中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

2019 Annual Report

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

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

Stock Code: 1658
Stock Code of Preference Shares: 4612

Company Profile

The postal savings business in China can be traced back to its start in 1919 with a history of over one hundred years. In March 2007, based on the reform of the previous postal savings management system, 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. In December 2019, it was listed on the Shanghai Stock Exchange, successfully accomplishing the three-step reform, namely "joint stock reform, introduction of strategic investors and initial public offering of A and H shares".

With approximately 40,000 outlets and services covering over 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 featuring data-driven, channel coordination, interaction between wholesale and retail, and efficient operation. It has shown its superior asset quality and significant development potential, and is a leading retail 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, and strives for sustainable development. The Bank adheres to the customer-centric philosophy and has established a financial service system where online and offline services connect with each other for joint development, providing our customers with quality, convenient and efficient integrated financial services. The Bank adheres to the risk-based approach, establishes an "all aspects, whole process and entire staff" risk management philosophy, and maintains the top-notch asset quality. It continues to follow the principle of "covering both urban and rural areas and delivering services to the broad masses", and actively fulfills its social responsibilities in fields of inclusive finance, green finance, targeted poverty alleviation, etc.

After 13 years of dedicated efforts, the Bank has been playing an increasingly important role in the market with marked influence. In 2019, it ranked 22nd in The Banker's list of "Top 1000 World Banks" in terms of tier 1 capital. It has been rated A+ and A1 by Fitch and Moody's respectively, which are the same as China's sovereignty credit rating. It has been rated A by Standard & Poor's. It has been assigned the "AAAspc" rating by S&P Global (China) Ratings, the issuer credit rating, making the bank the first large state-owned commercial bank to be assigned an issuer credit rating by S&P Global (China) Ratings.

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 and intensiveness", continue to improve the quality and efficiency of serving the real economy and the ability of serving customers, and make efforts to be a first-tier large retail bank which is trustworthy, distinctive, prudent and safe, innovative, and with remarkable value.

A centennial of services, a full commitment to customers

1919

In 1919, Postal Savings Bureau, the predecessor of China Post Savings, was established to offer postal savings business.

1930

In 1930, Postal Savings and Remittance Bureau was established. Since the start, postal savings business had been adhering to the philosophy of "working on the trivial work even others despise; working towards stability rather than big profit", thus winning the fame of "Bank for the People" at that time.

1949

In 1949, Postal Savings and Remittance Bureau was taken over by People's Post, and operated under the unified guidance of People's Bank of China.

In 1950, Postal Savings and Remittance Bureau was abolished, and the postal savings business transformed into agency services, collecting personal deposits and non-operating group deposits of the public for banks.

In 1953, while the postal savings business was suspended, the Bureau continued to offer remittance and exchange services.

1986

In 1986, the postal savings business was resumed. By leveraging the advantages of postal outlets, the business widely took small-amount deposits from individuals and raised more funds for the construction of the country.

In 1993, postal savings commenced the Green Card Program.

In 2001, postal savings was linked to the national banking network.

2007

In 2007, Postal Savings Bank of China was officially established, strategically focusing on providing financial services to Sannong customers, urban and rural residents and SMEs. Relying on the agency outlets of China Post Group, the Bank established the unique "self-operated + agency" operation model in the banking industry of China.

2012

In 2012, Postal Savings Bank of China was transformed to a joint-stock company. In 2015, the Bank introduced ten strategic investors from home and abroad.

2016

In 2016, the Bank completed the initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited and gained access to international capital markets.

2019

In 2019, the Bank was formally classified as a large state-owned commercial bank and listed successfully on Shanghai Stock Exchange.

進步與您同步

TOGETHER WE MAKE IT BETTER

Contents

Definitions

"A shares"	Our ordinary shares with a nominal value of RMB1.00 each, which are subscribed for and traded in Renminbi and listed on the Shanghai Stock Exchange
"affluent 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 RMB500,000 or more as our affluent customers
"Articles of Association"	The Articles of Association of Postal Savings Bank of China Co., Ltd., as amended, supplemented and otherwise modified from time to time
"Bank/us/we/PSBC/Postal Savings Bank of China"	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, including its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets' operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiaries (where the context so requires)
"basis point(s)"	A unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
"CBIRC"/"CBRC"	China Banking and Insurance Regulatory Commission, or its predecessors, the former China Banking Regulatory Commission (where the context so requires)
"central bank/PBOC"	People's Bank of China
"China Post Group"	China Post Group Co., Ltd., a wholly state-owned company restructured from the original China Post Group Corporation in accordance with the Company Law of the People's Republic of China, is the controlling shareholder of the Bank
"corporate loans to small enterprises"	The loans by the Bank to the enterprises classified as small-, micro-, and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises

"County Area(s)"	Areas defined 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 administration 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
"Group"	Our Bank and our subsidiaries
"H shares"	Our ordinary shares with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards, and the related amendments and interpretations issued by the International Accounting Standards Board
"Latest Practicable Date"	April 13, 2020, being the latest practicable date prior to the printing of this report for ascertaining certain information contained herein
"loans to small and micro enterprises"	The loans to small and micro-sized enterprises which comply with the classification standards of the CBIRC, including the loans to small-sized enterprises, loans to micro-sized enterprises, loans to self-employed traders and loans to small and micro-sized business owners; the classification standards of enterprises strictly follow the Classification Standards of Small and Medium Enterprises

"MOF"	Ministry of Finance of the PRC
"new rules on asset management"	Guiding Opinions on Regulating Asset Management Business of Financial Institutions and other related regulations
"PRC GAAP"	The Accounting Standards for Business Enterprises issued by the MOF on February 15, 2006, and the relevant laws and regulations issued thereafter
"PSBC Consumer Finance"	PSBC Consumer Finance Company Limited
"PSBC Wealth Management"	PSBC Wealth Management Co., Ltd.
"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
"SSE"	Shanghai Stock Exchange
"SMEs"	The enterprises classified as small-, micro- and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
"Three Regions and Three Prefectures"	Tibet, four prefectures in southern Xinjiang, and the Tibetan inhabited areas in four provinces; Linxia Prefecture of Gansu Province, Liangshan Prefecture of Sichuan Province, and Nujiang Prefecture of Yunnan Province
"VIP customers"	Our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively "consolidated assets"). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers

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

Region	Branches	
"Yangtze River Delta"	• Shanghai Municipality • Jiangsu Province	• Zhejiang Province • City of Ningbo
"Pearl River Delta"	• Guangdong Province • City of Shenzhen	• Fujian Province • City of Xiamen
"Bohai Rim"	• Beijing Municipality • Tianjin Municipality • Hebei Province	• Shandong Province • City of Qingdao
"Central China"	• Shanxi Province • Hubei Province • Henan Province • Hunan Province	• Jiangxi Province • Hainan Province • Anhui Province
"Western China"	• Chongqing Municipality • Sichuan Province • Guizhou Province • Yunnan Province • Shaanxi Province • Gansu Province • Qinghai Province	• Ningxia Hui Autonomous Region • Xinjiang Uygur Autonomous Region • Tibet Autonomous Region • Inner Mongolia Autonomous Region • Guangxi Zhuang Autonomous Region
"Northeastern China"	• Liaoning Province • City of Dalian	• Jilin Province • Heilongjiang Province

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

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

Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and the senior management of the Bank undertake that the information in this report does not contain any false record, or 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 results announcement, Annual Report and highlights have been reviewed and approved at the meeting of the Board of Directors of the Bank held on March 25, 2020. There were 12 Directors of the Bank eligible for attending the meeting, among which 12 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.

The financial report of the Bank for the year 2019, prepared in accordance with PRC GAAP and IFRSs, has been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with Chinese and international auditing standards respectively, with unqualified auditor's reports issued.

In accordance with the Company Law of the People's Republic of China, Administrative Measures for Provisioning of Financial Enterprises, the Articles of Association and relevant requirements, statutory surplus reserve of RMB6,068 million was drawn and a general risk reserve of RMB12,166 million was made in 2019. On the basis of 86,978,562,200 ordinary shares of the total share capital of the Bank, RMB18,283 million (tax included) of cash dividends will be distributed to all the ordinary shareholders whose names appeared on the share register on the record date with RMB2.102 (tax included) per ten ordinary shares. Cash dividends are denominated and declared in Renminbi, and paid to holders of A shares in Renminbi and to holders of H shares in Hong Kong dollars converted at the RMB central parity rate announced by the PBOC on the day of the Bank's 2019 Annual General Meeting. The remaining undistributed profits are carried forward to the next year. The Bank did not convert its capital reserve to share capital in 2019. The aforesaid profit distribution scheme is subject to the review and approval at the 2019 Annual General Meeting. For the Bank's profits of the reporting period, please refer to "Discussion and Analysis – Analysis of Financial Statements".

The Board of Directors of Postal Savings Bank of China Co., Ltd.
March 25, 2020

Mr. Zhang Jinliang, Legal Representative of the Bank, Mr. Zhang Xuewen, Vice President in charge of finance of the Bank, and Mr. Liu Yucheng, General Manager of the Finance and Accounting Department of the Bank, hereby represent and warrant that the financial statements contained in this report are true, accurate and complete.

This report contains forward-looking statements on the Bank'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 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.

During the reporting period, the Bank didn't see any material risk that would adversely affect its future development strategies and business targets. The Bank proactively took measures to effectively manage all kinds of risks. Please refer to "Discussion and Analysis – Risk Management" for more details.

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

Corporate Information

Legal name in Chinese:	中國郵政儲蓄銀行股份有限公司(“中國郵政儲蓄銀行”)
Legal name in English:	“POSTAL SAVINGS BANK OF CHINA CO., LTD.” (“POSTAL SAVINGS BANK OF CHINA”)
Legal representative:	Zhang Jinliang
Chairman:	Zhang Jinliang
President:	Guo Xinshuang
Authorized representatives:	Yao Hong, Du Chunye
Secretary to the Board of Directors:	Du Chunye Contact telephone number: 86-10-68858158 Fax: 86-10-68858165 E-mail: ir@psbc.com
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
Investor contacts:	Postal code: 100808 Contact telephone number: 86-10-68858158 Fax: 86-10-68858165 E-mail: ir@psbc.com Website: www.psbc.com
Hotline for customer services and complaints:	86-95580

Corporate Information

Information Disclosure Media:	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Annual report available at:	Office of the Board of Directors of the Bank, No. 3 Financial Street, Xicheng District, Beijing
Unified social credit code:	9111000071093465XC
Institutional code of financial license:	B0018H111000001
A share listing, stock name, stock code and website for publication of annual report:	Stock exchange on which shares are listed: Shanghai Stock Exchange Stock name: Postal Savings Bank of China Stock code: 601658 Share Registrar: China Securities Depository and Clearing Corporation Limited, Shanghai Branch 3/F, China Insurance Building, 166 Lujiazui East Road, New Pudong District, Shanghai Website of Shanghai Stock Exchange for publication of annual report: www.sse.com.cn
H share listing, stock name, stock code and website for publication of annual report:	Stock exchange on which shares are listed: the Stock Exchange of Hong Kong Limited Stock name: Postal Savings Bank of China 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 Website of Hong Kong Stock Exchange for publication of annual report: www.hkexnews.hk
Preference share listing, stock name and stock code:	Stock exchange on which shares are listed: the Stock Exchange of Hong Kong Limited Stock name: PSBC 17USDPREF Stock code: 4612
Legal Advisor as to PRC laws:	King & Wood Mallesons
Legal Advisor as to Hong Kong laws:	Clifford Chance LLP

Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP Place of business: 11th Floor, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai Signing accountant: Ye Shaokuan, Zou Yan
International auditor:	PricewaterhouseCoopers
Sponsor for continuous supervision and guidance:	China International Capital Corporation Limited Place of business: 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing Signing sponsor: Xu Jia, Li Yifan Period of continuous supervision and guidance: December 10, 2019 to December 31, 2021 China Post Securities Co., Ltd. Place of business: No. 17, Zhushikou East Street, Dongcheng District, Beijing Signing sponsor: Li Yong, Xie Min Period of continuous supervision and guidance: December 10, 2019 to December 31, 2021

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

Financial Highlights

Financial data and indicators 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, unless otherwise stated

Item	2019	2018	2017	2016	2015
Annual operating results					
Operating income	**277,116**	261,245	224,864	189,602	190,633
Net interest income	**240,224**	234,122	188,115	157,586	179,259
Net fee and commission income	**17,085**	14,434	12,737	11,498	8,672
Operating expenses	**157,976**	152,324	147,016	129,772	123,610
Credit impairment losses	**55,384**	55,414	N/A	N/A	N/A
Impairment losses on other assets	**11**	20	N/A	N/A	N/A
Impairment losses on assets	**N/A**	N/A	26,737	16,902	25,635
Profit before income tax	**63,745**	53,487	51,111	42,928	41,388
Net profit	**61,036**	52,384	47,709	39,776	34,857
Net profit attributable to shareholders of the Bank	**60,933**	52,311	47,683	39,801	34,859
Net cash flow from operating activities	**26,443**	184,505	(399,348)	220,457	929,417
Per share data (in RMB)					
Basic and diluted earnings per share(1)	**0.72**	0.62	0.59	0.55	0.61

Note (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, unless otherwise stated

Item	December 31, 2019[4]	December 31, 2018[4]	December 31, 2017	December 31, 2016	December 31, 2015
Data as at the end of the reporting period					
Total assets	**10,216,706**	9,516,211	9,012,551	8,265,622	7,296,364
Total loans to customers[1]	**4,974,186**	4,276,865	3,630,135	3,010,648	2,471,853
Allowance for impairment losses on loans to customers[2]	**166,124**	127,327	88,564	71,431	59,258
Loans to customers, net	**4,808,062**	4,149,538	3,541,571	2,939,217	2,412,595
Investments instruments[3]	**3,675,030**	3,387,487	3,167,033	3,463,841	2,986,667
Cash and deposits with central bank	**1,154,843**	1,202,935	1,411,962	1,310,273	1,131,231
Total liabilities	**9,671,827**	9,040,898	8,581,194	7,918,734	7,025,533
Customer deposits[1]	**9,314,066**	8,627,440	8,062,659	7,286,311	6,305,014
Equity attributable to shareholders of the Bank	**543,867**	474,404	430,973	346,530	270,448
Net capital	**671,834**	593,729	555,445	444,919	329,848
Core tier 1 capital, net	**492,212**	421,678	381,673	344,817	269,008
Additional tier 1 capital, net	**47,948**	47,927	47,887	6	1
Risk-weighted assets	**4,969,658**	4,316,219	4,440,497	3,995,908	3,153,015
Per share data (in RMB)					
Net assets per share[5]	**5.75**	5.26	4.73	4.28	–

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

Note (2): 2018-2019 data is the allowance for impairment losses on loans to customers at amortized cost.

Note (3): 2018-2019 data consists of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost. 2015-2017 data consists of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment classified as receivables.

Note (4): In accordance with the relevant regulations under the Notice on Amending the Format of Financial Statements for Financial Enterprises in 2018 (Cai Kuai [2018] No.36) issued by the Ministry of Finance, the book value of the balance of each financial instrument in 2018 consists of the interest from corresponding assets and liabilities, 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 receivable or interest payable on relevant matured financial instruments but not received nor paid on the date of the balance sheet.

Note (5): Calculated by dividing equity attributable to shareholders of the Bank (after deducting other equity instruments) at the end of the period by the total number of ordinary shares at the end of the period.

Financial Indicators

Item	2019	2018	2017	2016	2015
Profitability (%)					
Return on average total assets[1]	**0.62**	0.57	0.55	0.51	0.51
Return on weighted average equity[2]	**13.10**	12.31	13.07	13.44	16.98
Net interest margin[3]	**2.50**	2.67	2.40	2.24	2.78
Net interest spread[4]	**2.45**	2.64	2.46	2.34	2.71
Net fee and commission income to operating income ratio	**6.17**	5.53	5.66	6.06	4.55
Cost to income ratio[5]	**56.29**	57.60	64.64	66.44	60.71

Item	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Asset quality (%)					
Non-performing loans ratio[6]	**0.86**	0.86	0.75	0.87	0.80
Allowance to NPLs ratio[7]	**389.45**	346.80	324.77	271.69	298.15
Allowance to loans ratio[8]	**3.35**	2.99	2.44	2.37	2.40
Capital adequacy ratio (%)					
Core tier 1 capital adequacy ratio[9]	**9.90**	9.77	8.60	8.63	8.53
Tier 1 capital adequacy ratio[10]	**10.87**	10.88	9.67	8.63	8.53
Capital adequacy ratio[11]	**13.52**	13.76	12.51	11.13	10.46
Risk-weighted assets to total assets ratio[12]	**48.64**	45.36	49.27	48.34	43.21
Total equity to total assets ratio	**5.33**	4.99	4.79	4.20	3.71

Note (1): Represents net profit as a percentage of average balance of total assets at the beginning and the end of the period.

Note (2): Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CSRC. Non-recurring gains and losses are not deducted.

Note (3): Calculated by dividing net interest income by the average balance of interest-earning assets.

Note (4): Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

Note (5): Calculated by dividing total operating expense (excluding taxes and surcharges) by operating income.

Note (6): Calculated by dividing total non-performing loans by the total loans to customers.

Note (7): 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 in the year of 2018 and 2019 on loans at fair value through other comprehensive income.

Note (8): Calculated by dividing total allowance for impairment losses on loans to customers by total loans to customers.

Note (9): Calculated by dividing core tier 1 capital (net of core tier 1 capital deductions) by risk-weighted assets.

Note (10): Calculated by dividing tier 1 capital (net of tier 1 capital deductions) by risk-weighted assets.

Note (11): Calculated by dividing total capital (net of capital deductions) by risk-weighted assets.

Note (12): Calculated by dividing risk-weighted assets by total assets.

Other Major Indicators

Item	Regulatory criteria		**December 31, 2019**	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Liquidity ratio (%)[1]	RMB and foreign currency	≥25	**67.96**	61.17	42.10	38.37	33.96
Percentage of loans to the largest single customer (%)[2]		≤10	**27.19**	29.78	35.04	44.34	73.70
Percentage of loans to the ten largest customers (%)			**39.42**	41.39	47.80	71.23	94.44
Loan migration ratio (%)	Normal		**1.28**	1.24	1.61	1.58	2.15
	Special mention		**16.42**	25.01	21.39	12.95	6.53
	Substandard		**63.32**	75.09	92.74	88.37	87.94
	Doubtful		**81.80**	83.55	88.95	80.28	81.94

Note (1): Calculated by dividing current assets by current liabilities.

Note (2): Percentage of loans to the largest single customer = total loans to the largest customer/net capital × 100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2019, China State Railway Group Co., Ltd. was the Bank's largest single borrower. The outstanding loan balance with China State Railway Group Co., Ltd. was RMB182,673 million, accounting for 27.19% of the Bank's net capital. The credit line the Bank extended to China State Railway Group Co., Ltd. includes the legacy credit line of RMB240.0 billion which was approved by CBIRC. As of December 31, 2019, the outstanding loan balance under such credit line approved by CBIRC for China State Railway Group Co., Ltd. was RMB165.0 billion. After deduction of this RMB165.0 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.63% of the Bank's net capital.

Credit Rating

Item	**2019**	2018	2017	2016	2015
Standard & Poor's	**A (stable)**	A (stable)	A (stable)	–	–
Moody's Investors Service	**A1 (stable)**	A1 (stable)	A2 (positive)	–	–
Fitch Ratings	**A+ (stable)**	A+ (stable)	A+ (stable)	–	–
S&P Global (China) Ratings	**AAAspc (stable)**	–	–	–	–
CCXI	**AAA (stable)**	AAA (stable)	AAA (stable)	AAA (stable)	AAA (stable)

Quarterly Financial Data

In millions of RMB

	2019			
Item	Q1	Q2	Q3	**Q4**
Operating income	68,474	73,230	68,854	**66,558**
Net profit attributable to shareholders of the Bank	18,520	18,861	16,907	**6,645**
Net cash flow from operating activities	346,421	(233,150)	(26,701)	**(60,127)**

Rankings and Awards

Rankings

The Banker (UK)
Ranked 22nd in the list of "Top 1000 World Banks" in terms of tier 1 capital at the end of 2018

Forbes
Ranked 60th in the list of Global 2000 – the World's 2000 Largest Public Companies

Fortune China
Ranked 37th in the list of China Top 500 Companies in terms of operating income in 2018

Awards

Awards	Issued by
Bank Technology Development Award	People's Bank of China
Excellent Organizer of Joint Financial Education and Publicity Campaign	CBIRC Financial Rights Protection Bureau
Excellent Organizer in the "3.15" Consumer Rights Protection Education and Publicity Week of the Banking Industry and Insurance Industry	CBIRC Financial Rights Protection Bureau
Best Performance for Inclusive Finance	China Banking Association
Award for Helping to Win the "Three Critical Battles"	China Banking Association
Award for Innovation Practice	Payment & Clearing Association of China
Award for Convenience Service	Payment & Clearing Association of China
Outstanding Institution for Treasury Savings Bonds (Digital)	China Central Depository & Clearing Co. Ltd.
Core Dealer at the Interbank Local Currency Market	National Interbank Funding Center
Top 100 Hong Kong Listed Enterprises – Comprehensive Strength	Top 100 Hong Kong Listed Companies Research Centre
Listed Company with the Best Brand Value	China Securities Golden Bauhinia Awards Committee
Best Retail Bank	Global Finance
Best Retail Bank for Inclusive Finance	Asiamoney

Awards	Issued by
Best Listed Company Award	China Financial Market
Top Ten Financial Institutions for Financial Innovation Service to the Real Economy	Hong Kong Commercial Daily
Significant Contribution Award in Financial Technology Innovation	Financial Computerizing
Top Ten FinTech Innovation Award	The Chinese Banker
Best Commercial Bank of the Year	Financial Times
Best Risk Management Bank of the Year	Financial Times
Golden Financial Management Award for Excellent Asset Management Bank of the Year	Shanghai Securities News
Tianji Award for Mobile Banking	Securities Times
Excellent Service Entity for the Real Economy	Securities Daily
Most Promising Retail Bank of the Year	Caijing Magazine
Asian Excellent Retail Bank of the Year	21st Century Media
Excellent Bank of the Year for Green Finance Practice	The Economic Observer
Excellent CSR Case of Financial Company in China	National Business Daily
Best CSR Award from China Business Journal	China Business Journal
Bank of the Year on Small and Micro Financial Services	China Times
Award for Poverty Alleviation of the Year	People.cn

Awards	Issued by
Pioneer Organization on Financial Poverty Alleviation	China.com.cn
Credit Card of the Year	The Paper
State-owned Commercial Bank of the Year	JIEMIAN
Best Bank in Social Responsibility Performance	Eastmoney.com
Outstanding Innovation Award for Smart Outlets	JRJ.com
Outstanding Asset Custody Bank Award	JRJ.com

Zhang Jinliang

Chairman

Messages from the Chairman and President

Message from the Chairman

Time stops for no one, but diligence pays off. PSBC is embracing the milestone of strategic significance in its history of reform and development. Standing at a new starting point, we are full of aspirations and ambitions.

Looking back at the past year, we have gained full confidence.

The year of 2019 marked the 70th anniversary of the founding of the People's Republic of China and also an extraordinary year in the history of the Bank. In the year, we upheld Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, resolutely implemented the decisions and plans of the CPC Central Committee and the State Council, spared no effort to serve economic and social development, advanced reform and innovation with keen determination, and forged ahead with confidence.

In the past year, adhering to value creation, we sought progress amid stability and kept ourselves aligned with the trend, with business results being continuously improved. The Bank recorded a net profit of RMB61,036 million, representing an increase of 16.52%, and the return on average equity reached 13.10%, showing stronger capability on value creation; net interest spread was 2.45% and net interest margin was 2.50%, continuing to be leading in the banking industry. NPL ratio of the Bank was 0.86%, and allowance to NPLs ratio was 389.45%, indicating good quality of development and enhanced capability of risk management. The Bank was again assigned the highest credit ratings in the Chinese banking industry by the three major international rating agencies including Fitch, Moody's and S&P.

In the past year, keeping firmly in mind the mission of "the Post of the People and for the People" and the philosophy of "covering both urban and rural areas and delivering services to the broad masses", we actively participated in economic and social development and fully fulfilled our responsibility as a corporate citizen. We actively carried out innovation on inclusive finance, and played a unique role in serving Sannong, urban and rural residents, and SMEs. We incorporated the concept of green development into operation management and business development by actively refining the credit structure and making innovations in green financial products and services, to contribute to protecting lucid waters and lush mountains and building a beautiful China. Staying true to the vision of people-centered development, we fully enhanced the protection of financial rights, and safeguarded the legal rights and interests of the customers.

In the past year, we continued to deepen reform and advance transformation by fully releasing vitality and fostering new drivers of growth. The Bank was successfully listed on the A share market as the largest IPO in almost a decade, being the last large state-owned bank listed in both A share and H share markets. The aspiring melody of "Together We Make It Better" never stops. Being a deposit institution engaged mainly in liability business before establishment, the Bank has grown into a full-fledged public bank with nearly 40,000 outlets, over 600 million individual customers, more than RMB9 trillion of deposit balance, nearly RMB5 trillion of loan balance and over RMB10 trillion of total assets, which is a historical leap forward. The Bank implemented the "13th Five-Year" plan on IT construction at a faster pace, and initialized the development of a new-generation core banking system. We invested RMB8,180 million in information technology, accounting for 2.96% of the operating income. We set up PSBC Wealth Management to promote standardized, professional and market-oriented development of asset management business. We advanced the strategy for a stronger headquarter by optimizing the organizational structure at the Head Office, in order to build a strong and efficient core that is knowledge-based, innovation-driven and service-oriented, and also to make the Head Office a powerful backbone to lead and bolster transformation across the Bank.

Looking into the year ahead, we are full of expectations.

The unexpected COVID-19 pandemic will not revert the sound economic fundamentals of China which will remain sound over the long term, and the development of China will remain in the period of strategic opportunity. The pandemic has accelerated changes in people's lifestyle and business models, forcing commercial banks to speed up business transformation and reshape service models. As the youngest large state-owned bank in China, we will remain true to our original aspiration and keep our mission firmly in mind. We will leverage the uniqueness on management and resources based on "directly-operated outlets + agency outlets", and cement our strengths in network, customer, fund and asset quality. We will serve customers with sincerity, continuously create value for shareholders, make active contributions to society, and shoulder our responsibility as a large bank. Facing a market environment with faster disintermediation, continued interest rate liberalization and fiercer horizontal and vertical competitions, we will put on the spirit of "united as one, we shall work harder; the greater the difficulty, the further we advance", be prepared on all sides for a hard fight, advance strategies and transformation in a deep-going way, continue to deepen the institutional reform on business operations and the innovation in business models, and accelerate the formation of a competitive advantage based on the uniqueness of the Bank.

In the new year, we will continue to review and improve our strategies from perspectives of customers, competitors and best practices in the industry, and create a new highland for transformation and development. **We will** bear firmly in mind our original aspiration and mission of serving the real economy and meeting people's wishes for a better life, put more efforts on development of financial services to Sannong and small and micro enterprises, deeply advance targeted poverty alleviation through financial services, and pioneer in inclusive finance, in order to nourish the "body" of real economy with financial "blood". **We will** continue to improve the "all aspects, whole process and entire staff" risk management system, take strict measures on risk and compliance management, firmly guard the "Three Sluices" including the control of new exposures, management of existing exposures and disposal of NPLs, and maintain a balance sheet as clean and healthy as we want our eyes to be. **We will** reshape the organizational structure to forge first-class corporate governance capability. For key businesses and business segments faced with intense market competitions, we will make them more market-oriented and vitalized through ways such as setting up subsidiaries and business departments. **We will** broaden our vision on selection and appointment of managers, and via integration of internal cultivation and external recruitment, we aim to cultivate a large number of managerial and technical talents who will play a leading role in market competition and business transformation. The evaluation and motivation mechanism will be optimized and the staff banding structure will be enriched to widen the space of career development for employees. In addition, a competitive remuneration system will be developed to better motivate and retain talents. We will provide a stage vast enough for our employees to chase their dreams.

In the new year, we will firmly seize the new opportunities of business reform, accelerate digital, agile and scenario-based transformation, start a "Second Curve" of growth, and acquire new momentum for future development. **We will** implement the strategy of development through technology, by allocating at least 3% of our annual operating income on IT investment every year. We will work faster to recruit more talents on technology and to double the number of IT staff by the end of 2023. We will vigorously promote the development of a new-generation core banking system and foster an enterprise-level IT platform with our own characteristics. **We will** work faster to set up an agile organization, develop agile systems and conduct agile businesses. Agile development will be applied to key projects such as mobile banking, Internet loans, credit card, transaction banking and channel operation, to quickly respond to market changes and customer demands. **We will** enthusiastically embrace the upcoming "touchless business" model, and work faster to build an ecosystem in which online and offline are integrated and finance and non-finance interact with each other. We will promote the establishment of the "YOU Life" service platform at a faster pace, and link high-frequency consumption scenarios extensively to seamlessly embed financial products and services into customers' production and living scenarios. Through deep integration of online scenarios and offline services, we will provide convenient and warm services, which are available "anytime, anywhere and in any way", to enterprises and individuals in urban and rural areas. **We will**, following the concept of openness, sharing and mutual benefit, create an open bank. We will deepen cooperation with leading Internet platforms in areas such as user diversion, product innovation, customer journey optimization and customer experience improvement, to evolve "Internet +" into "Internet ×". More emphasis will be placed on big data. Based on nearly 40,000 outlets, the Bank will forge "micro business circles" pervading urban and rural areas and connecting all households, to achieve extensive and precise customer acquisition, activation and retention.

In the new year, we will adhere to coordinated development and work faster to build a "moat" with PSBC characteristics. **We will**, by leveraging on China Post's pan-coordination system encompassing "universal services, courier services, e-commerce and finance", bring into full play the uniqueness of the Bank featuring all scenarios and all customer groups. **We will** improve the mechanism on coordination among various sectors of China Post Group and promote the implementation of key collaboration projects such as auto industry chain, agriculture-related services, government services, pharmaceutical market and open payment platform, to achieve new breakthroughs in the synergetic development of "postal, banking, insurance, securities and courier services".

A history of over one hundred years has bestowed the Bank with the momentum for sound and fast growth, and profound changes are still being expected for a new start. As a major state-owned bank in the new era, we will continue to press ahead along the tide of history, never obsessed with idle dreams or intimidated by blusters, and take solid steps forward with diligence, in order to build a first-tier and modern commercial bank with dedication, responsibility, uniqueness and value. Having gone through a century of ups and downs, postal finance, ancient but still young, will radiate with new vigor in the new era.

We will seize the day and forge ahead with greater confidence!

Guo Xinshuang
President

Message from the President

The year 2019 marked the 12th anniversary of the founding of the Bank. 12 years is a cycle in the Chinese Lunar Calendar and also indicates a new start. In the year, by firmly seizing the important historical juncture between the preceding and the following, the Bank reaped gains through hard work and forged ahead with confidence. We implemented major policies and plans made by the CPC Central Committee and the State Council, resolutely served the real economy, and prevented and controlled financial risks through deepened reform. In the course of transformation towards “uniqueness, comprehensiveness, lightness, intelligence and intensiveness”, we presented satisfactory performance results to the investors.

With value creation as the orientation, the Bank achieved progress while maintaining stability. The Bank’s total assets reached RMB10.22 trillion and total liabilities amounted to RMB9.67 trillion; the operating income and net profit stood at RMB277,116 million and RMB61,036 million, indicating a year-on-year increase of 6.08% and 16.52% respectively. Along with steady growth, the Bank also saw continual improvement of profitability and enhanced capacity on value creation. Ratios, such as return on total assets, return on average equity and ratio of intermediary business income, continued to improve, and net interest margin and net interest spread remained superior in the industry. The Bank obtained excellent issuer credit ratings by the three major international rating agencies. We ranked 22nd in The Banker’s list of “Top 1000 World Banks” in 2019 in terms of tier 1 capital, demonstrating stronger market competitiveness.

With deepening of reform as the momentum, the Bank built a better governance system. On December 10, 2019, the Bank went public on the Shanghai Stock Exchange through the biggest A share IPO in almost a decade with as much as RMB32.7 billion raised. Established in 2007, the Bank spent 13 years growing into a major state-owned commercial bank with distinct retail characteristics and listed on the A and H share markets, accomplishing the three-step reform of “joint stock reform, introduction of strategic investors and initial public offering of A and H shares”. In the meantime, we drew up a new round of development strategies and plans, and took solid steps in strategy implementation and reorganization. We reformed the organizational structure at the Head Office and revitalized the Bank through a differentiated incentive mechanism for front, middle and back offices. We established PSBC Wealth Management, a wholly-owned subsidiary, to enhance our ability to meet the diversified needs of customers on investment and wealth management.

With returning to the real economy as the fundamental mission, the Bank achieved further improvement in service quality and efficiency. We adhered to the positioning of serving Sannong, urban and rural residents and SMEs, and exerted the advantages on fund and network to assist in high-quality economic development. Determined to support small, micro and private businesses with better services, the Bank granted inclusive loans with reasonable interest rates to 1,516,000 small and micro enterprises with a balance of RMB653,185 million, ranking among the top in the industry, and new loans to private enterprises took up a larger proportion. We worked harder to help win the critical battle of targeted poverty alleviation, and the balance of loans on targeted poverty alleviation amounted to RMB82,456 million, representing an increase of RMB21,259 million. We strongly supported the rural revitalization strategy, and the balance of agriculture-related loans reached RMB1.26 trillion. The Bank also proactively contributed to the implementation of national strategies. In particular, we set up Xiongan Branch in Hebei Province, and the balance of loans in support of projects related to the coordinated development of Beijing-Tianjin-Hebei region amounted to RMB59,803 million. We stepped up efforts to serve the Belt and Road Initiative, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Economic Belt. The percentage of green loan balance stood high among the peers.

With technological empowerment as the driver, the Bank made breakthroughs in transformation and innovation. Being fully aware that time and tide wait for no one, the Bank took bold strides in IT development via improving organizational structure, recruiting more talents and delivering more incentives. As of the end of the reporting period, the number of IT personnel at the Head Office was doubled, and the Bank's ability on IT development, innovation, risk control, and operation was notably enhanced. With technology as the driver, the Bank achieved breakthroughs in the "new retail" transformation. We promoted the "PSBC Canteen" nationwide with a total of 11,387,100 real-name-verified members, and accelerated the development of Internet loans, among which "Speedy Micro Loan", a self-developed product by the Bank, recorded an annual accumulative amount of over RMB40.0 billion and a balance of approximately RMB30.0 billion. We also granted nearly RMB100.0 billion loans through cooperation with Internet platforms, built an open payment platform with a focus on livelihood services in tier-3 and lower-tier cities, and won more than 1,300 partners within half a year. Additionally, we moved faster in the application and innovation of new technologies, applied blockchain, AI and IoT in a wider scope, and put into use such systems as the centralized authorization robot at outlets.

With risk compliance as the bottom line, the Bank achieved better asset quality. The Bank earnestly implemented the central government's decisions and plans for forestalling and defusing major risks. We further fortified an "all aspects, whole process and entire staff" comprehensive risk management system, reviewed asset risks across the Bank, strengthened the effectiveness of the "three lines of defense", and intensified risk control measures in key areas such as real estate and hidden local government debts, thus achieving superior asset quality above the industrial average. As of the end of the reporting period, the Bank registered an NPL balance of RMB42,844 million, NPL ratio of 0.86%, and allowance to NPLs ratio of 389.45%. The core tier 1 capital adequacy ratio reached 9.90%, representing an increase of 0.13 percentage point from the prior year-end and indicating improved risk resilience of the Bank.

