RMB3.4 billion (December 31, 2018: RMB3.4 billion), with net book value of RMB2.9 billion (December 31, 2018: RMB3 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.

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, 2019	As at December 31, 2018
Deferred tax assets	40,780	35,887

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 assets	Provisions	Contract liabilities/ Deferred income	Total
January 1, 2019	29,604	757	2,781	2,143	602	35,887
Credit to profit or loss	5,676	180	(879)	(118)	(192)	4,667
Charge to other comprehensive income	-	-	226	-	-	226
June 30, 2019	35,280	937	2,128	2,025	410	40,780

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial assets	Provisions	Contract liabilities/ Deferred income	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	10,334	339	3,570	669	240	15,152
Charge to other comprehensive income	-	-	(1,253)	-	-	(1,253)
December 31, 2018	29,604	757	2,781	2,143	602	35,887

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019		As at December 31, 2018	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	141,120	35,280	118,416	29,604
Fair value changes of financial assets	11,612	2,903	11,269	2,817
Provisions	8,100	2,025	8,571	2,143
Staff cost accrued but not paid	3,748	937	3,030	757
Contract liabilities/Deferred income	1,640	410	2,407	602
Total	166,220	41,555	143,693	35,923
Deferred tax liabilities				
Fair value changes of financial assets	(3,100)	(775)	(145)	(36)
Total	(3,100)	(775)	(145)	(36)
Net	163,120	40,780	143,548	35,887

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

22 Other assets

	Note	As at June 30, 2019	As at December 31, 2018
Right-of-use assets	(1)	10,603	N/A
Accounts receivable and temporary payment		5,598	6,558
Other accounts receivable		5,017	2,256
Receivable of fee and commission		2,694	1,182
Prepaid expenses		2,335	2,961
Intangible assets	(2)	1,717	1,696
Interest receivable		1,101	862
Deferred expenses	(3)	858	1,044
Investment properties		575	619
Low-value consumables		376	407
Foreclosed assets		197	210
Land use rights		N/A	1,739
Others		2,309	3,198
Gross amount		33,380	22,732
Allowance for impairment losses (Note 23)		(642)	(593)
Net value		32,738	22,139

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

22 Other assets (continued)

(1) Right-of-use assets

	Properties	Land use rights	Total
Cost			
As at December 31, 2018	N/A	N/A	N/A
Remeasurement	8,998	2,270	11,268
As at January 1, 2019	8,998	2,270	11,268
Add: Additions	1,089	–	1,089
Less: Deductions	(11)	–	(11)
As at June 30, 2019	10,076	2,270	12,346
Accumulated depreciation			
As at December 31, 2018	N/A	N/A	N/A
Remeasurement	–	(531)	(531)
As at January 1, 2019	–	(531)	(531)
Add: Charge for the period	(1,187)	(27)	(1,214)
Less: Disposals	2	–	2
As at June 30, 2019	(1,185)	(558)	(1,743)
Carrying value			
As at December 31, 2018	N/A	N/A	N/A
As at January 1, 2019	8,998	1,739	10,737
As at June 30, 2019	8,891	1,712	10,603

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

(3) Deferred expenses are mainly cost for improvement of property and equipment under operating leases and prepaid rental fees of 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 between Stage 1 and Stage 2 or 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 other than write-off;

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 (a) The following tables explain the changes in the loss allowance between the beginning and the end of the six months period due to these factors:

Corporate loans and advances to customers – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2019	50,550	6,487	12,227	69,264
Movements with profit and loss (“P&L”) impact:				
Transfer to stage 1	49	(37)	(12)	–
Transfer to stage 2	(899)	915	(16)	–
Transfer to stage 3	(699)	(248)	947	–
Changes of ECL arising from transfer of stages	(38)	253	649	864
Financial assets derecognized or settled during the period	(4,977)	(956)	(982)	(6,915)
New financial assets originated or purchased	9,975	–	–	9,975
Remeasurements	8,969	2,176	187	11,332
Write-offs	–	–	(825)	(825)
Loss allowance as at June 30, 2019	62,930	8,590	12,175	83,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

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

Personal loans and advances to customers – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance as at January 1, 2019	34,565	2,418	21,080	58,063
Movements with profit and loss (“P&L”) impact:				
Transfer to stage 1	483	(363)	(120)	–
Transfer to stage 2	(612)	668	(56)	–
Transfer to stage 3	(262)	(951)	1,213	–
Changes of ECL arising from transfer of stage	(462)	2,138	4,135	5,811
Financial assets derecognized or settled during the period	(5,374)	(407)	(791)	(6,572)
New financial assets originated or purchased	10,681	–	–	10,681
Remeasurements	2,941	(105)	(749)	2,087
Write-offs	–	–	(2,473)	(2,473)
Loss allowance as at June 30, 2019	41,960	3,398	22,239	67,597

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

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

Loans and advances to customers at fair value through other comprehensive income	Six months ended June 30, 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance as at January 1, 2019	599	-	-	599
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(9)	9	-	-
Transfer to stage 3	(24)	-	24	-
Changes of ECL arising from transfer of stage	-	4	29	33
Financial assets derecognized or settled during the period	(402)	-	-	(402)
New financial assets originated or purchased	473	-	-	473
Remeasurements	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at June 30, 2019	637	13	53	703

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

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

Investment instruments – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at January 1, 2019	2,520	4,079	10,381	16,980
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(34)	34	–	–
Transfer to stage 3	(1)	(187)	188	–
Changes of ECL arising from transfer of stage	–	13	916	929
Financial assets derecognized or settled during the period	(559)	(771)	–	(1,330)
New financial assets originated or purchased	1,105	–	–	1,105
Remeasurements	(156)	(27)	–	(183)
Unwind of discount	–	–	140	140
Write-offs	–	–	–	–
Loss allowance as at June 30, 2019	2,875	3,141	11,625	17,641

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (b) The following tables explain the changes in the loss allowance between the beginning and the end of the 2018 annual period due to these factors:

Corporate loans and advances to customers – financial assets at amortized cost	Year ended December 31, 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 profit and loss ("P&L") impact:				
Transfer to stage 1	67	(67)	–	–
Transfer to stage 2	(3,311)	3,316	(5)	–
Transfer to stage 3	(2,925)	(307)	3,232	–
Changes of ECL arising from transfer of stages	(56)	1,520	3,190	4,654
Financial assets derecognized or settled during the period	(7,983)	(365)	(1,037)	(9,385)
New financial assets originated or purchased	18,998	–	–	18,998
Remeasurements	10,708	431	887	12,026
Write-offs	–	–	(2,855)	(2,855)
Loss allowance as at December 31, 2018	50,550	6,487	12,227	69,264

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (b) The following tables explain the changes in the loss allowance between the beginning and the end of the 2018 annual period due to these factors (continued):

Personal loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance as at January 1, 2018	25,833	1,975	15,736	43,544
Movements with profit and loss (“P&L”) impact:				
Transfer to stage 1	391	(309)	(82)	–
Transfer to stage 2	(756)	773	(17)	–
Transfer to stage 3	(1,643)	(965)	2,608	–
Changes of ECL arising from transfer of stage	(378)	1,392	8,997	10,011
Financial assets derecognized or settled during the period	(7,801)	(530)	(2,235)	(10,566)
New financial assets originated or purchased	17,063	–	–	17,063
Remeasurements	1,856	82	382	2,320
Write-offs	–	–	(4,309)	(4,309)
Loss allowance as at December 31, 2018	34,565	2,418	21,080	58,063

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (b) The following tables explain the changes in the loss allowance between the beginning and the end of the 2018 annual period due to these factors (continued):

	Year ended December 31, 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Investment instruments – financial assets at amortized cost				
Loss allowance as at January 1, 2018	3,298	1,093	2,200	6,591
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(446)	446	–	–
Transfer to stage 3	(71)	(761)	832	–
Changes of ECL arising from transfer of stage	–	3,364	7,196	10,560
Financial assets derecognized or settled during the period	(1,076)	(83)	–	(1,159)
New financial assets originated or purchased	566	–	–	566
Remeasurements	249	20	–	269
Unwind of discount	–	–	153	153
Write-offs	–	–	–	–
Loss allowance as at December 31, 2018	2,520	4,079	10,381	16,980

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3(a) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the six months period:

Corporate loans and advances to customers – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	1,388,491	25,502	13,497	1,427,490
Transfers:				
Transfer to stage 1	145	(127)	(18)	–
Transfer to stage 2	(5,232)	5,257	(25)	–
Transfer to stage 3	(1,542)	(660)	2,202	–
Financial assets derecognized during the period	(400,754)	(8,061)	(1,600)	(410,415)
New financial assets originated or purchased	563,166	–	–	563,166
Write-offs	–	–	(825)	(825)
Gross carrying amount as at June 30, 2019	1,544,274	21,911	13,231	1,579,416

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (a) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the six months period (continued):

Personal loans and advances to customers – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	2,286,422	8,608	24,810	2,319,840
Transfers:				
Transfer to stage 1	992	(880)	(112)	–
Transfer to stage 2	(7,392)	7,461	(69)	–
Transfer to stage 3	(5,903)	(2,171)	8,074	–
Financial assets derecognized during the period	(376,145)	(2,519)	(3,603)	(382,267)
New financial assets originated or purchased	615,014	–	–	615,014
Write-offs	–	–	(2,473)	(2,473)
Gross carrying amount as at June 30, 2019	2,512,988	10,499	26,627	2,550,114

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3(a) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the six months period (continued):

Loans and advances to customers at fair value through other comprehensive income	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	526,672	-	-	526,672
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(914)	914	-	-
Transfer to stage 3	(995)	-	995	-
Financial assets derecognized during the period	(348,572)	-	-	(348,572)
New financial assets originated or purchased	393,898	-	-	393,898
Write-offs	-	-	-	-
Gross carrying amount as at June 30, 2019	570,089	914	995	571,998

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (a) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the six months period (continued):

Investment instruments – financial assets at amortized cost	Six months ended June 30, 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	2,851,237	16,443	11,222	2,878,902
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(626)	626	–	–
Transfer to stage 3	(709)	(1,853)	2,562	–
Financial assets derecognized during the period	(1,082,014)	(5,454)	–	(1,087,468)
New financial asset originated or purchased	1,463,250	–	–	1,463,250
Write-offs	–	–	–	–
Gross carrying amount as at June 30, 2019	3,231,138	9,762	13,784	3,254,684

As at June 30, 2019, there are no movements among ECL stages for the Group's deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and financial assets at fair value through other comprehensive income-debt instruments. The changes in the loss allowance and gross carrying amount are caused by new financial assets originated or purchased, remeasurement and financial assets derecognized during this period.

As at June 30, 2019, changes of allowance for impairment losses of other assets would have no significant impact on the Group's financial position or operating results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (b) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the 2018 annual period:

	Year ended December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2018	1,238,668	14,255	10,180	1,263,103
Transfers:				
Transfer to stage 1	457	(457)	–	–
Transfer to stage 2	(19,395)	19,400	(5)	–
Transfer to stage 3	(6,316)	(1,459)	7,775	–
Financial assets derecognized during the period	(617,423)	(6,237)	(1,598)	(625,258)
New financial assets originated or purchased	792,500	–	–	792,500
Write-offs	–	–	(2,855)	(2,855)
Gross carrying amount as at December 31, 2018	1,388,491	25,502	13,497	1,427,490

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (b) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the 2018 annual period (continued):

	Year ended December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2018	1,920,515	8,130	17,828	1,946,473
Transfers:				
Transfer to stage 1	744	(716)	(28)	–
Transfer to stage 2	(7,286)	7,308	(22)	–
Transfer to stage 3	(13,132)	(2,237)	15,369	–
Financial assets derecognized during the period	(592,543)	(3,877)	(4,028)	(600,448)
New financial assets originated or purchased	978,124	–	–	978,124
Write-offs	–	–	(4,309)	(4,309)
Gross carrying amount as at December 31, 2018	2,286,422	8,608	24,810	2,319,840

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (b) The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance between the beginning and the end of the 2018 annual period (continued):

	Year ended December 31, 2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2018	2,382,278	7,027	2,200	2,391,505
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(16,750)	16,750	–	–
Transfer to stage 3	(4,322)	(4,700)	9,022	–
Financial assets derecognized during the period	(297,027)	(2,634)	–	(299,661)
New financial asset originated or purchased	787,058	–	–	787,058
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2018	2,851,237	16,443	11,222	2,878,902

As at December 31, 2018, there are no movements among ECL stages for the Group's deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, corporate loans and advances to customers-financial assets at fair value through other comprehensive income and financial assets at fair value through other comprehensive income-debt instruments. The changes in the loss allowance and gross carrying amount are caused by new financial assets originated or purchased, remeasurement and financial assets derecognized during this period.

As at December 31, 2018, changes of allowance for impairment losses of other assets would have no significant impact on the Group's financial position or operating results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

24 Deposits from banks and other financial institutions

	As at June 30, 2019	As at December 31, 2018
Deposits from:		
Domestic banks	18,010	21,922
Other domestic financial institutions	53,955	52,243
Total	71,965	74,165

25 Placements from banks and other financial institutions

	As at June 30, 2019	As at December 31, 2018
Placements from:		
Domestic banks	31,967	35,723
Other domestic financial institutions	–	300
Overseas banks	1,721	3,822
Total	33,688	39,845

26 Financial liabilities at fair value through profit or loss

	As at June 30, 2019	As at December 31, 2018
Principal-guaranteed wealth management products	–	2,360

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, 2019, the principal guaranteed wealth management products issued by the Group reached their maturities.

As at December 31, 2018, 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 year ended December 31, 2018, 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, 2019 (All amounts in millions of RMB unless otherwise stated)

27 Financial assets sold under repurchase agreements

	As at June 30, 2019	As at December 31, 2018
Analyzed by type of collateral:		
Debt securities	148,671	126,647
Bills	23,628	8,272
Total	172,299	134,919

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

28 Customer deposits

	As at June 30, 2019	As at December 31, 2018
Demand deposits		
Corporates	799,081	770,917
Personal	2,507,012	2,615,326
Subtotal	3,306,093	3,386,243
Time deposits		
Corporates	380,034	386,863
Personal	5,413,034	4,852,585
Subtotal	5,793,068	5,239,448
Other deposits	2,030	1,749
Total	9,101,191	8,627,440

As at June 30, 2019, customer deposits received by the Group included pledged deposits of RMB34.0 billion (December 31, 2018: RMB30.9 billion).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

29 Debt securities issued

	Note	As at June 30, 2019	As at December 31, 2018
Debt securities issued	(1)	76,753	76,154
Interbank certificates of deposits	(2)	25,527	–
Total		102,280	76,154

(1)

	Note	As at June 30, 2019	As at December 31, 2018
10-year tier-2 capital bonds of at a fixed interest rate	(i)	25,888	25,328
10-year tier-2 capital bonds of at a fixed interest rate	(ii)	30,641	30,148
10-year tier-2 capital bonds of at a fixed interest rate	(iii)	20,224	20,678
Total		76,753	76,154

- (i) In September 2015, upon the approval from CBRC and PBOC, the Group issued RMB25 billion of 10-year tier-two capital bonds of at a fixed coupon rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in September 2020 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from September 2020 onward.
- (ii) In October 2016, upon the approval from CBRC and PBOC, the Group issued RMB30 billion of 10-year tier-two capital bonds of at a fixed coupon rate of 3.30%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in October 2021 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.30% from October 2021 onward.
- (iii) In March 2017, upon the approval from CBRC and PBOC, the Group issued RMB20 billion of 10-year tier-two capital bonds of at a fixed coupon rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2022 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from March 2022 onward.

The tier-two capital bonds contain a write-down feature, which allows the Group to write down the entire principal of the bonds when a regulatory triggering event occurs as stipulated in the offering documents and not to pay any outstanding interests payable that have been accumulated. These tier-two capital bonds meet the relevant criteria of CBRC and are qualified as tier-two capital instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

29 Debt securities issued (continued)

- (2) During the six months ended June 30, 2019, the Group issued interbank certificates of deposit with the total carrying amount of RMB32.16 billion ranged from one month to six months, with interest rates ranging from 2.40% to 2.90%. As at June 30, 2019, the Group issued interbank certificates of deposit, which have not reached their maturities, with the total carrying value of RMB25.53 billion.

During the year of 2018, the Group issued interbank certificates of deposit with the total carrying value of RMB7.25 billion ranged from one month to three months, with interest rates ranging from 2.85% to 3.10%. As at December 31, 2018, the interbank certificates of deposit reached their maturities with no carrying value.

30 Other liabilities

	Note	As at June 30, 2019	As at December 31, 2018
Dividends payable		18,188	–
Provisions	(1)	12,339	11,287
Employee benefits payable	(2)	11,840	9,698
Lease liabilities	(3)	8,196	–
Payables for agency services		7,863	16,465
Tax payable		6,565	17,832
Settlement and clearance payables		5,848	5,952
Dormant deposit payables		1,819	1,559
Payables to China Post Group and other related parties (Note 36.3(12)(ii))		1,389	1,933
Contract liabilities		1,088	1,855
Exchange transaction payables		910	1,034
Payable for construction cost		897	1,086
Others		10,702	10,851
Total		87,644	79,552

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Provisions

	Note	Six months ended June 30, 2019		
		Balance at the beginning of the period	Current period provisions	Balance at the end of the period
Guarantee and Commitments	(i)	2,694	1,523	4,217
Litigation and others	(ii)	8,593	(471)	8,122
Total		11,287	1,052	12,339

	Note	Year ended December 31, 2018				Balance at the end of the year
		IAS 39 carrying amount December 31, 2017	Remeasurement	IFRS 9 carrying amount January 1, 2018	Current year provisions	
Guarantee and Commitments	(i)	1,467	220	1,687	1,007	2,694
Litigation and others	(ii)	5,918	N/A	N/A	2,675	8,593
Total		7,385			3,682	11,287

(i) Guarantee and Commitments

	Six months ended June 30, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Provisions as at January 1, 2019	2,507	137	50	2,694
Movements with profit and loss ("P&L") impact				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(402)	402	-	-
Transfer to stage 3	-	-	-	-
Changes of ECL arising from transfer of stages	-	1,412	-	1,412
Financial assets derecognized or settled during the period	(355)	(137)	(50)	(542)
New financial assets originated or purchased	568	-	-	568
Remeasurements	85	-	-	85
Provisions as at June 30, 2019	2,403	1,814	-	4,217

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Provisions (continued)

(i) Guarantee and Commitments (continued)

In 2018, the changes in the provisions of guarantee and commitments are caused by new financial assets originated or purchased, remeasurement and financial assets derecognized during this period. As at December 31, 2018, the provisions of guarantee and commitments of the Group are mainly in stage 1.

(ii) Litigation and others

As at June 30, 2019 and December 31, 2018, the Group established accruals according to best estimation for a variety of risk events.

(2) Employee benefits payable

	Note	As at June 30, 2019	As at December 31, 2018
Short-term employee benefits	(i)	10,509	8,445
Defined contribution benefits	(ii)	805	722
Supplementary retirement benefits and early retirement benefits	(iii)	526	531
Total		11,840	9,698

(i) Short-term employee benefits

	Six months ended June 30, 2019			Balance at the end of the period
	Balance at the beginning of the period	Increase in current period	Decrease in current period	
Wages and salaries, bonus, allowance and subsidies	7,086	16,945	(15,317)	8,714
Staff welfare	–	615	(615)	–
Social security contributions	68	1,112	(1,030)	150
Including: Medical insurance	65	1,013	(933)	145
Maternity insurance	2	72	(71)	3
Work injury insurance	1	27	(26)	2
Housing funds	15	1,429	(1,367)	77
Labour union funds and employee education funds	1,276	597	(305)	1,568
Total	8,445	20,698	(18,634)	10,509

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	Year ended December 31, 2018			Balance at the end of the year
	Balance at the beginning of the year	Increase in current year	Decrease in current year	
Wages and salaries, bonus, allowance and subsidies	5,910	31,213	(30,037)	7,086
Staff welfare	–	1,857	(1,857)	–
Social security contributions	88	2,218	(2,238)	68
Including: Medical insurance	84	2,029	(2,048)	65
Maternity insurance	2	130	(130)	2
Work injury insurance	2	59	(60)	1
Housing funds	18	2,754	(2,757)	15
Labour union funds and employee education funds	862	1,334	(920)	1,276
Total	6,878	39,376	(37,809)	8,445

(ii) Defined contribution benefits

	Six months ended June 30, 2019			Balance at the end of the period
	Balance at the beginning of the period	Increase in current period	Decrease in current period	
Basic pensions	112	2,202	(2,181)	133
Unemployment insurance	4	61	(57)	8
Annuity scheme	606	558	(500)	664
Total	722	2,821	(2,738)	805

	Year ended December 31, 2018			Balance at the end of the year
	Balance at the beginning of the year	Increase in current year	Decrease in current year	
Basic pensions	90	4,407	(4,385)	112
Unemployment insurance	5	94	(95)	4
Annuity scheme	572	1,021	(987)	606
Total	667	5,522	(5,467)	722

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

- (2) Employee benefits payable (continued)
- (iii) Supplementary retirement benefits and early retirement benefits

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

	Six months ended June 30, 2019	Year ended December 31, 2018
Balance at the beginning of period/year	531	495
Interest expenses	9	20
Gain or loss from actuarial calculation	-	44
- Charge to profit or losses	-	2
- Charge to other comprehensive income	-	42
Benefits paid	(14)	(28)
Balance at the end of period/year	526	531

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

	As at June 30, 2019	As at December 31, 2018
Discount rate-retirement benefit plan	3.50%	3.50%
Discount rate-early retirement benefit plan	3.00%	3.00%
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, 2019 and December 31, 2018, 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, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(3) Lease liabilities

	As at June 30, 2019	As at December 31, 2018
Net present value of Lease Payments	8,033	N/A
Interest adjustments	163	N/A
Total	8,196	N/A

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, 2019	Year ended December 31, 2018
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

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		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	
Less: Issuance fee								(120)			
Carrying amount								47,869			

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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)

(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) CBRC 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.

(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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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)

(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).

(b) Changes in preference shares outstanding

Financial Instruments	January 1, 2019		Increase in current period		June 30, 2019	
	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	47,869	-	-	362.5	47,869

Financial Instruments	January 1, 2018		Increase in current year		December 31, 2018	
	Quantity (million shares)	Carrying Amount (RMB million)	Quantity (million shares)	Carrying Amount (RMB million) ⁽ⁱ⁾	Quantity (million shares)	Carrying Amount (RMB million)
Offshore preference shares	362.5	47,846	-	23	362.5	47,869

(i) the reduction of the issuance expenses of offshore preference shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(c) Equity attributable to the holders of equity instruments

Items	As at June 30, 2019	As at December 31, 2018
1. Total equity attributable to equity holders of the Bank	493,109	474,404
(1) Equity attributable to ordinary equity holders of the Bank	445,240	426,535
(2) Equity attributable to other equity holders of the Bank	47,869	47,869
Including: Net profit	2,501	2,391
Dividends paid	2,501	2,391
2. Total equity attributable to non-controlling interests	950	909
(1) Equity attributable to non-controlling interests of ordinary shares	950	909
(2) Equity attributable to non-controlling interests of preference shares	-	-

32 Capital reserve

Items	Note	As at June 30, 2019	As at December 31, 2018
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	(1)	(11)	(11)
Total		74,648	74,648

- (1) The Bank increased its share capital injection by RMB1.5 billion on January 18, 2018, after the capital injection the bank owns share capital increased from 61.5% to 70.5%, the difference between the amount of the adjustment to non-controlling interests and cash paid is recognized in capital reserve RMB 11 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

33 Other reserve

33.1 Surplus reserve

	Six months ended June 30, 2019	Year ended December 31, 2018
At the beginning of period/year	30,371	25,159
Appropriations in current period/year	-	5,212
At the end of period/year	30,371	30,371

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, 2019	Year ended December 31, 2018
At the beginning of period/year	103,959	101,011
Appropriations in current period/year	-	2,948
At the end of period/year	103,959	103,959

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, 2019 (All amounts in millions of RMB unless otherwise stated)

33 Other reserve (continued)

33.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
December 31, 2018	4,575	(982)	3,593
Remeasurement of retirement benefit obligations	-	-	-
Gains arising from changes in fair value of financial assets at fair value through other comprehensive income	(906)	226	(680)
Changes in impairment provision of financial assets at fair value through other comprehensive income	201	-	201
June 30, 2019	3,870	(756)	3,114

	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	(42)	-	(42)
Gains arising from changes in fair value of debt instruments at fair value through other comprehensive income	5,012	(1,253)	3,759
Changes in impairment provision of financial assets at fair value through other comprehensive income	262	-	262
December 31, 2018	4,575	(982)	3,593

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

34 Dividends distribution

Upon the approval of the annual shareholders' meeting in May, 2019, the Bank distributed RMB15,696 million (tax included) of cash dividends for the year ended December 31, 2018 to all the ordinary shareholders whose names appeared on the register of members with RMB1.937 per ten shares (tax included). The Bank has distributed the cash dividends in July, 2019.