The year 2020 is the final year of completing the building of a moderately prosperous society in all respects and accomplishing the 13th Five-year Plan. Despite the big impact of the COVID-19 pandemic on the global economic and social development and rising risks and uncertainties, China, which has been making continuous progress in containing the pandemic and is working faster to restore production and living order, is gradually unleashing great potential and strong momentum for development. Through the listing on the A share market and the successful issuance of perpetual bonds, the Bank has further cemented its capital base and strengthened the capability to address pressure and challenges and to support the real economy. We will follow General Secretary Xi Jinping's requirement of "united as one, we shall work harder; the greater the difficulty, the further we advance", continue to strengthen our capabilities, actively seek opportunities, and strive to turn stress into motivation and crises into opportunities. Centered on customers and oriented by value creation, we will empower the Bank with transformation, technology, talent and organization. We will shoulder our responsibilities as a major state-owned bank by supporting corporate and individual customers through difficulties, while seeking new growth poles and serving new economic momentum with market-oriented approaches.

"The old leaves fall as new leaves sprout, and the waves behind drive on those before." The century-old postal savings business, which has gone through many ups and downs, is striving toward a fresh start. The spring will always come in spite of wind and rain. PSBC will be aligned with the new era, move forward with the motherland, and provide better services to customers, larger growth room to employees and greater return to investors, so as not to disappoint the support and care that all sectors of society have shown to us.

Chen Yuejun

Chairman of the
Board of Supervisors

Discussion and Analysis

Environment and Prospect

In 2019, the global economic growth slowed down. Central banks of more than 40 developed and emerging economies cut interest rates, and monetary policies became looser. Financial vulnerability continued to accumulate, and regulatory constraints on the banking system continued to strengthen. The global banking industry operated in a low-growth and low-interest rate environment. The banking industries of the U.S. and Japan were relatively stable, and the European banking industry continued to adjust, while the banking industries of some emerging economies were faced downward pressure on asset quality.

Facing a complex and severe external environment, China continued the supply-side structural reform as the top priority, and focused on keeping employment, the financial sector, foreign trade, foreign and domestic investments, and expectations stable ("Six Stables"), achieving sustainable and healthy economic and social development. Prudent monetary policies brought about remarkable results. The RMB exchange rate remained stable at a reasonable and balanced level, the market-based reform of interest rates was continuously deepened, and the transmission efficiency of monetary policy was significantly improved. China's banking sector continued to maintain a good momentum for development with its risk control capability remained sound, loan structure consistently optimized, ability to serve the real economy constantly strengthened, and business profitability maintained at a stable level.

Looking forward to 2020, the novel coronavirus pneumonia pandemic will have a greater impact on the economy and society. However, the impacts of the pandemic are generally manageable. Basic trend of a long-term positive performance of China's economy fundamentals has not changed, but there are some challenges in different aspects. From an international perspective, the global economy is still in a period of deep adjustment after the international financial crisis, and external instabilities and uncertainties are increasing significantly. The pandemic has triggered a new wave of interest rate cuts worldwide. The banking industry will continue to face a low-growth and low-interest rate development environment, and business development will confront greater challenges. From a domestic perspective, the economy has been transitioning from a phase of rapid growth to a stage of high-quality development, with the structural, systematic and cyclical problems intertwined. The impacts of dealing simultaneously with the slowdown in economic growth, making difficult structural adjustments, and absorbing the effects of the previous economic stimulus polices will continue to deepen, and the downward pressure on the economy will increase. China will strengthen measures to maintain the "Six Stables", enhance the strength of policy adjustment, strive to achieve the goal of economic and social development for the year, and ensure the establishment of a moderately prosperous society in all respects and completion of "13th Five-Year Plan". The banking industry will continue to promote the financial supply-side structural reform and better serve the real economy.

In 2020, we will fully implement the guiding principles of the Party's 19th National Congress, and the Second, Third and Fourth Plenary Sessions of the 19th Central Committee, as well as the Central Economic Work Conference. We will adhere to the strategic positioning of retail banking, and focus on the strategic vision of constructing a first-tier large retail bank which is trustworthy, distinctive, prudent and safe, innovative, and with remarkable value. In order to explore new prospects for the construction of a modern and first-tier commercial bank, we will fully promote the empowerment of transformation, technology, human capital and governance. Firstly, we will speed up business transformation and development comprehensively. We are going to transform the retail business into a "new retail" mode for further growth, accelerate the development of the corporate business, and improve the development quality and efficiency of treasury business and asset management business. Secondly, we will strengthen risk management comprehensively. We will firmly establish an "all aspects, whole process and entire staff" risk management philosophy, adhere to the general risk management requirements of "clear responsibility, transparent situation, early insight, quick action, more ideas and strict assessment", resolutely engaging in the fight to forestall and defuse major risks. Thirdly, we will strengthen the application of technologies comprehensively. We will pursue digital transformation as our main task, establish an institutional mechanism which is compatible with digital transformation, promote deep integration of technology and business, and focus on enhancing the core competitiveness of information technology. Fourthly, we will deepen institutional and mechanism reform comprehensively. We are going to establish a long-term mechanism for capital replenishment, continue to deepen the organizational restructuring and the systematic transformation of outlets.

Analysis of Financial Statements

Income Statement Analysis

In 2019, the Group adhered to the new development concept, unwaveringly served the real economy, prevented financial risks, and continued to deepen reforms, recording a steady increase in profits, with a net profit of RMB61,036 million, representing an increase of RMB8,652 million or 16.52% over the prior year. The operating income reached RMB277,116 million, representing a year-on-year increase of RMB15,871 million or 6.08%.

Changes of Principal Components in the Income Statement

In millions of RMB, except for percentages

Item	2019	2018	Increase/ (decrease)	Change (%)
Net interest income	**240,224**	234,122	6,102	2.61
Net fee and commission income	**17,085**	14,434	2,651	18.37
Net other non-interest income	**19,807**	12,689	7,118	56.10
Operating income	**277,116**	261,245	15,871	6.08
Less: Operating expenses	**157,976**	152,324	5,652	3.71
Credit impairment losses	**55,384**	55,414	(30)	(0.05)
Impairment losses on other assets	**11**	20	(9)	(45.00)
Profit before income tax	**63,745**	53,487	10,258	19.18
Less: Income tax expenses	**2,709**	1,103	1,606	145.60
Net profit	**61,036**	52,384	8,652	16.52
Attributable to shareholders of the Bank	**60,933**	52,311	8,622	16.48
Attributable to non-controlling interests	**103**	73	30	41.10
Other comprehensive income	**(1,274)**	3,979	(5,253)	(132.02)
Total comprehensive income	**59,762**	56,363	3,399	6.03

Net Interest Income

During the reporting period, the Group's net interest income amounted to RMB240,224 million, representing an increase of RMB6,102 million or 2.61% compared with the prior year. Net interest margin and net interest spread were 2.50% and 2.45% respectively, representing a decrease of 17 basis points and 19 basis points respectively from the prior year. The Group continued to optimize the asset and liability structure while maintaining a moderate growth of interest-earning assets, and the proportion of high-yield assets such as loans to customers and investment increased further. However, due to factors such as the market environment and fierce competition over deposits, the average yield of total interest-earning assets declined, and the average cost of total interest-bearing liabilities increased.

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

In millions of RMB, except for percentages

Item	2019 Average balance	2019 Interest income/ expense	2019 Average yield/cost (%)	2018 Average balance	2018 Interest income/ expense	2018 Average yield/cost (%)
Assets						
Total loans to customers	4,655,906	224,862	4.83	3,990,665	197,752	4.96
Investment[(1)]	3,318,424	126,293	3.81	2,783,229	110,185	3.96
Deposits with central bank[(2)]	1,106,858	17,784	1.61	1,212,556	19,643	1.62
Deposits and placements with banks and other financial institutions[(3)]	523,770	19,299	3.68	788,905	32,586	4.13
Total interest-earning assets	9,604,958	388,238	4.04	8,775,355	360,166	4.10
Allowance for impairment losses on assets	(165,074)	–	–	(115,022)	–	–
Non-interest earning assets[(4)]	690,696	–	–	579,069	–	–
Total assets	10,130,580	–	–	9,239,402	–	–
Liabilities						
Customer deposits	9,001,335	139,918	1.55	8,337,560	117,836	1.41
Deposits and placements from banks and other financial institutions[(5)]	207,514	4,637	2.23	215,010	5,149	2.39
Debt securities issued[(6)]	90,302	3,459	3.83	75,911	3,059	4.03
Total interest-bearing liabilities	9,299,151	148,014	1.59	8,628,481	126,044	1.46
Non-interest bearing liabilities[(7)]	156,558	–	–	168,485	–	–
Total liabilities	9,455,709	–	–	8,796,966	–	–
Net interest income	–	240,224	–	–	234,122	–
Net interest spread[(8)]	–	–	2.45	–	–	2.64
Net interest margin[(9)]	–	–	2.50	–	–	2.67

Note (1): Consists of interest-earning assets in financial assets at fair value through other comprehensive income and financial assets at amortized cost.

Note (2): Consists of statutory deposit reserves and surplus deposit reserves.

Note (3): Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.

Note (4): Consists of financial assets at fair value through profit or loss, cash, property and equipment, derivative financial assets, deferred tax assets and other assets.

Note (5): Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Note (6): Consists of qualified tier 2 capital instruments issued and interbank certificates of deposit.

Note (7): Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, employee benefits payable, liabilities for agency services, tax payable and other liabilities.

Note (8): Calculated as the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

Note (9): Calculated by dividing net interest income by the average balance of total interest-earning assets.

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

In millions of RMB

Item	2019 vs 2018 Increase/(decrease) Volume[1]	Interest rate[2]	Total[3]
Assets			
Total loans to customers	32,129	(5,019)	27,110
Investment	20,368	(4,260)	16,108
Deposits with central bank	(1,698)	(161)	(1,859)
Deposits and placements with banks and other financial institutions	(9,769)	(3,518)	(13,287)
Total changes in interest income	41,030	(12,958)	28,072
Liabilities			
Customer deposits	10,318	11,764	22,082
Deposits and placements from banks and other financial institutions	(167)	(345)	(512)
Debt securities issued	551	(151)	400
Total changes in interest expense	10,702	11,268	21,970
Changes in net interest income	30,328	(24,226)	6,102

Note (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.

Note (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.

Note (3): Represents the difference between the interest income/expense for the period and the interest income/expense for the previous period.

Interest Income

During the reporting period, the Group's interest income amounted to RMB388,238 million, representing an increase of RMB28,072 million, or 7.79% compared with the prior year, primarily due to an increase in average balance of interest-bearing assets such as loans to customers and investment, and an increase in the yield of personal loans.

Interest Income from Loans to Customers

During the reporting period, the Group's interest income from loans to customers amounted to RMB224,862 million, representing an increase of RMB27,110 million, or 13.71% compared with the prior year. The Group's interest income from corporate loans amounted to RMB72,665 million, representing an increase of RMB3,919 million, or 5.70% compared with the prior year. Interest income from personal loans amounted to RMB137,250 million, representing an increase of RMB22,093 million, or 19.19% compared with the prior year. The Group actively promoted the retail banking strategy and fully tapped the needs of consumer credit customers, leading to a steady development in the consumer credit business. Meanwhile, the Group actively served the country's strategic planning and economic restructuring and upgrading, increasing credit support for livelihood projects, emerging strategic industries and poverty alleviation. The average balance of various types of loans grew rapidly.

Analysis on Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

	2019			2018		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans	**1,671,447**	**72,665**	**4.35**	1,532,947	68,746	4.48
Discounted bills	**458,181**	**14,947**	**3.26**	307,981	13,849	4.50
Personal loans	**2,526,278**	**137,250**	**5.43**	2,149,737	115,157	5.36
Total loans to customers	**4,655,906**	**224,862**	**4.83**	3,990,665	197,752	4.96

Analysis on Average Yield of Loans to Customers by Maturity Structure

In millions of RMB, except for percentages

	2019			2018		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Short-term loans	**1,795,307**	**80,000**	**4.46**	1,526,421	72,469	4.75
Medium- and long-term loans	**2,860,599**	**144,862**	**5.06**	2,464,244	125,283	5.08
Total loans and advances to customers	**4,655,906**	**224,862**	**4.83**	3,990,665	197,752	4.96

Interest Income from Investment

During the reporting period, the Group's interest income from investment amounted to RMB126,293 million, representing an increase of RMB16,108 million or 14.62% compared with the prior year. The Group strengthened market research and assessment, actively seized market opportunities, and properly scheduled asset allocation, continuously optimizing the investment structure and increasing the scale of investment.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB17,784 million, representing a decrease of RMB1,859 million, or 9.46% compared with the prior year, primarily due to a decrease of the average balance of deposits caused by the cut to the reserve requirement ratio by the central bank.

Interest Income from Amounts Due from Banks and Other Financial Institutions

During the reporting period, the Group's interest income from amounts due from banks and other financial institutions amounted to RMB19,299 million, representing a decrease of RMB13,287 million, or 40.78% compared with the prior year. This was mainly due to the impact of the market environment, causing a decrease in both the size and average yield of deposits and placements with banks and other financial institutions.

Interest Expense

During the reporting period, the Group's interest expense amounted to RMB148,014 million, representing an increase of RMB21,970 million, or 17.43% compared with 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 RMB139,918 million, accounting for 94.53% of total interest expense and representing an increase of RMB22,082 million, or 18.74% compared with the prior year, primarily due to an increase of RMB663,775 million in the average balance of customer deposits and an increase of 14 basis points in the average cost caused by intensified competition over deposits.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	2019 Average balance	2019 Interest expense	2019 Average cost (%)	2018 Average balance	2018 Interest expense	2018 Average cost (%)
Corporate deposits						
Time	376,395	8,529	2.27	383,964	8,122	2.12
Demand	803,581	5,774	0.72	825,342	8,146	0.99
Subtotal	1,179,976	14,303	1.21	1,209,306	16,268	1.35
Personal deposits						
Time	5,278,666	117,780	2.23	4,630,411	93,819	2.03
Demand	2,542,693	7,835	0.31	2,497,843	7,749	0.31
Subtotal	7,821,359	125,615	1.61	7,128,254	101,568	1.42
Total customer deposits	9,001,335	139,918	1.55	8,337,560	117,836	1.41

Interest Expense on Amounts Due to Banks and Other Financial Institutions

During the reporting period, the Group's interest expense on amounts due to banks and other financial institutions amounted to RMB4,637 million, representing a decrease of RMB512 million, or 9.94% compared with the prior year, mainly due to the decrease in both the size and average cost of amounts due to banks and other financial institutions caused by the Bank's efforts to optimize the liability structure and the impact of the market environment.

Interest Expense on Debt Securities Issued

During the reporting period, the Group's interest expense on debt securities issued amounted to RMB3,459 million, representing an increase of RMB400 million, or 13.08% compared with the prior year, primarily due to an increase in the volume of interbank certificates of deposit issued by the Group.

Net Fee and Commission Income

During the reporting period, net fee and commission income of the Group amounted to RMB17,085 million, representing an increase of RMB2,651 million, or 18.37% compared with the prior year. In particular, fee and commission income increased by RMB2,834 million, representing an increase of 9.73%; fee and commission expense increased by RMB183 million, representing an increase of 1.24%.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2019	2018	Increase/ (decrease)	Change (%)
Bank cards and POS	**14,672**	12,952	1,720	13.28
Settlement and clearing	**7,523**	5,985	1,538	25.70
Agency service business	**4,556**	4,330	226	5.22
Wealth management business	**3,950**	4,589	(639)	(13.92)
Custodian business	**780**	830	(50)	(6.02)
Others	**494**	455	39	8.57
Fee and commission income	**31,975**	29,141	2,834	9.73
Less: Fee and commission expense	**14,890**	14,707	183	1.24
Net fee and commission income	**17,085**	14,434	2,651	18.37

During the reporting period, fee income from bank cards and POS amounted to RMB14,672 million, representing an increase of RMB1,720 million, or 13.28% compared with the prior year. This was primarily due to the steady increase of fee income from credit card installment and consumption; fee income from settlement and clearing amounted to RMB7,523 million, representing an increase of 1,538 million, or 25.70% compared with the prior year, primarily driven by the rapid growth of third-party payment business; fee income from agency business was RMB4,556 million, representing an increase of RMB226 million, or 5.22% compared with the prior year, primarily due to an increase in income from bancassurance and distribution of fund products; fee income from wealth management amounted to RMB3,950 million, representing a decrease of RMB639 million, or 13.92% compared with the prior year, primarily attributable to the impact of factors such as increased VAT payments and decreased return on assets.

Net Other Non-Interest Income

During the reporting period, the Group's net other non-interest income amounted to RMB19,807 million, representing an increase of RMB7,118 million or 56.10% compared with the prior year.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	2019	2018	Increase/ (decrease)	Change (%)
Net trading gains	**3,747**	4,569	(822)	(17.99)
Net gains on investment securities	**12,456**	3,780	8,676	229.52
Net gains on derecognition of financial assets at amortized cost	**120**	0	120	–
Net other operating gains	**3,484**	4,340	(856)	(19.72)
Total	**19,807**	12,689	7,118	56.10

During the reporting period, the net trading gains amounted to RMB3,747 million, representing a decrease of RMB822 million compared with the prior year, mainly due to a decrease in the size of financial assets held for trading.

During the reporting period, net gains on investment securities amounted to RMB12,456 million, representing an increase of RMB8,676 million compared with the prior year, mainly due to gains from changes in fair value caused by the increase in the recoverable amount of trust investment plans and asset management plans invested by the Group. Last year, the Group recorded losses from changes in fair value.

During the reporting period, net other operating gains amounted to RMB3,484 million, representing a decrease of RMB856 million compared with the prior year, mainly due to a decrease in the foreign exchange gains and losses.

Operating Expenses

In 2019, the Group adhered to the principle of "controlling total expenses, making moderate investment, and maintaining expenditure in some areas while reducing costs in others", strengthened cost and expense control and continuously optimized the cost benchmarking management. During the reporting period, the cost to income ratio was 56.29%, representing a decrease of 1.31 percentage points compared with the prior year.

During the reporting period, the Group's operating expenses totaled RMB157,976 million, representing an increase of RMB5,652 million, or 3.71% compared with the prior year. In particular, deposit agency fee and others totaled RMB76,153 million, increased by RMB3,141 million, or 4.30% compared with the prior year, mainly due to an increase in the scale of customer deposits from agency outlets. Staff costs amounted to RMB50,039 million, representing an increase of RMB5,119 million, or 11.40% compared with the prior year, mainly due to a growth in returns and an increase in labour costs brought by the introduction of talents such as information technology professionals and senior management professionals. Depreciation and amortization amounted to RMB7,225 million, increased by RMB2,615 million, or 56.72% compared with the prior year, while other expenses amounted to RMB22,563 million, decreased by RMB5,376 million, or 19.24% as compared with the prior year, mainly due to an increase in depreciation expenses and a decrease in lease expenses resulting from the implementation of the new leasing standards, and the reversal of certain provisions made in previous years according to the Group's business conditions.

Major Components of Operating Expenses

In millions of RMB, except for percentages

Item	2019	2018	Increase/ (decrease)	Change (%)
Deposit agency fee and others	**76,153**	73,012	3,141	4.30
Staff costs	**50,039**	44,920	5,119	11.40
Depreciation and amortization	**7,225**	4,610	2,615	56.72
Taxes and surcharges	**1,996**	1,843	153	8.30
Others	**22,563**	27,939	(5,376)	(19.24)
Total operating expenses	**157,976**	152,324	5,652	3.71
Cost to income ratio (%)(1)	**56.29**	57.60	(1.31)	–

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

Credit Impairment Losses

During the reporting period, the Group's credit impairment losses amounted to RMB55,384 million, which was basically the same as the prior year. In particular, impairment losses of loans and advances amounted to RMB47,434 million, increased by RMB4,300 million as compared with the prior year, mainly due to the enlarged scale of loans. Impairment losses of investments instruments amounted to RMB7,951 million, decreased by RMB2,354 million over the prior year, mainly due to the continuous strengthening of risk management and control, and the continuous optimization of business structure.

Income Tax Expenses

During the reporting period, the income tax expense of the Group amounted to RMB2,709 million, representing an increase of RMB1,606 million compared with the prior year, mainly due to an increase in the Group's profit before income tax of the current year as well as the effect of income tax reduction for dividends of securities investment funds of the prior year.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

	2019		2018	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	**176,636**	**63.74**	163,611	62.63
Corporate banking	**59,816**	**21.58**	55,757	21.34
Treasury business	**40,253**	**14.53**	41,487	15.88
Others	**411**	**0.15**	390	0.15
Total operating income	**277,116**	**100.00**	261,245	100.00

For further details of business scope of each segment, please refer to "Notes to the Consolidated Financial Statements – 42.1 Business segment".

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	2019 Amount	2019 Percentage (%)	2018 Amount	2018 Percentage (%)
Head Office	**38,789**	**14.01**	40,166	15.37
Yangtze River Delta	**34,936**	**12.61**	32,477	12.43
Pearl River Delta	**32,345**	**11.67**	28,384	10.86
Bohai Rim	**35,417**	**12.78**	33,049	12.65
Central China	**68,683**	**24.78**	63,273	24.22
Western China	**50,059**	**18.06**	47,331	18.12
Northeastern China	**16,887**	**6.09**	16,565	6.35
Total operating income	**277,116**	**100.00**	261,245	100.00

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Group's total assets amounted to RMB10,216,706 million, representing an increase of RMB700,495 million, or 7.36% compared with the prior year-end. In particular, total loans to customers increased by RMB697,321 million, or 16.30% compared with the prior year-end; investments instruments increased by RMB287,543 million, or 8.49% compared with the prior year-end; cash and deposits with central bank decreased by RMB48,092 million, or 4.00% compared with the prior year-end.

In terms of the structure, net loans to customers accounted for 47.06% of total assets, representing an increase of 3.46 percentage points compared with the prior year-end; investments instruments accounted for 35.97% of total assets, representing an increase of 0.37 percentage point compared with the prior year-end; cash and deposits with central bank accounted for 11.30% of total assets, representing a decrease of 1.34 percentage points compared with the prior year-end; and deposits and placements with banks and financial assets held under resale agreements accounted for 4.36% of total assets, representing a decrease of 2.63 percentage points compared with the prior year-end.

Key Items of Assets

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Total loans to customers	**4,974,186**	**–**	4,276,865	–
Less: Allowance for impairment losses on loans[1]	**166,124**	**–**	127,327	–
Loans to customers, net	**4,808,062**	**47.06**	4,149,538	43.60
Investments instruments	**3,675,030**	**35.97**	3,387,487	35.60
Cash and deposits with central bank	**1,154,843**	**11.30**	1,202,935	12.64
Deposits with banks and other financial institutions	**28,373**	**0.28**	140,351	1.47
Placements with banks and other financial institutions	**269,597**	**2.64**	285,622	3.00
Financial assets held under resale agreements	**147,394**	**1.44**	239,687	2.52
Other assets[2]	**133,407**	**1.31**	110,591	1.17
Total Assets	**10,216,706**	**100.00**	9,516,211	100.00

Note (1): Allowance for impairment losses on loans to customers at amortized cost.

Note (2): Other assets consist primarily of property and equipment, deferred tax assets, right-of-use assets, 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 RMB4,974,186 million, representing an increase of RMB697,321 million, or 16.30% compared with the prior year-end.

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Corporate loans	**1,740,564**	**34.99**	1,552,402	36.30
Discounted bills	**482,834**	**9.71**	404,623	9.46
Personal loans	**2,750,788**	**55.30**	2,319,840	54.24
Total loans to customers	**4,974,186**	**100.00**	4,276,865	100.00

As of the end of the reporting period, the Group's total corporate loans amounted to RMB1,740,564 million, representing an increase of RMB188,162 million, or 12.12% compared with the prior year-end. The Group actively supported major national projects, consistently practiced inclusive finance, constantly improved financial services to emerging strategic industries, and persistently stepped up support for Sannong and the private sector such as small and micro enterprises. Corporate loans, small business loans and trade finance grew on a continual basis.

As of the end of the reporting period, the Group's total discounted bills amounted to RMB482,834 million, representing an increase of RMB78,211 million, or 19.33% compared with the prior year-end. In line with the steady development of the bills market and product innovation, the Group actively explored the business needs for discounted bills of key customers, and properly managed the scales of discounted and re-discounted bills businesses in order to support the real economy.

As of the end of the reporting period, the Group's total personal loans amounted to RMB2,750,788 million, representing an increase of RMB430,948 million, or 18.58% compared with the prior year-end. The Group actively promoted the retail banking strategy, fully explored the comprehensive financial needs of customers on consumer credit, and maintained the stable development of mortgage business. It resolutely implemented plans and decisions 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, proactively innovated new cooperation models with Internet enterprises, and increased investments on personal micro loans. In addition, the Bank actively promoted the institutional and mechanism reform of the credit card business, bringing about the faster and better development of credit card business.

Distribution of Loans to Customers by Product Maturity

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Short-term loans	**1,904,278**	**38.28**	1,615,327	37.77
Medium- and long-term loans	**3,069,908**	**61.72**	2,661,538	62.23
Total loans to customers	**4,974,186**	**100.00**	4,276,865	100.00

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Transportation, storage and postal services	**508,233**	**29.20**	418,878	26.99
Manufacturing	**273,074**	**15.69**	240,122	15.47
Financial services	**206,322**	**11.85**	192,527	12.40
Production and supply of electricity, heating, gas and water	**187,145**	**10.75**	191,948	12.36
Wholesale and retail	**104,441**	**6.00**	88,551	5.70
Construction	**103,094**	**5.92**	82,399	5.31
Leasing and commercial services	**99,571**	**5.72**	86,909	5.60
Water conservancy, environmental and public facilities management	**71,449**	**4.10**	76,810	4.95
Real estate	**70,158**	**4.03**	56,345	3.63
Mining	**58,479**	**3.36**	56,100	3.61
Other industries(1)	**58,598**	**3.38**	61,813	3.98
Total	**1,740,564**	**100.00**	1,552,402	100.00

Note (1): Other industries consist of the 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 73.49% of total corporate loans, representing an increase of 0.57 percentage point compared with the prior year-end.

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	**December 31, 2019** Amount	Percentage (%)	December 31, 2018 Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	**1,700,049**	**61.80**	1,417,898	61.12
Other consumer loans	**317,350**	**11.54**	275,544	11.88
Personal micro loans	**610,201**	**22.18**	527,085	22.72
Credit card overdrafts and others	**123,188**	**4.48**	99,313	4.28
Total personal loans	**2,750,788**	**100.00**	2,319,840	100.00

As of the end of the reporting period, the Group's personal loans increased by RMB430,948 million, or 18.58% compared with the prior year-end.

The Group actively implemented macro-control policies on residential mortgages, developed and implemented differentiated credit policies with a focus on satisfying residents' reasonable demand for self-occupied housing. As of the end of the reporting period, the balance of the Group's residential mortgage loans was RMB1,700,049 million, representing an increase of RMB282,151 million, or 19.90% compared with the prior year-end.

The Group promoted business transformation and upgrading through the application of advanced technologies, such as big data, Internet, mobile communications and artificial intelligence, deeply implemented the rural revitalization strategy, and focused on improving basic financial services in rural areas. As of the end of the reporting period, the balance of the Group's personal micro loans was RMB610,201 million, representing an increase of RMB83,116 million, or 15.77% compared with the prior year-end.

Following the trend of innovation in consumer finance, the Group increased input of resources, strengthened Internet cooperation, restructured its development model, and achieved a relatively fast development in credit card business. As of the end of the reporting period, the balance of credit card overdrafts and other loans of the Group was RMB123,188 million, representing an increase of RMB23,875 million, or 24.04% compared with the prior year-end.

Distribution of Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Head Office	**294,229**	**5.91**	270,476	6.32
Yangtze River Delta	**979,711**	**19.69**	796,752	18.63
Pearl River Delta	**570,988**	**11.48**	479,018	11.20
Bohai Rim	**759,469**	**15.27**	649,228	15.18
Central China	**1,216,003**	**24.45**	1,030,335	24.09
Western China	**851,016**	**17.11**	766,342	17.92
Northeastern China	**302,770**	**6.09**	284,714	6.66
Total loans to customers	**4,974,186**	**100.00**	4,276,865	100.00

Investments Instruments

Investments instruments are one of the major components of the Group's assets. In 2019, the Group strengthened its market research and assessment, actively seized market opportunities, and continuously optimized the investment structure. As of the end of the reporting period, the Group's investments instruments amounted to RMB3,675,030 million, representing an increase of RMB287,543 million, or 8.49% compared with the prior year-end, accounting for 35.97% of the total assets of the Group.

Investment Structure by Type of Investments Instruments

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Debt instruments	**3,672,236**	**99.92**	3,384,844	99.92
Equity instruments	**2,794**	**0.08**	2,643	0.08
Total	**3,675,030**	**100.00**	3,387,487	100.00

Distribution of Investments Instruments by Measurement Approach

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Financial assets at fair value through profit or loss	**310,161**	**8.44**	341,662	10.09
Financial assets at fair value through other comprehensive income	**229,725**	**6.25**	183,903	5.42
Financial assets at amortized cost	**3,135,144**	**85.31**	2,861,922	84.49
Total	**3,675,030**	**100.00**	3,387,487	100.00

As of the end of the reporting period, the Group's financial assets at fair value through other comprehensive income increased by RMB45,822 million, or 24.92% compared with the prior year-end; financial assets at amortized cost increased by RMB273,222 million, or 9.55% compared with the prior year-end; the increase was mainly due to an increase in the Group's investments in debt securities and interbank certificates of deposit.

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Debt securities	**3,145,660**	**85.59**	2,863,403	84.54
Government bonds	**1,061,734**	**28.89**	909,939	26.87
Debt securities issued by public institutions and quasi-government bonds	**176**	**0**	52	0
Debt securities issued by financial institutions	**1,912,632**	**52.04**	1,846,543	54.52
Corporate bonds	**171,118**	**4.66**	106,869	3.15
Interbank certificates of deposit	**263,953**	**7.18**	188,484	5.56
Commercial bank wealth management products	**0**	**–**	31,964	0.94
Asset management plans	**48,011**	**1.31**	84,812	2.50
Trust investment plans	**98,395**	**2.68**	110,223	3.25
Securities investment funds	**114,882**	**3.13**	102,709	3.03
Others	**4,129**	**0.11**	5,892	0.18
Total	**3,675,030**	**100.00**	3,387,487	100.00

During the reporting period, the Group's bond investments developed steadily while the scale of interbank investments continued to decline. As at the end of the reporting period, the balance of bond investments increased by RMB282,257 million or 9.86% from the end of the previous year. In particular, the balance of investment in debt securities issued by policy banks amounted to RMB1,759,939 million.

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Overdue	**74**	**0**	70	0
Within 3 months	**83,938**	**2.67**	41,753	1.46
3-12 months	**308,896**	**9.82**	279,608	9.76
1-5 years	**1,482,174**	**47.12**	1,477,541	51.61
Over 5 years	**1,270,578**	**40.39**	1,064,431	37.17
Total	**3,145,660**	**100.00**	2,863,403	100.00

During the reporting period, the balance of the Group's investments in debt securities due within 3 months increased by RMB42,185 million or 101.03% compared with the prior year-end. The balance of investments in debt securities due over 5 years increased by RMB206,147 million or 19.37% compared with the prior year-end. The maturity structure of debt securities investment has remained relatively stable.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
RMB	**3,113,237**	**98.97**	2,841,050	99.22
Foreign currencies	**32,423**	**1.03**	22,353	0.78
Total	**3,145,660**	**100.00**	2,863,403	100.00

The Top Ten Financial Bonds in Terms of Par Value

In millions of RMB, except for percentages

Debt Securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses[1]
2015 Policy Financial Bonds	84,003.05	3.71	2025/8/31	–
2012 Policy Financial Bonds	49,800.00	2.43	2022/6/6	–
2015 Policy Financial Bonds	46,568.20	3.65	2035/9/28	–
2010 Policy Financial Bonds	46,200.00	2.45	2021/2/9	–
2011 Policy Financial Bonds	40,000.00	3.85	2021/12/21	–
2015 Policy Financial Bonds	32,066.57	3.59	2030/9/28	–
2015 Policy Financial Bonds	29,820.63	3.68	2035/10/15	–
2015 Policy Financial Bonds	28,522.45	3.71	2025/8/31	–
2013 Policy Financial Bonds	28,000.00	3.09	2028/6/2	–
2015 Policy Financial Bonds	23,733.68	3.71	2025/8/31	–

Note (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 RMB9,671,827 million, representing an increase of RMB630,929 million, or 6.98% compared with the prior year-end. Among the liabilities, customer deposits increased by RMB686,626 million, or 7.96% compared with the prior year-end; deposits and placements from banks and other financial institutions decreased by RMB40,962 million, or 35.93% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Customer deposits	**9,314,066**	**96.30**	8,627,440	95.43
Deposits from banks and other financial institutions	**47,252**	**0.49**	74,165	0.82
Placements from banks and other financial institutions	**25,796**	**0.27**	39,845	0.44
Financial assets sold under repurchase agreements	**98,658**	**1.02**	134,919	1.49
Debt securities issued	**96,979**	**1.00**	76,154	0.84
Other liabilities(1)	**89,076**	**0.92**	88,375	0.98
Total liabilities	**9,671,827**	**100.00**	9,040,898	100.00

Note (1): Consist of dividend payable, provisions, employee benefits payable, lease liabilities, agency business liabilities, tax payable and other liabilities.

Customer Deposits

As of the end of the reporting period, the Group's total customer deposits were RMB9,314,066 million, representing an increase of RMB686,626 million, or 7.96% compared with the prior year-end.

Distribution of Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Corporate deposits	**1,128,965**	**12.12**	1,157,780	13.42
Time deposit	**357,931**	**3.84**	386,863	4.48
Demand deposit	**771,034**	**8.28**	770,917	8.94
Personal deposits	**8,183,314**	**87.86**	7,467,911	86.56
Time deposit	**5,481,019**	**58.85**	4,852,585	56.25
Demand deposit	**2,701,369**	**29.00**	2,615,326	30.31
Structured deposit	**926**	**0.01**	0	–
Other deposits(1)	**1,787**	**0.02**	1,749	0.02
Total	**9,314,066**	**100.00**	8,627,440	100.00

Note (1): Other deposits consist of remittance payable, credit card deposits and outbound remittance, etc.

During the reporting period, the Group's core liabilities grew steadily. In particular, personal deposits increased by RMB715,403 million, or 9.58% compared with the prior year-end.