In the Board of Directors' Meeting held in May, 2019, 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 RMB2,501 million (including tax). The Bank will distribute the cash dividends in September, 2019.

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, 2019	As at December 31, 2018
Cash	42,438	47,491
Surplus reserve with central bank	35,971	41,613
Deposits with banks and other financial institutions	5,857	9,080
Placements with banks and other financial institutions	54,429	73,098
Financial assets held under resale agreements	116,616	231,138
Total	255,311	402,420

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) Registered capital of the parent company

	As at January 1, 2019	Change in current year	As at June 30, 2019
China Post Group	108,821	-	108,821

(3) As of June 30, 2019, China Post Group held 68.92% of the equity shares and voting rights in the Bank (as at December 31, 2018: 68.92%).

36.2 Information of major related parties

Name of enterprises	Relationship with the Group
Shanghai International Port (Group) Co., Ltd.	Major shareholder of the Bank
China Shipbuilding Industry Co., Ltd.	Major shareholder of the Bank
China Postal Express & Logistics Company Limited	Company under the common control of China Post Group
China Post Life Insurance Company Limited	Company under the common control of China Post Group
China Post Securities Co., Ltd.	Company under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd.	An associate of China Post Group
Bank of Shanghai Co., Ltd.	Related party of the major shareholder of the Bank

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.2 Information of major related parties (continued)

The Group's related natural persons contain the Bank's directors, supervisors, senior executives and their direct relatives, as well as the Bank's controlling shareholders, actual controllers' leadership members and their direct relatives and other related natural person. The Group's other related parties contain related legal person triggered by related natural person, related parties of controlling shareholders and related parties of the major shareholders.

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 CBRC, all agency operations were provided by China Post Group under bases of fees determined in accordance with the *Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets* (代理營業機構委託代理銀行業務框架協定) entered into between the Bank and China Post Group and its provincial branches.

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 reserve held by agency outlets and deposits in transit, and the deposits agency fee cost is calculated on "Scaled Fees Based on Deposit Types".

The agency fee rates range from 0.2% to 2.3% during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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)

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.

	Note	Six months ended June 30	
		2019	2018
Deposit agency fee costs and others	(i)	37,822	36,153
Fees for agency savings settlement		4,165	4,030
Fees for agency sales and other commissions		2,024	1,857
Total		44,011	42,040

- (i) For the six months ended June 30, 2019, deposit agency fee cost amounted to RMB38,837 million. According to the netting arrangement between the Group and China Post Group, deposit agency fee costs and others are settled with an offsetting amount.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(2) Lease with related parties

The Group and the related parties lease buildings, ancillary equipment and other properties from each other.

As lessor

	Six months ended June 30	
	2019	2018
Buildings and others	38	36

As lessee

	Six months ended June 30	
	2019	2018
Buildings and others	456	520

Right-of-use assets and lease liabilities recognized by accepting leases provided by the related parties.

	As at June 30, 2019	As at December 31, 2018
Right-of-use assets	876	N/A
Lease liabilities	903	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(3) Other 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	
		2019	2018
Comprehensive services rendered to related parties	(i)	12	10
General office materials sold to related parties		-	1
Agency sales of insurance products		126	65
Agency sales of fund products		13	3
Total		151	79

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

Receiving other comprehensive services and purchasing products from related parties

	Note	Six months ended June 30	
		2019	2018
Comprehensive services received from related parties	(ii)	495	393
Marketing services received from related parties		181	222
Goods purchased from related parties		22	59
Total		698	674

(ii) Comprehensive services received from related parties include cash escort, equipment maintenance, advertising, mail and other services.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(4) Credit facilities granted to related parties

	Note	As at June 30, 2019	As at December 31, 2018
Bank of Shanghai Co., Ltd.	(i)	3,146	1,174
Other related parties		213	122
China Post Group		7	–
Total		3,366	1,296

(i) The credit granted to Bank of Shanghai Co., Ltd. by the Group was mainly discounted bills.

(5) Deposits from related parties

	As at June 30, 2019	As at December 31, 2018
China Post Group and its provincial branches	8,302	9,455
China Postal Express & Logistics Company Limited and its subsidiaries	1,294	934
Other subsidiaries of China Post Group	135	177
Other related parties	3,090	2,554
Total	12,821	13,120
Interest rates per annum	0.30%-3.15%	0.30%-2.90%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(6) Placements with banks and other financial institutions

	As at June 30, 2019	As at December 31, 2018
Bank of Shanghai Co., Ltd.	-	1,026

(7) Derivative financial assets

	As at June 30, 2019	As at December 31, 2018
Bank of Shanghai Co., Ltd.	10	72

(8) Financial assets held under resale agreements

	As at June 30, 2019	As at December 31, 2018
Bank of Shanghai Co., Ltd.	-	808

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(9) Investment instruments

	As at June 30, 2019	As at December 31, 2018
Financial assets at fair value through profit or loss		
– China Post Group	–	1,217
– China Post & Capital Fund Management Co., Ltd.	514	507
– Bank of Shanghai Co., Ltd.	–	300
Financial assets at fair value through other comprehensive income-debt instruments		
– China Post Group	933	2,318
– China Shipbuilding Industry Co., Ltd.	10	–
Financial assets at fair value through other comprehensive income-equity instruments		
– Other related parties	53	53
Financial assets at amortized cost		
– China Shipbuilding Industry Co., Ltd.	580	–
– China Post Group	394	–
– Bank of Shanghai Co., Ltd.	35	35

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(10) Deposits from banks and other financial institutions

	As at June 30, 2019	As at December 31, 2018
China Post Life Insurance Co., Ltd.	861	7,022
China Post Securities Co., Ltd.	508	524
Sichuan Changhong Group Finance Co., Ltd.	328	–
Other related parties	17	2
Total	1,714	7,548

(11) Derivative financial liabilities

	As at June 30, 2019	As at December 31, 2018
Bank of Shanghai Co., Ltd.	17	82

(12) Balance with related parties

(i) *Accounts receivable*

	As at June 30, 2019	As at December 31, 2018
China Post Group and other related parties	261	265

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.3 Related party transactions (continued)

(12) Balance with related parties (continued)

(ii) Accounts payable

	As at June 30, 2019	As at December 31, 2018
China Post Group and other related parties (Note 30)	1,389	1,933

(13) Commitments in relation to related parties

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

	As at June 30, 2019	As at December 31, 2018
China Post Group and other related parties	N/A	1,075

36.4 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, 2019 (All amounts in millions of RMB unless otherwise stated)

36 Transactions with related parties (continued)

36.5 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.

	As at June 30, 2019	As at December 31, 2018
Key management personnel compensation	4	7

37 Structured entities

37.1 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, 2019 and December 31, 2018, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB807.8 billion and RMB757.5 billion, respectively. The Group earned fee and commission of RMB2.1 billion and RMB2.6 billion from these non-principal guaranteed WMPs for the six months ended June 30, 2019 and 2018, respectively.

As at June 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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, 2019 (All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 Unconsolidated structured entities held by the Group

The Group invests in unconsolidated structured entities issued and managed by other institutions, and records trading gains or losses and interest income therefrom. These structured entities mainly comprise trust investment plans, fund investments, asset management plans and wealth management products, etc. As at June 30, 2019 and December 31, 2018, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2019			Total
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	
Fund investments	97,264	-	-	97,264
Trust investment plans and asset management plans	43,019	-	-	43,019
Commercial bank wealth management products	12,646	-	-	12,646
Asset-backed securities	7,031	43,626	1,135	51,792
Other debt instruments	-	84,009	-	84,009
Total	159,960	127,635	1,135	288,730

	As at December 31, 2018			Total
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	
Fund investments	103,745	-	-	103,745
Trust investment plans and asset management plans	39,499	-	-	39,499
Commercial bank wealth management products	31,964	-	-	31,964
Asset-backed securities	11,076	42,109	3,017	56,202
Other debt instruments	-	99,332	-	99,332
Total	186,284	141,441	3,017	330,742

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, 2019 (All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 Unconsolidated structured entities held by the Group (continued)

For the six months ended June 30, 2019 and 2018, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six months ended June 30	
	2019	2018
Interest income	5,434	4,952
Net gain arising from investment securities	8,238	7,337
Other comprehensive income	9	14
Total	13,681	12,303

37.3 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, 2019 and for the six months ended June 30, 2018, 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

	Note	As at	As at
		June 30, 2019	December 31, 2018
Contracts signed but not executed	(1)	3,067	3,860

(1) The Group's capital commitments are contracts signed but not executed, which mainly include property and equipment, and decoration projects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.3 Credit commitments

	As at June 30, 2019	As at December 31, 2018
Loan commitments		
– With an original maturity of less than 1 year	2,375	15,605
– With an original maturity of 1 year or above	378,993	373,392
Subtotal	381,368	388,997
Bank acceptance	29,575	20,444
Guarantee and letters of guarantee	21,465	20,896
Letters of credit	16,531	12,100
Unused credit card commitments	241,848	204,358
Total	690,787	646,795

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 December 31, 2018
Within 1 year	3,543
1 to 2 years	2,584
2 to 3 years	1,691
3 to 5 years	1,785
Over 5 years	1,202
Total	10,805

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019	As at December 31, 2018
Debt securities	151,680	130,572
Bills	26,667	8,311
Total	178,347	138,883

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at June 30, 2019, the carrying amount of debt securities pledged as collaterals amounted to RMB60.4 billion (December 31, 2018: RMB61.3 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 and buildings. The Group has not resold or re-pledged these collaterals given that the owners of the pledged properties do not breach the contracts.

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, 2019 and December 31, 2018, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB1.1 billion and RMB2.2 billion, separately.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.6 Redemption commitment for government bonds (continued)

As at June 30, 2019, the nominal value of treasury bonds the Group was obligated to redeem was RMB120.4 billion (December 31, 2018: RMB106.9 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, 2019	As at December 31, 2018
Financial guarantees and credit commitments	288,078	265,067

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.

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. The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements.

	As at June 30, 2019	As at December 31, 2018
	Financial assets at amortized cost	Financial assets at amortized cost
Carrying amount of the collateral	841	995
Financial assets sold under repurchase agreements	(863)	(1,010)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

39 Transfer of financial assets (continued)

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 statement of financial position 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, 2019 and December 31, 2018, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at June 30, 2019	As at December 31, 2018
ABS issued-par value	21,097	21,097
Assets retained by the Group, net	1,687	1,687

As at June 30, 2019, 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 RMB79 million (December 31, 2018: RMB105 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, 2019 and for the year ended December 31, 2018, 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, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis

40.1 Business segment

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

Personal banking

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

Corporate banking

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

Treasury

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

Others

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

	Six months ended June 30, 2019				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	67,441	45,160	77,696	-	190,297
Interest expense to external customers	(61,022)	(6,657)	(3,536)	-	(71,215)
Intersegment net interest income/(expense)	71,635	(10,354)	(61,281)	-	-
Net interest income	78,054	28,149	12,879	-	119,082
Net fee and commission income	7,996	415	928	-	9,339
Net trading gains	-	-	2,572	-	2,572
Net gains from investment securities	-	-	9,087	-	9,087
Net gains on derecognition of financial assets at amortized cost	-	-	28	-	28
Net other operating gains	809	58	558	171	1,596
Operating expenses	(59,812)	(6,296)	(7,034)	(80)	(73,222)
Credit impairment losses	(11,174)	(16,395)	(124)	-	(27,693)
Impairment losses on other assets	(3)	-	-	-	(3)
Profit before income tax	15,870	5,931	18,894	91	40,786
Supplementary information					
Depreciation and amortization	2,871	441	43	-	3,355
Capital expenditures	1,529	235	23	-	1,787
	As at June 30, 2019				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,906,691	2,341,384	4,778,320	-	10,026,395
Deferred tax assets					40,780
Total assets					10,067,175
Segment liabilities	(7,986,293)	(1,191,352)	(395,471)	-	(9,573,116)
Supplementary information					
Credit commitments	241,848	448,939	-	-	690,787

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

	Six months ended June 30, 2018				Total
	Personal banking	Corporate banking	Treasury	Others	
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)
Credit impairment losses	(6,570)	(11,381)	(5,415)	–	(23,366)
Impairment losses on other assets	(5)	–	–	–	(5)
Profit before income tax	14,693	8,003	11,480	91	34,267
Supplementary information					
Depreciation and amortization	1,880	307	36	–	2,223
Capital expenditures	2,064	337	39	–	2,440
	As at December 31, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,684,541	2,161,533	4,634,250	–	9,480,324
Deferred tax assets					35,887
Total assets					9,516,211
Segment liabilities	(7,529,623)	(1,170,867)	(340,408)	–	(9,040,898)
Supplementary information					
Credit commitments	204,358	442,437	–	–	646,795

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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”: Fujian Province, Xiamen, Guangdong Province and Shenzhen;
- “Bohai Rim”: Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province and Qingdao;
- “Central China” region: Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province and Hainan Province;
- “Western China” region: Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region;
- “Northeastern China” region: Liaoning Province, Dalian, Jilin Province and Heilongjiang Province.

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	Six months ended June 30, 2019								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Interest income from external customers	89,311	18,223	14,365	15,411	27,064	19,224	6,699	-	190,297
Interest expense to external customers	(5,864)	(10,544)	(5,305)	(9,936)	(20,832)	(13,886)	(4,848)	-	(71,215)
Intersegment net interest (expense)/income	(68,651)	7,446	4,444	9,963	24,597	16,565	5,636	-	-
Net interest income	14,796	15,125	13,504	15,438	30,829	21,903	7,487	-	119,082
Net fee and commission income	201	1,515	1,567	1,341	2,183	1,834	698	-	9,339
Net trading gains/(losses)	2,555	(1)	(1)	4	2	12	1	-	2,572
Net gains from investment securities	8,612	139	48	72	107	55	54	-	9,087
Net gains on derecognition of financial assets at amortized cost	28	-	-	-	-	-	-	-	28
Net other operating gains	506	92	197	102	250	386	63	-	1,596
Operating expenses	(3,385)	(9,748)	(8,141)	(9,993)	(20,022)	(15,874)	(6,059)	-	(73,222)
Credit impairment losses	(4,543)	(3,728)	(3,349)	(5,593)	(5,669)	(3,943)	(868)	-	(27,693)
Impairment losses on other assets	-	-	-	(2)	(1)	2	(2)	-	(3)
Profit before income tax	18,770	3,394	3,825	1,369	7,679	4,375	1,374	-	40,786
Supplementary information									
Depreciation and amortization	434	530	327	505	600	715	244	-	3,355
Capital expenditures	74	143	185	275	619	400	91	-	1,787

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	As at June 30, 2019								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North- eastern China	Eliminations	Total
Segment assets	6,460,238	1,586,007	1,050,751	1,696,701	3,268,146	2,346,255	814,232	(7,195,935)	10,026,395
Deferred tax assets									40,780
Total assets									10,067,175
Segment liabilities	(6,159,251)	(1,560,686)	(1,025,123)	(1,672,977)	(3,218,169)	(2,322,867)	(809,978)	7,195,935	(9,573,116)
Supplementary information									
Credit commitments	241,848	69,258	78,945	95,120	105,324	84,573	15,719	-	690,787

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	Six months ended June 30, 2018								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
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)
Credit impairment losses	(6,924)	(2,638)	(1,426)	(3,735)	(4,791)	(2,908)	(944)	-	(23,366)
Impairment losses on other assets	-	(1)	-	-	-	(4)	-	-	(5)
Profit before income tax	13,304	2,596	3,561	2,645	6,222	4,779	1,160	-	34,267
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

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	As at December 31, 2018								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North- eastern China	Eliminations	
Segment assets	6,116,423	1,487,803	971,925	1,600,083	3,022,038	2,228,706	767,586	(6,714,240)	9,480,324
Deferred tax assets									35,887
Total assets									9,516,211
Segment liabilities	(5,791,677)	(1,468,359)	(951,628)	(1,582,299)	(2,983,660)	(2,212,268)	(765,247)	6,714,240	(9,040,898)
Supplementary information									
Credit commitments	204,358	62,112	77,880	95,603	110,065	84,822	11,955	-	646,795

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

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 prudent risk management strategy, 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 foreign exchange 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, 2019 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, 2018.

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

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.

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(2) for the criteria of a significant increase in credit risk.

Stage 3 includes financial assets that are credit-impaired. Please refer to note 41.2.1(3) for the Group's criteria of impaired financial assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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)

The Group has performed impairment test through the use of expected credit loss model and discounted cash flow method. Loans and advances in Stage 3 which are considered individually significant are assessed using discounted cash flow method for impairment, while loans and advances in first 2 stages as well as in Stage 3 not considered individually significant are assessed using expected credit loss model.

The Group has incorporated forward-looking information for measuring ECL in applying the accounting requirements of IFRS 9, and constructed complicated models involving substantial management judgements and assumptions, mainly including the following:

- Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL;
- Significant increase in credit risk;
- Definition of default and credit-impaired;
- Descriptions of parameters, assumptions and estimation techniques;
- Forward-looking information;
- Management Overlay;
- The estimated future cash flows for loans and advances to customers in stage 3 which are considered individually significant.

(1) Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. In performing the portfolio segmentation of credit assets, the Group considers the type of borrower, industry, loan usage, and security type to ensure the reliability of its credit risk segmentation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) 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 credit grades has dropped by no less than 3 levels, whether risk classification has been changed adversely, and whether overdue days has exceed 30 days, etc., to determine whether a significant increase in credit risk of financial assets has occurred.

(3) 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:

- certain credit rating grade;
- 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;
- other factors that impair financial assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) 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, or 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 or its approximate value.

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.

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For the six months ended June 30, 2019 (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)

(5) 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, and 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 (Base, Upside and Downside) and weightings determined for them respectively, on the basis of a combination of the macroeconomic information, statistical analysis and expert judgment. Usually, the highest weighting is assigned to Base scenario, while lower and comparable weightings are assigned to Upside and Downside scenarios.

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

Relatively substantial management judgements are involved in the weighting scheme of macroeconomic scenarios, macroeconomic forecasts, and significant increase in credit risk in expected credit loss models. The variation of key inputs above will inevitably lead to changes in expected credit loss as a result of model’s inherent complexity. The Group has analysed sensitivity of ECL model by considering changes in macroeconomic scenario weightings, the fluctuation of macroeconomic forecasts and transition of financial assets from Stage 2 to Stage 1.

Assuming Base scenario has a weight of 100%, the change rate of the balance of loss allowance as at June 30, 2019 would be no more than 5%.

Assuming year-over-year growth in Gross Domestic Product, the core macroeconomic forecasting indicator, would increase or decrease by 10%, the absolute change rate of the balance of loss allowance as at June 30, 2019 would be no more than 5%.

Assuming Stage 2 financial assets transferred into Stage 1, the balance of loss allowance as at June 30, 2019 would accordingly decrease by no more than 10%.

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For the six months ended June 30, 2019 (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)

(6) Management Overlay

Taking into account inherent limitations of ECL model and temporary systematic risk factors, the Group has additionally accrued loss allowance in response to potential risk and improved its risk compensation capability.

(7) The estimated future cash flows for loans and advances to customers in stage 3 which are considered individually significant.

At each measurement date, the Group projects the future cash inflows of each future period related to credit-impaired financial assets. The cash flows are discounted and aggregated to determine the present value of the assets' future cash flows.

(8) Write-off Policy

The Group writes off financial assets, in whole or in part, when it has taken necessary recovery efforts and is still not capable of reasonably estimating the partial or whole 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 six months ended June 30, 2019 were RMB3,298 million (June 30, 2018: RMB2,819 million).

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For the six months ended June 30, 2019 (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, 2019	As at December 31, 2018
Deposits with central bank	1,121,107	1,155,444
Deposits with banks and other financial institutions	49,361	140,351
Placements with banks and other financial institutions	275,405	285,622
Derivative financial assets	3,755	7,166
Financial assets held under resale agreements	144,595	239,687
Loans and advances to customers	4,550,381	4,149,538
Investment instruments		
Financial assets at fair value through profit or loss – debt instruments	314,145	339,572
Financial assets at fair value through other comprehensive income – debt instruments	208,039	183,350
Financial assets at amortized cost	3,237,043	2,861,922
Other financial assets	16,117	13,343
Subtotal	9,919,948	9,375,995
Credit commitments	690,787	646,795
Total	10,610,735	10,022,790

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, 2019, and December 31, 2018. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the statement of financial position.

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For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment

According to the characteristics of risk level, the Group classifies the risk level of financial assets included in the measurement of expected credit losses into “Risk level 1”, “Risk level 2”, “Risk level 3” and “default”. “Risk level 1” means that the asset credit quality is good, there is sufficient evidence to show that the asset is not expected to default; “Risk level 2” means that the asset quality is relatively good, there is no reason or there is no sufficient reason to suspect that the asset is expected to default; “Risk level 3” refers to the unfavorable factors that may cause or have caused an asset default, but no default event has occurred or no significant default has occurred; The criteria for “default” are consistent with the definition of credit-impaired assets.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amounts of financial assets below also represent the Group’s maximum exposure to credit risk on these assets.

Deposits and placements with banks and other financial institutions and financial assets held under resale agreement	As at June 30, 2019			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit Grade				
Risk level 1	427,859	-	-	427,859
Risk level 2	43,490	-	-	43,490
Risk level 3	150	-	-	150
Default	-	-	-	-
Gross Carrying amount	471,499	-	-	471,499
Loss allowance	(2,138)	-	-	(2,138)
Carrying amount	469,361	-	-	469,361

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For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Corporate loans and advances to customers – financial assets at amortized cost	As at June 30, 2019			Total
	Stage 1	ECL Staging		
	12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit Grade				
Risk level 1	1,540,978	1,115	–	1,542,093
Risk level 2	3,296	8,777	–	12,073
Risk level 3	–	12,019	83	12,102
Default	–	–	13,148	13,148
Gross Carrying amount	1,544,274	21,911	13,231	1,579,416
Loss allowance	(62,930)	(8,590)	(12,175)	(83,695)
Carrying amount	1,481,344	13,321	1,056	1,495,721

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For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at June 30, 2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Personal loans and advances to customers – financial assets at amortized cost				
Credit Grade				
Risk level 1	2,507,856	–	–	2,507,856
Risk level 2	5,132	6,668	–	11,800
Risk level 3	–	3,831	–	3,831
Default	–	–	26,627	26,627
Gross Carrying amount	2,512,988	10,499	26,627	2,550,114
Loss allowance	(41,960)	(3,398)	(22,239)	(67,597)
Carrying amount	2,471,028	7,101	4,388	2,482,517
	As at June 30, 2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Investment instruments – financial assets at fair value through other comprehensive income – debt instruments				
Credit Grade				
Risk level 1	205,430	156	–	205,586
Risk level 2	2,453	–	–	2,453
Risk level 3	–	–	–	–
Default	–	–	–	–
Carrying amount	207,883	156	–	208,039