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Head Office	**3,727**	**0.04**	1,107	0.01
Yangtze River Delta	**1,399,426**	**15.02**	1,256,850	14.57
Pearl River Delta	**873,846**	**9.38**	818,615	9.49
Bohai Rim	**1,379,710**	**14.81**	1,325,392	15.36
Central China	**2,910,315**	**31.25**	2,681,208	31.08
Western China	**2,037,980**	**21.88**	1,891,486	21.92
Northeastern China	**709,062**	**7.62**	652,782	7.57
Total customer deposits	**9,314,066**	**100.00**	8,627,440	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Repayable on demand	**3,528,475**	**37.88**	3,438,418	39.85
Within 3 months	**2,002,931**	**21.50**	1,977,228	22.92
3-12 months	**2,457,929**	**26.39**	2,350,883	27.25
1-5 years	**1,324,731**	**14.23**	860,911	9.98
Over 5 years	**0**	**–**	0	–
Total	**9,314,066**	**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 RMB544,879 million, representing an increase of RMB69,566 million, or 14.64% compared with the prior year-end, mainly due to the A share offering and an increase in retained earnings during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Share capital	**86,203**	**15.82**	81,031	17.05
Other equity instruments-preference shares	**47,869**	**8.79**	47,869	10.07
Capital reserve	**97,477**	**17.89**	74,648	15.71
Other comprehensive income	**2,319**	**0.42**	3,593	0.76
Surplus reserves	**36,439**	**6.69**	30,371	6.39
General reserve	**116,129**	**21.31**	103,959	21.86
Undistributed profits	**157,431**	**28.89**	132,933	27.97
Equity attributable to shareholders of the Bank	**543,867**	**99.81**	474,404	99.81
Non-controlling interests	**1,012**	**0.19**	909	0.19
Total shareholders' equity	**544,879**	**100.00**	475,313	100.00

Off-Balance Sheet Items

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

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 – 17 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 – 40 Contingent liabilities and commitments".

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

Components of Credit Commitments

In millions of RMB, except for percentages

	December 31, 2019		December 31, 2018	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Loan commitments	**434,777**	**56.30**	388,997	60.14
Bank acceptances	**31,583**	**4.09**	20,444	3.16
Guarantees and letters of guarantee	**20,447**	**2.65**	20,896	3.23
Letters of credit	**17,846**	**2.31**	12,100	1.87
Unused credit card commitments	**267,537**	**34.65**	204,358	31.60
Total	**772,190**	**100.00**	646,795	100.00

Analysis of Cash Flow Statement

During the reporting period, the Group's net cash inflow from operating activities was RMB26,443 million, representing a decrease of RMB158,062 million as compared with the prior year. This was mainly due to an increase of cash outflow from loans and advances and placements with banks and other financial institutions, as well as a decrease of cash inflow from financial assets sold under repurchase agreements.

During the reporting period, net cash outflow from investing activities of the Group amounted to RMB173,714 million, representing an increase of RMB84,389 million compared with the prior year, mainly due to an increase in cash paid for the purchase of investments instruments.

During the reporting period, net cash inflow from financing activities of the Group amounted to RMB23,857 million, as compared to a net cash outflow of RMB16,863 million in the prior year. It was mainly due to an increase in cash received from the issuance of shares and debt securities.

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 Significant accounting policies".

Explanation of Differences in Financial Statements Prepared under Domestic and International Accounting Standards

During the reporting period, there was no difference between the net profit and shareholders' equity in the consolidated financial statements prepared under PRC GAAP and the corresponding figures prepared under IFRSs.

Business Overview

Personal Banking

The Bank has the largest distribution network, solid customer base and superior asset quality among China's commercial banks. Faced with rapid development of retail finance, the Bank accelerated its transformation to a new retail bank featuring data-driven, channel coordination, interaction between wholesale and retail, and efficient operation, and the bank vigorously implemented the differentiated strategy focusing on retail business, aiming to be a first-tier large retail commercial bank which is trustworthy, distinctive, prudent and safe, innovative, and with remarkable value. During the reporting period, relying on the advantages of a deeply-penetrating network in urban and rural areas, the Bank deepened the collaboration with government agencies and leading Internet enterprises, enriched financial scenarios, improved products and services, and put more efforts on customer acquisition. It vigorously promoted the systematic transformation of outlets, enhanced the use of smart devices and the building of marketing teams, established the CRM platform, customer management data mart and comprehensive marketing performance management system, and improved the operational efficiency of outlets. It constructed the wealth management system, enriched the investment products, and launched non-financial value-added services to enhance the capability to serve mid- and high-end customers. It built a unique O2O service model for consumer credit and offered a seamless online and offline service experience to customers.

As of the end of the reporting period, personal deposits of the Bank reached RMB8,183,314 million, accounting for 87.86% of the Bank's customer deposits, and personal loans totaled RMB2,750,788 million, accounting for 55.30% of the Bank's customer loans. During the reporting period, the operating income of the Bank's personal banking business amounted to RMB176,636 million, a year-on-year increase of 7.96%, accounting for 63.74% of the Bank's operating income, an increase of 1.11 percentage points over the year of 2018.

Basic Retail Business

During the reporting period, relying on its network of nearly 40,000 outlets, the Bank sought more value from over 600 million customers, and actively expanded payment and settlement businesses. It stepped up efforts to explore markets in County Areas, launched a series of promotional campaigns including the "Four Cards" project and the "Ten Key Points" on demand deposits in order to fuel the development of personal deposit business, and continued to increase the assets of retail customers. As of the end of the reporting period, the number of personal customers served by the Bank covered more than 40% of China's population, including 605 million personal customers, an increase of 26,611,100 over the end of last year; the AUM of retail customers of the Bank exceeded RMB10 trillion, an increase of over RMB800.0 billion over the end of last year.

Personal Deposit Business

During the reporting period, the Bank kept promoting the development of personal deposit business, placing an equal emphasis on both its quantity and quality. It actively responded to market competition, continued to enrich products, and maintained competitiveness in personal deposit products. Besides, it vigorously supported the rural revitalization and consolidated its advantages of deposits in County Areas. The Bank strengthened market expansion and cooperation with institutions, facilitated the development of key debit card projects, and broadened the source of funds for personal deposits. It expanded the secondary source of deposits, and achieved a leap-forward development of merchant acquiring business, leading to an increase of RMB21,447 million of merchant-related personal demand deposits. Moreover, it deepened the interaction between corporate and retail segments on agency payment business, and 21,900 corporations and institutions became the Bank's new customers, the total salary payment of which amounted to RMB38,495 million in the year, and this also helped to acquire more demand deposits. As of the end of the reporting period, the balance of the Bank's personal deposits was RMB8,183,314 million, representing an increase of RMB715,403 million over the end of last year.

Debit Card Business

During the reporting period, the Bank focused on acquiring customers from the source through the "Four Cards" project. It deepened cooperation with government departments such as the Ministry of Human Resources and Social Security and the Ministry of Veteran Affairs, promoted the issuance of the third-generation financial social security card and launched the veteran service card. During the reporting period, the number of newly-issued financial social security cards stood at 11,094,200, making the total number of financial social security cards reach 93,254,600; and 611,300 veteran service cards were newly issued. With the integration of online resources and offline resources, the Bank launched the Tencent co-branded card together with Tencent, and delivered new functions and benefits to customers, such as the opening of cardless Type II accounts and membership rewards, which helped the Bank acquire more customers and make them more active. During the reporting period, 2,121,800 Tencent co-branded cards were newly issued. In addition, the Bank looked for more partners to continuously upgrade the function of ETC card, and the total number of ETC cards was 15,254,800, with an increase of 9,053,500 during the reporting period. Together with China UnionPay, the Bank carried out a series of marketing campaigns to promote debit card consumption, and further enriched user-friendly payment scenarios with more benefits, continuously increasing the transaction amount and frequency of debit card consumption. During the reporting period, the number of newly-issued debit cards reached 37,099,900 and the number of debit cards in circulation stood at 1,007 million, with the deposit balance of debit cards amounting to RMB3,089,956 million.

Personal Settlement Business

The Bank provides agency collection and payment services and various settlement services for personal customers. The agency collection and payment services primarily include payment of salary, benefits and allowances, and collection of utility fees and social security pension. As an important approach for serving retail customers, agency collection and payment services have brought the Bank a large number of customers and funds. During the reporting period, the Bank actively expanded the agency collection and payment services, with the volume of agency collection services reaching RMB678,157 million and that of agency payment services reaching RMB1,796,478 million. In particular, social security pension collected by the Bank amounted to RMB58,301 million, and pension payment amounted to RMB950,354 million. During the reporting period, the amount of consumption via debit cards was RMB7.80 trillion, representing a year-on-year increase of 21.30%. The Bank provides personal customers with various international settlement services such as cross-border telegraphic transfer (T/T) and Western Union. During the reporting period, the number of international remittance transactions for individuals was 1,844,900 with a transaction volume of USD2,262 million.

Wealth Management

During the reporting period, the Bank actively promoted the system construction of wealth management business in areas of customer management, marketing teams building and product system improvement. As of the end of the reporting period, the number of VIP customers of the Bank was 30,964,200, an increase of 10.86% over the end of last year, and that of affluent customers was 2,471,300, an increase of 20.71% over the end of last year.

In terms of customer management, the Bank comprehensively carried out customer segmentation, and leveraging on the big data technology, initialized three special missions including critical customer improvement, referrals through customers and retaining customers tagged as potential losses. Based on policies such as exclusive products, non-financial value-added services and bonus activities, the Bank accurately empowered marketing personnel to continuously improve the contribution of mid- and high-end customers. In terms of marketing team building, the Bank created a professional team with wealth management managers as the core and wealth advisors and internal trainers as the support. Through enhancement of professional training and support of investment research, the Bank continued to improve employees' professionalism and service capability. In terms of product system improvement, the Bank continually broadened service areas, expanded product supply, set up collective trust business, and launched exclusive products for platinum and diamond customers. It provided more asset management plans and strengthened product risk prevention and control, in order to meet the diversified investment needs of customers. In addition, it launched seven non-financial value-added products in areas of health, travel and education, and the online points-redemption function as well, continuously improving the customer experience.

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. The Bank improved the training of sales personnel to enhance sales capabilities of NAV-based products. It released exclusive products for new customers, VIP customers and high net worth customers on a continual basis, and enriched the product system of themed products continuously to cater to the needs of different customers. It implemented appropriateness management requirements on investors, strengthened investor education, and enhanced customers' capabilities on risk identification. As of the end of the reporting period, the balance of wealth management products to retail customers was RMB782,770 million, representing a year-on-year increase of 8.20%.

Distribution of Financial Products

With a unique distribution network consisting of directly-operated outlets and agency outlets, and being a large commercial bank possessing a distribution network with the most outlets and widest coverage, the Bank distributed financial products of other companies, in order to meet the diversified financial needs of personal customers. During the reporting period, the distribution of financial products grew rapidly. To meet customers' need on insurance, the Bank set up a multi-type product system on bancassurance. The premiums of new policies amounted to RMB339,229 million and new regular premiums amounted to RMB58,645 million, both ranking top in the banking industry. In particular, long-term regular premiums with payment duration of 10 years or above amounted to RMB33,552 million, representing a year-on-year increase of 103.32%. In terms of distribution of fund products, the Bank enhanced the sales of regular open-ended products with absolute return strategy and improved wealth management managers' capabilities in sales. It launched the speedy redemption service for non-money market funds, and the sales amounted to RMB73,894 million, among which the distribution of non-money fund products amounted to RMB37,883 million. In terms of distribution of government bonds, the Bank carried out targeted marketing on medium- and low-risk customers, with total sales of RMB42,402 million, representing a year-on-year increase of 29.09%. It also distributed collective trust plan products to further enrich investment and financial management products, and the sales of asset management plans and collective trust plan products totaled RMB27,008 million. Besides, the Bank continued to enrich precious metal products. The transactions of precious metals business amounted to RMB21,715 million, representing a year-on-year increase of 34.53%.

Retail Credit

During the reporting period, based on the unique development model of consumer finance, the Bank actively developed consumer finance products that met the financing needs of personal customers both at the supply side and the demand side, covering both business managers and consumers. With consumer credit, personal micro loans and credit cards as the support, it continued to enrich the product portfolio, sped up digitization and enhanced the service ability on financial inclusion.

Consumer Credit Business

Consumer loans of the Bank have four major lines of products covering housing, automobile, consumption and education, to meet customers' diversified needs on consumer finance. Guided by the retail strategy, the consumer credit business developed sustainably and stably in recent years. As of the end of the reporting period, the balance of personal consumer loans amounted to RMB2.02 trillion, representing an increase of RMB323,957 million or 19.13% over the end of last year.

The Bank developed residential mortgage business in strict compliance with national policies and regulatory requirements and in a steady manner. First-time homebuyers and upgraders have always been the target customers of the Bank, sustaining the growth of business. In terms of geographical policies, the Bank implemented differentiated policies in different cities, strictly prevented the overheated growth of residential mortgage loans in some areas which went against the law of market development, and provided credit support to the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Guangdong-Hong Kong-Macao Greater Bay Area as an echo to national strategies. As of the end of 2019, the Bank's residential mortgages totaled RMB1.70 trillion, representing an increase of RMB282,151 million compared with the prior year-end.

In addition to residential mortgages, the Bank also provided personal customers with other consumer loan products for consumptions by individuals and families. In face of the trend of digitization, on the one hand, the Bank continued to enhance capabilities on digitization and technology, optimized the "You" product franchise, the fully-online consumer loans on the Internet, achieved the target of "online loan processing, intelligent loan approval", and provided customers with convenient service experience. On the other hand, the Bank upgraded the service philosophy and actively boosted the cross-border integration of financial services and various consumption scenarios. In 2019, the Bank cooperated with Ant Financial, Tencent and other leading Internet platforms and e-commerce platforms to integrate the Bank's outlets, mobile banking and platform services, and provided customers with more convenient financial services and membership benefits through the "online + offline" mode, bringing into full play the synergy of all sides on user traffic, channels, data and resources. In the process of cooperation, the Bank formed a platform-based consumer loan cooperation model featuring "mutual complementarity, shared resources and independent risk management", and will continue to promote the model. Currently, the Bank has partnered with Baidu, Alibaba, Tencent, and JD.com (BATJ) and other leading Internet companies to improve customer experience on consumer finance.

Micro Loan Business

As of the end of the reporting period, the balance of personal micro loans[1] of the Bank was RMB610,201 million, an increase of RMB83,116 million or 15.77% over the end of last year. The Bank fully supported the development of small and micro enterprises, individual business owners, emerging forms of agribusiness and traditional small farmers, promoted the integrated development of primary, secondary and tertiary industries, and helped solve the difficulties that private firms and small and micro enterprises face in accessing affordable financing. During the reporting period, in order to meet the financing needs of various production operators effectively, the Bank actively explored business transformation and upgrading, constantly improved business processes, and deepened cooperation with platforms such as the government, associations, enterprises, guarantee companies and insurance companies, reducing business risks as well as financing costs of the customers. To be "digitized, intelligent and standardized", the Bank made use of advanced technologies such as big data, Internet, mobile communication and artificial intelligence, forming a unique development mode that served Sannong both online and offline.

Credit Card Business

During the reporting period, the Bank actively promoted the institutional reform on development of credit card business. In line with the trend of consumer finance innovation, the Bank allocated more resources on credit card development, strengthened cooperation with Internet companies, and carried out business transformation toward rapid and higher-quality growth. Specifically, the Bank expanded customer acquisition channels by integrating internal and external resources, started to build sales teams across the Bank, continuously deepened cross sale on existing customers of the Bank, and strengthened the cooperation with agencies for card issuance referrals. Therefore, the scale of customers continued to expand. The Bank also strengthened the building of business circles with the theme of "Joyous Family Day", pushed forward the refined management of existing customers and improved the influence of credit card brands. Besides, it stepped up efforts in installment business innovation and marketing, improved installment channels and outsourced installment telemarketing, steadily enhancing its profitability. Moreover, it strengthened product innovation based on customer segmentation, launched the first IP-themed product, Rilakkuma Themed Card and Auto-owner Card for car owners. As a result, the product system was further improved. The Bank continued to improve the approval process, promoted intelligent customer services, and delivered better experiences to customers. During the reporting period, the number of newly-issued credit cards reached 9,704,100, a year-on-year increase of 27.03%. The number of credit cards in circulation reached 31,100,700, a year-on-year increase of 34.64%. The amount of consumption via credit cards was RMB931,070 million, a year-on-year increase of 20.24%.

[1] Since the launch of the credit business platform in August 2019, the Bank integrated personal business loans and personal micro loans to one unified name of personal micro loans.

Internet Finance

The Bank focused on digital transformation and promoted deep integration of finance and technology to build an intelligent, scenario-based and open online channel, and facilitate online and offline integration. Adhering to an open, sharing and win-win mindset, the Bank continued to strengthen cooperation with external parties and enriched scenarios to build an intelligent ecosystem of "finance + services". It accelerated digital transformation and put efforts on development of the new retail, through empowering businesses, serving customers and supporting governments, in order to bring benefits to the enterprises, customers and the society.

Digital Transformation

Actively seizing the development opportunity of the digital era and aiming for improvement of customer experiences, the Bank continuously promoted technological empowerment, sped up the iteration and innovation of products, and tried to build an online channel that is intelligent, scenario-based and open. It attached great importance to the deep integration of financial technology and business development, and continued to promote the digital transformation of business in the three aspects of customer acquisition, management and operation.

During the reporting period, the Bank also continued to optimize the functions of mobile banking and was committed to providing customers with comprehensive, consistent and attractive experiences. Mobile Banking 5.0 was launched where voice search and other functions were added and more intelligent technologies were applied, thus improving the Bank's ability to acquire customers online. The agile development mechanism was established, through which deep integration of business and technology could be achieved to quickly respond to changes in business requirements and facilitate iteration and update of product functions. The Bank set up a specialized customer experience team, implemented the feedback mechanism where the Head Office and branches were involved in a collaborative manner, and built a quantifiable and regular evaluation system to continuously improve the experiences of mobile banking users. Voice navigation function was launched and rolled out across the country, intelligent quality inspection was realized via remote banking centers, and the Bank continued to promote the use of intelligent customer services. During the reporting period, 93,424,300 customer inquiries were processed through intelligent customer services, and the Q&A accuracy rate reached 94.53%.

Digital transformation is promoted in consumer finance. In regard to customer acquisition, on the one hand, the Bank introduced external traffic through cooperation with leading Internet enterprises and high-quality platforms. On the other hand, it strengthened the application of financial technology to speed up the exploration of its huge existing customers, and took the initiative to extend credit to high-quality customers. It built a development mode with "more potentials from the inside and wider expansion from the outside" as its two-wheel driver, and provided customers in need of financing with a new experience of online speedy approval. In regard to the management, big data, machine learning, mobile Internet and other technologies were utilized on consumer loans through the whole lending process which includes application, approval and post-lending management, and a digitalized, automated and intelligent management system was applied across the loan lifecycle. Furthermore, the Bank built a data-driven qualitative and quantitative customer evaluation system, leveraged on the data-driven behavior and collection scoring model to continuously track and analyze business development, and to accurately evaluate account risks and precisely trigger management strategies, and built a refined, intelligent and intensive post-lending management system. In regard to the operation, the Bank vigorously promoted the operational process based on the philosophy of retail credit factory, and improved risk control and operational efficiency of personal loan business using advanced management philosophies and information technology. It improved both the operational efficiency and customer experience through the building of an operation system featuring intensive management, standard operation, and intelligent and efficient decision-making. As of the end of 2019, the Bank had put in place the operational process of credit factory at 28 tier-1 branches across the country, and the efficiency and standardization of credit operations were significantly improved.

External Internet Cooperation

During the reporting period, adhering to an open, sharing and win-win mindset, the Bank deepened exchanges and expanded and reinforced cooperation with leading Internet companies, such as Tencent Group, Ant Financial, JD Digits, Du Xiaoman Financial and Xiaomi Finance for deeper penetration of the new retail, enhanced the ability of digital operations, and made breakthroughs in online account opening, e-payment, Internet loans and other aspects.

As for online account opening, the Bank issued the virtual Tencent Co-branded Card with Tencent and virtual Farmers' Harvest Co-branded Card with China UnionPay, and provided membership benefits for target customers.

As for e-payment, the volume of transactions with Internet enterprises, such as Tenpay and Alipay, continued to grow. As of the end of the reporting period, there were 274 million card accounts binding to quick payment.

As for Internet loans, the Bank cooperated with external lending platforms to promote the scenario-based development of retail credit business, and launched a series of products, such as "PSBC Credit – Ant Credit Pay", "PSBC Credit – Ant Cash Now", "PSBC Credit – UMoney" and "PSBC Credit - MY Loan" in cooperation with Ant Financial and Du Xiaoman Financial, bringing about the all-round cooperation covering online customer acquisition, credit approval, and post-lending management.

Building of the Scenario Ecosystem

The Bank actively promoted the transformation on the new retail mode and Internet scenario-based services. On the mobile banking platform, through providing the scenario of online refueling, the scenario of non-tax e-payment and the scenario with postal characteristics, the Bank made further efforts on developing the multi-dimensional financial and life scenarios and created an intelligent ecosystem of "finance + services".

During the reporting period, taking merchant expansion and acquisition as the basic and strategic business and relying on network resources, the Bank developed and promoted "PSBC Pay" nationwide, an integrated payment and acquiring product, in order to create a business circle for offline services, make merchants more active and develop a secondary source of deposits. In 2019, the number of merchants using QR code payment was increased by 706,100. The Bank expanded merchants focusing on catering, medical care, vegetable markets, supermarket chains, education, transportation, government departments and other high-frequency consumption scenarios, to provide convenient, fast and "universal QR code" fund settlement services for merchants in various industries.

The Bank provided consumer loan services to customers through its outlets nationwide. Meanwhile, it actively deployed online services, based on which customers can enjoy consumer credit services both online and offline through mobile banking, online banking, PSBC E-Loans APP, physical outlets and other channels. On this basis, the Bank further built a unique O2O service model that links all kinds of online channels with a wide range of offline outlets. It created the car scenario, housing scenario and consumption scenario with their own characteristics to meet customers' financial service demands immediately and directly, and delivered customers with integrated online and offline experiences on consumer credit.

During the reporting period, the Bank also launched the "PSBC Canteen" featured scenario and issued "PSBC Canteen Themed Credit Card". It broke the boundaries of traditional financial services, built a membership-based and value-added service platform that supports the real economy and benefits people's livelihood, helped optimize customer structure, enhance customer loyalty, and achieve customer migration at outlets and empowerment of outlets. With the rapid increase of users, "PSBC Canteen" has played a positive role in customer acquisition and activation. First, it further broadened the customer acquisition channels through the "online + offline" new retail mode. Second, it enriched the mobile banking scenarios and effectively increased the number of active users of our mobile banking services. As of the end of the reporting period, the cumulative number of real-name-verified users reached 11,387,100.

Corporate Banking

During the reporting period, the Bank completed the institutional reform on corporate banking to establish a customer-centric corporate banking system, supported by three pillars of businesses including basic deposits and loans, transaction banking and investment banking. Synergy and coordination among different segments were enhanced through the Steering Committee on Corporate Banking. The Bank promoted transformation and development of corporate banking business through customer expansion, product upgrade, technological support, channel optimization, team building and mechanism re-engineering. In terms of transaction banking, the Bank gave play to the integration of product and technology, promoted automobile finance, and built an open payment platform with over 1,300 cooperative enterprises. In terms of investment banking, the Bank made all-out efforts to successfully launch the first national market-oriented debt-to-equity special debt financing program, and underwrote RMB142,771 million worth of bonds throughout the year, an increase of 31.64% over the previous year. The Bank continued to improve corporate business, support the strategic development of the nation, and put more emphasis on institutional customers and strategic customers, so as to expand business in a rapid way. As of the end of the reporting period, the Bank served 687,300 corporate customers, representing an increase of 99,000 compared with the prior year-end, and the balance of corporate loans reached RMB1.74 trillion, an increase of 12.12% over the end of last year.

In terms of customer expansion, through platform building, scenario application and data empowerment, the Bank expanded corporate customers in batches and continued to lay a solid foundation for further development. In terms of product upgrades, the Bank continued to optimize the basic products of deposits and loans, improved the product system of transaction banking and created a differentiated investment banking system to provide diversified financial products and services for customers. In terms of technological support, the system 2.0 on corporate customer marketing was launched. Big data analysis and other methods were applied, in a bid to achieve precise marketing and refined management. The Bank developed the online corporate banking system 2.0 and an open payment platform, improved the service capacity and customer experience of corporate electronic channels and boosted batch development of corporate customers. In terms of channel optimization, more corporate banking services were available at outlets, with larger geographic coverage. The Bank also streamlined the account opening process, reshaped the customer service mechanism, and optimized the coordination mechanism between postal enterprises and the Bank in order to jointly expand business in counties and rural areas. In terms of team building, the Bank strengthened the staffing of corporate banking business, and continued to carry out training for account managers and product managers to improve the level of team capability. In terms of mechanism re-engineering, the Bank strengthened the performance evaluation, optimized the authorization and credit policy, streamlined the business process and improved the efficiency of customer service.

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. During the reporting period, the Bank focused on strategic customers to promote the development of the corporate loan business and expand the cooperation after obtaining key qualifications for business cooperation, improving the comprehensive contribution of customers. It actively supported major national projects, mobilized prime resources to boost the implementation of national strategies such as the Belt and Road Initiative, Xiongan New Area, Beijing-Tianjin-Hebei Integration, Yangtze Economic Belt and Guangdong-Hong Kong-Macao Greater Bay Area and contributed to the transformation and upgrading of economic structure. To keep promoting the inclusive finance development, the Bank provided strong support for the construction of major livelihood projects such as transportation, water conservancy, and urban underground pipe network, and strengthened poverty alleviation in severely impoverished areas such as the "Three Regions and Three Prefectures". It also actively practiced the concept of green development through constantly improving its financial services to emerging strategic industries. In addition, the Bank actively responded to the call of national policies, persistently stepping up support for private economy such as Sannong and small and micro enterprises, and improving financial services to large- and medium-sized private enterprises in an active and prudent way. As of the end of the reporting period, the Bank's total balance of corporate loans amounted to RMB1,740,564 million, representing an increase of RMB188,162 million, or 12.12%, compared with the prior year-end.

Corporate Deposits

The Bank provides time and demand deposit services in Renminbi and other major foreign currencies to corporate customers. Through leveraging its advantages in offline outlets and online channels, the Bank continued to promote growth of deposits from enterprises, government authorities, public organizations and other institutions. During the reporting period, the Bank kick-started the special initiative to "consolidate the foundation and aim for a higher target" (of which "foundation" refers to "eligibility, customers and accounts", "target" refers to "institutional deposits"), and placed the emphasis on institutional customers to boost the development of corporate deposit business. Through such activities, the Bank won a growing number of tenders to be the agent of government fiscal services, and witnessed a significantly increasing number of new accounts and the steady growth of institutional deposits, which strengthened the base for the development of the institutional business. It promoted the construction of key platforms, obtained the qualification to act as the MOF's agency bank for the collection of non-tax income, and became the sole pilot partner bank for the civil military service information management project of the military division in Hunan Province, deepening its cooperation with the Ministry of Veteran Affairs and other government departments, and attracting more deposits from public institutions and other institutions. As at the end of the reporting period, the balance of corporate deposits amounted to RMB1,128,965 million. In specific, the balance of institutional deposits was RMB704,588 million, accounting for 62.41% of the balance of corporate deposits; the annual daily average balance of institutional deposits was RMB750,511 million, increasing by RMB25,407 million compared with the prior year.

Transaction Banking

Leveraging its advantages in settlement network, the Bank provided integrated financial services in a customer-oriented manner. Focusing on customers' demand for better liquidity management, it continued to promote the development of cash management business. During the reporting period, the Bank had 201,000 contracted accounts for cash management business, representing an increase of 20,300 accounts or 11.25% compared with the prior year-end. Its trade finance business also witnessed a continuous growth, which increased by RMB438,621 million during the reporting period. In addition, the Bank launched businesses such as foreign exchange loans and centralized management of cross-border funds, gave full play to its FinTech strengths, integrated channels, increased openness and cooperation, and established an open payment platform with over 1,300 cooperative enterprises, with a focus on the development of livelihood services in tier-3 cities and below. The Bank also promoted the "Auto Dealer Loan" business by combining various products such as loans, bills and letters of credit under automobile finance, thereby advancing the specialized development of automobile finance.

Investment Banking

The Bank provides its customers with a package of tailored solutions through its investment banking business, which mainly includes bond underwriting, M&A loan, asset-backed securities, syndicated loan and financial consulting. During the reporting period, the Bank underwrote debt financing instruments with a total amount of RMB142,771 million, representing a year-on-year increase of 31.64%. The balance of M&A loan business was RMB9,574 million. In response to the LPR reform by the People's Bank of China, and to further exert the guiding role of LPR on the loan interest rate, the Bank issued the first LPR-linked floating-rate bond in China. It was also the first to issue the market-oriented "debt-to-equity" special debt financing program, actively implementing the requirements of the Party Central Committee and the State Council on promoting supply-side reform. Besides, it strengthened the leading model of "knowledge transfer + financing" and successfully served as the M&A consultant for a number of listed companies.

Treasury Business

During the reporting period, the treasury business of the Bank maintained a healthy and sustainable development, with the volume of its Renminbi and foreign currency transactions maintaining a leading position in the industry and the asset structure further optimized. The Bank continued to increase its investment in high-quality assets such as central and local government bonds. As of the end of the reporting period, the balance of on-balance sheet government bonds was RMB1,061,734 million, an increase of RMB151,795 million over the end of last year. The Bank attached great importance to the role of technology in supporting and leading the business development. The launch of the new-generation treasury business platform greatly improved the robustness and effectiveness of the Bank's financial market business operation. Meanwhile, the Bank enriched wealth management products with more and more NAV-based products. Transition to NAV-based products has been continuously advanced and the scale of the business of the key areas has been further improved.

Financial Market Business

The Bank highly valued the role of technology in supporting the development of financial market business, and launched its new-generation treasury business platform in April 2019. By integrating the front, middle and back offices, the platform combined the functions of transaction management at the front office, risk control at the middle office and fund settlement at the back office. It not only realized the penetrating management of all underlying assets in investment business, but also the automatic process and professional management of financial market business, which met the strategic needs of the Bank in product expansion and business innovation. The platform effectively reinforced the Bank's existing competitive advantages in bonds, foreign exchange and interbank business, and further enhanced the Bank's core competitiveness in the financial market business.

Trading Business

The Bank is a major participant in the interbank market. The business comprises five main categories of money market products, fixed income products, foreign exchange products, derivatives and precious metals, covering 20 transaction types in 11 currencies. As a responsible major bank and a market stabilizer in the interbank market, the Bank is qualified for and capable of trading on major products, and assumes important roles including primary dealer, market maker, SHIBOR and USD-CIROR quoting bank, continuously providing quotations and liquidity support to the money market, bond trading, interest rate derivatives and other markets for both domestic and foreign market participants. During the reporting period, the Bank actively expanded its counterparties and further enhanced active trading amid a market environment of downward interest rate and fluctuating exchange rate. It was awarded the "2019 Core Dealer", the "2019 Excellent Dealer in Money Market" and other titles by the National Interbank Funding Center. During the reporting period, the Bank's Renminbi and foreign currency transactions totaled 176,300 with the total volume reaching RMB90.19 trillion, a year-on-year increase of 16.07%.

Investment Business

In terms of debt securities investment, guided by the principle of "grasping opportunities, preventing risks, adjusting structure and improving returns", the Bank proactively captured market opportunities by strengthening market analysis and judgment and closely tracking interest rate trends, and then reasonably adjusted the pace of investment and flexibly and scientifically selected investment categories and duration. During the reporting period, while strengthening the investment in major products such as the financial bonds issued by policy banks and local government bonds, the Bank constantly expanded the investment in credit bonds of high-rated central government-owned enterprises and industry-leading enterprises and continued to improve portfolio returns on the basis of well managing credit risk. As of the end of the reporting period, the balance of the Bank's debt securities investment was RMB3.15 trillion.

The Bank strictly followed the regulatory guidance on interbank 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 investment in asset-backed securities, 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 investment entrusted to other financial institutions) in trust investment plans, asset management plans and securities investment funds was RMB261,288 million.

Interbank Financing Business

Interbank financing is the Bank's traditional advantageous business. The Bank lends money to commercial banks and non-bank financial institutions based on its strong liquidity strength. During the reporting period, the Bank developed businesses such as interbank borrowings, deposits and placements in a timely manner, by strengthening cooperation with various financial institutions, analyzing the changes of market prices accurately, adjusting business pace precisely and developing strategies proactively. At the same time, it actively advanced the development of online interbank business, carried out business through the China Interbank Market Trading System (CIBMTS), and constantly strengthened the supporting role of technology to the business. As of the end of the reporting period, the balance of Bank's deposits and placements with banks and other financial institutions amounted to RMB297,970 million.

Asset Management Business

During the reporting period, the Bank actively implemented regulatory requirements and continued to promote transition to NAV-based wealth management products. The scale of NAV-based wealth management products grew steadily. Being committed to providing professional and comprehensive wealth management services for its customers, the Bank constantly enriched two major product brands, "PSBC Fortune" and "PSBC Wisdom", thus meeting the growing needs of customers for diversified wealth management products. Adhering to the concept of general asset allocation, as well as a sound investment strategy, the Bank, by leveraging its advantages of channels and funds, had been serving the real economy and the general public with professional asset management capabilities. As of the end of the reporting period, the Bank's assets under wealth management amounted to RMB925,342 million, representing an increase of 13.60% compared with the prior year-end. PSBC Wealth Management, a wealth management subsidiary of the Bank, was established on December 18, 2019. It is mainly engaged in issuance of publicly-offered wealth management products, issuance of privately-offered wealth management products, wealth management advisory and consultancy services, and other asset management related business. For details of the wealth management subsidiary of the Bank, please refer to "Discussion and Analysis – Majority-owned Subsidiaries".

Custody Business

During the reporting period, the Bank proactively adapted itself to the transformation and development trend of asset management market, actively adjusted the business layout through bringing into full play the synergy and interaction between sales and custody, between investment and custody, and between the Head Office and branches, vigorously promoted businesses in key areas such as public funds, insurance and asset-backed securities, and facilitated the high-quality development of custody services. Besides, the Bank obtained ISAE3402 international accreditation on internal control and increased the standard of internal control management, ensuring smooth operations of the custody business. As of the end of the reporting period, the assets under custody of the Bank were RMB3.98 trillion. In particular, in 2019, there were 20 newly established public funds with the assets under custody reaching RMB182,318 million, representing a year-on-year increase of 25.34%; the insurance assets under custody reaching RMB470,845 million, of which the scale of major insurances such as traditional insurance and participating insurance under custody increased by RMB87,505 million, or 51.17%; there were 43 newly established asset-backed securities products with the assets under custody reaching RMB96,198 million, representing a year-on-year increase of 95.93%.

Green Finance

During the reporting period, the Bank thoroughly implemented the new development concept and contributed to the fight against pollution. To be specific, it incorporated green finance into the outline of medium- and long-term development strategy, and comprehensively accelerated the building of a green bank from the aspects of organizational structure, credit policy, internal rating, product innovation, contract management, performance appraisal, supervision and inspection, and self-performance, so as to enhance the capacity of green governance. Specialized departments or institutions for green finance were established to promote organizational innovation, including a green finance division set up by the Head Office and Huzhou Wuxing Branch of Zhejiang Province, the first green branch of the Bank. The Bank formulated credit policy guidelines for green finance, specifying areas of high priority and relevant management requirements. It also improved the incentive and restraint mechanism, carried out on-site green bank-themed inspection and special investigations on environmental, social and governance (ESG) risks, and strengthened the performance assessment of green development. Moreover, it expanded green finance products, promoted services such as pledge of future revenue rights of energy performance contracting (EPC), and revised the contract texts by adding the relevant terms on the borrower's environmental and social risk commitments. As of the end of the reporting period, the balance of green credit (loans for energy saving and environmental protection projects and services) was RMB243,301 million, representing an increase of 27.78% compared with the prior year-end.