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For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Investment instruments – Financial assets at amortized cost	As at June 30, 2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit Grade				
Risk level 1	3,198,943	–	–	3,198,943
Risk level 2	32,091	9,364	–	41,455
Risk level 3	104	398	6,141	6,643
Default	–	–	7,643	7,643
Gross Carrying amount	3,231,138	9,762	13,784	3,254,684
Loss allowance	(2,875)	(3,141)	(11,625)	(17,641)
Carrying amount	3,228,263	6,621	2,159	3,237,043

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2018			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Deposits and placements with banks and other financial institutions and financial assets held under resale agreement	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit Grade				
Risk level 1	519,790	–	–	519,790
Risk level 2	148,498	–	–	148,498
Risk level 3	–	–	–	–
Default	–	–	–	–
Gross Carrying amount	668,288	–	–	668,288
Loss allowance	(2,628)	–	–	(2,628)
Carrying amount	665,660	–	–	665,660

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For the six months ended June 30, 2019 (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) *Maximum exposure to credit risk – Financial instruments subject to impairment (continued)*

	As at December 31, 2018			Total
	Stage 1	ECL Staging		
Corporate loans and advances to customers – financial assets at amortized cost	12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit Grade				
Risk level 1	1,387,492	3,347	–	1,390,839
Risk level 2	999	16,715	–	17,714
Risk level 3	–	5,440	–	5,440
Default	–	–	13,497	13,497
Gross Carrying amount	1,388,491	25,502	13,497	1,427,490
Loss allowance	(50,550)	(6,487)	(12,227)	(69,264)
Carrying amount	1,337,941	19,015	1,270	1,358,226

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2018			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit Grade				
Risk level 1	2,282,691	–	–	2,282,691
Risk level 2	3,731	5,551	–	9,282
Risk level 3	–	3,057	–	3,057
Default	–	–	24,810	24,810
Gross Carrying amount	2,286,422	8,608	24,810	2,319,840
Loss allowance	(34,565)	(2,418)	(21,080)	(58,063)
Carrying amount	2,251,857	6,190	3,730	2,261,777

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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) *Maximum exposure to credit risk – Financial instruments subject to impairment (continued)*

Investment instruments – financial assets at fair value through other comprehensive income – debt instruments	As at December 31, 2018			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit Grade				
Risk level 1	182,227	297	–	182,524
Risk level 2	826	–	–	826
Risk level 3	–	–	–	–
Default	–	–	–	–
Carrying amount	183,053	297	–	183,350

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For the six months ended June 30, 2019 (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) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Investment instruments – financial assets at amortized cost	As at December 31, 2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit Grade				
Risk level 1	2,812,140	–	–	2,812,140
Risk level 2	39,097	16,443	–	55,540
Risk level 3	–	–	4,791	4,791
Default	–	–	6,431	6,431
Gross Carrying amount	2,851,237	16,443	11,222	2,878,902
Loss allowance	(2,520)	(4,079)	(10,381)	(16,980)
Carrying amount	2,848,717	12,364	841	2,861,922

The maximum credit risk exposure for the credit commitment is the balance after provision. Majority of credit commitment is in Stage I with credit grade as “Risk level 1”.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.3 Loans and advances to customers

(1) *Loans and advances by geographical region:*

	As at June 30, 2019		As at December 31, 2018	
	Amount	Proportion	Amount	Proportion
Head Office	279,789	6%	270,476	6%
Central China	1,165,653	25%	1,030,335	24%
Yangtze River Delta	883,167	19%	796,752	19%
Western China	811,954	17%	766,342	18%
Bohai Rim	718,029	15%	649,228	15%
Pearl River Delta	540,827	12%	479,018	11%
Northeastern China	302,254	6%	284,714	7%
Total	4,701,673	100%	4,276,865	100%

(2) *Loans and advances by types:*

	As at June 30, 2019		As at December 31, 2018	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	1,682,467	36%	1,552,402	37%
Discounted bills	469,092	10%	404,623	9%
Personal loans and advances	2,550,114	54%	2,319,840	54%
Total	4,701,673	100%	4,276,865	100%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.3 Loans and advances to customers (continued)

(3) Loans and advances by industry:

	As at June 30, 2019		As at December 31, 2018	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services (i)	454,741	10%	418,878	10%
Manufacturing	271,684	6%	240,122	6%
Financial services	205,398	5%	192,527	5%
Production and supply of electricity, heating, gas and water	189,557	4%	191,948	5%
Wholesale and retail	102,765	2%	88,551	2%
Construction	100,142	2%	82,399	2%
Leasing and business services	91,701	2%	86,909	2%
Management of water conservancy, environmental and public facilities	72,249	2%	76,810	2%
Real estate	65,322	1%	56,345	1%
Mining	62,536	1%	56,100	1%
Other industries	66,372	1%	61,813	1%
Subtotal	1,682,467	36%	1,552,402	37%
Discounted bills	469,092	10%	404,623	9%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	1,567,370	33%	1,417,898	33%
– Other consumer loans	276,540	6%	275,544	6%
Personal business loans	389,689	8%	349,434	8%
Micro loans	207,466	4%	177,651	5%
Credit card overdraft and others	109,049	3%	99,313	2%
Subtotal	2,550,114	54%	2,319,840	54%
Total	4,701,673	100%	4,276,865	100%

- (i) As at June 30, 2019, the balance included loans to China Railway Corporation of RMB176,803 million (December 31, 2018: RMB176,803 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.3 Loans and advances to customers (continued)

(4) *Loans and advances by types of collateral:*

	As at June 30, 2019		As at December 31, 2018	
	Amount	Proportion	Amount	Proportion
Unsecured loans	1,174,406	25%	1,089,195	25%
Guaranteed loans	306,575	7%	282,088	7%
Loans secured by mortgages	2,339,370	50%	2,128,232	50%
Loans secured by pledges	412,230	9%	372,727	9%
Discounted bills	469,092	9%	404,623	9%
Total	4,701,673	100%	4,276,865	100%

(5) *Overdue loans and advances*

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

	As at June 30, 2019				
	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	Total
Unsecured loans	2,444	3,291	1,551	150	7,436
Guaranteed loans	1,629	2,813	2,912	918	8,272
Loans secured by mortgages	8,507	7,099	9,035	2,119	26,760
Loans secured by pledges	2,170	232	522	404	3,328
Discounted bills	5	-	-	-	5
Total	14,755	13,435	14,020	3,591	45,801

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.3 Loans and advances to customers (continued)

(5) *Overdue loans and advances (continued)*

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

	As at December 31, 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	2,205	2,840	909	105	6,059
Guaranteed loans	1,540	2,577	2,472	742	7,331
Loans secured by mortgages	5,467	7,027	8,412	1,571	22,477
Loans secured by pledges	5,352	677	112	348	6,489
Total	14,564	13,121	11,905	2,766	42,356

(6) *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, 2019, rescheduled loans and advances of the Group were RMB620 million (December 31, 2018: RMB1,063 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.4 Debt instruments

(1) Credit quality of debt instruments

The table below represents the carrying amounts and accumulated impairment charges of financial assets at amortized cost and financial assets at fair value through other comprehensive income – debt instruments:

	As at June 30, 2019			
	Stage 1(i)	Stage 2	Stage 3	Total
Financial assets at amortized cost	3,228,263	6,621	2,159	3,237,043
Financial assets at fair value through other comprehensive income – debt instruments	207,883	156	–	208,039
Total	3,436,146	6,777	2,159	3,445,082

	As at December 31, 2018			
	Stage 1(i)	Stage 2	Stage 3	Total
Financial assets at amortized cost	2,848,717	12,364	841	2,861,922
Financial assets at fair value through other comprehensive income – debt instruments	183,053	297	–	183,350
Total	3,031,770	12,661	841	3,045,272

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.4 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1

The types of debt instruments	As at June 30, 2019		Total
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	
Debt securities-by types of issuers:			
Government	1,000,775	63,245	1,064,020
Financial institution	1,782,995	113,334	1,896,329
Corporate	106,407	30,169	136,576
Interbank certificates of deposits	220,144	-	220,144
Asset-backed securities	43,391	1,135	44,526
Other debt instruments	77,426	-	77,426
Gross amount	3,231,138	207,883	3,439,021
Less: Allowance for impairment losses	(2,875)	-	(2,875)
Carrying amount of debt instruments at stage 1	3,228,263	207,883	3,436,146

The allowance for impairment losses of financial assets at fair value through other comprehensive income is RMB292 million, which is reflected in other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.4 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1 (continued)

The types of debt instruments	As at December 31, 2018		Total
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	
Debt securities-by types of issuers:			
Government	849,483	59,470	908,953
Financial institution	1,703,296	107,552	1,810,848
Corporate	81,235	13,014	94,249
Interbank certificates of deposits	87,313	-	87,313
Asset-backed securities	41,936	3,017	44,953
Other debt instruments	87,974	-	87,974
Gross amount	2,851,237	183,053	3,034,290
Less: Allowance for impairment losses	(2,520)	-	(2,520)
Carrying amount of debt instruments at stage 1	2,848,717	183,053	3,031,770

The allowance for impairment losses of financial assets at fair value through other comprehensive income is RMB195 million, which is reflected in other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.4 Debt instruments (continued)

(2) 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, 2019					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	668,365	397,250	-	-	-	1,065,615
Public sector and quasi-government bonds	177	-	-	-	-	177
Financial institution bonds	1,823,073	90,985	4,901	10,943	1,520	1,931,422
Corporate bonds	18,958	131,668	1,766	1,571	608	154,571
Interbank certificates of deposits	320,528	-	-	-	-	320,528
Asset-backed securities	5,521	45,413	1,767	-	-	52,701
Fund investments	97,264	-	-	-	-	97,264
Trust investment plans and asset management plans	43,019	-	-	-	-	43,019
Commercial bank wealth management products	12,646	-	-	-	-	12,646
Other debt instruments	98,925	-	-	-	-	98,925
Total	3,088,476	665,316	8,434	12,514	2,128	3,776,868

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.2 Credit risk (continued)

41.2.4 Debt instruments (continued)

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

	Unrated (i)	As at December 31, 2018				Total
		AAA	AA	A	Below A	
Government bonds	610,490	299,499	-	-	-	909,989
Public sector and quasi-government bonds	52	-	-	-	-	52
Financial institution bonds	1,755,278	75,588	4,727	4,525	6,719	1,846,837
Corporate bonds	18,942	79,251	3,132	4,997	1,045	107,367
Interbank certificates of deposits	188,790	-	-	-	-	188,790
Asset-backed securities	17,084	38,961	1,153	-	-	57,198
Placements with banks and other financial institutions	2,213	-	-	-	-	2,213
Fund investments	103,745	-	-	-	-	103,745
Trust investment plans and asset management plans	39,499	-	-	-	-	39,499
Commercial bank wealth management products	31,964	-	-	-	-	31,964
Other debt instruments	114,170	-	-	-	-	114,170
Total	2,882,227	493,299	9,012	9,522	7,764	3,401,824

- (i) Unrated debt instruments held by the Group are bonds issued by policy banks, China Development Bank, 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.

41.2.5 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, 2019 (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.

	Repayable		As at June 30, 2019						Undated	Total
			Overdue	on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years		
Cash and deposits with central bank	-	78,409	-	513	-	-	-	1,084,623	1,163,545	
Deposits with banks and other financial institutions	-	5,857	-	4,031	39,473	-	-	-	49,361	
Placements with banks and other financial institutions	-	-	66,182	10,345	89,127	109,751	-	-	275,405	
Derivative financial assets	-	-	733	265	2,172	585	-	-	3,755	
Financial assets held under resale agreements	-	-	104,769	29,717	10,109	-	-	-	144,595	
Loans and advances to customers	9,952	-	217,474	361,684	1,439,362	795,921	1,725,988	-	4,550,381	
Financial assets at fair value through profit or loss	71	96,183	11,881	29,635	85,395	14,234	76,746	2,091	316,236	
Financial assets at fair value through other comprehensive income-debt instruments	-	-	5,992	10,096	28,040	158,916	4,995	-	208,039	
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	500	53	553	
Financial assets at amortized cost	1,043	-	19,981	122,152	447,970	1,464,705	1,181,192	-	3,237,043	
Other financial assets	1,101	9,702	139	2,391	52	498	2,061	173	16,117	
Total financial assets	12,167	190,151	427,151	570,829	2,141,700	2,544,610	2,991,482	1,086,940	9,965,030	

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For the six months ended June 30, 2019 (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 June 30, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Deposits from banks and other financial institutions	-	69,737	342	229	1,299	358	-	-	71,965
Placements from banks and other financial institutions	-	-	18,568	5,541	9,579	-	-	-	33,688
Derivative financial liabilities	-	-	701	229	2,666	453	-	-	4,049
Financial assets sold under repurchase agreements	-	-	164,128	4,277	3,894	-	-	-	172,299
Customer deposits	-	3,360,579	351,414	656,150	3,471,070	1,261,978	-	-	9,101,191
Debt securities issued	-	-	4,992	13,338	9,009	-	74,941	-	102,280
Other financial liabilities	-	17,143	8,798	19,820	194	850	1,899	-	48,704
Total financial liabilities	-	3,447,459	548,943	699,584	3,497,711	1,263,639	76,840	-	9,534,176
Net liquidity	12,167	(3,257,308)	(121,792)	(128,755)	(1,356,011)	1,280,971	2,914,642	1,086,940	430,854

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For the six months ended June 30, 2019 (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, 2018								
	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	-	89,104	-	557	-	-	-	1,113,274	1,202,935
Deposits with banks and other financial institutions	-	9,121	45,333	24,199	61,698	-	-	-	140,351
Placements with banks and other financial institutions	-	-	69,426	8,844	74,197	133,155	-	-	285,622
Derivative financial assets	-	-	942	1,878	3,835	511	-	-	7,166
Financial assets held under resale agreements	-	-	215,177	22,289	2,221	-	-	-	239,687
Loans and advances to customers	8,719	-	231,899	317,920	1,246,055	745,395	1,599,550	-	4,149,538
Financial assets at fair value through profit or loss	-	102,709	33,106	33,767	83,148	12,353	74,489	2,090	341,662
Financial assets at fair value through other comprehensive income-debt instruments	-	-	8,463	13,939	30,458	129,329	1,161	-	183,350
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	500	53	553
Financial assets at amortized cost	489	-	30,531	25,179	377,372	1,368,306	1,060,045	-	2,861,922
Other financial assets	862	8,665	153	908	45	476	2,062	172	13,343
Total financial assets	10,070	209,599	635,030	449,480	1,879,029	2,389,525	2,737,807	1,115,589	9,426,129

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For the six months ended June 30, 2019 (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, 2018								
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Deposits from banks and other financial institutions	-	69,997	171	408	1,793	1,796	-	-	74,165
Placements from banks and other financial institutions	-	-	24,714	3,089	12,042	-	-	-	39,845
Financial liabilities at fair value through profit or loss	-	-	2,292	6	62	-	-	-	2,360
Derivative financial liabilities	-	-	1,165	1,263	3,613	422	-	-	6,463
Financial assets sold under repurchase agreements	-	-	128,465	2,898	3,556	-	-	-	134,919
Customer deposits	-	3,438,418	504,440	1,472,788	2,350,883	860,911	-	-	8,627,440
Debt securities issued	-	-	-	695	522	-	74,937	-	76,154
Other financial liabilities	-	18,047	17,469	2,066	237	1,016	1,899	-	40,734
Total financial liabilities	-	3,526,462	678,716	1,483,213	2,372,708	864,145	76,836	-	9,002,080
Net liquidity	10,070	(3,316,863)	(43,686)	(1,033,733)	(493,679)	1,525,380	2,660,971	1,115,589	424,049

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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.

	Repayable on demand		As at June 30, 2019						Undated	Total
			Overdue	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Non-derivative financial assets										
Cash and deposits with central bank	-	78,409	-	513	-	-	-	1,084,623	-	1,163,545
Deposits with banks and other financial institutions	-	5,857	-	4,409	40,681	-	-	-	-	50,947
Placements with banks and other financial institutions	-	-	66,509	12,705	96,085	112,842	-	-	-	288,141
Financial assets held under resale agreements	-	-	105,166	29,871	10,222	-	-	-	-	145,259
Loans and advances to customers	10,841	-	234,946	395,156	1,567,688	1,220,704	2,462,277	-	-	5,891,612
Financial assets at fair value through profit or loss	214	96,183	11,919	29,821	87,828	21,531	81,694	2,091	-	331,281
Financial assets at fair value through other comprehensive income-debt instruments	-	-	6,588	11,505	31,763	170,747	5,818	-	-	226,421
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	500	53	-	553
Financial assets at amortized cost	8,041	-	21,514	130,552	519,218	1,791,617	1,399,805	-	-	3,870,747
Other financial assets	-	9,702	139	2,391	52	498	2,061	173	-	15,016
Total non-derivative financial assets	19,096	190,151	446,781	616,923	2,353,537	3,317,939	3,952,155	1,086,940	-	11,983,522

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For the six months ended June 30, 2019 (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 June 30, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	-	69,737	342	231	1,332	410	-	-	72,052
Placements from banks and other financial institutions	-	-	18,578	5,619	9,753	-	-	-	33,950
Financial assets sold under repurchase agreements	-	-	164,163	4,293	3,927	-	-	-	172,383
Customer deposits	-	3,360,579	351,668	658,307	3,518,094	1,358,818	-	-	9,247,466
Debt securities issued	-	-	5,000	14,750	10,100	12,060	84,720	-	126,630
Other financial liabilities	-	17,143	8,798	19,820	194	850	1,899	-	48,704
Total non-derivative financial liabilities	-	3,447,459	548,549	703,020	3,543,400	1,372,138	86,619	-	9,701,185
Net liquidity	19,096	(3,257,308)	(101,768)	(86,097)	(1,189,863)	1,945,801	3,865,536	1,086,940	2,282,337

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2018								
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	-	89,104	-	557	-	-	-	1,113,274	1,202,935
Deposits with banks and other financial institutions	-	9,121	45,533	25,002	63,156	-	-	-	142,812
Placements with banks and other financial institutions	-	-	69,584	11,253	81,437	139,604	-	-	301,878
Financial assets held under resale agreements	-	-	216,049	22,444	2,257	-	-	-	240,750
Loans and advances to customers	9,495	-	245,863	343,555	1,342,695	1,041,932	2,121,324	-	5,104,864
Financial assets at fair value through profit or loss	-	102,709	33,299	33,924	85,823	19,974	79,990	2,090	357,809
Financial assets at fair value through other comprehensive income-debt instruments	-	-	8,502	14,160	33,561	136,637	1,348	-	194,208
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	500	53	553
Financial assets at amortized cost	1,438	-	31,647	33,058	444,091	1,665,427	1,277,799	-	3,453,460
Other financial assets	-	8,665	153	908	45	476	2,062	172	12,481
Total non-derivative financial assets	10,933	209,599	650,630	484,861	2,053,065	3,004,050	3,483,023	1,115,589	11,011,750

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For the six months ended June 30, 2019 (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, 2018								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 liabilities									
Deposits from banks and other financial institutions	-	69,997	171	410	1,861	2,018	-	-	74,457
Placements from banks and other financial institutions	-	-	24,788	3,167	12,512	-	-	-	40,467
Financial liabilities at fair value through profit or loss	-	-	2,295	6	62	-	-	-	2,363
Financial assets sold under repurchase agreements	-	-	128,602	2,917	3,588	-	-	-	135,107
Customer deposits	-	3,438,418	504,805	1,477,379	2,381,238	918,735	-	-	8,720,575
Debt securities issued	-	-	-	900	2,115	12,060	84,720	-	99,795
Other financial liabilities	-	18,047	17,469	2,066	237	1,016	1,899	-	40,734
Total non-derivative financial liabilities	-	3,526,462	678,130	1,486,845	2,401,613	933,829	86,619	-	9,113,498
Net liquidity	10,933	(3,316,863)	(27,500)	(1,001,984)	(348,548)	2,070,221	3,396,404	1,115,589	1,898,252

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	10	5	29	46	-	90

	As at December 31, 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	11	3	34	49	-	97

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For the six months ended June 30, 2019 (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

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, 2019					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	107,137	86,658	408,245	5,607	–	607,647
– Cash outflow	(107,100)	(86,621)	(408,755)	(5,481)	–	(607,957)
Total	37	37	(510)	126	–	(310)

	As at December 31, 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	127,080	86,080	288,823	6,275	–	508,258
– Cash outflow	(127,095)	(85,357)	(288,595)	(6,173)	–	(507,220)
Total	(15)	723	228	102	–	1,038

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Liquidity risk (continued)

Credit commitments

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

	As at June 30, 2019			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	107,186	249,611	24,571	381,368
Bank acceptance	29,575	-	-	29,575
Guarantee and letters of guarantee	14,676	3,274	3,515	21,465
Letters of credit	16,531	-	-	16,531
Unused credit card commitments	241,848	-	-	241,848
Total	409,816	252,885	28,086	690,787

	As at December 31, 2018			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	108,500	240,654	39,843	388,997
Bank acceptance	20,444	-	-	20,444
Guarantee and letters of guarantee	15,143	2,225	3,528	20,896
Letters of credit	12,100	-	-	12,100
Unused credit card commitments	204,358	-	-	204,358
Total	360,545	242,879	43,371	646,795

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

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, 2019	As at December 31, 2018
Upward parallel shift of 100 bps for yield curves	(11,394)	(3,641)
Downward parallel shift of 100 bps for yield curves	11,394	3,641

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For the six months ended June 30, 2019 (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 date or contractual maturity date.

	As at June 30, 2019						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	
Cash and deposits with central bank	1,117,029	-	-	-	-	46,516	1,163,545
Deposits with banks and other financial institutions	5,857	3,985	39,473	-	-	46	49,361
Placements with banks and other financial institutions	66,127	10,023	89,112	109,751	-	392	275,405
Derivative financial assets	-	-	-	-	-	3,755	3,755
Financial assets held under resale agreements	104,664	29,590	10,048	-	-	293	144,595
Loans and advances to customers	599,787	463,660	3,383,535	77,755	9,285	16,359	4,550,381
Financial assets at fair value through profit or loss	12,308	28,359	71,527	12,931	33,720	157,391	316,236
Financial assets at fair value through other comprehensive income-debt instruments	7,852	12,008	25,094	154,246	4,995	3,844	208,039
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	553	553
Financial assets at amortized cost	160,181	603,351	567,061	1,027,948	837,866	40,636	3,237,043
Other financial assets	-	-	-	-	-	16,117	16,117
Total financial assets	2,073,805	1,150,976	4,185,850	1,382,631	885,866	285,902	9,965,030

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For the six months ended June 30, 2019 (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 June 30, 2019						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Deposits from banks and other financial institutions	70,031	221	1,219	347	-	147	71,965
Placements from banks and other financial institutions	18,416	5,465	9,518	-	-	289	33,688
Derivative financial liabilities	-	-	-	-	-	4,049	4,049
Financial assets sold under repurchase agreements	163,991	4,263	3,887	-	-	158	172,299
Customer deposits	3,695,904	644,550	3,429,551	1,234,217	-	96,969	9,101,191
Debt securities issued	4,992	12,432	8,104	-	74,941	1,811	102,280
Other financial liabilities	-	-	-	-	-	48,704	48,704
Total financial liabilities	3,953,334	666,931	3,452,279	1,234,564	74,941	152,127	9,534,176
Interest rate risk gap	(1,879,529)	484,045	733,571	148,067	810,925	133,775	430,854

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For the six months ended June 30, 2019 (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, 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	1,151,341	-	-	-	-	51,594	1,202,935	
Deposits with banks and other financial institutions	54,224	24,085	61,699	-	-	343	140,351	
Placements with banks and other financial institutions	69,333	8,495	74,176	133,155	-	463	285,622	
Derivative financial assets	-	-	-	-	-	7,166	7,166	
Financial assets held under resale agreements	214,872	22,148	2,180	-	-	487	239,687	
Loans and advances to customers	2,606,781	406,096	1,039,640	74,023	7,316	15,682	4,149,538	
Financial assets at fair value through profit or loss	36,495	17,630	63,023	11,074	34,983	178,457	341,662	
Financial assets at fair value through other comprehensive income-debt instruments	13,090	20,031	29,632	116,914	337	3,346	183,350	
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	553	553	
Financial assets at amortized cost	171,134	600,958	466,327	900,794	693,194	29,515	2,861,922	
Other financial assets	-	-	-	-	-	13,343	13,343	
Total financial assets	4,317,270	1,099,443	1,736,677	1,235,960	735,830	300,949	9,426,129	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2018						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Deposits from banks and other financial institutions	70,130	397	1,687	1,675	–	276	74,165	
Placements from banks and other financial institutions	24,654	3,048	11,890	–	–	253	39,845	
Financial liabilities at fair value through profit or loss	2,172	6	61	–	–	121	2,360	
Derivative financial liabilities	–	–	–	–	–	6,463	6,463	
Financial assets sold under repurchase agreements	128,371	2,890	3,549	–	–	109	134,919	
Customer deposits	3,924,778	1,444,467	2,319,491	839,655	–	99,049	8,627,440	
Debt securities issued	–	–	–	–	74,937	1,217	76,154	
Other financial liabilities	–	–	–	–	–	40,734	40,734	
Total financial liabilities	4,150,105	1,450,808	2,336,678	841,330	74,937	148,222	9,002,080	
Interest rate risk gap	167,165	(351,365)	(600,001)	394,630	660,893	152,727	424,049	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at June 30, 2019, and December 31, 2018.