Inclusive Finance

During the reporting period, the Bank comprehensively deepened the reform of the inclusive finance system by setting up an inclusive finance segment, increased its input in poverty alleviation via financial services and provided more resources to small and micro enterprises and Sannong, thus effectively enhancing the availability of inclusive financial services. Through the empowerment of technologies and the application of big data technology, it continued to deliver better financial services to small and micro enterprises and Sannong, achieving the sustainable development of inclusive finance business of the Bank.

Financial Poverty Alleviation

Targeted Poverty Alleviation Plan

In 2019, the Bank formulated the implementation opinions on financial support to poverty alleviation. Specifically, it focused on areas affected by extreme poverty by providing more financial funds and financial services to meet their needs at the first place. It also clarified targets including the net growth of targeted poverty alleviation loans (including loans to those already out of poverty and loans to those contributing to poverty alleviation efforts) and the growth rate of various loans in areas affected by extreme poverty.

Overview of Targeted Poverty Alleviation of the Year

The Bank developed micro loans for poverty alleviation, which featured "RMB50,000 in loan amount, three years in term, no guarantee or collateral required, at benchmark rate", to support registered poor households who were both willing to and had the capability to expand their production. It directed resources to the areas affected by extreme poverty such as the "Three Regions and Three Prefectures", and targeted its efforts by accurately providing financial services to infrastructure projects and utility projects through the project-based poverty alleviation loans. It innovatively launched featured products in impoverished areas to support the development of industries with distinct local characteristics and placed the emphasis on the support for family farms, farming cooperatives, small and micro enterprises and other entities which could exert a positive effect on local poverty alleviation. It served the impoverished areas in line with their development plan, stepping up its effort to support poverty alleviation projects in rail traffic, water conservancy and hydro-power and power grid as well as livelihood projects in hospital, gas, water supply and heat supply. As of the end of the reporting period, the balance of the Bank's targeted poverty alleviation loans[1] (including loans to those already out of poverty and loans to those contributing to poverty alleviation efforts) reached RMB82,456 million, representing an increase of RMB21,259 million compared with the prior year-end.

Achievements of Targeted Poverty Alleviation

In ten thousand of RMB

Targeted poverty alleviation via financial services	
Loan balances	8,245,562.99
Including: Personal targeted poverty alleviation loans	4,859,144.04
Of which: Loans to registered poor households	1,261,784.24
Other personal targeted poverty alleviation loans	452,956.45
Loans to those already out of poverty	2,882,105.37
Other personal loans to those contributing to poverty alleviation efforts	262,297.98
Industry-based targeted poverty alleviation	2,520,858.71
Project-based targeted poverty alleviation	865,560.24

[1] According to the PBOC, the statistical standards of targeted poverty alleviation loans have changed. First, in "transportation infrastructure loan", roads in impoverished areas only refers to roads in counties and lower-level areas; second, "loans to those already out of poverty" only refer to loans granted to those "who have been lifted out of poverty but still enjoy the poverty alleviation policy".

Follow-up Plan of Targeted Poverty Alleviation

The year of 2020 marks the final year of building a moderately prosperous society in all respects and the "13th Five-Year Plan", which is also the final year for winning the fight against poverty. The Bank will strengthen and fulfill its responsibility of financial poverty alleviation and continue to increase the support for loans on targeted poverty alleviation. It will focus on areas of extreme poverty, further increase support for credit loans, endeavor to see that the basic living needs of rural poor population are met and that these people have access to compulsory education, basic medical services and housing in impoverished areas, especially areas of extreme poverty such as "Three Regions and Three Prefectures", and strive to achieve a higher average loan growth rate in the severely impoverished areas such as the "Three Regions and Three Prefectures" than that in their provinces. It will continue to increase the financial support for targeted poverty alleviation and expand poverty alleviation loans to industries and projects in particular, with the focus on specialized industries which can promote the employment of poor households and drive the increase of their income and also on projects serving poor households, such as infrastructure construction and farmland capital construction. Meanwhile, the Bank will develop personal targeted poverty alleviation loans in a steady manner.

Financial Services to Small and Micro Enterprises

The Bank continued to optimize the resource allocation and system construction, put efforts on technological empowerment, enhanced the application of big data, enriched online loan products, and promoted the transformation and upgrade of business models, thus further promoting the quality of financial services to small and micro enterprises. As of the end of the reporting period, the balance of loans to small and micro enterprises with credit lines of RMB10 million or below amounted to RMB653,185 million, ranking the second among peers, representing an increase of RMB108,194 million compared with the prior year-end. There were 1,516,000 accounts with loan balance, ranking the first in the industry, representing an increase of 58,300 accounts as compared with the end of last year. The average interest rate for new loans in 2019 was 6.18%, and the non-performing loan ratio was 2.51%. The asset quality of the Bank remained stable. The Bank fully met the regulatory targets set by the CBIRC of "Two Increases and Two Controls".

Enriching Online Products

The Bank continuously optimized the online loan products with emphasis on digitalization and standardization. It focused on the promotion of the "Easy Small and Micro Loan" and "Speedy Micro Loan" based on the application of big data, which featured on-line underwriting of micro loans and standardized underwriting of small loans. It categorized the customers and introduced external data including taxation, invoices and electricity, building a comprehensive data evaluation model that realized accurate portraits and speedy evaluation of customers' creditworthiness. It launched an innovative cross-border corporate financing model based on big data from the customs, and became one of the first banks to settle in the national SME financing comprehensive credit service platform of the National Development and Reform Commission to effectively meet the diversified financing needs of small and micro enterprises. As of the end of the reporting period, the balance of online loan products was RMB205,018 million.

Upgrading Business Mode via Technologies

In terms of marketing, the Bank focused on building three types of data connection with government big data, industrial chain and channel diversion. It achieved direct connection with taxation authorities of 31 provinces/regions/cities and linking with the industrial chain platforms of core enterprises such as Yutong and Mengniu, to provide financial services for upstream and downstream small and micro enterprises. It also expanded customer acquisition channels by carrying out customer diversion through resources of information service enterprises and continuously building marketing scenarios. **In terms of operation**, the Bank developed online payment and repayment channels, and used functions such as electronic signature, electronic map and face recognition to promote business development through the use of mobile devices and realize automatic operation. **In terms of risk control,** the Bank relied on big data technology to enhance the screening of negative information before lending, automatically identify risks in lending and realize automatic monitoring and early warning after lending, thus establishing a data-driven whole-process risk control system.

Strengthening the Institutional and Mechanism Guarantee

The Bank put the focus on local specialized business parks, featured industries and agricultural demonstration zones to promote the establishment of specialized sub-branches continuously. It increased preferential allocation of resources, set up special credit quota, introduced special incentive policies, established special incentive mechanism, built dedicated teams, improved the training system, and further implemented the credit due diligence and liability exemption system on credit underwriting, to fully mobilize the branches in granting loans to small and micro enterprises.

Sannong Finance

In 2019, with the help of advanced technologies, such as big data, Internet, mobile communication and artificial intelligence, the Bank promoted the business transformation and upgrading, deeply implemented the rural revitalization strategy, and steadily pushed forward the building of a coordinated agriculture support ecosystem, to improve the basic financial services in rural areas. As of the end of the reporting period, the balance of the Bank's agriculture-related loans was RMB1.26 trillion.

Promoting Business Transformation and Upgrading via Technologies

The Bank developed in-house Internet loans, such as “Speedy Micro Loan”, cooperated with core enterprises on the development of Internet loans for industrial chains, and promoted the joint cooperation on Internet loans with Internet companies, which were the three major development models of Internet micro loans adopted by the Bank. In 2019, micro loans extended online accounted for over 60% of the total. During the reporting period, the “Speedy Micro Loan”, a pure-credit online loan product, further expanded the customer base through the combination of “online property asset evaluation + offline mortgage registration”, with the balance of “Speedy Micro Loan” increased by approximately RMB30.0 billion. Internet micro loans greatly improved the approval efficiency of loans to farmers, individual business owners and owners of small and micro enterprises, and facilitated the transformation of micro loans from the labour-intensive loans to the ones empowered by technologies. The Bank promoted the pilot of electronic contract signing APP, continuously pushed forward the application of standardized products to retail credit factories, and steadily advanced the transformation and upgrading of business processes to be “digital, intelligent and standardized”. It applied mobile device technologies such as face recognition, electronic maps, watermarking and electronic signatures for business expansion, established an internal evaluation model on retail credit business, improved the decision-making models, and developed the risk warning function model, to continuously enhance the intelligent risk control capability.

Stepping up Support for Key Areas of Rural Vitalization

The Bank continuously promoted the “Ten Business Modes” to support the rural revitalization and actively supported the rural revitalization strategy, focusing on key rural revitalization areas, such as supply of important agricultural products, building of beautiful countryside, circulation of rural commodities and rural infrastructure construction. It took major steps to realize synergy between the wholesale and retail businesses and continuously strengthened the cooperation with platforms including core enterprises. It carried out a pilot cooperation program for the online industrial chain loan “Bank-Enterprise Link”, leading to a more mature service chain model where individual enterprises were fully leveraged on. It accelerated the accumulation of transaction data via co-building of a trading system and promoted the “market + merchant” integrated financial services. In the area of rural eco-environment protection, the Bank boosted the development of, for instance, waste incineration and sewage treatment industries, and worked in partnership with the National Forestry and Grassland Administration to introduce designated loan products for forest reserves to make its contributions to the building of beautiful countryside, and successfully developed a pilot loan product “Sichuan Happy and Beautiful New Village Construction Loan” to support rural infrastructure construction.

Continuously Building a Coordinated Agriculture Support Ecosystem

The Bank further promoted the coordination with China Post Group, continued to deepen the platform cooperation, and actively built a coordinated agriculture support ecosystem. Supported by regulators and with strict risk control, the Bank, together with China Post Group, carried out the pilot of auxiliary micro loans at agency outlets in six provinces, and focused on filling up the market gap of micro loan business in several rural areas by making use of the advantage of China Post Group outlets, in order to truly release the potential of the Bank's large outlet network for Sannong services. It continued to promote the five major platform cooperation models, namely cooperation with government, professional associations, enterprises, guarantee companies and insurance companies, to further deepen its cooperation with platforms towards system interconnection, data sharing and collaborative operation. The Bank gave more support for major projects of the Ministry of Agriculture and Rural Affairs to support agriculture and benefit farmers, interfaced with the direct data reporting system for emerging agribusinesses, continued to deepen the cooperation with the National Agricultural Credit Guarantee Alliance, and stepped up efforts to support emerging agribusinesses. It strengthened the cooperation with the Ministry of Human Resources and Social Security, increased loans to customers who are finding jobs or intend to start a business, and advanced the cooperation throughout the whole industrial chain with COFCO, Wens, New Hope Group and other leading agricultural enterprises in China.

Continuously Improving the Basic Financial Services in Rural Areas

Through network penetration, the Bank created an online trading service platform and developed an "online + offline" integrated network for the promotion the New Rural Endowment Insurance ("NREI") and the New Rural Cooperative Medical Service ("NRCMS"), providing a comprehensive and multi-level financial services for rural residents. As of the end of the reporting period, the Bank had a total of 27,700 outlets at and below the county level, accounting for 69.81% of all outlets, as well as 98,200 self-service terminals at and below the county level and 76,100 rural financial service merchants. During the reporting period, the Bank acted as the collection agency for 5,744,500 NREI transactions with a volume of RMB2,089 million; as the payment agency for 222 million NREI transactions with a volume of RMB33,661 million; as the payment agency for 909,400 NRCMS reimbursement and allowance payment transactions with a volume of RMB878 million.

Information Technology

The Board of Directors of the Bank attached great importance to the work of information technology. By addressing the bottleneck of IT development, the Board of Directors supported the IT development via a series of policies, deepened IT governance, and fully promoted the implementation of the "13th Five-Year" IT planning. It focused on improving the capabilities on independent R&D and system operation and maintenance, strengthened the data governance and big data application, and accelerated financial technology innovation, providing strong support for the digital transformation and high-quality development of the Bank. The Bank continued to increase the investment in information technology. As of the end of the reporting period, it invested RMB8,180 million in information technology compared with RMB7,197 million of the prior year, accounting for 2.96% of its operating income.

First, the Bank deepened IT governance. It established the Financial Technology Innovation Department and the Management Information Department, forming an IT governance structure consisting of “three departments and two centers” at the Head Office. The newly-established software R&D sub-center in Suzhou was put into service, forming an independent R&D system featuring “1+3+N”. It accelerated the integration of business and technology and supported the development of financial technology innovation. It also put efforts to strengthen the IT team building. On the one hand, the Bank took unconventional measures to bring in new blood and enhance professional training. It carried out spring campus recruitment, summer internship, autumn campus recruitment and normal public recruitment with the focus on recruiting experts and talents in areas such as architecture management, technology platform, R&D, and operation and maintenance. As of the end of the reporting period, the IT team headcount at the Head Office doubled from the previous year. Meanwhile, the Bank adopted special remuneration and incentive policies to the IT line, and selected leading talents in nine major fields such as artificial intelligence, big data, cloud computing and blockchain, so as to fully stimulate the enthusiasm and creativity of the IT team. On the other hand, the Bank paid equal attention to building an in-house team and investing more on R&D outsourcing, optimized the management process, and established a resource pool for outsourcing projects, so as to meet the demands of rapid business iteration and speedy product innovation.

Second, the Bank made progress on two fronts. For one thing, it spared no effort to promote the implementation of the “13th Five-Year” IT planning. During the reporting period, the Bank planned to build 255 IT projects, of which 270 were already built, and to launch 130 projects, of which 164 projects were already launched. It mainly pushed forward 10 major projects in personal finance, credit factory, credit card, Internet finance, corporate finance, treasury and asset management, customer management, operation management, risk management and big data, and made overall plans for the construction of key projects. As a result, the new-generation IT platform for treasury business, credit business, unified counter and CRM was put into use at the enterprise level, which rapidly enhanced the technological empowerment. As at the end of 2019, the overall progress of the “13th Five-Year” IT planning of the Bank had already exceeded 80%. Among the 16 planned platforms, 15 of them had been launched and put into operation, while two enterprise bus systems had also been put into production, and the open bank platform was under construction. For another, the Bank carried out the construction of the new-generation personal business core system. After actively learning from the enterprise-level business structure and modeling experience of the leading industry peers, and drawing on the concept of distributed structure of the Internet, the Bank completed the up-front researches and finished the work on business requirements and technical solutions. In terms of business, the system adopted a “T-shaped” modeling strategy, which horizontally covered three levels of business activities and information of available products and vertically covered personal deposit, settlement account and payment and settlement business, generating models on process, product and entity, and integrated such three models to form business requirements. It advanced rapid product innovation, enhanced operational risk management and control and improved customer service in six aspects, namely, the flexible combination of products, differentiated pricing, the separation of products, contracts, accounts and media, strengthened efforts in anti-money laundering and anti-fraud, optimization of customer experience and data service improvement. With regard to technology, the Bank established a core banking system which is based on open platform, distributed structure, unitized design and X86 server, capable of processing large scale of concurrency of core businesses and making product innovation in a rapid way. As for independence and controllability, the Bank, seizing the opportunities of the construction of major projects, deepened the integration of business team and technology team, propelled innovation in business requirement management, architecture management and control, project management, software R&D, operation maintenance and other fields, and cultivated talents adept at both finance and technology, improving the Bank’s technology capability across the board. In 2020, the Bank will go all out to promote the design of the new-generation core system and software R&D based on business requirements and technical solutions, with a view to laying a solid foundation for the digital transformation of retail banking.

Third, the Bank accelerated the building of "bimodule IT". It worked harder to improve independent R&D and realized the independent R&D of the corporate banking system, taking another solid step towards independent control of the core system. The Bank stepped up the iterative transformation of the "waterfall" R&D model to an "agile" one and deepened the integration of business and technology. It established a dedicated technical team which was directly connected with business, and adopted "dispatched", "embedded" and other new organizational forms to support the agile R&D of mobile banking, online loans, open payment platforms, credit cards, etc., to meet the needs of business transformation and development and rapid product iteration. The Bank continued to improve testing tools and methods, thus completing the integration of automated testing and DevOps (development and operations) process. It vigorously promoted automated testing. The automated testing coverage rate of mobile clients was over 60%, among which the coverage rate of mobile banking core transactions exceeded 75%, thus meeting the requirements of agile R&D. The Bank spared no efforts to build the Java and C development platforms and accelerated the reuse of channels and platforms as per the concept of distributed structure of microservice. Based on the enterprise-level structure, the Bank increased the accumulation of business components, promoted the migration of outsourced projects to Java and C development platforms, greatly enhanced the efficiency of product iterative innovation, rapid software development, and dark launch of versions, and supported the transformation to agile R&D.

Fourth, the Bank improved the level of data empowerment. It deepened data governance, promoted the standardized data management and control, and established the data quality management system. It launched a new big data five-year plan (2020-2024), a comprehensive plan for the Bank's big data capacity building from four aspects: application scenarios, data governance, technology framework and organizational structure. It completed the phase-3 construction of the big data platform, realizing unified operation scheduling, monitoring, traffic exchange and data services, unique data source and data standards, and access from multiple places to data processed in one place, thus laying a solid foundation for the further transition to the data middle platform. It continuously pushed forward the building of six data marts including customer management, risk management and financial management, and supported application in such key areas as customer portrait, marketing performance, risk management and control, and decision analysis. It accelerated the research and development of data products, and provided data support to customer management, risk prevention and control, product services and channel optimization of business departments by the combination of visual display and embedding into business processes.

Fifth, the Bank strengthened financial technology innovation. It set up the technological innovation fund and stepped up its efforts in research and application of new technologies. In terms of cloud computing, the Bank built a cloud service architecture in the "two places, three centers" based on the open cloud platform of OpenStack, which improved the R&D efficiency, shortened the innovation cycle and provided highly available and reliable supporting service for business development. As of the end of the reporting period, the cloud platform of the Bank effectively supported 60 systems, such as mobile banking, online banking, channel management platforms and third party payment, with an average daily transaction volume of 378 million, accounting for more than 80% of the total transaction volume of the Bank. In terms of artificial intelligence, the Bank actively explored the application of artificial intelligence in various scenarios, such as intelligent financial services, intelligent operations, intelligent risk management and intelligent marketing, and successfully promoted the application of intelligent customer service, "Face Scan Payment", and intelligent bill identification. It initiated the building of the "PSBC Brain" based on artificial intelligence technology to support the sharing and reuse of machine learning and AI model development in the next step. In terms of blockchain, the U-chain forfaiting business system went live and completed the first cross-blockchain transaction. The Bank endeavored to build the blockchain technology platform, in support of more scenarios and cross-blockchain connection in the next step. In terms of the Internet of Things, the Bank promoted the application of the RFID technology to achieve intelligent management and control of cash and physical objects, reduce operational risk and improve operation and management efficiency.

Distribution Channels

Business Outlets

The Bank actively promoted the systematic transformation of outlets by highlighting the transformation toward intelligence, lightness and integration based on the core objectives of improving customer experience and enhancing outlet efficiency. It strengthened refined management ability, business capacity, full service capacity, professional operation, and online-and-offline integrated all-channel services of outlets, to accelerate the transformation of outlets to “marketing service centers” and “customer experience centers” that maintain customer relationships, provide wealth management services and meet comprehensive financial demand of customers.

The Bank continuously enhanced the outlet value via application of technologies. It established the data mart for customer management, improved the accuracy of customer portraits and achieved refined services for customers. It promoted the establishment of comprehensive marketing system by strengthening the coordination between different business lines and comprehensive marketing, and expanded the business scope of agency outlets to enhance the full-service capacity of outlets. It continuously optimized the online transaction channels and established business circle platforms with customer life scenarios incorporated, to build the interactive ecosystem including the Bank, merchants and customers. It strengthened the customer stratification management, where it actively established the wealth management system while maintaining and serving the general public, thus promoting the value contribution of mid- and high-end customers. It optimized the internal and external settings of outlets to effectively improve customer experience. The Bank attached great importance to the systematic transformation of outlets, and focused on management and implementation, in order to further enhance the core competitiveness of the Bank’s outlets.

Based on the principles such as maximizing space utilization rate of business halls, weighting more towards marketing and designing optimal line of motion, the Bank set up functional sub-divisions and functional modules of outlets, of which standard sizes of space were clarified, and put outlets that have their annual leases expired and areas failed to comply with standards into the plan on reduction of business areas, which was implemented step by step. During the reporting period, the Bank optimized a total of 175 outlets and cut 36,000 square meters of business areas. Through continuous efforts to divert counter transactions, improve the comprehensive business capability of the tellers and optimize the operating procedures of the counter business, the Bank reduced 8,515 counters and moved 5,395 tellers to other positions, including 3,567 tellers transferred to sales and marketing at outlets. As of the end of the reporting period, the Bank had a total of 39,638 outlets, including 7,918 directly-operated outlets, accounting for 19.98% of all outlets, and 31,720 agency outlets, accounting for 80.02% of all outlets. In terms of geographical distribution, the Bank had 11,966, 8,723 and 18,949 outlets in cities, counties and rural areas respectively.

Electronic Banking

Relying on its widespread outlet channels and customer base in urban and rural areas, the Bank sped up product innovation and actively promoted the integration of online and offline channels. The Bank has established and constantly improved the electronic banking channel system integrating mobile banking, online banking, telephone banking and WeChat banking to continuously extend the reach of its financial services.

As of the end of the reporting period, the Bank had 318 million electronic banking customers, including 229 million personal online banking customers and 260 million mobile banking customers. The number of monthly active customers of mobile banking increased by 31.53% year on year. The electronic banking registered a transaction amount of RMB22.70 trillion, up 22.77% year on year. Specifically, the transaction amount of mobile banking reached RMB7.09 trillion, up 22.03% year on year. The e-channel transaction ratio was 92.44%, representing an increase of 2 percentage points, compared with the prior year-end.

Self-service Terminals

The Bank continuously enhanced the intelligent service capacity of its self-service terminals, in order to provide customers with better financial services. As of the end of the reporting period, there were 147,500 self-service terminals across the Bank, up by 22,900 over the prior year-end. During the reporting period, the Bank made a big push to apply the new intelligent terminal of the Intelligent Teller Machine (ITM). As of the end of the reporting period, 41,900 ITMs were put into use. The Bank continued to improve functionality and streamline the process, adding more than 90 functions to ITM including reservation of withdrawal via bankbook, O2O statement printing and integrated account opening, thus greatly increasing the processing capacity of self-service terminals. It deepened the application of new technologies, and realized the functions of face scan payment, face scan transfer and deposit by scanning QR code, which effectively enhanced efficiency of traditional cash terminals. It was motivated to offer green financial services, promoted ATM/CRS QR code slip and electronic account statements to reduce the use of consumable items, and strengthened service stability of self-service terminals.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent recruitment, the Bank adhered to an open and inclusive attitude to recruit talents. It placed the emphasis on technology talents, and increased the recruitment of talents in areas of transformation and development, strategic business and high-level operation and management. Meanwhile, it followed the talent development trends, improved the mechanism and supporting measures, and assisted publicly-recruited talents in adapting to the culture of the Bank and fully unleashing their professional values.

In terms of talent training, the Bank continued to deepen talent development and training and strengthened talent building in an all-around way. During the reporting period, the Bank closely followed business management and development trend, strengthened compliance and risk training, and built a high-quality professional talent team. It gradually built a talent training and development system with face-to-face training and long-distance training as major approaches and Party School training, overseas training, and qualification certification as supplementary approaches. It strengthened the building of trainer teams and courses and mobile learning, and enriched teaching materials and training platforms to enhance the role of training in supporting and ensuring development.

In terms of remuneration and benefits management, the Bank optimized the gross salary allocation system oriented by efficiency and value to improve input and output efficiency of resources continuously. It improved the normal remuneration growth mechanism to enhance the sense of fulfillment, happiness and security among the employees, and explored the market-based remuneration mechanism to increase the attractiveness to talents. It optimized the performance management system by improving the incentive and disciplinary mechanism to encourage enthusiasm, initiative and creativeness. Upholding the people-oriented management philosophy, the Bank improved the welfare management system, and continued to enrich the welfare system and improve the standard of employee benefits in accordance with the national policies and requirements.

Employees

As of the end of the reporting period, the Bank had a total of 174,406 employees and 15,730 dispatched employees, including 877 employees at majority-owned subsidiaries. The number of employees with bachelor's degree or above stood at 129,248, accounting for 74.11% of the total. The number of retired employees of the Bank was 16,142.

The Bank's Employees by Function Lines

	Number of employees	Percentage (%)
Management	5,832	3.34
Personal banking	83,831	48.07
Corporate banking	13,140	7.53
Treasury	1,401	0.80
Financial and accounting	15,098	8.66
Risk management and internal control	11,748	6.74
Others (1)	43,356	24.86
Total	174,406	100.00

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

The Bank's Employees by Age

	Number of employees	Percentage (%)
Under 30 (inclusive)	41,209	23.63
31-40	79,399	45.53
41-50	42,303	24.26
Over 51 (inclusive)	11,495	6.59
Total	174,406	100.00

The Bank's Employees by Education Level

	Number of employees	Percentage (%)
Master's degree and above	11,233	6.44
Bachelor's degree	118,015	67.67
Associate degree	38,951	22.33
Others	6,207	3.56
Total	174,406	100.00

Institution Management

Head Office of the Bank is located in Beijing, being the hub for 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 are generally set up in the prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-2 branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-1 branches in their respective regions. The tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. The tier-2 sub-branches primarily undertake the function of business operation.

Regarding organizational structures, the Bank adopted a strategy that focused on retail business and inclusive finance, optimized the organizational structure with a top-to-bottom approach, further improved the departmental setup and clarified departmental responsibilities in accordance with the principle of separation between the front, middle and back offices. It strengthened risk management and control, enhanced the effectiveness of comprehensive risk management, and deepened the technology-driven development, greatly improving management efficiency.

As of the end of the reporting period, the Bank had 8,231 institutions, including the Head Office, 36 tier-1 branches, 322 tier-2 branches, 2,067 tier-1 sub-branches, 5,803 tier-2 sub-branches and others, and 2 majority-owned subsidiaries.

The Bank's Branches, Sub-branches and Employees by Geographical Region and Their Asset Size

In millions of RMB, except for percentages

Region	Asset Size	Percentage[1] (%)	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Head Office	6,725,834	37.67	1	0.01	3,301	1.89
Yangtze River Delta	1,703,964	9.55	941	11.43	18,872	10.82
Pearl River Delta	1,084,787	6.08	769	9.34	19,092	10.95
Bohai Rim	1,763,158	9.88	1,132	13.75	26,600	15.25
Central China	3,327,545	18.64	2,413	29.32	45,118	25.87
Western China	2,405,710	13.48	2,124	25.81	40,604	23.28
Northeastern China	838,511	4.70	851	10.34	20,819	11.94
Offsetting and deferred income tax assets	(7,632,803)	–	–	–	–	–
Total	10,216,706	100.00	8,231	100.00	174,406	100.00

Note (1): The proportion of total assets in each region is calculated based on the aggregated data before offsetting.

Majority-owned Subsidiaries

PSBC Consumer Finance

PSBC Consumer Finance was established on November 19, 2015. It has a registered capital of RMB3,000 million, of which the Bank held 70.50%. The business scope of the company: personal consumer loans; accepting the deposits from shareholder's domestic subsidiaries and domestic shareholders; borrowing from domestic financial institutions; authorized issuance of financial bonds; lending to domestic financial institutions; consumer financing advisory and agency services; agency sales of consumer loans related insurance products; investments in fixed income securities.

As at December 31, 2019, PSBC Consumer Finance had total assets of RMB30,654 million, net assets of RMB3,434 million and recorded a net profit of RMB349 million for the year.

PSBC Wealth Management

PSBC Wealth Management was established on December 18, 2019. It has a registered capital of RMB8,000 million, of which the Bank held 100%. The business scope of the company: to provide unspecified general public with wealth management products, and carry out investment and management of properties entrusted by investors; issue non-public wealth management products to eligible investors, and carry out investment and management of properties entrusted by investors; financial advising and consulting services; other businesses approved by CBIRC.

As at December 31, 2019, total assets of PSBC Wealth Management amounted to RMB8,013 million and net assets amounted to RMB8,003 million.

Risk Management

Comprehensive Risk Management System

During the reporting period, the Bank earnestly implemented the central government's decisions and regulatory requirements, successfully carried out the three-year plan on preventing and defusing major risks, continued to improve the "all aspects, whole process and entire staff" comprehensive risk management system, and established a long term mechanism for internal control and compliance management. It improved the risk management structure, optimized division of responsibilities for risk management, enhanced the building of professional risk management system, and ensured that everyone concerned fulfilled their duties. It implemented joint asset quality control, improved the accountability mechanism on the person in charge, and comprehensively investigated and dealt with potential risks. It continued to promote the rectification of disorders, held strictly to account those who violated rules and regulations, strengthened the internal control system and firmly formulated minimum compliance requirements. It accelerated the development of IT system for risk management, optimized risk management means and tools, and promoted the implementation of Basel III and advanced approaches of capital management, thus continuously improving its capabilities for comprehensive risk management.

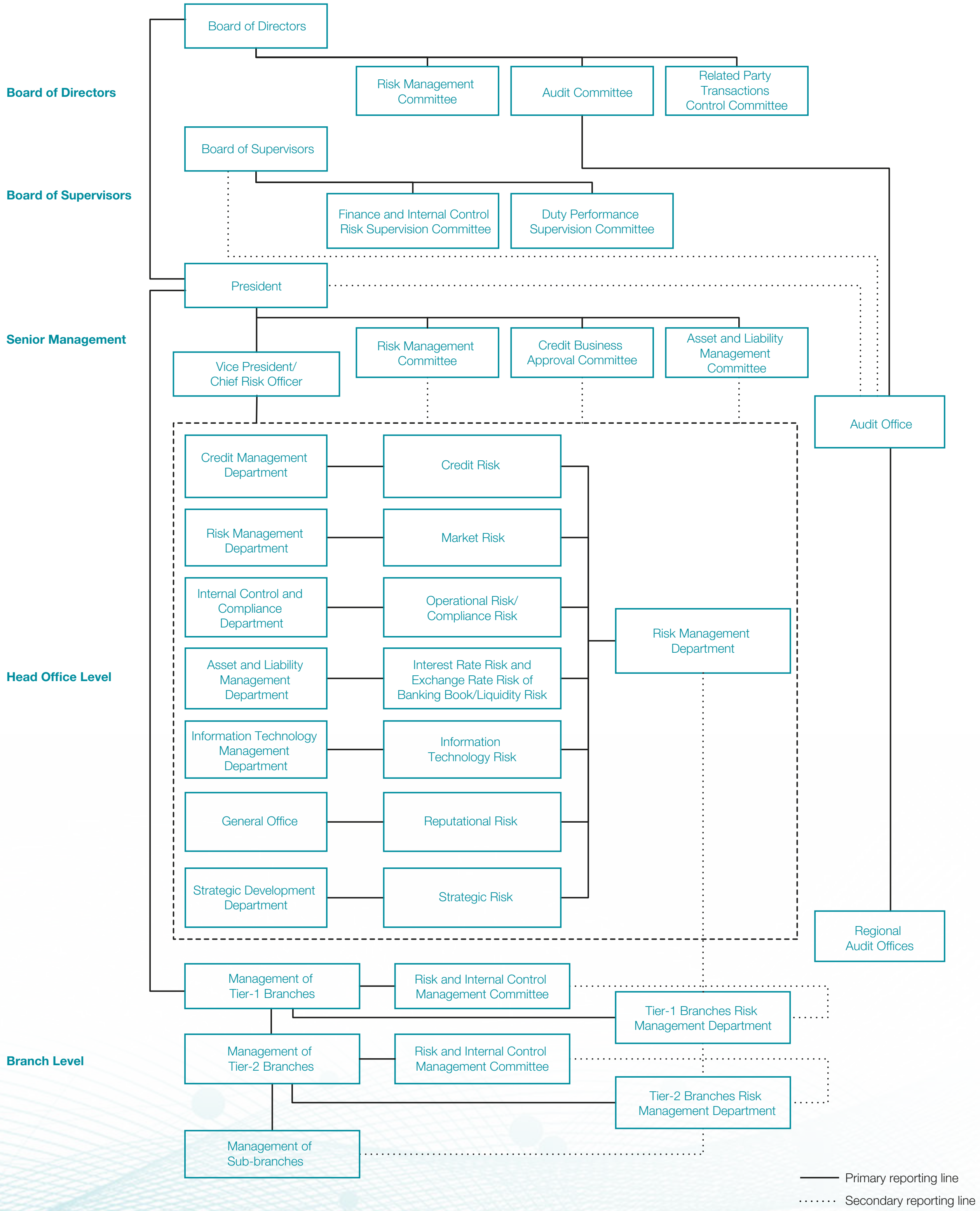
Risk Management Organizational Structure

The Board of Directors assumes the ultimate responsibilities for comprehensive risk management. It is responsible for deciding the basic management rules and policies for risk management and internal control of the Bank and supervising the implementation thereof, reviewing and approving the internal audit rules of the Bank, hearing the risk management report submitted by the senior management, and evaluating the effectiveness of risk management of the Bank, in order to improve the Bank's risk management.

The Board of Supervisors assumes the supervisory responsibilities for comprehensive risk management. It is responsible for supervising the Board of Directors in respect of the formulation of risk management strategies, policies and procedures, supervising and inspecting risk management and internal control of the Bank and urging rectifications thereof, and evaluating the performance of Directors, Supervisors and the senior management members in respect of risk management.

The senior management assumes the responsibilities for implementation of comprehensive risk management. It is responsible for setting up an operation and management structure that meets the needs of risk management, building risk management system, developing risk management policies and procedures, evaluating risk management, and establishing 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

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 weakened 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, investments in corporate bonds and financial bonds and interbank investment) 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 continuously improves the credit risk management system and strengthens the whole-process credit risk management and control under the principle of "segregation of duties, checks and balances, and process management and control".

The organizational structure of the Bank on credit risk management is as follows: the Board of Directors undertaking the ultimate responsibilities for the effectiveness of credit risk management, while the senior management being responsible for implementation of strategies, policies and systems approved by the Board of Director on credit risks; both under the senior management, the Risk Management Committee making decisions on major and important matters on risk management, and the Credit Business Approval Committee making decisions on credit lines to be approved by the Head Office; credit management departments at all levels being responsible for leading the management of credit risk at their corresponding levels, and each business department being responsible for the implementation of policies, standards and requirements of credit risk management in its field of business in accordance with the division of functions.

The Bank continued to adopt prudent and sound credit risk management policies, improved the credit risk management system and implemented special governance requirements of regulatory authorities. Following national strategies and industrial policies, the Bank improved the credit extension policy to guide and optimize the allocation of credit resources, and dynamically adjusted the credit structure to effectively serve the real economy and promote high quality development. It implemented the accountability mechanism on the person in charge for credit business, strengthened the whole-process management of credit extension, implemented unified credit extension, strengthened control of concentration risk and prevented regional and systematic risks. It optimized the internal rating and risk limit management system for corporate and SMEs customers and improved the construction of the internal rating platform for retail business, deepening the application of the internal rating-based approach. It improved credit risk monitoring and early-warning mechanism, strengthened the credit risk prevention and control of high-risk areas, industries, regions, customers and products, and established a list-based management mechanism for large-scale corporate credit risk. It implemented classification of risk assets, comprehensively improved the quality of credit assets and enhanced the risk compensation capacity. In addition, it intensified efforts of asset preservation, expanded the disposal channels, and improved the effectiveness of risk disposal.