	As at June 30, 2019			Total
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	
Cash and deposits with central bank	1,162,354	1,124	67	1,163,545
Deposits with banks and other financial institutions	45,059	2,355	1,947	49,361
Placements with banks and other financial institutions	242,093	33,312	-	275,405
Derivative financial assets	535	3,134	86	3,755
Financial assets held under resale agreements	144,595	-	-	144,595
Loans and advances to customers	4,533,145	12,511	4,725	4,550,381
Financial assets at fair value through profit or loss	290,605	25,631	-	316,236
Financial assets at fair value through other comprehensive income-debt instruments	197,181	10,858	-	208,039
Financial assets at fair value through other comprehensive income-equity instruments	553	-	-	553
Financial assets at amortized cost	3,222,966	14,077	-	3,237,043
Other financial assets	8,349	7,768	-	16,117
Total financial assets	9,847,435	110,770	6,825	9,965,030

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange risk (continued)

	As at June 30, 2019			Total
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	
Deposits from banks and other financial institutions	71,965	-	-	71,965
Placements from banks and other financial institutions	18,341	15,347	-	33,688
Derivative financial liabilities	482	3,567	-	4,049
Financial assets sold under repurchase agreements	172,299	-	-	172,299
Customer deposits	9,056,795	43,931	465	9,101,191
Debt securities issued	102,280	-	-	102,280
Other financial liabilities	38,639	10,065	-	48,704
Total financial liabilities	9,460,801	72,910	465	9,534,176
Net on-balance sheet position	386,634	37,860	6,360	430,854
Net notional amount of derivative financial instruments	(776)	6,464	(5,998)	(310)
Credit commitments	672,699	9,395	8,693	690,787

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2018			
	RMB	USD		Total
		(RMB equivalent)	(RMB equivalent)	
Cash and deposits with central bank	1,202,049	709	177	1,202,935
Deposits with banks and other financial institutions	132,306	6,065	1,980	140,351
Placements with banks and other financial institutions	241,846	43,776	-	285,622
Derivative financial assets	548	6,618	-	7,166
Financial assets held under resale agreements	239,687	-	-	239,687
Loans and advances to customers	4,128,718	16,009	4,811	4,149,538
Financial assets at fair value through profit or loss	332,519	9,143	-	341,662
Financial assets at fair value through other comprehensive income-debt instruments	171,427	11,923	-	183,350
Financial assets at fair value through other comprehensive income-equity instruments	553	-	-	553
Financial assets at amortized cost	2,851,689	10,233	-	2,861,922
Other financial assets	6,192	7,149	2	13,343
Total financial assets	9,307,534	111,625	6,970	9,426,129

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2018			
	RMB	USD	Other currencies	Total
		(RMB equivalent)	(RMB equivalent)	
Deposits from banks and other financial institutions	74,152	13	–	74,165
Placements from banks and other financial institutions	22,232	17,613	–	39,845
Financial liabilities at fair value through profit or loss	2,360	–	–	2,360
Derivative financial liabilities	477	5,974	12	6,463
Financial assets sold under repurchase agreements	134,919	–	–	134,919
Customer deposits	8,587,072	39,862	506	8,627,440
Debt securities issued	76,154	–	–	76,154
Other financial liabilities	34,518	6,204	12	40,734
Total financial liabilities	8,931,884	69,666	530	9,002,080
Net on-balance sheet position	375,650	41,959	6,440	424,049
Net notional amount of derivative financial instruments	517	6,436	(6,136)	817
Credit commitments	638,748	4,519	3,528	646,795

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For the six months ended June 30, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Market risk (continued)

Foreign exchange 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, 2019	As at December 31, 2018
5% of appreciation of USD against RMB	136	691
5% of depreciation of USD against RMB	(136)	(691)

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. 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, 2019, and the year ended December 31, 2018, in the Group, there were no assets or liabilities measured at fair value which discontinued being measured at fair value.

(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, 2019 (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

	As at June 30, 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	3,237,043	3,272,363	14,353	2,208,058	1,049,952
Financial liabilities					
Debt securities issued	102,280	99,489	-	99,489	-
	As at December 31, 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	2,861,922	2,898,251	10,046	1,801,348	1,086,857
Financial liabilities					
Debt securities issued	76,154	75,633	-	75,633	-

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 statement of financial position.

	As at June 30, 2019			Total
	Level 1	Level 2	Level 3	
Financial assets				
Loans and advances to customers				
– At fair value through profit or loss	-	-	145	145
– At fair value through other comprehensive income	-	179,350	392,648	571,998
Subtotal	-	179,350	392,793	572,143
Financial assets at fair value through profit or loss				
– Debt securities	265	54,130	-	54,395
– Interbank certificates of deposits	20,412	79,378	-	99,790
– Asset-backed securities	-	7,031	-	7,031
– Fund investments	-	96,183	1,081	97,264
– Trust investment plans and asset management plans	-	-	43,019	43,019
– Commercial bank wealth management products	-	-	12,646	12,646
– Equity instruments	-	-	2,091	2,091
Subtotal	20,677	236,722	58,837	316,236

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2019			Total
	Level 1	Level 2	Level 3	
Financial assets (continued)				
Derivative financial assets				
– Exchange rate derivatives	-	3,209	-	3,209
– Interest rate derivatives	-	546	-	546
Subtotal	-	3,755	-	3,755
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	10,858	196,046	-	206,904
– Asset-backed securities	-	1,135	-	1,135
Subtotal	10,858	197,181	-	208,039
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	-	-	553	553
Subtotal	-	-	553	553
Total financial assets	31,535	617,008	452,183	1,100,726
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	-	(3,564)	-	(3,564)
– Interest rate derivatives	-	(485)	-	(485)
Subtotal	-	(4,049)	-	(4,049)
Total financial liabilities	-	(4,049)	-	(4,049)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2018			Total
	Level 1	Level 2	Level 3	
Financial assets				
Loans and advances to customers				
– At fair value through profit or loss	–	–	2,863	2,863
– At fair value through other comprehensive income	–	167,901	358,771	526,672
Subtotal	–	167,901	361,634	529,535
Financial assets at fair value through profit or loss				
– Debt securities	198	49,400	–	49,598
– Interbank certificates of deposits	4,109	97,368	–	101,477
– Asset-backed securities	–	11,076	–	11,076
– Placements with banks and other financial institutions	–	–	2,213	2,213
– Fund investments	–	102,709	1,036	103,745
– Trust investment plans and asset management plans	–	–	39,499	39,499
– Commercial bank wealth management products	–	–	31,964	31,964
– Equity instruments	–	–	2,090	2,090
Subtotal	4,307	260,553	76,802	341,662
Derivative financial assets				
– Exchange rate derivatives	–	6,565	–	6,565
– Interest rate derivatives	–	601	–	601
Subtotal	–	7,166	–	7,166

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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, 2018			Total
	Level 1	Level 2	Level 3	
Financial assets (continued)				
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	11,923	168,410	–	180,333
– Asset-backed securities	–	3,017	–	3,017
Subtotal	11,923	171,427	–	183,350
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	–	553	553
Subtotal	–	–	553	553
Total financial assets	16,230	607,047	438,989	1,062,266
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(2,360)	(2,360)
Derivative financial liabilities				
– Exchange rate derivatives	–	(5,986)	–	(5,986)
– Interest rate derivatives	–	(477)	–	(477)
Subtotal	–	(6,463)	–	(6,463)
Total financial liabilities	–	(6,463)	(2,360)	(8,823)

There were no significant movements among levels of the fair value hierarchy for the six months ended June 30, 2019, and the year ended December 31, 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 (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 CBRC and Accounting Standards for Business Enterprises as issued by the MOF at June 30, 2019 and December 31, 2018 is as follows:

	As at June 30, 2019	As at December 31, 2018
Core tier 1 capital adequacy ratio	9.25%	9.77%
Tier 1 capital adequacy ratio	10.26%	10.88%
Capital adequacy ratio	12.98%	13.76%
Core tier 1 capital	442,604	423,374
Deductions of core tier 1 capital	(1,774)	(1,696)
Core tier 1 capital – net	440,830	421,678
Other tier 1 capital	47,933	47,927
Tier 1 capital – net	488,763	469,605
Tier 2 capital		
Directly issued qualifying tier 2 instruments including related premium	74,941	74,937
Excess provision for loan loss	54,582	49,072
Non-controlling interest given recognition in tier 2 capital	128	115
Net capital	618,414	593,729
Risk-weighted assets	4,765,613	4,316,219

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, except for Note 34.

43 Reclassification of comparative figures

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

Appendix I: Unreviewed Supplementary Financial Information

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

Liquidity Ratios

	Average for the six months ended June 30, 2019	Average for the year ended December 31, 2018
Liquidity Ratios (RMB and foreign currencies)	64.42%	54.34%

	As at June 30, 2019	As at December 31, 2018
Liquidity Ratios (RMB and foreign currencies)	63.55%	61.17%

The above liquidity ratios are calculated in accordance with the relevant provisions published by the CBIRC and calculated based on the financial information prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

Appendix I:
Unreviewed Supplementary Financial Information

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

Currency Concentration

	As at June 30, 2019			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	73,916	1,013	6,472	81,401
Spot liabilities	(45,528)	(230)	(1,209)	(46,967)
Forward purchases	305,002	1	4	305,007
Forward sales	(297,957)	(348)	(5,802)	(304,107)
Net long/(short) position	35,433	436	(535)	35,334

	As at December 31, 2018			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	69,816	842	6,782	77,440
Spot liabilities	(39,364)	(243)	(1,175)	(40,782)
Forward purchases	258,606	89	6	258,701
Forward sales	(251,940)	(261)	(6,104)	(258,305)
Net long/(short) position	37,118	427	(491)	37,054

The Group has no structural position for the six months ended June 30, 2019 and the year ended December 31, 2018.

Appendix I: Unreviewed Supplementary Financial Information

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

International Claims

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

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

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at June 30, 2019			Total
	Official sector	Banks and other financial institutions	Non-bank private sectors	
Asia Pacific	3,510	77,471	12,009	92,990
of which attributed to Hong Kong	–	2,491	715	3,206
North and South America	–	2,480	4,631	7,111
Europe	–	3,248	5,092	8,340
Total	3,510	83,199	21,732	108,441

	As at December 31, 2018			Total
	Official sector	Banks and other financial institutions	Non-bank private sectors	
Asia Pacific	3,550	72,080	14,691	90,321
of which attributed to Hong Kong	–	3,340	798	4,138
North and South America	34	3,370	4,607	8,011
Europe	–	3,829	4,389	8,218
Total	3,584	79,279	23,687	106,550

Appendix I:
Unreviewed Supplementary Financial Information

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

Gross Amount of Overdue Loans and Advances to Customers

Gross Amount of Overdue Loans and Advances to Customers

	As at June 30, 2019	As at December 31, 2018
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	14,755	14,564
Between 3 months and 6 months (inclusive)	5,266	5,383
Between 6 months and 12 months (inclusive)	8,169	7,738
Over 12 months	17,611	14,671
Total	45,801	42,356
As a percentage of gross loans and advances to customers		
Within 3 months (inclusive)	0.31%	0.34%
Between 3 months and 6 months (inclusive)	0.11%	0.13%
Between 6 months and 12 months (inclusive)	0.17%	0.18%
Over 12 months	0.38%	0.34%
Total	0.97%	0.99%

Overdue Loans and Advances to Customers by Geographical Region

	As at June 30, 2019	As at December 31, 2018
Head Office	2,571	2,107
Yangtze River Delta	5,743	4,678
Pearl River Delta	3,754	3,124
Bohai Rim	5,401	8,589
Central region	10,348	7,982
Western region	13,167	11,512
Northeastern region	4,817	4,364
Total	45,801	42,356

Appendix II: Liquidity Coverage Ratio and the Net Stable Funding Ratio

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2019 After adjustment	December 31, 2018 After adjustment
High quality liquid assets	1,868,279	1,578,769
Net cash outflow	954,391	701,046
Liquidity coverage ratio (%)	195.76	225.20

The Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	June 30, 2019	December 31, 2018
Total available stable funding	8,480,362	8,027,607
Total required stable funding	5,360,420	4,897,613
The net stable funding ratio (%)	158.20	163.91

The net stable funding ratio (“NSFR”) is introduced to ensure commercial banks have sufficient stable funding to meet the requirements of various types of assets and off-balance sheet exposures on stable funding. According to the minimum regulatory standard set by the Measures for the Liquidity Risk Management of Commercial Banks, NSFR should be no less than 100% from July 1, 2018.

The formula for calculating the NSFR is:

The net stable funding ratio = available stable funding/required stable funding x 100%

Available stable funding refers to the sum of products of book value of a commercial bank’s capital and liabilities with associated available stable funding factors. Required stable funding refers to the sum of products of book value of a commercial bank’s assets and off-balance sheet exposures with associated required stable funding factors.

As at the end of June 2019, the NSFR was 158.20%, meeting the regulatory requirement.

Appendix III: Leverage Ratio

In millions of RMB, except for percentages

Item	As at June 30, 2019	As at December 31, 2018
Net tier 1 capital	488,763	469,605
On and off-balance sheet assets after adjustments	10,463,878	9,871,166
Leverage Ratio (%)	4.67	4.76

No.	Item	As at June 30, 2019	As at December 31, 2018
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	9,918,872	9,269,358
2	Less: Deduction from tier 1 capital	1,774	1,696
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	9,917,098	9,267,662
4	Replacement costs of various derivatives (excluding eligible margin)	3,090	7,166
5	Potential risk exposures of various derivatives	12,648	12,510
6	Total collateral deducted from the balance sheet	-	-
7	Less: Assets receivable arising from the provision of eligible margin	-	-
8	Less: Derivative assets arising from central counterpart transactions when providing clearing services to customers	-	-
9	Nominal principals arising from sales of credit derivatives	-	-
10	Less: Deductible assets arising from sales of credit derivatives	-	-
11	Derivative assets	15,738	19,676
12	Accounting assets arising from securities financing transactions	144,595	239,687
13	Less: Deductible assets arising from securities financing transactions	-	-
14	Counter-party credit risk exposure arising from securities financing transactions	1,876	3,169
15	Assets arising from the agency services in connection with securities financing transactions	-	-
16	Securities financing transactions assets	146,471	242,856
17	Off-balance sheet assets	1,150,594	1,066,842
18	Less: Decrease in off-balance sheet assets due to credit conversion	766,023	725,870
19	Off-balance sheet assets after adjustments	384,571	340,972
20	Net tier 1 capital	488,763	469,605
21	On and off-balance sheet assets after adjustments	10,463,878	9,871,166
22	Leverage Ratio (%)	4.67	4.76

Appendix IV: Composition of Capital

Composition of Capital

In millions of RMB, except for percentages

		Amount
Core tier 1 capital:		
1	Paid-in capital	81,031
2	Retained earnings	286,447
2a	Surplus reserve	30,371
2b	General reserve	103,959
2c	Undistributed profits	152,117
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	478
6	Core tier 1 capital before regulatory adjustments	442,604
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)	1,774
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	-
11	Reserve that relate to the cash flow hedging of items that are not fair valued on the balance sheet	-
12	Shortfall of provision for loan impairment	0
13	Gain on sale related to asset securitization	-
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	-
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	-
16	Directly or indirectly holding in own ordinary shares	-
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	-
18	Deductible amount of insignificant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
20	Mortgage servicing rights	-
21	Other deductible amount in deferred tax assets dependent on future profitability	0

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount	
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences (net of related tax liabilities)	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	1,774
29	Core tier 1 capital	440,830
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	47,869
31	Including: Portion classified as equity	47,869
32	Including: Portion classified as liabilities	-
33	Invalid instruments to additional tier 1 capital after the transition period	-
34	Valid portion of minority interests	64
35	Including: invalid portion to additional tier 1 capital excluded after the transition period	-
36	Additional tier 1 capital before regulatory adjustments	47,933
Additional tier 1 capital: regulatory adjustments		
37	Directly or indirectly 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
41b	Shortfall 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

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount
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	47,933
45 Tier 1 capital (core tier 1 capital + additional tier 1 capital)	488,763
Tier 2 capital:	
46 Tier 2 Capital instruments and related premium	74,941
47 Invalid tier 2 instruments to capital after the transition period	–
48 Valid portion of minority interests	128
49 Including: Invalid portion to tier 2 capital after the transition period	–
50 Valid portion of surplus provision for loan impairment	54,582
51 Tier 2 capital before regulatory adjustments	129,651
Tier 2 capital: regulatory adjustments	
52 Directly or indirectly investments in own tier 2 instruments	0
53 Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	0
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	129,651
59 Total capital (tier 1 capital + tier 2 capital)	618,414
60 Total risk-weighted assets	4,765,613
Requirements for capital adequacy ratio and reserve capital (%)	
61 Core tier 1 capital adequacy ratio	9.25
62 Tier 1 capital adequacy ratio	10.26
63 Capital Adequacy Ratio	12.98
64 Institution specific capital requirement	2.50

Composition of Capital (Continued)

In millions of RMB, except for percentages

	Amount
65 Including: Capital conservation buffer requirement	2.50
66 Including: Countercyclical buffer requirement	–
67 Including: G-SIB buffer requirement	–
68 Percentage of core tier 1 capital meeting buffers to risk-weighted assets	1.75
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	33,635
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)	40,780
Valid caps of surplus provision for loan impairment to tier 2 capital	
76 Provision for loan impairment under the weighted approach	153,452
77 Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	54,582
78 Surplus provision for loan impairment under the internal ratings-based approach	–
79 Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	–
Capital instruments subject to phase-out arrangements	
80 Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	–
81 Excluded from core tier 1 capital due to phase-out arrangements	–
82 Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	–
83 Excluded from additional tier 1 capital due to phase-out arrangements	–
84 Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	–
85 Excluded from tier 2 capital for the current period due to phase-out arrangements	–

Appendix IV:
Composition of Capital

Detailed Description of Related Items

In millions of RMB

	The regulatory consolidated balance sheet	Code
Goodwill	0	a
Intangible assets	1,774	b
Deferred income tax liabilities	0	
Including: Deferred tax liabilities related to goodwill	0	c
Including: Deferred tax liabilities related to other intangible assets other than land use rights	0	d
Paid-in capital		
Including: Amount included in core tier 1 capital	81,031	e
Other equity instruments		
Including: Preference shares	47,869	f
Capital reserve	74,648	g
Others	0	h
Surplus reserve	30,371	i
General reserve	103,959	j
Undistributed profits	152,117	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	81,031	e
2	286,447	i+j+k
2a	30,371	i
2b	103,959	j
2c	152,117	k
3	74,648	g+h
3a	74,648	g
3b	0	h
4		
	-	
5	478	
6	442,604	
Core tier 1 capital: regulatory adjustments		
7	-	
8	0	a-c
9		
	1,774	b-d
10	-	
11	-	
12	0	
13	-	
14	-	
15	-	
16	-	
17	-	
18	0	
19	0	
20	-	
Additional tier 1 capital:		
30	47,869	f
31	47,869	f

Appendix IV: Composition of Capital

Main Features of Capital Instruments

Main Features of Qualified Capital Instruments		Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
1	Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.
2	Identification code	1658.HK	1528007.IB	1628016.IB	1728005.IB	4612
3	Applicable laws Regulatory process	PRC/Hong Kong laws	PRC laws	PRC laws	PRC laws	The creation and issuance of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by and shall be construed in accordance with PRC laws
Regulatory processing						
4	Including: Applicable to transitional period rules specified by Administrative Measures for the Capital of 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 Administrative Measures for the Capital of Commercial Banks (Provisional)	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital
6	Including: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Core tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Additional tier 1 capital instruments
8	Amount that can be included in regulatory capital (in RMB millions; on the latest reporting date)	RMB74,482	RMB24,982	RMB29,976	RMB19,983	RMB47,869
9	Par value of instrument	RMB19,865	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	28/9/2016	7/9/2015	26/10/2016	22/3/2017	27/9/2017
12	Perpetual or dated	Perpetual	Dated	Dated	Dated	Perpetual
13	Including: Original maturity date	No Maturity Date	9/9/2025	28/10/2026	24/3/2027	No Maturity Date

Main Features of Capital Instruments (Continued)

Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	
14	Issuer's redemption (subject to regulatory approval)	No	Yes	Yes	Yes	
15	Including: Redemption date (or contingent redemption date) and Amount	N/A	9/9/2020	28/10/2021	24/3/2022	The first redemption date is September 27, 2022
16	Including: Subsequent redemption date (if any)	N/A	Part or full N/A	Part or full N/A	Part or full N/A	Part or full September 27 in each year after the first redemption date
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	N/A	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	N/A	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	N/A	N/A	N/A	Noncumulative
23	Conversion into shares	No	No	No	No	Yes
24	Including: Please specify the trigger condition for share conversion, if allowed	N/A	N/A	N/A	N/A	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 non-viable; or (2) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable

Appendix IV: Composition of Capital

Main Features of Capital Instruments (Continued)

Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	
25	Including: Please specify share conversion in whole or in part, if allowed	N/A	N/A	N/A	N/A	Upon the occurrence of additional tier 1 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all or part of the issued and outstanding overseas preference shares into common H shares; upon the occurrence of tier 2 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all of the issued and outstanding overseas preference shares into common H shares
26	Including: Please specify the method to determine the conversion price, if share conversion is allowed	N/A	N/A	N/A	N/A	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 (March 24, 2017) on the Offshore Preference Shares issuance
27	Including: Please specify share conversion is mandatory or not, if it is allowed	N/A	N/A	N/A	N/A	Mandatory
28	Including: Please specify the instrument type after conversion, if allowed	N/A	N/A	N/A	N/A	Core tier 1 capital
29	Including: Please specify the issuer of the instrument type after conversion, if allowed	N/A	N/A	N/A	N/A	The Bank
30	Write-down or not	No	Yes	Yes	Yes	No

Main Features of Capital Instruments (Continued)

Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
31 Including: Please specify the trigger point of writedown, if allowed	N/A	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.	N/A
32 Including: Please specify the trigger point of write-down, if allowed	N/A	In whole	In whole	In whole	N/A
33 Including: Please specify the write-down is perpetual or temporary, if write-down is allowed	N/A	Perpetual	Perpetual	Perpetual	N/A
34 Including: Please specify the book entry value recovery mechanism, if temporary write-down	N/A	N/A	N/A	N/A	N/A

Appendix IV:
Composition of Capital

Main Features of Capital Instruments (Continued)

Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
35 Hierarchy of claims (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital instruments) and additional tier 1 capital instruments	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 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	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 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	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 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital instruments), pari passu with those capital instruments with the same repayment order
36 Does the instrument contain temporary illegible attribute? Including: If yes, please specify such attribute	No N/A	No N/A	No N/A	No N/A	No N/A

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