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, improved the product management system, and supported green credit, private enterprises and targeted poverty alleviation. It strengthened the "Three Inspections" on loans, tightened customer access standards and executed limit management in high-risk areas. It enhanced post-lending management and risk monitoring and early warning, increased its control on key areas such as coal, steel, real estate, non-ferrous metals and concrete, and implemented tailored policies for different enterprises, to strictly control large-value risk exposure. It further improved its credit risk management system for small enterprises, promoted the risk control technology based on big data, enhanced the application of internal and external data, and regularly conducted off-site risk monitoring with a multi-dimensional off-site risk monitoring and early-warning model. It continuously quitted from businesses with high-risk customers and improved risk alert and responding 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 control policies of the country on real estate by developing and implementing differentiated credit policies for residential mortgages, continued to promote the cross-level early-warning mechanism for consumer loans and improved the timeliness and effectiveness of risk management. It streamlined micro loan products and set up various risk control rules to improve and regulate risk control and management mechanism. It promoted the development of digitalized risk control capacity, embedded automatic risk control model system, and upgraded the functionality of mobile devices in business development. It applied big data, machine learning, mobile Internet and other technologies to the entire lending process including customer's application, approval and post-lending management, and established an active, forward-looking, whole-process and intelligent risk control system covering all lending steps. It continued to promote the operational model of retail credit factory, built an operational system with intensive management, standard operations and intelligent decision-making, and improved efficiency and quality of approval.

Credit Risk Management of Credit Card Business

During the reporting period, the Bank continued to strengthen the risk management of credit card business, and promoted a balance between risk and return. It strengthened the key risk management, improved the credit approval strategies of mutual debt customers, controlled the credit scale, and prevented excessive credit. It implemented different risk strategies targeting various areas, channels and customer groups, and imposed higher standards on customer acquisition. It strengthened the control of existing risks, reduced the risk exposure to customers tagged as early-warning, quitted from businesses with high-risk customers in a timely manner, carried out immediate control on cash-out and prevented the transmission of industry risk.

Credit Risk Management of Treasury Business

During the reporting period, the Bank continued to strengthen the credit risk management of the treasury business. It conscientiously implemented regulatory policies, sticked to the fundamental mission of serving the real economy, strengthened management on the underlying, conducted unified credit extension, and enhanced credit risk management of the entire process. It actively carried out pre-investment investigation, investment review and approval and post-investment management, managed substantial risks of businesses, and strictly controlled the funds granted to high-risk areas, to prevent the operational risk. It did well in the access management and dynamic monitoring of counterparties through closely following the changes in qualifications of counterparties throughout the lifecycle of the business to proactively prevent risks. It continuously carried out risk investigation in key areas and established mechanisms on rolling investigation and risk reduction. It properly optimized product structure in terms of product type, maturity structure, and industry distribution, controlling the concentration of investment in a single product. It standardized the risk classification of assets, and provided allowance for impairment of assets based on the principle of prudence, strengthening risk mitigation capabilities.

Credit Risk Analysis

Maximum Credit Risk Exposures before Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	December 31, 2019	December 31, 2018
Credit risk exposures relevant to on-balance sheet asset items:		
Deposits with central bank	**1,110,921**	1,155,444
Deposits with banks and other financial institutions	**28,373**	140,351
Placements with banks and other financial institutions	**269,597**	285,622
Financial assets at fair value through profit or loss – debt instruments	**308,420**	339,572
Derivative financial assets	**5,009**	7,166
Financial assets held under resale agreements	**147,394**	239,687
New loans and advances	**4,808,062**	4,149,538
Financial assets at fair value through other comprehensive income – debt instruments	**228,672**	183,350
Financial assets measured at amortized cost	**3,135,144**	2,861,922
Other financial assets	**15,396**	13,343
Subtotal	**10,056,988**	9,375,995
Credit risk exposures relevant to off-balance sheet asset items:		
Credit commitments	**772,190**	646,795
Total	**10,829,178**	10,022,790

Non-performing Loans Structure by Collateral

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)[1]	December 31, 2018 Amount	December 31, 2018 Percentage (%)[1]
Unsecured loans	**9,702**	**22.64**	4,839	13.12
Guaranteed loans[2]	**7,621**	**17.79**	7,658	20.76
Loans secured by mortgages[2][4]	**24,557**	**57.32**	23,154	62.77
Loans secured by pledges[2][3]	**954**	**2.23**	1,237	3.35
Discounted bills	**10**	**0.02**	–	–
Total	**42,844**	**100.00**	36,888	100.00

Note (1): Calculated by dividing the balance of non-performing loans secured by each type of collateral by total non-performing loans.

Note (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.

Note (3): Represents security interests in certain assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

Note (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 Bank's balance of non-performing loans secured by mortgages was RMB24,557 million, representing an increase of RMB1,403 million compared with the prior year-end. The balance of non-performing guaranteed loans amounted to RMB7,621 million, representing a decrease of RMB37 million compared with the prior year-end. The balance of non-performing unsecured loans amounted to RMB9,702 million, representing an increase of RMB4,863 million compared with the prior year-end. The balance of non-performing loans secured by pledges amounted to RMB954 million, representing a decrease of RMB283 million compared with the prior year-end.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage of total loans (%)	December 31, 2018 Amount	December 31, 2018 Percentage of total loans (%)
Overdue for 1 to 90 days	**22,046**	**0.44**	14,564	0.34
Overdue for 91 days to 1 year	**12,360**	**0.25**	13,121	0.31
Overdue for 1 to 3 years	**12,986**	**0.27**	11,905	0.28
Overdue for more than 3 years	**3,691**	**0.07**	2,766	0.06
Total	**51,083**	**1.03**	42,356	0.99

As of the end of the reporting period, the balance of overdue loans of the Bank stood at RMB51,083 million, representing an increase of RMB8,727 million compared with the prior year-end. Specifically, the balance of loans overdue for 1 to 90 days was RMB22,046 million; the balance of loans overdue for 91 days to 1 year was RMB12,360 million; the balance of loans overdue for 1 to 3 years was RMB12,986 million; the balance of loans overdue for more than 3 years was RMB3,691 million.

Overdue Loans and Advances to Customers by Geographical Region

In millions of RMB, except for percentages

	December 31, 2019	December 31, 2018
Head Office	**2,759**	2,107
Yangtze River Delta	**4,913**	4,678
Pearl River Delta	**3,702**	3,124
Bohai Rim	**9,083**	8,589
Central China	**9,867**	7,982
Western China	**16,140**	11,512
Northeastern China	**4,619**	4,364
Total	**51,083**	42,356

Loan Concentration

In millions of RMB, except for percentages

Ten largest single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital(%)[1]
Borrower A[2]	Transportation, storage and postal services	182,673	3.67	27.19
Borrower B	Transportation, storage and postal services	14,745	0.30	2.19
Borrower C	Transportation, storage and postal services	12,900	0.26	1.92
Borrower D	Leasing and business services	11,512	0.23	1.71
Borrower E	Mining	8,500	0.17	1.27
Borrower F	Transportation, storage and postal services	8,120	0.16	1.21
Borrower G	Information transmission, software and information technology services	7,500	0.15	1.12
Borrower H	Transportation, storage and postal services	6,630	0.13	0.99
Borrower I	Transportation, storage and postal services	6,415	0.13	0.95
Borrower J	Production and supply of electricity, heating, gas and water	5,838	0.12	0.87

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

Note (2): Percentage of loans to the largest single customer = total loans to the largest customer/net capital×100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2019, China State Railway Group Co., Ltd. was the Bank's largest single borrower. The outstanding loan balance with China State Railway Group Co., Ltd. was RMB182,673 million, accounting for 27.19% of the Bank's net capital. The credit line the Bank extended to China State Railway Group Co., Ltd. includes the legacy credit line of RMB240.0 billion which was approved by CBIRC. As of December 31, 2019, the outstanding loan balance under such credit line approved by CBIRC for China State Railway Group Co., Ltd. was RMB165.0 billion. After deduction of this RMB165.0 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.63% of the Bank's net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

	December 31, 2019		December 31, 2018	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Normal	4,898,633	98.48	4,213,246	98.51
Special mention	32,709	0.66	26,731	0.63
Non-performing loans	42,844	0.86	36,888	0.86
Substandard	14,972	0.30	9,380	0.22
Doubtful	6,375	0.13	5,981	0.14
Loss	21,497	0.43	21,527	0.50
Total	4,974,186	100.00	4,276,865	100.00

As of the end of the reporting period, the Bank's balance of non-performing loans amounted to RMB42,844 million, representing an increase of RMB5,956 million compared with the prior year-end. The non-performing loans ratio was 0.86%, which remained the same compared with the prior year-end. The balance of special mention loans amounted to RMB32,709 million, representing an increase of RMB5,978 million compared with the prior year-end. Special mention loan ratio was 0.66%, representing an increase of 0.03 percentage point compared with the prior year-end. The ratio of non-performing loans to loans overdue for over 90 days was 147.55%, representing an increase of 14.82 percentage points compared with the prior year-end.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 2019			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	11,477	26.79	1.73	9,695	26.28	1.58
Fixed asset loans	2,189	5.11	0.27	274	0.75	0.04
Trade finance loans	313	0.73	0.13	561	1.52	0.25
Others(2)	1,523	3.55	7.85	1,549	4.20	7.59
Subtotal	15,502	36.18	0.89	12,079	32.75	0.78
Discounted bills	10	0.02	0.00	–	–	–
Personal loans						
Consumer loans:						
Residential mortgage loans	6,489	15.15	0.38	5,053	13.70	0.36
Other consumer loans	3,919	9.15	1.23	3,286	8.91	1.19
Personal micro loans	14,782	34.50	2.42	14,813	40.15	2.81
Credit card overdrafts and others	2,142	5.00	1.74	1,657	4.49	1.67
Subtotal	27,332	63.80	0.99	24,809	67.25	1.07
Total	42,844	100.00	0.86	36,888	100.00	0.86

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

Note (2): Consists of letters of credit advance and advance on acceptance bills.

As of the end of the reporting period, the balance of the Bank's non-performing corporate loans amounted to RMB15,502 million, representing an increase of RMB3,423 million compared with the prior year-end; non-performing corporate loans ratio was 0.89%, representing an increase of 0.11 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB27,332 million, representing an increase of RMB2,523 million compared with the prior year-end; non-performing personal loans ratio was 0.99%, representing a decrease of 0.08 percentage point compared with the prior year-end.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2019 Amount	December 31, 2019 Percentage (%)	December 31, 2018 Amount	December 31, 2018 Percentage (%)
Head Office	**2,142**	**5.00**	1,658	4.49
Yangtze River Delta	**5,803**	**13.54**	4,662	12.64
Pearl River Delta	**3,180**	**7.42**	3,101	8.41
Bohai Rim	**4,226**	**9.86**	4,300	11.65
Central China	**7,496**	**17.50**	7,042	19.09
Western China	**15,683**	**36.61**	11,559	31.34
Northeastern China	**4,314**	**10.07**	4,566	12.38
Total	**42,844**	**100.00**	36,888	100.00

As of the end of the reporting period, the balance of non-performing loans originated in Western China was RMB15,683 million, the highest among all regions. The increases in the balance of non-performing loans originated in Western China and Yangtze River Delta were RMB4,124 million and RMB1,141 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	December 31, 2019		December 31, 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	118	0.76	157	1.30
Manufacturing	9,686	62.49	5,759	47.68
Production and supply of electricity, heating, gas and water	107	0.69	108	0.89
Financial services	–	–	–	–
Wholesale and retail	3,983	25.69	4,304	35.63
Construction	162	1.05	319	2.64
Real estate	12	0.08	18	0.15
Mining	57	0.37	78	0.65
Water conservancy, environmental and public facilities management	31	0.20	28	0.23
Leasing and business services	445	2.87	148	1.22
Agriculture, forestry, animal husbandry and fishery	451	2.91	629	5.21
Information transmission, computer services and software	84	0.54	60	0.50
Hotels and catering	174	1.12	267	2.21
Residential services and other services	72	0.46	81	0.67
Culture, sports and entertainment	19	0.12	17	0.14
Others[1]	101	0.65	106	0.88
Total	15,502	100.00	12,079	100.00

Note (1): Mainly includes education, scientific research and technical services, health and social security, etc.

During the reporting period, the increase in the balance of non-performing corporate loans of the Bank mainly came from manufacturing. As of the end of the reporting period, the balance of non-performing corporate loans from manufacturing was RMB9,686 million, representing an increase of RMB3,927 million compared with the prior year-end.

Movements of Allowance for Impairment Losses on Loans

Allowance for Impairment Losses of Loans and Advances to Customers at Amortized Cost

In millions of RMB

	December 31, 2019			
Item	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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	727	(443)	(284)	–
Transfer to stage 2	(3,924)	4,040	(116)	–
Transfer to stage 3	(4,537)	(1,340)	5,877	–
Changes of ECL arising from transfer of stages	(693)	1,760	15,734	16,801
Financial assets derecognized or settled during the period	(19,875)	(2,058)	(5,344)	(27,277)
New financial asset originated or purchased	40,477	–	–	40,477
Remeasurements	17,408	2,237	600	20,245
Write-offs	–	–	(11,449)	(11,449)
Loss allowance as at December 31, 2019	114,698	13,101	38,325	166,124

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

In millions of RMB

Item	December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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	(44)	44	–	–
Transfer to stage 3	(40)	–	40	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(599)	–	–	(599)
New financial asset originated or purchased	730	–	–	730
Remeasurements	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	646	44	40	730

Market Risk

Market risk refers to the risk of losses in the on- and off-balance sheet businesses of the Bank caused by adverse changes in market prices (including interest rate, exchange rate, stock price and commodity price). The Bank is primarily faced with interest rate risk and exchange rate risk (including gold).

In managing its market risks, the Bank aims to control the market risk within an acceptable and reasonable range according to the Bank's risk appetite, and to maximize risk-adjusted returns.

The Bank has established a market risk management system covering identification, measurement, monitoring and control and managed market risk based on routine monitoring report and risk limit management. During the reporting period, the Bank actively coped with the new challenges brought about by the change in market environment and expansion of business scope, improved the policies and processes of market risk management, strengthened the identification, measurement, monitoring and control, accelerated the development of quantitative risk management tools, and proactively carried out stress testing. As a result, the Bank appropriately followed major market risk limits and kept the market risk within a reasonable range, continuously enhancing the capability of market risk management.

Classification of Trading Book and Banking Book

In order to take targeted measures to manage market risk and accurately measure regulatory capital required for market risk, the Bank classifies all the on- and off-balance sheet assets and liabilities into either the banking book or the trading book in accordance with regulatory provisions and conventions of the banking industry. The trading book includes financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book. The Bank adopts corresponding methods of market risk identification, measurement, monitoring and control according to the nature and characteristics of different books.

Market Risk Management of the Trading Book

The Bank manages the market risk of the trading book by adopting multiple methods including limit management, sensitivity analysis, exposure analysis and stress testing, in order to keep the risk exposure within a reasonable range. During the reporting period, the Bank actively followed the changes in market, reasonably controlled the risk exposures in the trading book, closely monitored new regulatory trends and took the initiative to carry out stress testing. It also utilized the information system on assessment of risk monitoring.

Market Risk Management of the Banking Book

Interest Rate Risk Management for Banking Book

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. The interest rate risk of the Bank's banking book mainly arises from the mismatch of the remaining maturities or repricing periods of the interest rate-sensitive assets and liabilities in the banking book and the inconsistent changes in benchmark rates that assets and liabilities are priced on.

The Bank uses the repricing gap analysis to measure the potential interest rate change exposures. It mainly manages the interest rate risk of the banking book through measures including setting exposure limits, adjusting the repricing period structure of assets and liabilities and matching asset and liability portfolios.

The Bank proactively dealt with the impacts and challenges brought about by interest rate liberalization, paid close attention to changes in external interest rate environment, and improved its interest rate risk limit system accordingly. It monitored interest rate risk conditions regularly, carried out stress testing in a timely manner and continued to improve the internal and external pricing mechanisms. In order to better implement the latest regulatory requirements of the Basel Committee on Banking Supervision and the CBIRC on interest rate risk management of the banking book, the Bank actively improved the banking book interest rate risk management framework, promoted the optimization of the interest rate risk management system, fostered the application of standardized measurement framework, and constantly enhanced refined interest rate risk management. The interest rate risk of the Bank's banking book was generally stable and the impact of interest rate fluctuation on the net interest income and economic value of the Bank was under control and within an acceptable range.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest earning/ bearing
December 31, 2019	**280,121**	**(273,971)**	**(436,676)**	**210,087**	**560,845**	**136,502**
December 31, 2018	167,165	(351,365)	(600,001)	394,630	660,893	152,727

Interest Rate Sensitivity Analysis

In millions of RMB

Movements in yield rate basis points	December 31, 2019 Movements in net interest income	December 31, 2018 Movements in net interest income
Increased by 100 basis points	**(1,262)**	(3,641)
Decreased by 100 basis points	**1,262**	3,641

Exchange Rate Risk Management

Exchange rate risk refers to the risk of loss in foreign exchange exposure arising from unbalanced currency structure of the foreign exchange assets and liabilities due to adverse movements in exchange rates. The objective of exchange rate risk management is to ensure the impact of exchange rate changes on the Bank's financial position and shareholders' equity is kept within an acceptable range.

The primary source of the Bank's exchange rate risk arises from the mismatch between its USD assets and liabilities. The Bank continuously improved the exchange rate risk management framework, closely monitored market changes and exchange rate trends, timely monitored the changes in foreign exchange risk exposures of the Bank, and regularly conducted stress testing. During the reporting period, the overall exchange rate risk exposures of the Banks were under control and within an acceptable range.

Exchange Rate Risk Analysis

For analysis of the Bank's exchange rate risk, please refer to "Notes to the Consolidated Financial Statements – 43.5 Market risk".

Currency Concentration

In millions of RMB

	December 31, 2019			
	USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	57,293	682	5,627	63,602
Spot liabilities	(22,742)	3,093	(1,091)	(20,740)
Forward purchases	284,803	–	995	285,798
Forward sales	(287,854)	(2)	(5,964)	(293,820)
Net long/(short) position	31,500	3,773	(433)	34,840

	December 31, 2018			
	USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (RMB equivalent)	Total
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

Liquidity 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 repay matured debts, fulfill other payment obligations and meet other financial needs arising from normal operation. 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 sales, and weakening in financing ability.

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, routine 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, guided by national monetary policies, the Bank closely monitored market liquidity conditions and strictly carried out the policy on risk limits, effectively maintained 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. The stress testing results indicate that the Bank's liquidity risk is under control under various stress scenario assumptions.

Liquidity Risk Analysis

The Bank's liabilities are stable, as its major source of funds is personal deposits; its assets are highly liquid, with a relatively large proportion of qualified high-quality bonds. During the reporting period, all of the Bank's liquidity regulatory indicators 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 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
December 31, 2019	**10,417**	**(3,365,796)**	**(68,107)**	**(936,076)**	**(386,235)**	**1,499,165**	**2,656,822**	**1,066,718**	**476,908**
December 31, 2018	10,070	(3,316,863)	(43,686)	(1,033,733)	(493,679)	1,525,380	2,660,471	1,116,089	424,049

Operational Risk

Operational risk refers to the risk resulting from inadequate or problematic internal procedures, employees and IT systems, or from external events. The operational risks which the Bank may be exposed to mainly arise from internal fraud, external fraud, employment rules and workplace safety; customers, products and business activities; damage to physical assets; IT systems; as well as execution, delivery and process management.

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 the senior management, the Bank continued to improve the operational risk management system, promoted the establishment of operational risk management framework, and enhanced the effectiveness of operational risk management. It boosted the development of internal control system, and effectively improved the management of internal control at the primary level by proactively promoting business concept transformation, improving organizational structure and strengthening the management of employees and outlets. It also paid attention to operational risks of key business areas and operation links, and strengthened operational risk monitoring and early-warning mechanism. Each line of business actively carried out trainings related to operational risk so as to cultivate operational risk management culture and awareness and establish a correct operational risk management concept. The Bank's operational risk and operational risk loss ratio were kept at a low level.

Legal Risk

Legal risk refers to the risk of commercial banks suffering from adverse legal consequences including legal liabilities, loss of rights and reputational damage due to violation of laws and regulations or terms of contract of its business operations, non-application of laws and breach of contracts of others including the other party of the contract, and significant changes in the external legal environment.

During the reporting period, the Bank continued to improve the legal risk management system and enhanced the capacity for legal risk management, prevention and control. The Bank improved the mechanism of legal risk management by establishing a steering group for the law-based governance led by the Chairman of the Board of Directors, and addressed the responsibility of preventing and controlling legal risk by incorporating it into business processes including product design, business negotiation, contract signing and contract performance management. It strengthened the professional legal support and made legal reviews in a more professional manner, and enhanced the standardized operation and management of the Bank by standardizing contract texts. It strengthened the management and risk control relating to lawsuits to avoid and reduce financial losses, optimized the authorization management and intellectual property management, and sped up the establishment of a lawyers' pool to regulate the management of contract lawyers.

Compliance Risk

Compliance risk refers to the risk of 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 laws, regulations and rules.

During the reporting period, the Bank continued to improve the compliance management mechanisms, improved the compliance review capabilities and ensured full support for compliance review. It strengthened compliance risk monitoring, issued risk warnings and briefings about new rules in a timely manner which further interpreted the internal and external new rules and transmitted the latest compliance requirements, to prevent and control the compliance risk. It comprehensively strengthened the management and control of rules and processes through continuously reviewing the rules, establishing a centralized repository of policies and rules of the Bank and improving the IT-based management. It improved the mechanism of compliance reporting and regularly presented compliance management report to reflect the compliance management of the Bank comprehensively, timely and objectively.

Anti-Money Laundering

During the reporting period, the Bank strictly implemented the regulatory requirements on anti-money laundering, counter-terrorist financing and anti-tax evasion. Specifically, upholding the principle of "compliance with laws, risk orientation, all-staff participation, confidentiality", the Bank earnestly fulfilled its legal obligations and social responsibilities regarding anti-money laundering and continued to improve the bank-wide anti-money laundering and counter-terrorist financing management ability. It optimized the AML mechanisms, established the AML Center, promoted the AML system building and enhanced the sanction compliance management. It continuously promoted the development of AML system and suspicious transaction monitoring model and improved the system functions, enhancing the effectiveness of monitoring and analysis. It completed the reform of centralized analysis of suspicious money-laundering transactions and enhanced the capability of analyzing and identifying suspicious transactions. It carried out multi-level AML training, raising the compliance awareness and ability of the Bank, enhanced compliance promotion and actively cooperated with regulatory authorities and other competent authorities during AML investigations.

Information Technology Risk

Information technology risk refers to the operational, reputational, legal and other risks caused by the natural and human factors, technological loopholes and management flaws when applying information technology. The objectives of the Bank's information technology risk management are to build an information technology risk management system that covers all aspects of information technology based on its comprehensive risk management framework, take on the responsibility of information technology risk management, strengthen the capacity of information technology risk prevention, enhance the information technology risk management and ensure the healthy and stable operation of the Bank safeguarded by routine and continuous risk management with smooth process.

Major measures of information technology risk management of the Bank include:

- to formulate a unified basic policy for information technology risk management, build and continuously improve the information technology risk management system of the Bank, and effectively identify, assess, monitor, handle and report information technology risks;

- to improve the organizational structure and responsibilities for routine and emergency management on business continuity, establish the business continuity management policies and contingency plan system, and control the business interruption risk to reduce capital and reputational losses; to continuously improve the construction and management capacity of disaster recovery system and mitigate the impacts of emergencies on important information systems;

- to establish a unified risk management system for information technology outsourcing, prevent and control the outsourcing risk and enhance the outsourcing management value;

- to build a comprehensive information security system from four aspects, namely information security policies, information security technology, information security operation and information security organization, establish a security management system that covers the lifecycle of the information system based on actual needs, and further support the technology risk management and control.

Reputational Risk

Reputational risk refers to the risk resulting from negative reports or comments on the Bank's businesses, operation, management, personnel matters and other actions it takes, or external events relating to it. During the reporting period, to address both the symptoms and root causes of reputational risk, the Bank continued to improve reputational risk management system, enhanced the Bank's reputational risk prevention awareness and identification capabilities, formulated and revised a series of rules, offered relevant training, and strengthened reputational risk investigation and rectification.

Strategic Risk

During the reporting period, as a major component of the comprehensive risk management system, strategic risk management covers all the events, operating activities and business areas of the Bank. The Bank continued to refine its strategic risk management mechanism, re-examined and optimized its strategy and formed a medium and long-term development strategy outline. It also improved the strategic risk management measures, continuously promoted strategic management, and made regular strategic assessments, which effectively improved the scientificity and standardization of strategic risk management.

Country Risk

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

During the reporting period, the Bank incorporated country risk management into the comprehensive risk management framework, established country risk management policies, optimized country risk management processes, implemented country risk assessment and rating, strengthened limit management, and kept monitoring country risk exposure, continuously enhancing country risk management level.

Risk Consolidated Management

Risk consolidated management refers to the comprehensive risk management on the bank group level, including its subsidiaries, keeping pushing forward and optimizing risk management framework, and effectively identifying, measuring, and monitoring the overall risk of the bank group.

During the reporting period, the Bank incorporated its subsidiaries into the risk consolidated management scope by strengthening risk management and control and effectively monitoring risk profile and risk management of the subsidiaries, thus continuously enhancing risk consolidated management level.

Capital Management

The objective of the Group's capital management is to maintain a stable and reasonable capital adequacy level, continuously meet regulatory policies and macro-prudential requirements; to comprehensively establish and apply a value management system centered on economic capital, strengthen capital constraints, transmit the concept of value creation, improve the efficiency of capital use, and raise the level of capital return; to continuously consolidate the capital base of the Bank, constantly enhance the supplementation capacity of endogenous capital and proactively expand channels for external capital replenishment.

During the reporting period, the Group further improved the capital management system, deepened the capital management reform, strengthened capital constraints, further improved the capital adequacy of the Bank, and continuously enhanced its ability to serve the real economy. On the basis of steady growth of endogenous capital, the Group proactively promoted external capital replenishment, constantly explored innovative capital replenishment tools, launched an initial public offering of RMB ordinary shares on the main board of the SSE on December 10, 2019, and issued RMB 80.0 billion of non-fixed term capital bonds in the national interbank bond market in March 2020. At the end of 2019, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.90%, 10.87% and 13.52% respectively, all meeting the regulatory requirements, and the capital adequacy ratios were maintained at sound and reasonable levels.

Capital Adequacy Ratio

According to the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional) and its supporting policy documents issued by the CBIRC in 2012, the Group measured credit risk by weighted approach, measured market risk by standardized approach, and measured operational risk by basic indicator approach. The details of capital adequacy ratios as of the end of the reporting period are as follows:

Capital Adequacy

In millions of RMB, except for percentages

Item	December 31, 2019 The Group	December 31, 2019 The Bank	December 31, 2018 The Group	December 31, 2018 The Bank
Core tier 1 capital – net	**492,212**	**481,244**	421,678	419,107
Tier 1 capital – net	**540,160**	**529,113**	469,605	466,976
Net capital	**671,834**	**660,443**	593,729	590,842
Risk-weighted assets	**4,969,658**	**4,950,560**	4,316,219	4,302,873
Credit risk-weighted assets	**4,582,338**	**4,567,277**	3,974,794	3,963,224
Market risk-weighted assets	**52,655**	**52,655**	50,915	50,915
Operational risk-weighted assets	**334,665**	**330,628**	290,510	288,734
Core tier 1 capital adequacy ratio (%)	**9.90**	**9.72**	9.77	9.74
Tier 1 capital adequacy ratio (%)	**10.87**	**10.69**	10.88	10.85
Capital adequacy ratio (%)	**13.52**	**13.34**	13.76	13.73

Market Risk Capital Requirements

In millions of RMB

Item	December 31, 2019	December 31, 2018
Interest rate risk	**1,832**	1,768
Exchange rate risk	**2,380**	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 CBIRC was 5.06%, meeting the regulatory requirements. For details of leverage ratio, please refer to Appendix I: Unaudited Supplementary Financial Information.

Capital Financing Management

On the basis of capital replenishment through retained earnings, the Bank utilizes external financing tools to replenish its capital, and actively explores innovative capital replenishment tools.

In order to further consolidate its capital strength, ensure the stable and healthy development of the Bank's future business, build domestic and overseas financing platforms, and establish a long-acting capital replenishment mechanism, the Bank issued RMB ordinary shares through IPO on the main board of the SSE on December 10, 2019 according to the capital demand and capital replenishment plan of the Bank. For details of the A share offering and listing of the Bank, please refer to the "Changes in Share Capital and Shareholdings of Shareholders – Issuance and Listing of Securities".

In March 2020, the Bank publicly issued RMB80.0 billion of non-fixed term capital bonds in the national interbank bond market. After deducting issuance expenses, the proceeds will be used to replenish the tier 1 capital in accordance with applicable laws and the approval of regulatory departments. For details, please refer to the announcements of the Bank published on the websites of SSE and Hong Kong Stock Exchange.

Economic Capital Management

During the reporting period, the Group continuously improved the economic capital management system and mechanism, enhanced the ability on active economic capital management, optimized economic capital allocation and strengthened capital constraint and value transmission. The Bank embedded the idea of "pay for the scarcity of capital" into its operation, enhanced the awareness of saving economic capital across the whole bank, and achieved a better balance between risk and return.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

As at the end of the reporting period, the total number of ordinary shares of the Bank amounted to 86,202,738,200, including 66,346,571,200 A shares and 19,856,167,000 H shares, accounting for 76.97% and 23.03% of all shares respectively.

Details of Changes in Share Capital

Unit: share

	Before this change		Increase or decrease in this change					After this change	
	Quantity	Percentage (%)	Issuance of new shares	Issuance of bonus shares	Transferred from reserve	Others	Subtotal	Quantity	Percentage (%)
I. Shares subject to restrictions on sales	61,174,407,000	75.50	+2,198,171,903	–	–	–	+2,198,171,903	63,372,578,903	73.52
1. Shareholdings of the State	–	–	–	–	–	–	–	–	–
2. Shareholdings of state-owned legal person	60,307,057,000	74.43	+124,118,000	–	–	–	+124,118,000	60,431,175,000	70.11
3. Other domestic shareholdings	867,350,000	1.07	+2,074,053,903	–	–	–	+2,074,053,903	2,941,403,903	3.41
Including: Shareholdings of domestic non-state-owned legal person	867,350,000	–	+2,074,053,903	–	–	–	+2,074,053,903	2,941,403,903	3.41
Shareholdings of domestic natural person	–	–	–	–	–	–	–	–	–
4. Foreign shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of Foreign legal person	–	–	–	–	–	–	–	–	–
Shareholdings of Foreign natural person	–	–	–	–	–	–	–	–	–
II. Circulating shares not subject to restrictions on sales	19,856,167,000	24.50	+2,973,992,297	–	–	–	+2,973,992,297	22,830,159,297	26.48
1. RMB ordinary shares	–	–	+2,973,992,297	–	–	–	+2,973,992,297	2,973,992,297	3.45
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	19,856,167,000	24.50	–	–	–	–	–	19,856,167,000	23.03
4. Others	–	–	–	–	–	–	–	–	–
III. Total Shares of Ordinary Shares	81,030,574,000	100.00	+5,172,164,200	–	–	–	+5,172,164,200	86,202,738,200	100.00

Note (1): The increase in the number of shares by other domestic holdings did not include the number of shares delayed to be delivered to certain strategic investors, totaling 775,824,000 shares. Such portion of shares was delivered after the expiration of the exercise period of the over-allotment option on January 8, 2020.

Note (2): After exercising the over-allotment option in full, the total number of shares of the Bank amounted to 86,978,562,200, including 64,148,402,903 shares subject to restrictions on sales and 22,830,159,297 shares not subject to restrictions on sales.

Changes in Ordinary Shares

Pursuant to the Approval of the Initial Public Offering of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2019] No. 1991) issued by the CSRC on October 25, 2019, the Bank completed the initial public offering of 5,172,164,200 RMB ordinary share on November 28, 2019 and the listing on the Main Board of SSE on December 10, 2019, at an offer price of RMB5.50 per share, with the closing price at RMB5.61 on December 10, 2019, and the funds raised amounted to RMB28,446.90 million. After deducting issuance fees, net proceeds totaled RMB28,000.55 million and net proceeds per share was approximately RMB5.41. The joint underwriters exercised the over-allotment option in full on January 8, 2020, with the closing price at RMB5.85 on January 8, 2020. Based on the offer price of RMB5.50 per share, the Bank issued an addition of 775,824,000 shares on the basis of the initial issuance of 5,172,164,200 shares, increasing total proceeds by RMB4,267.03 million. Together with the proceeds of RMB28,446.90 million from the initial issuance of 5,172,164,200 shares, the total proceeds raised from this issuance amounted to RMB32,713.94 million. After deducting issuance fees, net proceeds amounted to approximately RMB32,205.98 million and net proceeds per share was approximately RMB5.41.

Upon completion of the issuance, the total number of shares of the Bank increased from 81,030,574,000 to 86,978,562,200, among which there were 67,122,395,200 A shares and 19,856,167,000 H shares. For details of this issuance, please refer to the relevant announcements published on the websites of SSE and Hong Kong Stock Exchange.

Effect of changes in ordinary shares on earnings per share and net assets per share of the past year and the latest period

During the reporting period, the Bank issued A shares on SSE, increasing its share capital by RMB5,172,164,200.00 (prior to the exercise of the over-allotment option) and capital reserve by RMB22,828,384,945.25.

In RMB yuan

Item	2019	Same criteria in 2019(1)
Basic earnings per share	0.72	0.72
Diluted earnings per share	0.72	0.72
Net assets per share attributable to ordinary shareholders of the listed company	5.75	5.78

Note (1): Basic earnings per share, diluted earnings per share and net assets per share attributable to ordinary shareholders of the listed company under the same criteria in 2019 are calculated without taking into account the share issuance in 2019.

Changes in Shares Subject to Restrictions on Sales

Unit: share

Name of shareholders	Number of shares subject to restrictions on sales at the beginning of the year	Shares released from restrictions on sales in current year	Increase in shares subject to restrictions on sales in current year	Number of shares subject to restrictions on sales at the year end	Reason for restrictions on sales	Date of release from restrictions on sales
China Post Group Corporation Limited	–	–	55,847,933,782	55,847,933,782	Restrictions on sales for A share listing	December 12, 2022
China Life Insurance Company Ltd.	–	–	3,341,900,000	3,341,900,000	Restrictions on sales for A share listing	December 10, 2020
China Telecommunications Corporation	–	–	1,117,223,218	1,117,223,218	Restrictions on sales for A share listing	December 10, 2020
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	–	–	738,820,000	738,820,000	Restrictions on sales for A share listing	December 10, 2020
Shenzhen Tencent Domain Computer Network Co., Ltd.	–	–	128,530,000	128,530,000	Restrictions on sales for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	343,983,000	343,983,000	Restrictions on sales for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	271,640,000	271,640,000	Restrictions on sales for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	212,773,000	212,773,000	Restrictions on sales for A share listing	December 10, 2020
Bank of China Limited – Harvest 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	177,311,000	177,311,000	Restrictions on sales for A share listing	December 10, 2020
Central Enterprises Poor Regions Industry Investment Fund Co., Ltd.	–	–	124,118,000	124,118,000	Restrictions on sales for A share listing	December 10, 2020
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	110,022,000	110,022,000	Restrictions on sales for A share listing	December 10, 2020
National Social Security Fund – Portfolio 13	–	–	53,194,000	53,194,000	Restrictions on sales for A share listing	December 10, 2020
Circulating shares offered offline, subject to restrictions on sales	–	–	905,130,903	905,130,903	Restrictions on sales for A share listing	June 10, 2020
Total	–	–	63,372,578,903	63,372,578,903	/	/

Note (1): The over-allotment option mechanism has been introduced for the issuance and listing of A shares of the Bank. The delivery of 461,009,000 A shares of E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, and 314,815,000 A shares of China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, both strategic investors, was delayed, and had been completed after the expiration of the exercise period of the over-allotment option on January 8, 2020.

As of December 31, 2019, the Bank had a total number of 430,711 ordinary shareholders (including 427,848 holders of A shares and 2,863 holders of H shares) and no holders of preference shares with voting rights restored.

As of February 29, 2020, the Bank had a total number of 313,211 ordinary shareholders (including 310,371 holders of A shares and 2,840 holders of H shares) and no holders of preference shares with voting rights restored.

The top 10 ordinary shareholders as of December 31, 2019 are as follows:

Unit: share

Name of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares subject to restrictions on sales	Number of shares pledged or locked-up	Nature of shareholder	Type of ordinary shares
China Post Group Corporation Limited	55,989,912,407	64.95	55,847,933,782	–	State-owned legal person	RMB ordinary shares
HKSCC Nominees Limited	19,842,942,660	23.02	–	Unknown	Foreign legal person	Overseas listed foreign shares
China Life Insurance Company Ltd.	3,341,900,000	3.88	3,341,900,000	–	State-owned legal person	RMB ordinary shares
China Telecommunications Corporation	1,117,223,218	1.30	1,117,223,218	–	State-owned legal person	RMB ordinary shares
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	738,820,000	0.86	738,820,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	343,983,000	0.40	343,983,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	271,640,000	0.32	271,640,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	212,773,000	0.25	212,773,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Bank of China Limited – Harvest 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	177,311,000	0.21	177,311,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Huaxia Life Insurance Co., Ltd. – Self-owned Fund	128,552,402	0.15	786,856	–	Domestic non-state-owned legal person	RMB ordinary shares

Note (1): 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 December 31, 2019.

Note (2): The over-allotment option mechanism has been introduced for the issuance and listing of the A shares of the Bank. The delivery of 461,009,000 A shares of E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, and 314,815,000 A shares of China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, both strategic investors, was delayed, and had been completed after the expiration of the exercise period of the over-allotment option on January 8, 2020.

Note (3): After exercising the over-allotment option in full, the number of shares held by E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, and China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, both strategic investors, was 461,009,000 and 424,837,000 respectively.

Note (4): The Bank is not aware of any connected relations among the afore-mentioned shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

Shareholdings of the Top 10 Shareholders not Subject to Restrictions on Sales

Unit: share

Name of shareholder	Number of circulating shares held not subject to restrictions on sales	Type and number of shares: Type	Type and number of shares: Number
HKSCC Nominees Limited	19,842,942,660	Overseas listed foreign shares	19,842,942,660
China Post Group Corporation Limited	141,978,625	RMB ordinary shares	141,978,625
Huaxia Life Insurance Co., Ltd. – Self-owned Fund	127,765,546	RMB ordinary shares	127,765,546
Shanghai International Port (Group) Co., Ltd.	112,539,226	RMB ordinary shares	112,539,226
Anbang Life Insurance Co., Ltd. – Conservative Investment Portfolio	100,337,223	RMB ordinary shares	100,337,223
Zhai Wei	91,555,200	RMB ordinary shares	91,555,200
China International Capital Corporation Limited	91,178,241	RMB ordinary shares	91,178,241
Foresea Life Insurance Co., Ltd. – Self-owned Fund	89,300,000	RMB ordinary shares	89,300,000
Sinatay Life Insurance Co., Ltd. – Traditional Products	88,990,300	RMB ordinary shares	88,990,300
J.K. Life Insurance Corporation – Universal Insurance Products	87,900,000	RMB ordinary shares	87,900,000

Note (1): The Bank is not aware of any connected relations among the afore-mentioned shareholders or between the afore-mentioned shareholders and the top 10 shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

Shareholdings of the Top 10 Shareholders subject to Restrictions on Sales

Unit: share

Name of shareholder	Number of shares subject to restrictions on sales	Conditions for listing of shares subject to restrictions on sales: Date on which listing and trading may commence	Conditions for listing of shares subject to restrictions on sales: Number of new shares allowed to be listed and traded	Restrictions on sales
China Post Group Corporation Limited	55,847,933,782	December 12, 2022	–	36 months since the date of A share offering and listing of the Bank
China Life Insurance Company Ltd.	3,341,900,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
China Telecommunications Corporation	1,117,223,218	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	738,820,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	343,983,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	271,640,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	212,773,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Bank of China Limited – Harvest 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	177,311,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Shenzhen Tencent Domain Computer Network Co., Ltd.	128,530,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Central Enterprises Poor Regions Industry Investment Fund Co.,Ltd	124,118,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank

Note (1): After exercising the over-allotment option in full, the number of share held by E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, and China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, both strategic investors, was 461,009,000 and 424,837,000 respectively.

Strategic Investors or General Legal Persons Who Became the Top Ten Shareholders Due to Placing of New Shares

Name of strategic investor or general legal person	Agreed shareholding starting date	Agreed shareholding ending date
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	December 10, 2019	–
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	December 10, 2019	–
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	December 10, 2019	–
Bank of China Limited – Harvest 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	December 10, 2019	–

Note (1): The over-allotment option mechanism has been introduced for the issuance and listing of the A shares of the Bank. The delivery of shares of E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, and China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation, both strategic investors, was wholly or partially delayed. Therefore, they were not included in the top ten shareholders as at the end of the reporting period.

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

On September 27, 2017, the Bank issued non-public offshore preference shares totaling USD7,250 million in the offshore market. A total of 362,500,000 shares were issued, each having a face value of RMB100 and an offer price of USD20. The dividend rate would be adjusted every 5 years, and remain unchanged within each adjustment period. The dividend rate would be the yield on five-year US treasury bonds in the adjustment period plus a fixed interest spread, and the dividend rate for the first 5 years after issuance is 4.50%. The offshore preference shares of the Bank were listed on the Hong Kong Stock Exchange on September 28, 2017, and net proceeds raised from the issuance were approximately RMB47.8 billion, which were all used to replenish the Bank's additional tier 1 capital.

Issuance and Listing of Offshore Preference Shares

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	PSBC17USDPREF	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 nominees) of the Bank was 1. As of February 29, 2020, the total number of offshore preference shareholders (or nominees) of the Bank was 1. The top 10 offshore preference shareholders (or nominees) of the Bank are as follows:

Number of Offshore Preference Shareholders and Shareholdings

Unit: share

Name of shareholder	Nature of shareholder	Class of shares	Change during the reporting period	Number of shares held at the end of the period	Shareholding percentage (%)	Number of shares subject to restrictions on sales	Number of shares pledged or locked-up
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	–	362,500,000	100.00	–	Unknown

Note (1): Shareholdings of offshore preference shareholders are based on the information listed in the register of offshore preference shareholders.

Note (2): As the issuance of offshore preference shares was non-public, the register of offshore preference shareholders presented the information on nominees of places.

Note (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

During the reporting period, as per 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 distributed cash dividends to offshore preference shareholders whose names appeared on the share register on the record date 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 of the Bank dated May 24, 2019.

Dividends on the Bank's offshore preference shares are paid annually in cash, with interest-bearing principal as the preferred clearing amount. Dividends of the Bank's offshore preference shares are paid in a non-cumulative manner. 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 provisions in the offshore preference share issuance plan, the Bank distributed dividends of USD362.5 million (before tax) on the offshore preference shares. According to relevant laws and regulations, when the Bank distributes dividends on the offshore preference shares, the income tax shall be withheld by the Bank at a rate of 10%. According to the terms and conditions for the offshore preference shares, relevant taxes and fees shall be borne by the Bank and included in the dividends on offshore preference shares.

Dividend distribution of preference shares of the Bank in the recent three years is as follows:

In millions of RMB, except for percentages

2019		2018		2017	
Dividend Rate (%)	**Total dividends paid**	Dividend Rate (%)	Total dividends paid	Dividend Rate (%)	Total dividends paid
4.5	**2,501**	4.5	2,391	–	–

Note (1): Total dividends payable include tax.

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 Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments, and the Differentiation of Financial Liabilities and Equity Instruments and Relevant Accounting Treatment (Cai Kuai [2014] No. 13) promulgated by MOF, the International Financial Reporting Standards No. 7 – Financial Instruments: Disclosures, the International Accounting Standards No. 9 – Financial Instruments, and the International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, and the Bank's main issuance articles on preference shares, 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") were substantial shareholders of the Bank, as China Post Group held more than 5% of interest in the Bank, while CSIC and SIPG nominated Directors to the Bank.

Basic Information of Substantial Shareholders

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

Controlling Shareholder and de facto Controller

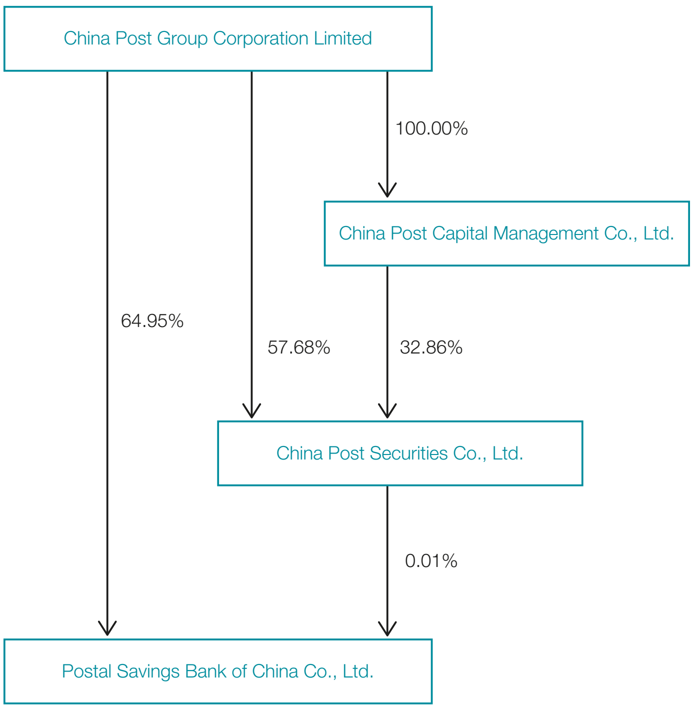
The controlling shareholder and de facto controller of the Bank is China Post Group. China Post Group, a wholly state-owned enterprise in accordance with the Company Law of the People's Republic of China, was established on October 4, 1995, and restructured and renamed China Post Group Corporation Limited on December 17, 2019. 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 RMB137.6 billion. Its registered address is No. 3 Financial Street, Xicheng District, Beijing. Its unified social credit code is 911000000000192465 and legal representative is Mr. Liu Aili. China Post Group is principally engaged in domestic and international mail delivery, distribution of publications such as newspapers and journals, stamp issuance, postal remittance, operation of postal savings business in accordance with the law, confidential correspondence, postal financial business, emerging business such as postal logistics and emails, e-commerce, agency business and other businesses as stipulated by the state.

According to the Announcement Regarding the Plan on Shareholding Increase by the Controlling Shareholder of Postal Savings Bank of China Co., Ltd. published on December 9, 2019 by the Bank, China Post Group, the controlling shareholder of the Bank, planned to increase its shareholding of the Bank by an amount of not less than RMB2.5 billion, as and when appropriate, during the 12-month period from December 10, 2019. On March 11, 2020, the Bank published the Announcement Regarding the Result of Plan on Shareholding Increase by the Controlling Shareholder of Postal Savings Bank of China Co., Ltd., pursuant to which, China Post Group acquired a total of 456,314,247 shares of the Bank in the secondary market during the period from December 10, 2019 to March 10, 2020. After the acquisition, China Post Group holds 56,304,248,029 shares of the Bank.

As of December 31, 2019, shares held directly in other domestic and overseas listed companies by China Post Group are listed below:

No.	Name of institution	Shareholding percentage of China Post Group	Stock exchange
1	Bank of Communications Co., Ltd.	0.0847%	SSE, Hong Kong Stock Exchange
2	Shanghai Pudong Development Bank Co., Ltd.	0.5370%	SSE
3	China Merchants Bank Co., Ltd.	0.0837%	SSE, Hong Kong Stock Exchange
4	Besttone Holding Co., Ltd.	0.1846%	SSE
5	Shenergy Company Limited	0.0059%	SSE
6	Orient Securities Company Limited	2.5558%	SSE, Hong Kong Stock Exchange
7	China Merchants Securities Co., Ltd.	0.0277%	SSE, Hong Kong Stock Exchange
8	Industrial Bank Co., Ltd.	0.1094%	SSE
9	China Pacific Insurance (Group) Co., Ltd.	0.0020%	SSE, Hong Kong Stock Exchange
10	Petrochina Company Limited	0.0004%	SSE, Hong Kong Stock Exchange, New York Stock Exchange
11	COSCO SHIPPING Development Co., Ltd.	0.0030%	SSE, Hong Kong Stock Exchange
12	China Coal Energy Company Limited	0.0025%	SSE, Hong Kong Stock Exchange
13	Yangmei Chemical Co., Ltd.	0.0556%	SSE
14	Southwest Securities Company Ltd.	0.1602%	SSE
15	Bank of Chongqing Co., Ltd.	0.1499%	Hong Kong Stock Exchange

As of the end of the reporting period, the property right relationship between the Bank and China Post Group, the controlling shareholder and de facto controller, is as follows:



As of the end of the reporting period, China Post Group directly held 55,989,912,407 A shares of the Bank, with a shareholding percentage of 64.95%; held 11,874,150 A shares of the Bank through China Post Securities Co., Ltd., with a shareholding percentage of 0.01%.

Other Substantial Shareholders

Founded on July 1, 1999, China Shipbuilding Industry Corporation[1] ("CSIC") is a wholly state-owned enterprise established under the Company Law by the state with a registered capital of RMB63.0 billion. Its registered address is No. 72 Kunminghu South Road, Haidian District, Beijing. Its unified social credit code is 9111000071092446XA. 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.

1 On October 25, 2019, in accordance with the Notice regarding the Restructuring of China Shipbuilding Industry Co., Ltd. and China Shipbuilding Industry Corporation (Guo Zi Fa Gai Ge [2019] No.100) issued by the State-owned Assets Supervision and Administration Commission of the State Council, the State Council approved the joint restructuring of China Shipbuilding Industry Co., Ltd. and China Shipbuilding Industry Corporation, and the establishment of China State Shipbuilding Corporation Limited, whereby the State-owned Assets Supervision and Administration Commission of the State Council would perform the obligations of a fund contributor on behalf of the State Council and both China Shipbuilding Industry Co., Ltd. and China Shipbuilding Industry Corporation will be incorporated into China State Shipbuilding Corporation Limited. As of the end of the reporting period, China Shipbuilding Industry Corporation had not completed the industrial and commercial change registration for the gratuitous transfer.

Shanghai International Port (Group) Co., Ltd. ("SIPG") has its registered address at 4/F, Area A, Comprehensive Building, No. 1 Tonghui Road, China (Shanghai) Pilot Free Trade Zone, and its headquarters at No. 358 (International Port Building) East Daming Road, Hongkou District, Shanghai. Its unified social credit code is 913100001322075806 and the legal representative is Mr. Gu Jinshan. 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 SSE 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 including container services, bulk cargo services, port logistics and port services.

Share Pledge by Substantial Shareholders of the Bank

As of the end of the reporting period, China Shipbuilding Industry Corporation pledged 1,620,000,000 ordinary shares of the Bank, accounting for 1.88% of the total share capital of the Bank, and there was no share pledge by other substantial shareholders of the Bank.

Other Legal Person Holding 10% or More of the Bank's Shares

Save for China Postal Group, as of December 31, 2019, the Bank had no other legal person shareholders (excluding HKSCC Nominees Limited) holding 10% or more of the Bank's shares.

Related Parties of Substantial Shareholders and Connected Transactions

There were approximately 1,300 enterprises regarded as related parties of the Bank including the above substantial shareholders and their controlling shareholders, de facto 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, asset transfer, etc. These connected transactions were included in the routine connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or filing.

For more information on our connected transactions with China Post Group, please refer to "Connected Transactions and the Implementation of the Management System for Connected Transactions" and "Notes to the Consolidated Financial Statements – 38 Relationship and transactions with related parties".

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at the end of the reporting period, so far as was known to the Directors, Supervisors and Chief Executives of the Bank, the interests and short positions of the following shareholders and other persons (other than the Directors, Supervisors and Chief Executives of the Bank) in the shares and underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Class of shares	Relevant interests and short positions (shares)	Nature of interests	Percentage of issued class shares (%)	Percentage of all issued shares (%)
China Post Group[2]	Beneficial owner and interest of controlled corporations	A shares	56,001,786,557	Long position	84.41	64.97
China Post Securities Co., Ltd.[2]	Beneficial owner	A shares	11,874,150	Long position	0.02	0.01
China Life Insurance (Group) Company[3]	Interest of controlled corporations	A shares	3,341,900,000	Long position	5.04	3.88
China Life Insurance Company Ltd.[3]	Beneficial owner	A shares	3,341,900,000	Long position	5.04	3.88
CSIC Investment One Limited[4]	Beneficial owner	H shares	3,574,515,000	Long position	18.00	4.15
China Shipbuilding Capital Limited[4]	Interest of controlled corporations	H shares	3,574,515,000	Long position	18.00	4.15
China Shipbuilding & Offshore International (H.K.) Co., Limited[4]	Interest of controlled corporations	H shares	3,574,515,000	Long position	18.00	4.15
China Shipbuilding & Offshore International Co., Limited[4]	Interest of controlled corporations	H shares	3,574,515,000	Long position	18.00	4.15
China Shipbuilding Industry Corporation[4]	Interest of controlled corporations	H shares	3,574,515,000	Long position	18.00	4.15
Shanghai International Port Group (HK) Co., Limited[5]	Beneficial owner and interest of controlled corporations	H shares	3,349,490,000	Long position	16.87	3.89
Shanghai Port Group (BVI) Holding Co., Limited[5]	Beneficial owner	H shares	1,600,000,000	Long position	8.06	1.86
Shanghai International Port (Group) Co., Ltd.[5]	Interest of controlled corporations	H shares	3,349,490,000	Long position	16.87	3.89
	Beneficial owner	A shares	112,539,226	Long position	0.17	0.13
Li Ka-Shing[6]	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.63
Li Tzar Kuoi, Victor[6]	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.63
Li Ka Shing (Canada) Foundation[6]	Beneficial owner	H shares	1,108,228,000	Long position	5.58	1.29
China National Tobacco Corporation	Beneficial owner	H shares	1,296,000,000	Long position	6.53	1.50

Note (1): Information disclosed above is based on the information provided on the website of Hong Kong Stock Exchange and the information available to the Bank at the end of the reporting period. Pursuant to Section 336 of the SFO, shareholders of the Bank are required to file a disclosure of interests form when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the shareholder to notify the Bank and Hong Kong Stock Exchange unless several criteria have been fulfilled, therefore the shareholder's latest shareholding in the Bank may be different from the shareholding filed with Hong Kong Stock Exchange.

Note (2): China Post Group is beneficially interested in 55,989,912,407 A shares of the Bank, representing approximately 64.95% of its total share capital. China Post Securities Co., Ltd. is a subsidiary of China Post Group and is interested in 11,874,150 A shares of the Bank, representing approximately 0.01% of its total share capital. China Post Group is therefore deemed to be interested in the A shares held by China Post Securities Co., Ltd. under the SFO.

Note (3): China Life Insurance (Group) Company is the controlling shareholder of China Life Insurance Company Ltd. and is therefore deemed to be interested in the total 3,341,900,000 A shares held by China Life Insurance Company Ltd. under the SFO.

Note (4): 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.

Note (5): 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 was interested in a total of 3,349,490,000 H shares (long position), of which 1,749,490,000 H shares were beneficially owned and 100% equity of the 1,600,000,000 H shares were held by 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., while 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.

Note (6): Consist of only unlisted derivatives that are physically settled. Mr. Li Ka-Shing and Mr. Li Tzar Kuoi, Victor each controls 33.33% of Li Ka Shing (Canada) Foundation and are therefore deemed to be interested in the 1,108,228,000 H shares held by Li Ka Shing (Canada) Foundation under the SFO.

Saved as disclosed above, as at the end of the reporting period, there were no other persons (other than the Directors, Supervisors and Chief executive of the Bank) or companies who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank and Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Issuance and Listing of Securities

Type of equity and derivative securities	Issuing date	Issue price (RMB/share)	Issuing quantity (share)	Listing date	Permitted trading volume (share)	Termination date of transaction
RMB ordinary shares	November 28, 2019	5.50	5,172,164,200	December 10, 2019	66,346,571,200	–

Note (1): The over-allotment option mechanism has been introduced for the issuance and listing of the A shares of the Bank. The joint underwriters exercised the over-allotment option in full on January 8, 2020. After the over-allotment option was exercised in full, the total number of shares of the Bank was 86,978,562,200.

For details of the issuance of RMB ordinary shares of the Bank, please refer to the "Changes in Ordinary Shares". For details of the issuance of other securities of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 31 Debt securities issued" and "Notes to the Consolidated Financial Statements – 33.2 Other equity instruments".

The Bank has no employer stocks.

Directors, Supervisors and Senior Management

Basic Information

Name	Title	Gender	Age	Tenure
Directors				
Zhang Jinliang	Chairman	Male	51	May 2019 – May 2022
	Non-executive Director			May 2019 – May 2022
Zhang Xuewen	Executive Director	Male	58	January 2013 – October 2022
	Vice President			January 2013 –
Yao Hong	Executive Director	Female	54	August 2016 – October 2022
	Vice President			December 2006 –
Han Wenbo	Non-executive Director	Male	54	May 2017 – May 2020
Liu Yaogong	Non-executive Director	Male	53	May 2017 – May 2020
Liu Yue	Non-executive Director	Male	58	December 2017 – December 2020
Ding Xiangming	Non-executive Director	Male	52	October 2017 – October 2020
Fu Tingmei	Independent Non-executive Director	Male	54	August 2016 – October 2022
Wen Tiejun	Independent Non-executive Director	Male	69	October 2019 – October 2022
Chung Shui Ming Timpson	Independent Non-executive Director	Male	69	October 2019 – October 2022
Hu Xiang	Independent Non-executive Director	Male	45	October 2017 – October 2020
Pan Yingli	Independent Non-executive Director	Female	65	December 2019 – December 2022
Supervisors				
Chen Yuejun	Chairman of the Board of Supervisors	Male	55	January 2013 – October 2022
	Shareholder Representative Supervisor			December 2012 – October 2022
Li Yujie	Shareholder Representative Supervisor	Male	59	May 2016 – October 2022
Zhao Yongxiang	Shareholder Representative Supervisor	Male	56	May 2016 – October 2022
Wu Yu	External Supervisor	Male	54	May 2016 – October 2022
Bai Jianjun	External Supervisor	Male	65	October 2019 – October 2022
Chen Shimin	External Supervisor	Male	62	December 2019 – December 2022
Li Yue	Employee Supervisor	Male	48	December 2012 – May 2022
Song Changlin	Employee Supervisor	Male	55	March 2016 – May 2022
Bu Dongsheng	Employee Supervisor	Male	55	May 2017 – May 2020

Name	Title	Gender	Age	Tenure
Senior Management				
Guo Xinshuang	President	Male	57	February 2020 –
Zhang Xuewen	See "Directors" above			
Yao Hong	See "Directors" above			
Qu Jiawen	Vice President	Male	57	January 2013 –
Xu Xueming	Vice President	Male	53	January 2013 –
Shao Zhibao	Vice President	Male	58	January 2013 –
Liu Hucheng	Secretary to the Party Discipline Inspection Committee	Male	54	January 2017 –
Du Chunye	Secretary to the Board of Directors	Male	43	April 2017 –
	Joint Company Secretary			March 2017 –
Liang Shidong	Chief Risk Officer	Male	43	February 2020 –
Personnel Leaving Office				
Lyu Jiajin	Former Executive Director	Male	52	December 2006 – January 2019
	Former President			January 2013 – January 2019
Tang Jian	Former Non-executive Director	Male	60	January 2013 – January 2020
Chin Hung I David	Former Non-executive Director	Male	52	August 2016 – August 2019
Ma Weihua	Former Independent Non-executive Director	Male	72	January 2014 – January 2020
Bi Zhonghua	Former Independent Non-executive Director	Female	68	January 2014 – January 2020
Gan Peizhong	Former Independent Non-executive Directors	Male	64	August 2016 – October 2019
Zeng Kanglin	Former External Supervisor	Male	82	May 2016 – October 2019
Guo Tianyong	Former External Supervisor	Male	52	December 2013 – December 2019

Note (1): During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held any share options or were granted restricted shares of the Bank.

Note (2): Save as disclosed, the Directors, Supervisors and senior management members of the Bank did not hold positions in shareholder entities in 2019.

Remuneration of Directors, Supervisors and Senior Management Members Paid during the Year 2019

In ten thousand of RMB

Name	Title	Remuneration before tax from the Bank in 2019 Fees (1)	Remuneration paid (2)	Contribution by the employer to social insurance, housing fund and enterprise annuity, etc. (3)	Total (4)=(1)+(2)+(3)	Obtain remuneration from shareholder entities or other related parties or not
Zhang Jinliang	Chairman, Non-executive Director	–	–	–	–	Yes
Zhang Xuewen	Executive Director, Vice President	–	45.89	12.49	58.38	No
Yao Hong	Executive Director, Vice President	–	43.61	12.49	56.10	No
Han Wenbo	Non-executive Director	–	–	–	–	Yes
Liu Yaogong	Non-executive Director	–	–	–	–	Yes
Liu Yue	Non-executive Director	–	–	–	–	Yes
Ding Xiangming	Non-executive Director	–	–	–	–	Yes
Fu Tingmei	Independent Non-executive Director	30.00	–	–	30.00	Yes
Wen Tiejun	Independent Non-executive Director	5.34	–	–	5.34	No
Chung Shui Ming Timpson	Independent Non-executive Director	3.13	–	–	3.13	Yes
Hu Xiang	Independent Non-executive Director	30.00	–	–	30.00	Yes
Pan Yingli	Independent Non-executive Director	–	–	–	–	Yes
Chen Yuejun	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	–	46.05	12.49	58.54	No
Li Yujie	Shareholder Representative Supervisor	–	–	–	–	Yes
Zhao Yongxiang	Shareholder Representative Supervisor	–	–	–	–	Yes
Wu Yu	External Supervisor	–	–	–	–	Yes
Bai Jianjun	External Supervisor	4.28	–	–	4.28	Yes
Chen Shimin	External Supervisor	–	–	–	–	Yes
Li Yue	Employee Supervisor	–	–	–	–	No
Song Changlin	Employee Supervisor	–	–	–	–	No
Bu Dongsheng	Employee Supervisor	–	–	–	–	No
Guo Xinshuang	President	–	–	–	–	Yes
Qu Jiawen	Vice President	–	43.55	12.49	56.04	No
Xu Xueming	Vice President	–	43.55	12.49	56.04	No
Shao Zhibao	Vice President	–	43.55	12.49	56.04	No
Liu Hucheng	Secretary to the Party Discipline Inspection Committee	–	41.11	12.49	53.60	No
Du Chunye	Secretary to the Board of Directors Joint Company Secretary	–	37.72	12.49	50.21	No
Liang Shidong	Chief Risk Officer	–	–	–	–	No

Name	Title	Remuneration before tax from the Bank in 2019 Fees (1)	Remuneration paid (2)	Contribution by the employer to social insurance, housing fund and enterprise annuity, etc. (3)	Total (4)=(1)+(2)+(3)	Obtain remuneration from shareholder entities or other related parties or not
Personnel Leaving Office						
Lyu Jiajin	Former Executive Director, Former President	–	–	–	–	Yes
Tang Jian	Former Non-executive Director	–	–	–	–	Yes
Chin Hung I David	Former Non-executive Director	–	30.93	–	30.93	No
Ma Weihua	Former Independent Non-executive Director	45.00	–	–	45.00	Yes
Bi Zhonghua	Former Independent Non-executive Director	30.00	–	–	30.00	No
Gan Peizhong	Former Independent Non-executive Director	25.00	–	–	25.00	Yes
Zeng Kanglin	Former External Supervisor	20.00	–	–	20.00	Yes
Guo Tianyong	Former External Supervisor	24.00	–	–	24.00	Yes

Note (1): In accordance with the relevant requirements, the final remuneration payable to Directors, Supervisors and senior management members of the Bank is still subject to confirmation and additional details of remuneration will be disclosed upon confirmation.

Note (2): Mr. Zhang Jinliang, the Non-executive Director and the Chairman, receives remuneration from China Post Group, the controlling shareholder of the Bank, and did not receive any remuneration from the Bank.

Note (3): Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue and Mr. Ding Xiangming, as our Non-executive Directors, did not receive any remuneration from the Bank.

Note (4): Mr. Li Yujie and Mr. Zhao Yongxiang, as Shareholder Representative Supervisors of the Bank, did not receive any remuneration from the Bank.

Note (5): Mr. Wu Yu, as External Supervisor of the Bank, did not receive any remuneration from the Bank.

Note (6): Employee Supervisors of the Bank did not receive remuneration from the Bank as Employee Supervisors, and the compensation due to them as employees of the Bank is not included here.

Note (7): Mr. Lyu Jiajin, the former Executive Director and President of the Bank, received remuneration from China Post Group, the controlling shareholder of the Bank, and did not receive any remuneration from the Bank.

Note (8): Mr. Tang Jian, the former Non-executive Director of the Bank, did not receive any remuneration from the Bank.

Note (9): Directors, Supervisors and senior management members leaving office were not punished during the reporting period.

Biographies of Directors, Supervisors and Senior Management

Biographies of Directors

Zhang Jinliang, Chairman, Non-executive Director

Zhang Jinliang, male, obtained a doctor's degree in Economics from Xiamen University. He is a Certified Public Accountant and holds the title of Senior Account. Mr. Zhang has served as Non-executive Director and Chairman of the Bank since May 2019. He previously served as Deputy General Manager of the Finance and Accounting Department, Head of IT Blueprint Implementation Office, General Manager of the Financial Management Department, President of Beijing Branch of Bank of China, and Vice President of Bank of China; Executive Director of China Everbright Group, and Executive Director and President of China Everbright Bank. Mr. Zhang currently serves as Director and General Manager of China Post Group.

Zhang Xuewen, Executive Director, Vice President

Zhang Xuewen, male, obtained a doctor's degree in Economics from Dongbei University of Finance and Economics and holds the title of Senior Economist. Mr. Zhang has served as Executive Director and Vice President of the Bank since January 2013. He previously served as Deputy Director of the Internal Trade Division II of the Trade Finance Department of the MOF, Deputy Director of the Grain Division of the Economy and Trade Department of the MOF, Deputy Director and Director of the Grain Division of the Economic Development Department of the MOF, and Deputy Director General of the Economic Development Department of the MOF. Mr. Zhang concurrently serves as Deputy Chairman of the Rural Social Insurance Commission of China Social Insurance Association, Deputy Chairman of the Banking Accounting Society of China and a council member of the National Venture Capital Guiding Fund for Emerging Industries.

Yao Hong, Executive Director, Vice President

Yao Hong, female, obtained a master's degree in Management from Hunan University and holds the title of Senior Economist. Ms. Yao has served as Vice President and Executive Director of the Bank since December 2006 and August 2016 respectively. She previously served as Deputy Director of the Savings Business Division under the Postal Savings and Remittance Bureau of the Ministry of Posts and Telecommunications, and Director of the Savings Business Division and Associate Director General of the Postal Savings and Remittance Bureau of the State Post Bureau. Ms. Yao concurrently serves as Director of China Post Life Insurance Company Limited.

Han Wenbo, Non-executive Directors

Han Wenbo, male, obtained a doctor's degree in Management from the Northeast Agricultural University and holds a PRC lawyer's license and the title of Economist. Mr. Han has served as Non-executive Director of the Bank since May 2017. He previously served as Deputy Director and Assistant Ombudsman of Heilongjiang Fiscal Ombudsman Office of the MOF, Assistant Ombudsman of Beijing Fiscal Ombudsman Office of the MOF, Vice Ombudsman of Sichuan Fiscal Ombudsman Office of the MOF, Vice Ombudsman of Beijing Fiscal Ombudsman Office of the MOF, and Deputy Director (Deputy Director General level) and Director (Director General level) of the General Office of the Inspection Work Leadership Group of the MOF.

Liu Yaogong, Non-Executive Director

Liu Yaogong, male, obtained a master's degree in Economics from Minzu University of China. Mr. Liu has served as Non-executive Director of the Bank since May 2017. He previously served as Assistant Consultant and Deputy Director of the Administration Division II, Deputy Director and Consultant of the General Division, Director of Politics and Law Division, Secretary (Director level), and Associate Counsel of the Department of Administration, Politics and Law of the MOF.

Liu Yue, Non-Executive Director

Liu Yue, male, obtained a doctor's degree in Engineering from Harbin Engineering University and holds the title of Senior Engineer. Mr. Liu has served as Non-executive Director of the Bank since December 2017. He previously served as an engineer and Deputy Director of Comprehensive Planning Bureau of China State Shipbuilding Corporation, Deputy Director of Science, Technology and Quality Control Department of China National Space Administration, Board Secretary, Director and Executive Director of CSIC Science & Technology Investment & Development Co., Ltd., Assistant Director, Deputy Director and Director of Planning and Development Department and Chief Economist of China Shipbuilding Industry Corporation. Mr. Liu currently serves as Chairman of China Shipbuilding Capital Limited.

Ding Xiangming, Non-Executive Director

Ding Xiangming, male, obtained an MBA degree from Shanghai Maritime University, and holds the title of Senior Economist and Engineer. Mr. Ding has served as Non-executive Director of the Bank since October 2017. He previously served as Technical Management Director of Jungonglu Wharf Technology Department, Equipment Director of Baoshan Wharf Technology Department, Technical Support Director of Engineering Technology Department, Business Management Director of General Manager Office of Shanghai Container Terminal Co., Ltd., Assistant Manager of Investment Management Department of Shanghai Port Container Co., Ltd., Manager of Project Development Office, and Deputy Manager and General Manager of Investment and Development Department of Shanghai International Port (Group) Co., Ltd. ("SIPG"). Mr. Ding currently serves as Vice President and Board Secretary of SIPG.

Fu Tingmei, Independent Non-executive Director

Fu Tingmei, male, obtained a doctor's degree in Philosophy from the University of London, United Kingdom. Mr. Fu has served as Independent Non-executive Director of the Bank since August 2016. He previously served as Director of Peregrine Capital Limited, Managing Director of BNP Paribas Peregrine Capital Limited, Consultant (part-time) to the Central Policy Unit of the Government of the Hong Kong Special Administrative Region, Independent Non-executive Director of Beijing Enterprises Holdings Limited and CPMC Holdings Limited. Mr. Fu currently serves as Independent Non-executive Director of Guotai Junan International Holdings Limited, COFCO Meat Holdings Limited and China Resources Pharmaceutical Group Limited.

Wen Tiejun, Independent Non-executive Director

Wen Tiejun, male, obtained a doctor's degree in Management from China Agricultural University. Mr. Wen has served as Independent Non-executive Director of the Bank since October 2019. He previously served as an assistant researcher of the Rural Development Research Center of the State Council, a researcher of the Research Center for Rural Economy of the Ministry of Agriculture, Deputy Secretary General of the China Society of Economic Reform, Dean of School of Agricultural Economics and Rural Development of Renmin University of China, and Independent Non-executive Director of Agricultural Bank of China Limited. Mr. Wen currently serves as Executive Dean of School of China Rural Construction of Southwest University, Executive Dean of Institute for New Rural Development of Fujian Agriculture and Forestry University, a member of the National Environment Advisory Committee, a member of the Expert Committee on Food Security, as well as a provincial and ministerial-level adviser and policy advisory expert of the Ministry of Commerce, the Ministry of Civil Affairs, the Forestry Bureau, Beijing Municipality and Fujian Province of the PRC.

Chung Shui Ming Timpson, Independent Non-executive Director

Chung Shui Ming Timpson, male, obtained an MBA degree from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, and received the title of Justice of the Peace from the HKSAR Government in 1998 and was awarded the Gold Bauhinia Star by the HKSAR Government in 2000. Mr. Chung has served as Independent Non-executive Director of the Bank since October 2019. He previously served as Chairman of the Management Board of the City University of Hong Kong, Chief Executive Officer of Weal Group International Limited, Chairman of the Hong Kong Housing Society, a member of the Executive Council of the HKSAR Government, Chief Executive Officer of HKSAR Government Land Fund Trust, Independent Non-executive Director of Nine Dragons Paper (Holdings) Limited and Henderson Land Development Co., Ltd., Senior Auditing Director of Coopers & Lybrand, Independent Non-executive Director of China Everbright Bank Co., Ltd. and China Construction Bank Corporation. He currently serves as Independent Non-executive Director of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company Limited, Glorious Sun Enterprises Limited, China Overseas Grand Oceans Group Ltd., China Everbright Limited, Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited, China Railway Group Limited and Orient Overseas (International) Limited.

Hu Xiang, Independent Non-executive Director

Hu Xiang, male, obtained a master's degree in Economics from the Graduate School of the PBOC. Mr. Hu has served as Independent Non-executive Director of the Bank since October 2017. He previously served as Principal Staff Member of Entrusted Investment Division of Investment Department and Deputy Director (presiding over the work) of Share Transfer Division of Overseas Investment Department of National Council for Social Security Fund, and Deputy General Manager of Penghua Fund Management Co., Ltd. Mr. Hu currently serves as Chairman and General Manager of Great Wheel Asset Management Company Zhejiang. He concurrently serves as Director of World Transmission Technology (Tianjin) Co., Ltd. and Director of Shanghai Zhitong Construction Development Co., Ltd.

Pan Yingli, Independent Non-executive Director

Pan Yingli, female, obtained a doctor's degree in World Economics from East China Normal University. Ms. Pan has served as Independent Non-executive Director of the Bank since December 2019. She previously served as associate professor, professor and tutor of doctorate candidates in East China Normal University, an invited expert of Shanghai Municipal Government on decision-making consultation, as well as an Independent Non-executive Director of China Merchants Bank Co., Ltd. Ms. Pan currently serves as Director of Research Center for Global Finance of Shanghai Jiao Tong University, professor and tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, Vice President of Shanghai World Economy Association, Chief Expert of the Decision-making Consultation Research Base Pan Yingli Studio of Shanghai Municipal Government and Independent Non-executive Director of Pujiang International Group Limited.

Biographies of Supervisors

Chen Yuejun, Chairman of the Board of Supervisors, Shareholder Representative Supervisor

Chen Yuejun, male, obtained a doctor's degree in Economics from the Southwestern University of Finance and Economics and holds the title of Senior Economist. Mr. Chen has served as Chairman of the Board of Supervisors of the Bank since January 2013. He previously served as Deputy Director and Director of the Audit and Supervision Bureau and Bank Supervision Department I of PBOC, Deputy Chief of the Sichuan Regulatory Bureau of CBRC, Deputy Director of the Banking Regulatory Department IV of CBRC, and Director (Director General level) of the Finance Department of the People's Government of Sichuan Province.

Li Yujie, Shareholder Representative Supervisor

Li Yujie, male, graduated from Henan University and holds the title of Senior Accountant. Mr. Li has served as Shareholder Representative Supervisor of the Bank since May 2016. He previously served as Deputy Director of the Audit Division of Henan Posts and Telecommunications Administration Bureau, Deputy Director and Director of the Audit Office and Director of the Audit Division of Henan Post Bureau, Chief of Henan Kaifeng Municipal Post Bureau, Director of the Planning and Finance Division of Henan Post Bureau, Manager of the Planning and Finance Department and Deputy General Manager of Henan Post Company, General Manager of Shanxi Post Company, and Chairman of Shanxi Postal Express & Logistics Company. Mr. Li currently serves as General Manager of Finance Department of China Post Group. He concurrently serves as Director of Hunan Copote Science & Technology Co., Ltd.

Zhao Yongxiang, Shareholder Representative Supervisor

Zhao Yongxiang, male, obtained a master's degree in Engineering from Beijing University of Posts and Telecommunications and holds the title of Senior Economist. Mr. Zhao has served as Shareholder Representative Supervisor of the Bank since May 2016. He previously served as Deputy Chief of Hebei Shijiazhuang Municipal Post Bureau, Deputy Director of the Planning and Finance Department of the State Post Bureau, Deputy Chief (presiding over the work) and Chief of Hebei Shijiazhuang Municipal Post Bureau, Assistant Counsel of Hebei Post Bureau, Assistant Counsel of Hebei Post Company, and Deputy General Manager of the Finance Department of China Post Group. He currently serves as Director General of the Audit Bureau of China Post Group. He concurrently serves as Chairman of the Board of Supervisors of Hunan Copote Science & Technology Co., Ltd., Chairman of the Board of Supervisors of China Post & Capital Fund Management Co., Ltd. and Supervisor of Beijing Ule E-Commerce Company Limited.

Wu Yu, External Supervisor

Wu Yu, male, obtained a bachelor's degree in Law from Renmin University of China and holds the title of Senior Editor. Mr. Wu has served as External Supervisor of the Bank since May 2016. He previously served as Chief Editor of Entrepreneurship Weekly Publication, Deputy Director of Chief Editor Office and Director (Deputy Director General level) of Finance News Department at Economic Daily Society, Senior Vice President and Director of ChemChina Asset Management Co., Ltd, and Director of Sichuan Tianyi Science & Technology Co., Ltd. (now Haohua Chemical Technology Group Co., Ltd.). He currently serves as Chief Strategy Officer of Beijing Honghui Dongtai Investment Management Co., Ltd. He concurrently serves as Vice Chairman of Beijing Central Enterprise Investment Association and Vice Chairman of Timber Importer and Exporter Committee of China Timber & Wood Products Distribution Association.

Bai Jianjun, External Supervisor

Bai Jianjun, male, obtained a master's degree and doctor's degree in Law from Peking University and holds the title of Professor. Mr. Bai has served as External Supervisor of the Bank since October 2019. He previously served as a visiting researcher in New York University in the USA, a visiting professor in Niigata University in Japan, External Supervisor of China Construction Bank Corporation, and Independent Director of Beijing Boya-Yingjie Science & Technology Co., Ltd. He currently serves as a professor and tutor of doctorate candidates in Peking University Law School, Director of the Research Institute of Empirical Legal Affairs of Peking University, Deputy Director of the Financial Law Research Center of Peking University, a part-time professor of National Judges College, a part-time professor of National Prosecutors College of PRC, Independent Non-executive Director of China Securities Finance Co., Ltd., and Independent Director of Sichuan Xinwang Bank Co., Ltd.

Chen Shimin, External Supervisor

Chen Shimin, male, obtained a bachelor's degree and a master's degree in Economics from the Shanghai University of Finance and Economics, a doctor's degree in Accounting from the University of Georgia in the USA, and is a Certified Management Accountant in the USA. Mr. Chen has served as External Supervisor of the Bank since December 2019. He has taught in various universities both at home and abroad, including the Shanghai University of Finance and Economics, Clarion University of Pennsylvania in the USA, Lingnan University in Hong Kong, University of Louisiana at Lafayette in the USA, and the Hong Kong Polytechnic University. He previously served as a professor of Accounting, and Subdean and Curriculum Director of the master's degree programme of business administration of China Europe International Business School, Independent Non-executive Director of Hailan Holdings Limited, Independent Director of Anhui Huaheng Biotechnology Co., Ltd., and External Supervisor of Shanghai Pudong Development Bank Co., Ltd. He currently serves as a professor of Accounting and Director of the Case Center in China Europe International Business School, as well as Independent Director of Anxin Trust Co., Ltd., Oriental Pearl Group Co., Ltd., Huafa Industrial Co., Ltd. Zhuhai, Yincheng International Holdings Co., Ltd., Power Electronics Group Limited and Advanced Micro-Fabrication Equipment (Shanghai) Inc. China.

Li Yue, Employee Supervisor

Li Yue, male, obtained a bachelor's degree in Arts from Heilongjiang University and holds the title of Senior Corporate Culture Specialist. Mr. Li has served as Employee Supervisor of the Bank since December 2012. He previously served as Project Manager of the Investment Attraction Bureau, Deputy Director and Director of Beijing Liaison Office of Jiangsu Nantong Economic & Technological Development Area, Deputy Director of Beijing Liaison Office of Nantong People's Government of Jiangsu Province, as well as Deputy Director (presiding over the work) of Party and Masses' Affairs Department, Deputy Director of Inspection and Supervision Department, Director of Party and Masses' Affairs Department and Director of Party Committee and Party Building Department of the Bank. He currently serves as Director of Party Building Department, Chairman of the Head Office Labour Union and Secretary of the Head Office Party Discipline Inspection Committee of the Bank.

Song Changlin, Employee Supervisor

Song Changlin, male, graduated from the Party School of Beijing Municipal Committee of the Communist Party of China. Mr. Song has served as Employee Supervisor of the Bank since March 2016. He previously served as Deputy Director of the Remittance Business Management Division, Director of the Audit Division of the Postal Savings and Remittance Bureau of the State Post Bureau, General Manager of the Audit Department, and Chief of the Audit Office of the Bank. He currently serves as the General Manager of the Office of the Board of Supervisors and a member of the Party Discipline Inspection Committee of the Bank. He concurrently serves as Director of PSBC Consumer Finance.

Bu Dongsheng, Employee Supervisor

Bu Dongsheng, male, graduated from the Party School of Liaoning Provincial Committee of the Communist Party of China. Mr. Bu has served as Employee Supervisor of the Bank since May 2017. He previously served as Deputy Director and Director of the Business Division II, Director of the Division IV and Director of the Division II of the Liaoning Fiscal Ombudsman Office of the MOF, as well as Vice President of Liaoning Branch and the responsible person of the Audit Office of the Bank. He currently serves as President of Hubei Branch of the Bank.

Biographies of Senior Management

Guo Xinshuang, President

Guo Xinshuang, male, obtained a doctor's degree in Economics from Jilin University, holds the title of Senior Economist and is a deputy to the 12th National People's Congress. He has served as President of the Bank since February 2020. Prior to joining the Bank, Mr. Guo served as Deputy Director General of the Organization Department of CPC Committee, Deputy Director General of HR Bureau, full-time Deputy Director General of the Performance Assessment Team, President of Jilin Provincial Branch, Director General of the Comprehensive Planning Bureau, Director General of the Planning Bureau and Executive Deputy Director of the Planning Institute of China Development Bank; Deputy Mayor, Acting Mayor and Mayor of Qitaihe City, Heilongjiang Province; Deputy Mayor, Acting Mayor and Mayor of Qiqihar City, Heilongjiang Province, and a member of the 11th Provincial Committee of CPC of Heilongjiang Province; Director General of Credit Management Bureau of China Development Bank; Executive Director and Vice President of China Everbright (Group) Corporation; Vice President of China Everbright Group Ltd.; and Executive Director and Vice President of China Export and Credit Insurance Corporation. Mr. Guo currently serves as Vice President of China Post Group.

Zhang Xuewen, Executive Director, Vice President

For biographies of Zhang Xuewen, please refer to the aforesaid section "Biographies of Directors".

Yao Hong, Executive Director, Vice President

For biographies of Yao Hong, please refer to the aforesaid section "Biographies of Directors".

Qu Jiawen, Vice President

Qu Jiawen, male, obtained a doctor's degree in Engineering from Harbin Engineering University. He holds the title of Senior Engineer of professor-level and is entitled to special government allowance granted by the State Council. Mr. Qu has served as Vice President of the Bank since January 2013. He previously served as Deputy Director of the Planning and Construction Division under Heilongjiang Posts and Telecommunications Administration Bureau, Deputy Director and Director of the Engineering Construction Division, Director of the Network Planning and Cooperation Division, Director of Science & Technology Division, Associate Chief and Deputy Chief of Heilongjiang Post Bureau, Deputy General Manager of Heilongjiang Post Company, and President of Heilongjiang Branch of the Bank. He concurrently serves as Deputy Chairman of the 3rd Payment & Clearing Association of China and Director of China UnionPay.

Xu Xueming, Vice President

Xu Xueming, male, obtained an Executive Master of Business Administration degree from Peking University and holds the title of Senior Economist. Mr. Xu has served as Vice President of the Bank since January 2013. He previously served as Deputy Chief of Beijing Postal Savings and Remittance Bureau, Director of the Public Service Division of the Beijing Postal Administration Bureau, Chief of Beijing Western Post Bureau, Deputy Chief of Beijing Postal Administration Bureau, Deputy General Manager of Beijing Post Company, President of Beijing Branch and Secretary to the Board of Directors of the Bank. He concurrently serves as Director of China Post Securities Co., Ltd. and Director of China Bankers Institute of China Banking Association.

Shao Zhibao, Vice President

Shao Zhibao, male, obtained an Executive Master of Business Administration degree from Jinan University and holds the title of Senior Accountant. Mr. Shao has served as Vice President of the Bank since January 2013 and has concurrently served as President of the Sannong Finance Department of the Bank since September 2016. He previously served as Associate General Manager and Deputy General Manager of Guangdong Southern Communication Group Company, Deputy Director and Director of the Planning and Finance Division, Associate Chief and Deputy Chief of Guangdong Post Bureau, Deputy General Manager of Guangdong Post Company, and President of Guangdong Branch of the Bank. He concurrently serves as an executive member and Vice Chairman of the 8th Council of China Institute of Rural Finance and Deputy Chairman of the 5th Council of the Internet Society of China.

Liu Hucheng, Secretary to the Party Discipline Inspection Committee

Liu Hucheng, male, obtained a master's degree in Business Administration from Liaoning University and holds the title of Senior Accountant. He has served as the Secretary to the Party Discipline Inspection Committee of Postal Savings Bank of China of the Communist Party of China since January 2017. He previously served as Deputy Director, Deputy Director (presiding over the work) and Director of the Planning and Finance Division of Hebei Post Bureau, as well as the responsible person and General Manager of the Finance and Accounting Department, General Manager of the Planning and Finance Department and President of Henan Branch of the Bank.

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

Du Chunye, male, obtained a master's degree in Business Administration from Beijing University of Posts and Telecommunications and holds the title of Senior Economist. Mr. Du has served as Joint Company Secretary of the Bank since March 2017 and Secretary to the Board of Directors of the Bank since April 2017. He previously served as Deputy Manager, Senior Business Manager and Manager of the General Manager's Office of China Post Group, as well as General Manager of the General Office, Vice President of Beijing Branch and President of Shenzhen Branch of the Bank. He has concurrently served as President of Beijing Branch of the Bank since December 2019.

Liang Shidong, Chief Risk Officer

Liang Shidong, male, obtained a doctor's degree in Management from University of Science and Technology of China and holds the tile of Researcher. He has served as Chief Risk Officer of the Bank since February 2020. Prior to joining the Bank, Mr. Liang served as Deputy Director and Director of Risk Management Department of China Construction Bank, Director and Vice President of China Bond Insurance Corporation Limited, Deputy Director General of the Financial Stability Bureau of the PBOC, a member of the CPC committee of National Association of Financial Market Institutional Investors, and Vice President of Ant Financial Services Group. Mr. Liang is also a member of the 12th committee of All-China Youth Federation.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On January 4, 2019, Mr. Lyu Jiajin resigned from positions of Executive Director and President of the Bank, Chairman and member of Social Responsibility and Consumer Rights Protection Committee, member of Strategic Planning Committee, member of Risk Management Committee, member of Nomination and Remuneration Committee of the Board of Directors, as well as his duties on behalf of the Chairman and Chairman of Strategic Planning Committee of the Board of Directors. Mr. Zhang Xuewen started to perform the duties on behalf of the Chairman, President and Chairman of the Strategic Planning Committee of the Board of Directors, and Ms. Yao Hong started to perform the duties on behalf of the Chairman of Social Responsibility and Consumer Rights Protection Committee, immediately after the departure of Mr. Lyu Jiajin, with effect from January 4, 2019. For details, please refer to the announcement of the Bank dated January 4, 2019.

On February 21, 2019, the Board of Directors of the Bank nominated Mr. Zhang Jinliang as a Non-executive Director candidate of the Bank. On April 8, 2019, the 2019 First Extraordinary General Meeting of the Bank deliberated on and approved the proposal on the election of Mr. Zhang Jinliang as Non-executive Director of the Bank. On the same day, the Board of Directors of the Bank deliberated on and unanimously approved the proposal on the election of Mr. Zhang Jinliang as Chairman of the Bank. In May 2019, the appointment of Mr. Zhang Jinliang was approved by the CBIRC. For details, please refer to the announcements of the Bank dated April 8 and May 8, 2019.

On August 20, 2019, the Board of Directors of the Bank nominated Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson and Ms. Pan Yingli as Independent Non-executive Directors of the Bank. On August 21, 2019, Mr. Chin Hung I David resigned from his positions as Non-executive Director of the Bank, 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. On October 29, 2019, Mr. Gan Peizhong ceased to serve as the Independent Non-executive Director of the Bank, Chairman and member of Nomination and Remuneration Committee of the Board of Directors, member of Audit Committee of the Board of Directors and member of Risk Management Committee of the Board of Directors due to the expiration of his term of office. The 2019 Second Extraordinary General Meeting of the Bank deliberated on and approved the proposal on the election of Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson and Ms. Pan Yingli as Independent Non-executive Directors of the Bank. On the same day, the appointment of Mr. Wen Tiejun and Mr. Chung Shui Ming Timpson took effect. On December 23, 2019, the appointment of Ms. Pan Yingli was approved by the CBIRC. For details, please refer to the announcement of the Bank dated December 26, 2019.

On August 20, 2019, the Board of Directors of the Bank nominated Mr. Zhang Xuewen and Ms. Yao Hong to continue to serve as Executive Directors of the Bank, and nominated Mr. Fu Tingmei to continue to serve as Independent Non-executive Director of the Bank. On October 29, 2019, the 2019 Second Extraordinary General Meeting of the Bank deliberated on and approved the proposal on the the re-election of Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors of the Bank, as well as the proposal on the the re-election of Mr. Fu Tingmei as Independent Non-executive Director of the Bank. The consecutive terms of office of Mr. Zhang Xuewen, Ms. Yao Hong and Mr. Fu Tingmei took effect on the same day.

On January 1, 2020, Mr. Ma Weihua and Ms. Bi Zhonghua retired due to the expiration of their terms of office. Mr. Ma Weihua no longer served as the Independent Non-executive Director of the Bank, Chairman and member of the Related Party Transactions Control Committee, member of the Strategic Planning Committee and member of the Audit Committee of the Board of Directors; Ms. Bi Zhonghua ceased to serve as the Independent Non-executive Director of the Bank, Chairman and member of the Audit Committee, member of the Related Party Transactions Control Committee, member of the Nomination and Remuneration Committee and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors.

On January 16, 2020, the Board of Directors of the Bank nominated Mr. Guo Xinshuang as the candidate of Executive Director of the Bank. On March 6, 2020, the 2020 First Extraordinary General Meeting of the Bank elected Mr. Guo Xinshuang as Executive Director of the Bank. The appointment of Mr. Guo Xinshuang is subject to the approval of the CBIRC and his term of office as Executive Director will be three years which shall commence from the date of approval by the CBIRC.

On January 17, 2020, Mr. Tang Jian resigned from his positions as Non-executive Director of the Bank, member of the Risk Management Committee of the Board of Directors and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors due to his age.

Changes in Supervisors

From May 25 to May 26, 2019, the First Session of the First Employee Representative Assembly has deliberated on and approved proposals on the re-election of Mr. Li Yue and Mr. Song Changlin as Employee Supervisors of the Bank. The terms of Mr. Li Yue and Mr. Song Changlin have come into effect since May 26, 2019.

On August 20, 2019, the Board of Supervisors of the Bank nominated Mr. Chen Yuejun, Mr. Li Yujie and Mr.Zhao Yongxiang as Shareholder Representative Supervisor candidates of the Bank, and nominated Mr. Wu Yu, Mr. Bai Jianjun and Mr. Chen Shimin as External Supervisor candidates of the Bank. On October 29, 2019, Mr. Zeng Kanglin retired due to the expiration of his term of office. The Bank deliberated on and approved the proposal on re-election of Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang as Shareholder Representative Supervisors of the Bank, the proposal on re-election of Mr. Wu Yu as External Supervisor of the Bank, and the proposal on election of Mr. Bai Jianjun and Mr. Chen Shimin as External Supervisors of the Bank at the 2019 Second Extraordinary General Meeting. On the same day, the terms of office of Mr. Chen Yuejun, Mr. Li Yujie, Mr. Zhao Yongxiang, Mr. Wu Yu and Mr. Bai Jianjun came into effect. The term of office of Mr. Chen Shimin has come into effect since December 8, 2019, the day on which Mr. Guo Tianyong's term of office added up to a period of six years. For details, please refer to the announcements of the Bank dated August 20, 2019 and October 29, 2019.

On December 8, 2019, Mr. Guo Tianyong retired due to the expiration of his term of office and the term of office of Mr. Chen Shimin came into effect. For details, please refer to the announcement of the Bank dated December 8, 2019.

Changes in Senior Management

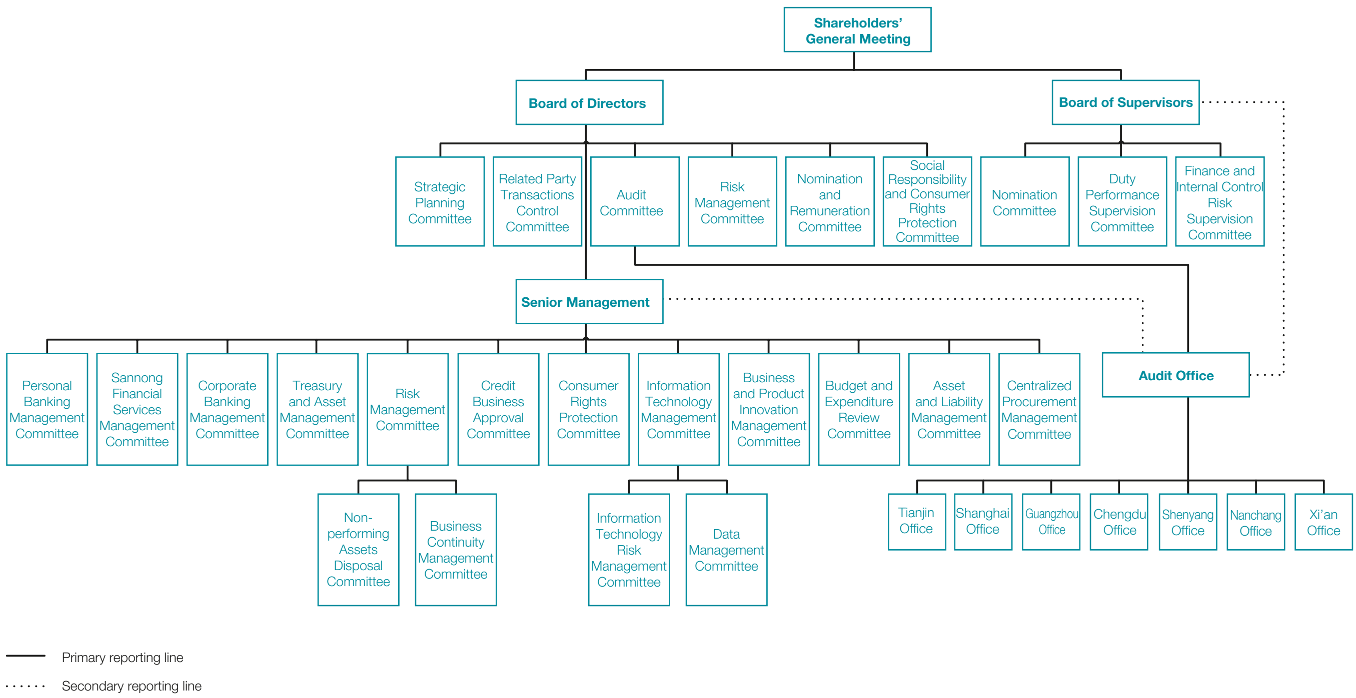
On January 16, 2020, the Board of Directors of the Bank appointed Mr. Guo Xinshuang as the President of the Bank. In February, 2020, The CBIRC has approved the appointment of Mr. Guo Xinshuang as the President of the Bank. For details, please refer to the announcement of the Bank dated February 19, 2020.

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Liang Shidong as Chief Risk Officer of the Bank. In February, 2020, The CBIRC has approved the appointment of Mr. Liang Shidong as Chief Risk Officer of the Bank. For details, please refer to the announcement of the Bank dated February 24, 2020.

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Niu Xinzhuang as Chief Information Officer of the Bank. The appointment of Mr. Niu Xinzhuang is still subject to the approval of the CBIRC.

Corporate Governance

The Bank considers well-performing corporate governance as the core component of the stable operation and sustainable development of a commercial bank. The Bank insists on integrating the leadership of the Party into the whole process of corporate governance, is committed to optimizing and improving its corporate governance structure and mechanism and strives for more standardized and effective corporate governance, so as to further refine the corporate governance.



Corporate Governance Code

During the reporting period, the Bank complied with the normative documents about governance of listed companies issued by CSRC and principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The Board of Directors actively performed its corporate governance duties. It is responsible for amending the Articles of Association, the Rules of Procedures of Shareholders' General Meetings and the Rules of Procedures of the meetings of the Board of Directors, establishing relevant corporate governance regulations and continuously improving the Bank's corporate governance. The Board of Directors has established several special committees which perform their functions strictly in accordance with the applicable requirements of corporate governance.

Shareholders' Rights

Convening of an Extraordinary General Meeting

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

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

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

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

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

Convening of an Extraordinary Board Meeting

The Requesting Shareholders are entitled to propose the convening of an extraordinary board meeting to the Chairman of the Board of Directors. The Chairman should convene and chair the extraordinary board meeting within ten days upon receipt of the proposal.

Enquiries to the Board of Directors

Shareholders of the Bank may put enquiries to the Board of Directors and have the right to obtain the relevant information in accordance with the laws, administrative regulations, department rules and provisions of the Articles of Association, including the Articles of Association, the status of the share capital, the latest audited financial statement, the report of the Board of Directors, the report of the Board of Supervisors, the minutes of the Shareholders' General Meeting, and other relevant information. Shareholders who request to review the relevant information or obtain such materials shall provide the Bank with written documents evidencing the class and number of shares held by them in the Bank, and the Bank shall provide such information or materials as requested upon verification of such shareholders' identities. The Office of the Board of Directors shall be responsible for assisting the Board of Directors with its daily matters. If shareholders have any enquiries, please contact the Office of the Board of Directors.

Proposals to the Shareholders' General Meeting

Pursuant to the Articles of Association, shareholders who individually or jointly hold more than 3% of the total voting shares of the Bank (the "Proposing Shareholders") shall have the right to submit proposals to the Shareholders' General Meeting. Shareholders holding individually or jointly more than 1% of the total voting shares of the Bank may propose Independent Non-executive Director candidates and External Supervisor candidates to the Shareholders' General Meeting. The Proposing Shareholders shall have the right to submit interim proposals to the convener in writing 10 days before the Shareholders' General Meeting. The convener shall within two days upon receipt of such proposals give supplemental notice of the Shareholders' General Meeting.

Proposals to the Board of Directors

The Requesting Shareholders are entitled to submit proposals to the Board of Directors.

Special Provisions for Preference Shareholders

In the following circumstances, preference shareholders of the Bank have the right to attend the Shareholders' General Meeting and exercise voting rights: (1) amendments to the Articles of Association relating to preference shares; (2) the reduction of the registered capital of the Bank by more than 10% at a time or cumulatively; (3) merger, division and dissolution or change of corporate form of the Bank; (4) issuance of preference shares by the Bank; and (5) other circumstances as stipulated by laws, administrative regulations, department rules and the Articles of Association of the Bank.

In the event of any of the above, the Bank shall notify the preference shareholders upon convening a Shareholders' General Meeting and in accordance with the prescribed procedures for notifying ordinary shareholders in the Articles of Association. The preference shareholders shall vote with the ordinary shareholders as separate classes of shares in respect of the above matters, and each preference share represents one voting right, but the preference shares held by the Bank shall not have voting rights.

Where the Bank fails to pay dividends for preferred shares as agreed for three cumulative accounting years in total or two consecutive accounting years, the preference shareholders shall have the right to attend the Shareholders' General Meeting and vote together with the ordinary shareholders from the next day following the date of approval of the proposal not paying the agreed dividend for the current year by the Shareholders' General Meeting. The voting rights of the preference shareholders of the Bank shall be temporarily restored until the full payment of the agreed dividend for the current year by the Bank.

Shareholders' General Meetings

During the reporting period, the Bank held 1 Annual General Meeting, 1 Domestic Shareholders' Class Meeting, 1 H Shareholders' Class Meeting, and 2 Extraordinary General Meetings in total, with 35 proposals reviewed and approved and 3 reports heard. Details are as follows:

On April 8, 2019, the Bank held the First Extraordinary General Meeting of 2019 in Beijing, and deliberated on and approved three proposals, including the proposal on the election of Mr. Zhang Jinliang as Non-executive Director of the Bank, the proposal on the remuneration settlement plan for Directors and Supervisors of the Bank for 2017, and the proposal on the amendment to the Articles of Association of the Bank.

On May 30, 2019, the Bank held the Annual General Meeting for the Year 2018, the First Domestic Shareholders' Class Meeting of 2019, and the First H Shareholders' Class Meeting of 2019 in Beijing, deliberated on and approved 17 proposals including the ones on the final accounts for 2018, the profit distribution plan for 2018 and others, and heard two reports including the report on the implementation of the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors of the Bank in 2018 and the special report on connected transactions in 2018.

On October 29, 2019, the Bank held the Second Extraordinary General Meeting of 2019 in Beijing, deliberated on and approved 15 proposals including the ones on the re-election or election of Directors and Supervisors, the remuneration settlement plan for Directors and Supervisors for 2018, the proposed issuance of write-down undated capital bonds and others, and listened to the report regarding the connected transactions in the most recent three years and the most recent period under the framework agreement on agency banking businesses between the Bank and agency outlets of China Post Group.

The aforementioned Shareholders' General Meetings were convened and held in strict accordance with relevant laws and regulations and the Hong Kong Listing Rules. Directors, Supervisors and senior management members of the Bank attended the meetings and exchanged views with shareholders on their concerns. The Bank issued announcement on the resolutions of the above-mentioned Shareholders' General Meetings in a timely manner in accordance with the regulatory requirements. The resolution announcements were published on the website of Hong Kong Stock Exchange on April 8, May 30 and October 29, 2019 respectively.

Board of Directors and Special Committees

Functions and Powers of the Board of Directors

The Board of Directors is the policy-making body of the Bank and reports to the Shareholders' General Meeting. The Board of Directors exercises the following functions and powers:

(1) to convene the Shareholders' General Meetings and report its work at the meetings;

(2) to implement resolutions adopted at the Shareholders' General Meetings;

(3) to make decisions on the Bank's development strategies, business plans and investment plans;

(4) to deliberate on and approve capital management plans and risk-based capital allocation plans of the Bank;

(5) to formulate the Bank's annual financial budget and final account plans; the Bank's profit distribution plans and loss recovery plans; proposals on the increase or reduction of the Bank's registered capital; the Bank's plans of issuance of bonds or other marketable securities and listing plans; plans for merger, division, dissolution, liquidation or other changes in the corporate form of the Bank; plans for repurchase of the Bank's shares; plans for material changes in equity interest or financial reorganization; and capital replenishment plans;

(6) to formulate the general management policies, risk management and internal control policies of the Bank and supervise the implementation of such policies; to deliberate on and approve the internal audit rules of the Bank;

(7) to listen to the risk management report presented by the senior management and evaluate the effectiveness of risk management in the Bank in order to improve the Bank's risk management;

(8) to formulate proposals for amendments to the Articles of Association, rules of procedures of Shareholders' General Meetings and rules of procedures of the meetings of the Board of Directors;

(9) to deliberate on and approve the working rules of the President proposed by the President;

(10) to decide on matters, including the establishment of major legal entities of the Bank, major corporate mergers and acquisitions, major external investments, major asset acquisitions, major asset disposals, major asset write-offs, significant assets pledge and other non-commercial banking guarantees within the scope authorized by the Shareholders' General Meeting;

(11) to decide on or authorize the President to decide on matters within the terms of reference of the Board of Directors, including other external investments, asset acquisitions, asset disposals, asset write-offs, assets pledge and other non-commercial banking guarantees, as well as connected transactions of the Bank;

(12) to appoint or dismiss the President and the Secretary to the Board of Directors according to the nomination of the Chairman of the Board of Directors;

(13) to appoint or dismiss Vice Presidents and other members of senior management according to the nomination of the President;

(14) to elect the Chairman and members of the Nomination and Remuneration Committee proposed by Requesting Shareholders, the Chairman of the Board of Directors, and more than one-third of Directors or more than half (at least two) of the Independent Directors; to elect the Chairman and members of other special committees (excluding the Chairman of the Strategic Planning Committee) according to the nomination of the Nomination and Remuneration Committee;

(15) to decide on the remuneration, performance appraisal, incentive and punishment of members of senior management;

(16) to decide on the establishment of internal departments, tier-1 domestic and overseas branches, branches and other institutions directly under the Head Office and any overseas entities;

(17) to evaluate and improve the Bank's corporate governance regularly;

(18) to formulate stock incentive schemes;

(19) to manage the Bank's information disclosure;

(20) to propose the engagement, dismissal and discontinuance of engagement of accounting firm for approval by the Shareholders' General Meeting;

(21) to deliberate on and approve the proposals submitted by the special committees of the Board of Directors;

(22) to deliberate on and approve or to authorize the Related Party Transactions Control Committee of the Board of Directors to approve related party transactions (other than those which shall be deliberated on and approved by the Shareholders' General Meeting as required by laws), and report to the Shareholders' General Meeting on the implementation of related party transactions management policies and the particulars of related party transactions;

(23) to hear the work reports of the President in accordance with the relevant regulatory requirements to ensure that all Directors are timely and fully informed of relevant information for the performance of their duties, and to examine the work of the senior management to monitor and ensure the effective performance of their management responsibilities;

(24) to deliberate on the execution and rectification based on regulatory opinions from the banking regulatory authority of the State Council to the Bank;

(25) to perform other functions and powers required by laws, administrative regulations, department rules and the Articles of Association or authorized by the Shareholders' General Meeting.

Composition of the Board of Directors and Board Diversity Policy

Composition of the Board of Directors

As of the Latest Practicable Date, the Board of Directors comprised 12 Directors, including Mr. Zhang Jinliang as the Chairman and Non-executive Director; Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors; Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue and Mr. Ding Xiangming as Non-executive Directors; Mr. Fu Tingmei, Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang and Ms. Pan Yingli as Independent Non-executive Directors. The Chairman and Executive Directors have long been engaged in financial or postal financial operation and management, and are familiar with the operation and management of the Bank; the Non-executive Directors come from government authorities or large state-owned enterprises, and have rich management experience; Independent Non-executive Directors are well-known experts in the fields of economics, finance, law and auditing, and can provide professional advice to the Bank from the perspectives of different fields. As of the Latest Practicable Date, there were 2 female Directors and 5 Independent Non-executive Directors in the Board of Directors of the Bank, accounting for more than one-third of the total number of Board members, which met relevant regulatory requirements.

Diversified Board Composition

To promote the diversity of the members of the Board of Directors, the Nomination and Remuneration Committee of the Bank's Board of Directors has formulated the Board diversity policy. The Bank believes that the diversity of Board members is a key factor in maintaining the Bank's sound corporate governance, achieving sustainable development and reaching strategic goals. Therefore, when nominating Directors, the Board of Directors considers the diversity of the Board of Directors from various aspects, including but not limited to gender, age, cultural, education background and professional experience. All appointments are made on merit, in the context of skills and experience the Board of Directors as a whole requires, and after taking full consideration of the aforementioned object and requirements for diversity. The Nomination and Remuneration Committee of the Board of Directors supervises the implementation of the Board diversity policy to ensure it is effective. The Nomination and Remuneration Committee of the Board of Directors will discuss any revisions where necessary, and provide suggestions of revision for the Board of Directors to approve and then implement. The Nomination and Remuneration Committee of the Board of Directors reviews the implementation of this policy annually and reports to the Board of Directors. The Nomination and Remuneration Committee of the Board of Directors believes that the composition of the Board of Directors of the Bank during the reporting period is in line with the requirements of the Board diversity policy.

Meetings of the Board of Directors

During the reporting period, the Bank convened a total of 17 meetings of the Board of Directors, deliberated on and discussed total of 101 proposals, including work report of the Board of Directors for the year 2018, medium and long-term development strategy outline (2019-2025), budget plan of fixed asset investment, extension of the validity period of the proposal regarding the initial public offering and listing of RMB ordinary shares (A shares), issuance of write-down undated capital bonds, amendments to the Articles of Association, organizational restructuring plan of the Head Office and nomination of candidates for Directors; and heard 14 reports, including 2018 audit report and 2019 audit plan.

During the reporting period, the Bank convened a forum for the Chairman and Independent Directors in December 2019 to discuss and study the strategic development positioning, technology construction and corporate culture construction of the Bank.

Attendance of Directors at Meetings

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

Attendances in person[1]/Number of meetings that should be attended

Directors	Shareholders' General Meeting	Board of Directors	Strategic Planning Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management Committee	Nomination and Remuneration Committee	Social Responsibility and Consumer Rights Protection Committee
Chairman and Non-executive Director								
Zhang Jinliang	4/4	7/9	1/3	–	–	–	–	–
Executive Directors								
Zhang Xuewen	4/5	16/17	6/6	3/3	–	–	7/7	–
Yao Hong	5/5	17/17	6/6	3/3	–	0/1	–	6/6
Non-executive Directors								
Han Wenbo	4/5	16/17	6/6	–	–	8/8	–	–
Liu Yaogong	5/5	17/17	–	–	7/7	8/8	–	–
Liu Yue	5/5	13/13	6/6	–	7/7	–	–	–
Ding Xiangming	2/5	15/17	–	–	–	6/8	–	6/6
Independent Non-executive Directors								
Fu Tingmei	4/5	16/17	–	3/3	–	1/1	7/7	–
Wen Tiejun	0/0	2/2	0/0	–	0/0	–	0/0	–
Chung Shui Ming Timpson	0/0	2/2	–	0/0	0/0	–	–	–
Hu Xiang	5/5	17/17	6/6	–	7/7	–	–	1/1
Pan Yingli	0/0	0/0	–	0/0	0/0	–	0/0	–
Resigned Directors[2]								
Chin Hung I David	4/4	13/13	–	–	6/6	–	–	4/4
Tang Jian	5/5	17/17	–	–	–	8/8	–	6/6
Ma Weihua	1/5	16/17	5/6	3/3	6/7	–	–	–
Bi Zhonghua	3/5	13/17	–	3/3	7/7	–	7/7	6/6
Gan Peizhong	4/5	13/15	–	–	7/7	5/7	7/7	–

1 "Attendances in person" refers to on-site attendance and attendance by way of electronic communication, such as telephone and video conference. During the reporting period, Directors who did not attend the meetings of the Board of Directors and its special committees in person had designated other Directors as proxies to attend and to vote on their behalf at the meetings.

2 On January 4, 2019, Mr. Lyu Jiajin resigned from the positions of the Executive Director of the Bank, Chairman and member of Social Responsibility and Consumer Rights Protection Committee, member of Strategic Planning Committee, member of Risk Management Committee, member of Nomination and Remuneration Committee of the Board of Directors, as well as his duties on behalf of the Chairman and Chairman of Strategic Planning Committee of the Board of Directors. Prior to January 4, 2019, the Board of Directors of the Bank and its special committees did not held any meetings.

Special Committees of the Board of Directors

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

On January 4, 2019, Mr. Lyu Jiajin resigned from the positions of the Executive Director and President of the Bank, Chairman and member of Social Responsibility and Consumer Rights Protection Committee, member of Strategic Planning Committee, member of Risk Management Committee, member of Nomination and Remuneration Committee of the Board of Directors, as well as his duties on behalf of the Chairman and Chairman of Strategic Planning Committee of the Board of Directors. Mr. Zhang Xuewen started to perform the duties on behalf of the Chairman, President and Chairman of the Strategic Planning Committee of the Board of Directors, and Ms. Yao Hong started to perform the duties on behalf of the Chairman of Social Responsibility and Consumer Rights Protection Committee, immediately after the departure of Mr. Lyu Jiajin, with effect from January 4, 2019.

On May 8, 2019, Mr. Zhang Jinliang started to serve as the Chairman, Non-executive Director of the Bank and Chairman and member of Strategic Planning Committee of the Board of Directors. Immediately after the commencement of the term of office of Mr. Zhang Jinliang, Mr. Zhang Xuewen stopped performing the duties on behalf of the Chairman and the Chairman of Strategic Planning Committee of the Board of Directors.

On August 21, 2019, Mr. Chin Hung I David resigned from his positions of 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.

On October 29, 2019, the term of office of Mr. Gan Peizhong expired and he no longer served as the Independent Non-executive Director of the Bank, member of Audit Committee of the Board of Directors, member of Risk Management Committee of the Board of Directors, or Chairman and member of Nomination and Remuneration Committee of the Board of Directors.

On October 29, 2019, Ms. Yao Hong started to serve as the member of Risk Management Committee of the Board of Directors of the Bank.

On October 29, 2019, Mr. Fu Tingmei started to serve as the member of Risk Management Committee of the Board of Directors of the Bank.

On October 29, 2019, Mr. Wen Tiejun started to serve as the Independent Non-executive Director of the Bank, member of Strategic Planning Committee of the Board of Directors, member of Audit Committee of the Board of Directors and Chairman and member of Nomination and Remuneration Committee of the Board of Directors.

On October 29, 2019, Mr. Chung Shui Ming Timpson started to serve as the Independent Non-executive Director of the Bank, member of Related Party Transactions Control Committee of the Board of Directors and member of Audit Committee of the Board of Directors.

On October 29, 2019, Mr. Hu Xiang started to serve as the member of Social Responsibility and Consumer Rights Protection Committee of the Bank.

On December 23, 2019, Ms. Pan Yingli started to serve as the Independent Non-executive Director of the Bank, member of Related Party Transactions Control Committee of the Board of Directors, member of Audit Committee of the Board of Directors and member of Nomination and Remuneration Committee of the Board of Directors.

On January 1, 2020, the term of office of Mr. Ma Weihua expired and he no longer served as the Independent Non-executive Director of the Bank, member of Strategic Planning Committee of the Board of Directors, Chairman and member of Related Party Transactions Control Committee of the Board of Directors, or member of Audit Committee of the Board of Directors. Mr. Fu Tingmei started to serve as the Chairman of the Related Part Transactions Control Committee of the Bank immediately after the departure of Mr. Ma Weihua, with effect from January 1, 2020.

On January 1, 2020, the term of office of Ms. Bi Zhonghua expired and she no longer served as the Independent Non-executive Director of the Bank, member of Related Party Transactions Control Committee of the Board of Directors, Chairman and member of Audit Committee of the Board of Directors, member of Nomination and Remuneration Committee of the Board of Directors, or member of Social Responsibility and Consumer Rights Protection Committee of the Board of Directors. Mr. Chung Shui Ming Timpson started to serve as the Chairman of the Audit Committee immediately after the departure of Ms. Bi Zhonghua, with effect from January 1, 2020.

On January 17, 2020, Mr. Tang Jian resigned from his positions of Non-executive Director, member of Risk Management Committee of the Board of Directors and member of Social Responsibility and Consumer Rights Protection Committee of the Board of Directors.

Strategic Planning Committee

As of the Latest Practicable Date, the Strategic Planning Committee of the Bank comprised 7 Directors, including Mr Zhang Jinliang as Chairman and Non-executive Director; Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors; Mr. Han Wenbo and Mr. Liu Yue as Non-executive Directors; and Mr. Wen Tiejun and Mr. Hu Xiang as Independent Non-executive Directors. The Strategic Planning Committee is chaired by Mr. Zhang Jinliang. The Strategic Planning Committee primarily performs such duties as considering the Bank's business objectives, overall strategic development plans and special strategic development plans, strategic capital allocation and assets and liabilities management objectives, business development plans, major investment and financing plans and other matters significant to the development of the Bank, as well as proposing suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee convened 6 meetings, and deliberated on and discussed 15 proposals, including the medium and long-term development strategy outline (2019-2025), budget plan of fixed asset investment, issuance of write-down undated capital bonds, and organizational restructuring plan of the Head Office. It also proposed opinions and suggestions to the Board of Directors in the aspects including strategic development, budget of fixed asset investment, major investment and financing plans, and organizational restructuring.

Related Party Transactions Control Committee

As of the Latest Practicable Date, the Related Party Transactions Control Committee of the Bank comprised 5 Directors, including Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors, and Mr. Fu Tingmei, Mr. Chung Shui Ming Timpson and Ms. Pan Yingli as Independent Non-executive Directors. The Related Party Transactions Control Committee is chaired by Mr. Fu Tingmei. The Related Party Transactions Control Committee primarily performs such duties as managing matters on related party transactions of the Bank, reviewing the basic management system for related party transactions, supervising their implementation and making recommendations to the Board of Directors; verifying related parties of the Bank, reporting to the Board of Directors and Board of Supervisors, informing relevant staff of the Bank in a timely manner, reviewing major related party transactions or other related party transactions subject to the approval of the Board of Directors or Shareholders' General Meeting, and submitting to the Board of Directors or the Shareholders' General Meeting through the Board of Directors for approval.

During the reporting period, the Related Party Transactions Control Committee convened 3 meetings and deliberated on 8 proposals, including special report on related party transactions in 2018, confirmation of the related party transactions in the past 3 years, amendments of the Administrative Measures on Related Party Transactions, and report on related parties. The Related Party Transactions Control Committee provided opinions and suggestions to the Board of Directors on the examination and approval of major related party transactions and strengthening the management over the Bank's related party transactions.

Audit Committee

As of the Latest Practicable Date, the Audit Committee of the Bank comprised 6 Directors, including Mr. Liu Yaogong, Mr. Liu Yue as Non-executive Directors, as well as Mr. Chung Shui Ming Timpson, Mr. Wen Tiejun, Mr, Hu Xiang and Ms. Pan Yingli as Independent Non-executive Directors. The Audit Committee is chaired by Mr. Chung Shui Ming Timpson. The Audit Committee primarily performs such duties as supervising the Bank's internal control, reviewing the Bank's major financial accounting policies and their implementation, deliberating on the Bank's basic audit management system, regulations, medium and long-term audit plan, as well as annual work plan and making proposals to the Board of Directors, supervising and evaluating the work of the Bank's internal audit department, reviewing the annual audit report and other specific opinions, audited annual financial accounting report, as well as other financial accounting reports and financial information required to be disclosed, and proposing the engagement or dismissal of the accounting firm and reporting it to the Board of Directors for review.

During the reporting period, the Audit Committee convened 7 meetings and deliberated on 26 proposals, including the 2018 audit report and 2019 audit plan, financial statements and audit reports, annual internal control and assessment report as well as external audit management measures for financial reports. It heard 5 reports, including the report on the audit of financial statements. The Audit Committee provided opinions or suggestions to the Board of Directors on issues such as internal and external audit work, evaluation of internal control, and the building of internal audit mechanism.

During the reporting period, the Audit Committee reviewed 16 issues relevant to the financial statements and audit reports and reviewed 8 issues relevant to the internal control.

The 2019 Performance Report of the Audit Committee of the Board of Directors has been disclosed. For details, please visit the website of the SSE.

Risk Management Committee

As of the Latest Practicable Date, the Risk Management Committee of the Bank comprised 5 Directors, including Ms. Yao Hong as Executive Director, Mr. Han Wenbo, Mr. Liu Yaogong and Mr. Ding Xiangming as Non-executive Directors, and Mr. Fu Tingmei as Independent Non-executive Director. The Risk Management Committee is chaired by Mr. Han Wenbo. The Risk Management Committee primarily performs such duties, based on the Bank's overall development strategic planning, as reviewing and editing the Bank's risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management framework and principal procedures and systems for risk management, reviewing plans for risk capital allocation, hearing risk management reports, and making suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee convened 8 meetings and deliberated on 28 proposals, including the risk management strategies and risk appetite schemes of 2019, the three-year rolling capital plan from 2019 to 2021 and capital adequacy management plan of 2019, the report on comprehensive risk management, and basic requirements of internal control. It heard 5 reports, including the report on the anti-money laundering work of 2018 and self-assessment of money laundering and terrorist financing risks. The Risk Management Committee kept watching on the effectiveness of the overall risk management of the Bank on a regular basis, and provided opinions and suggestions on issues such as the enhancement of risk management and internal control of the Bank.

During the reporting period, the Risk Management Committee deliberated on 4 issues related to the report on comprehensive risk management profile of the Bank and reviewed regularly the work report on internal control and compliance management, as well as the case-prevention work summary and plan.

Nomination and Remuneration Committee

As of the Latest Practicable Date, the Nomination and Remuneration Committee of the Bank comprised 4 Directors, including Mr. Zhang Xuewen as Executive-Director, and Mr. Fu Tingmei, Mr. Wen Tiejun and Ms. Pan Yingli as Independent Non-executive Directors. The Nomination and Remuneration Committee is chaired by Mr. Wen Tiejun. The Nomination and Remuneration Committee primarily performs such duties as conducting annual review on the structure, size and composition of the Board of Directors, and making suggestions in respect of the size and composition of the Board of Directors; developing the standards and procedures for the election and appointment of Directors, Chairmen and members of special committees of the Board of Directors and senior management members, performing preliminary review on the qualifications and conditions of candidates for Directors and senior management members, and making suggestions to the Board of Directors; formulating performance evaluation policies for Directors, assessment policies for senior management members, and remuneration policies or plans for Directors and senior management members and submitting such policies or plans to the Board of Directors for review.

The Articles of Association set out the procedures and methods of the nomination of Directors and have specific requirements for the appointment of Independent Non-executive Directors. When reviewing the qualification of candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications as Directors, compliance with laws, administrative regulations, department rules and the Articles of Association, fiduciary duty, understanding of the Bank's operation and management and willingness to accept supervision of their performance by the Board of Supervisors as well as the fulfillment of the diversity requirements of the Board of Directors. For details, please refer to the Articles of Association and Rules of Procedures for Nomination and Remuneration Committee of Postal Savings Bank of China Co., Ltd. on the website of the Bank. During the reporting period, the Bank strictly implemented the relevant provisions of the Articles of Association to appoint or re-appoint the Directors of the Bank.

During the reporting period, the Nomination and Remuneration Committee convened 7 meetings and deliberated on 14 proposals, including the ones relating to the structure, size and composition of the Board of Directors as well as the implementation of the Board diversity policy, the adjustment of the special committees of the Board, the 2018 annual remuneration settlement plan for Directors, senior management members and officers in charge of the internal audit department, the evaluation measures on the performance of Directors by the Board of Directors, and reviews on the eligibility for appointment and qualifications of Directors. The Nomination and Remuneration Committee studied issues such as the structure, size and composition of the Board of Directors, the implementation of the Board diversity policy, the eligibility for appointment and qualifications of re-elected and new Directors, the remuneration settlement proposal of Directors and senior management members, and the evaluation measures on the performance of Directors by the Board of Directors and gave opinions and suggestions to the Board of Directors.

Social Responsibility and Consumer Rights Protection Committee

As of the Latest Practicable Date, the Social Responsibility and Consumer Rights Protection Committee of the Bank comprised 3 Directors, including Ms. Yao Hong as Executive Director, Mr. Ding Xiangming as Non-executive Directors, and Mr. Hu Xiang as Independent Non-executive Director. Ms. Yao Hong performed the duties on behalf of the Chairman of the Social Responsibility and Consumer Rights Protection Committee. The Social Responsibility and Consumer Rights Protection Committee primarily performs duties such as developing strategies, policies and goals of social responsibility and consumer rights protection which are consistent with the Bank's development strategies and actual situation, developing the basic management system for social responsibility and consumer rights protection of the Bank and submitting them to the Board of Directors for approval before implementation; hearing the report regularly on the progress of consumer rights protection work, supervising and evaluating the completeness, promptness and effectiveness of the Bank's consumer rights protection work as well as duty performance of senior management, and disclosing relevant information regarding consumer rights protection work according to regulatory requirements, as authorized by the Board of Directors.

During the reporting period, the Social Responsibility and Consumer Rights Protection Committee convened 6 meetings and deliberated on 7 proposals including the summary of consumer rights protection work of 2018 and work plan of 2019, 2018 social responsibility (environmental, social and governance) report, and green bank construction work report of 2018. The Social Responsibility and Consumer Rights Protection Committee reviewed, supervised and evaluated the Bank regarding social responsibility fulfillment, consumer rights protection and green bank building and provided opinions and suggestions to the Board of Directors.

Responsibilities of Directors on Financial Statements

The Directors are responsible for supervising the preparation of financial statements of each accounting period so that financial statements can give a true and fair view of the financial position, operating results and cash flows of the Bank. In the course of preparation of the financial statements for the year ended on December 31, 2019, the Directors have adopted and applied appropriate accounting policies, and made prudent and reasonable judgments and estimates.

During the reporting period, the Bank complied with the requirements of relevant laws and regulations and listing rules of places where the Bank's shares are listed, and disclosed 2018 Results Announcement and 2018 Annual Report, 2019 First Quarterly Report, 2019 Interim Results Announcement and 2019 Interim Report, and 2019 Third Quarterly Report.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules, the SSE Listing Rules and the Articles of Association that the Directors shall be elected by the Shareholders' General Meeting with a term of three years. A Director may be re-appointed if being re-elected upon the expiration of the previous term, and the consecutive term shall commence from the date of approval by the Shareholders' General Meeting. The term of an Independent Non-executive Director shall be no more than six years on an aggregated basis.

Training of Directors and Company Secretary

Training of Directors

During the reporting period, the Bank made overall plans for the training of Directors and actively encouraged and organized Directors to attend various trainings to help Directors improve their duty performance ability.

During the reporting period, in compliance with the Hong Kong Listing Rules and relevant regulatory requirements, the Directors of the Bank actively participated in a series of trainings organized by the MOF, CBIRC, Temasek, McKinsey, Hong Kong Institute of Chartered Secretaries and the Bank, covering a wide range of topics such as macroeconomic situation, corporate governance, risk management, information technology, development of green finance, anti-money laundering and anti-terrorist financing. During the reporting period, all Directors attended the training organized by the Bank. The Directors also promoted the improvement of their expertise in an all-round manner by writing professional articles, participating in seminars, as well as visiting domestic and overseas banks, such as DBS Group, POSB Singapore, CPPIB, and the Bank's branches and sub-branches for on-site investigations, exchanges and study.

Training of Company Secretary

Mr. Du Chunye and Dr. Ngai Wai Fung, a Director and the Chief Executive Officer of SWCS Corporate Services Group (Hong Kong) Limited, are joint company secretaries of the Bank. During the reporting period, they took no less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Hong Kong Listing Rules. The primary contact person of Dr. Ngai Wai Fung at the Bank is Mr. Du Chunye.

Independence and Performance of Duties of Independent Non-executive Directors

During the reporting period, the qualifications, number and proportion of the Bank's Independent Non-executive Directors were in full compliance with the requirements of regulatory authorities. The Independent Non-executive Directors were not involved in any business or financial interests of the Bank and did not take any managerial position in the Bank. The Bank has received annual independence confirmations from all Independent Non-executive Directors and confirmed their independence. During the reporting period, the Independent Non-executive Directors earnestly attended the meetings of the Board of Directors and special committees, and provided independent and objective advices on various material decisions, such as the profit distribution plan, appointment of external auditors and major related party transactions, by taking advantage of their professional capabilities and industrial experiences. The Independent Non-executive Directors actively strengthened the communication with the senior management, specialized business departments and external auditors and thoroughly studied the operation and management of the Bank by attending important work meetings of the Bank, hearing reports of important businesses and having seminars with external auditors. They earnestly performed their duties with integrity and diligence, complied with the working rules for Independent Non-executive Directors, provided strong support to the Board of Directors for making rational decisions, protected the interests of the Bank and its shareholders as a whole and worked for the Bank for more than 15 workdays. The Bank highly valued the opinions and advice from the Independent Non-executive Directors and organized the implementation thereof according to its actual conditions.

During the reporting period, the Bank's Independent Non-executive Directors did not raise any objection on proposals of the Board of Directors or its special committees.

Board of Supervisors and Special Committees

Responsibilities of the Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank, and shall be accountable to the Shareholders' General Meeting. The Board of Supervisors exercises the following functions and powers according to the requirements of the Company Law and the Articles of Association of the Bank:

(1) to supervise the duty performance of the Board of Directors and senior management, to supervise and make inquiries on the duty performance of Directors and senior management members, and to urge Directors and senior management members to rectify their acts that impair the benefits of the Bank;

(2) to propose the removal of or initiate legal proceedings against Directors and senior management members who violate laws, administrative regulations, the Articles of Association of the Bank or the resolutions of the Shareholders' General Meeting;

(3) to examine and supervise the financial activities of the Bank;

(4) to supervise matters such as operation decisions, risk management and internal control, guide the internal audit department of the Bank to independently perform the duty of auditing and supervision, and carry out business management and evaluation of the internal audit department;

(5) to propose the convening of extraordinary general meetings, and convene and preside over the meeting when the Board of Directors does not perform its duty of convening and presiding over the meeting as required by the Company Law;

(6) to make proposals to the Shareholders' General Meeting;

(7) to formulate amendments to the rules of procedures of the Board of Supervisors;

(8) to supervise the implementation of policies and fundamental management rules of the Bank;

(9) to nominate Shareholder Representative Supervisors, External Supervisors and Independent Directors;

(10) to conduct audit on resigning Directions and senior management members as required;

(11) to negotiate with the Directors on behalf of the Bank;

(12) to examine financial information to be submitted to the Shareholders' General Meeting by the Board of Directors, including financial reports, business reports and profit distribution plans, and to entrust certified public accountants and auditors to assist in the review in the name of the Bank in case of any doubt;

(13) to review the Bank's regular reports prepared by the Board of Directors, and provide review opinions in writing;

(14) to supervise the appointment, dismissal, re-appointment and audit work of the external audit institutions of the Bank;

(15) to formulate performance evaluation policies, remuneration policies or plans for Supervisors, and propose remuneration allocation plans for Supervisors based on the performance evaluation of Supervisors and submit them to the Shareholders' General Meeting for approval;

(16) to perform other functions and powers required by relevant laws, administrative regulations, department rules and the Articles of Association of the Bank or authorized by the Shareholders' General Meeting.

Composition of the Board of Supervisors

The Board of Supervisors of the Bank consists of 9 Supervisors in total, including Mr. Chen Yuejun as the Chairman of the Board of Supervisors and Shareholder Representative Supervisor; Mr. Li Yujie and Mr. Zhao Yongxiang as Shareholder Representative Supervisors; Mr. Wu Yu, Mr. Bai Jianjun and Mr. Chen Shimin as External Supervisors; Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng as Employee Supervisors. For details of current Supervisors, please refer to "Directors, Supervisors, and Senior Management".

Meetings of the Board of Supervisors

During the reporting period, 10 meetings were held by the Board of Supervisors in strict accordance with the relevant laws and regulations, the Articles of Association and the rules of procedures of the Board of Supervisors. The Board of Supervisors studied and reviewed 27 proposals, including final accounts for 2018, 2018 profit distribution plan, 2018 Results Announcement and 2018 Annual Report, report by the Board of Supervisors on performance evaluation of the Board of Directors, senior management and its members in 2018, as well as 2018 internal control evaluation report, and heard and reviewed 41 reports, including the reports on risk, internal control and financial supervision in 2018, related party transactions management, internal control and compliance management, risk management and consumer rights protection.

Attendance of Supervisors at Meetings

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

Attendances in person[1]/Number of meetings that should be attended

Supervisors	Board of Supervisors	Nomination Committee	Duty Performance Supervision Committee	Finance and Internal Control Risk Supervision Committee
Current Supervisors				
Chen Yuejun	10/10	–	–	–
Li Yujie	9/10	2/2	–	–
Zhao Yongxiang	9/10	–	4/5	–
Wu Yu	10/10	–	–	3/3
Bai Jianjun	3/3	–	–	–
Chen Shimin	1/1	–	–	–
Li Yue	10/10	–	3/5	3/3
Song Changlin	10/10	2/2	5/5	3/3
Bu Dongsheng	9/10	–	–	3/3
Supervisors leaving office				
Zeng Kanglin	6/7	2/2	–	–
Guo Tianyong	8/9	–	5/5	–

1 "Attendances in person" refer to on-site attendances and attendances by way of electronic communications, such as telephone and video conferences. During the reporting period, Supervisors who did not attend the meetings of the Board of Supervisors and its special committees in person had designated other Supervisors as proxies to attend and to vote on their behalf at the meetings.

Special Committees of the Board of Supervisors

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

Nomination Committee

The Nomination Committee of the Board of Supervisors of the Bank comprises 3 members, namely, External Supervisor Mr. Bai Jianjun, Shareholder Representative Supervisor Mr. Li Yujie and Employee Supervisor Mr. Song Changlin, and is chaired by Mr. Bai Jianjun. It is responsible for the formulation of procedures and standards for the election and appointment of Shareholder Representative Supervisors and External Supervisors, the preliminary vetting of their eligibility for appointment and qualifications, as well as other matters authorized by the Board of Supervisors. During the reporting period, it held 2 meetings, researched and reviewed the qualifications and conditions of nominated Supervisors, and researched and deliberated on issues including the 2018 remuneration settlement plan for Supervisors, and relevant suggestions on the adjustment of the composition of the special committees of the Board of Supervisors.

Duty Performance Supervision Committee

The Duty Performance Supervision Committee of the Board of Supervisors comprises 4 members, namely, External Supervisor Mr. Chen Shimin, Shareholder Representative Supervisor Mr. Zhao Yongxiang and Employee Supervisors Mr. Li Yue, and Mr. Song Changlin, and is chaired by Mr. Chen Shimin. It is responsible for supervising and evaluating the performance of duties of the Board of Directors, senior management and its members, providing advises to the Board of Supervisors, as well as other matters authorized by the Board of Supervisors. During the reporting period, it held 5 meetings, researched and deliberated on issues including the Board of Supervisors' evaluation report on the performance of the Board of Directors, senior management and its members in 2018, 2018 performance evaluation report of the Board of Supervisors and its members, the 2019 performance evaluation plan of the Board of Supervisors for the Board of Directors, senior management and its members and the 2019 self-evaluation and Supervisors' performance evaluation plan of the Board of Supervisors.

Finance and Internal Control Risk Supervision Committee

The Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank comprises 4 members, namely, External Supervisor Mr. Wu Yu, Employee Supervisors Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng, and is chaired by Mr. Wu Yu. It is responsible for researching and submitting supervision reports on the Bank's finance, internal control and risk management, supervising the establishment and improvement of the Bank's internal control governance structure and comprehensive risk management governance structure, and handling other issues authorized by the Board of Supervisors. During the reporting period, a total of 3 meetings were held to hear and review reports, including reports on risk, internal control and financial supervision for the first quarter, first half and third quarter of 2019.

Functions of Senior Management

The senior management is the executive body of the Bank, and shall be accountable to the Board of Directors and supervised by the Board of Supervisors. The division of powers between the senior management and the Board of Directors is in strict compliance with the Articles of Association and other corporate governance documents of the Bank.

According to the Articles of Association, the President shall exercise the following functions and powers:

(1) to take charge of the operation and management of the Bank, to organize the implementation of the resolutions of the Board of Directors, and to report his or her work to the Board of Directors;

(2) to formulate specific rules of the Bank (other than internal audit rules);

(3) to draft business and investment plans of the Bank, and to organize the implementation of such plans upon approval by the Board of Directors;

(4) to draft policies and fundamental management rules of the Bank, and to make proposals to the Board of Directors;

(5) to draft annual financial budget plans and final accounts plans, capital management plans, risk capital allocation plans, profit distribution plans, loss recovery plans, plans for increase or reduction of registered capital, plans for issuance and listing of bonds or other marketable securities, and share repurchase plans, and to make suggestions to the Board of Directors;

(6) to draft plans for establishing internal departments, domestic and overseas tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank, and to make suggestions to the Board of Directors;

(7) to propose the appointment or dismissal of Vice Presidents or other members of the senior management (other than Secretary to the Board of Directors) to the Board of Directors;

(8) to appoint or dismiss officers in charge of internal departments of the Bank (other than the officers in charge of the internal audit department) and officers in charge of domestic and overseas tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank;

(9) within the scope of authority granted by the Board of Directors, to authorize Vice Presidents and other members of the senior management, and officers in charge of the internal departments, domestic and overseas tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank to carry out day-to-day operation and management activities;

(10) to decide on plans for the remuneration and performance assessment of the officers in charge of internal departments of the Bank (other than the officers in charge of the internal audit department) and the officers in charge of the domestic and overseas tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank, and to appraise the levels of their remuneration and performance;

(11) to decide on or authorize lower-level managers to appoint or dismiss the staff of the Bank;

(12) to decide on plans for the wages, benefits and punishment of the employees of the Bank;

(13) to propose to convene an Extraordinary Board Meeting;

(14) to take contingency measures in the interests of the Bank where there is a bank-run or any other material emergencies relating to the business operations of the Bank, and to immediately report to the banking regulatory authority under the State Council, the Board of Directors and the Board of Supervisors;

(15) other functions and powers to be exercised by the President, as prescribed in laws, administrative regulations, department rules and the Articles of Association or determined by the Shareholders' General Meeting or the Board of Directors.

When the President decides on the wages, benefits, safe operation and labour, labour insurance, dismissal of employees of the Bank and other matters involving the vital interests of employees of the Bank, the President shall first hear the opinions of the labour union or the employee representative assembly.

Division of Responsibilities between the Chairman and the President

Pursuant to code provision A.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the roles of Chairman and President of the Bank are separate with clear division of responsibilities. The Chairman of the Bank is responsible for material matters relating to overall strategic development of the Bank. The President of the Bank is responsible for the daily operation and management of the Bank. The President shall be appointed by, and is accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

Mr. Lyu Jiajin resigned from his positions as the Executive Director and President of the Bank due to change of job, with effect from January 4, 2019. The Executive Director and Vice President Mr. Zhang Xuewen was elected by more than half of the Directors to perform the duties of the Chairman, the President and legal representative since January 4, 2019 and shall perform such duties until the appointment of the new Chairman and President by the Bank, respectively, and their appointments being approved by CBIRC. The Board of Directors believes that such arrangement ensures that the functions of the Board of Directors and the day-to-day operations of the Bank are not affected and does not undermine the balance of responsibilities and mandates between the Board of Directors and the management of the Bank. On April 8, 2019, Mr. Zhang Jinliang was elected as Non-executive Director of the Bank at the 2019 First Extraordinary General Meeting. On the same day, 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 appointment of Mr. Zhang Jinliang has been approved by the CBIRC. In accordance with the relevant requirements, Mr. Zhang Jinliang has begun to serve as the Chairman and Non-executive Director of the Bank since May 8, 2019. Since the official commencement of the term of office of Mr. Zhang Jinliag, Mr. Zhang Xuewen no longer performed the duties on behalf of the Chairman of the Board of Directors. On January 16, 2020, Mr. Guo Xinshuang was appointed as the President of the Bank by the Board of the Directors of the Bank. The appointment of Mr. Guo Xinshuan has been approved by the CBIRC. According to the relevant regulations, Mr. Guo Xinshuang shall serve as the President of the Bank from February 14, 2020. Since the date of Mr. Guo Xinshuang formally taking office, Mr. Zhang Xuewen no longer performed the duties on behalf of the President.

Securities Transactions by Directors, Supervisors and Senior Management

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

Appraisal and Incentive Mechanisms for Senior Management

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

Auditors' Engagement and Remuneration

As approved by the Shareholders' General Meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2019, respectively. The above-mentioned accounting firms have provided audit services on financial reporting to the Bank for seven consecutive years (2013-2019).

In 2019, the fees payable to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for the audit of financial statements provided to the Bank amounted to RMB55.95 million in total (including fees for internal control audit of RMB2.00 million and fees for audit related to the initial public offering of A shares of RMB22.25 million). In 2019, the fees payable to PricewaterhouseCoopers and its member institutions for the audit of financial statements provided to the subsidiaries of the Bank amounted to RMB0.55 million in total. In 2019, the fees payable to PricewaterhouseCoopers and its member institutions for professional non-audit services provided to the Bank amounted to RMB2.60 million in total.

During the year of 2019, there was no disagreement between the Audit Committee and the Board of Directors on the selection, appointment, resignation or removal of the external auditors.

Sponsor's and Underwriter's Engagement and Remuneration

During the reporting period, the Bank engaged China International Capital Corporation and China Post Securities Co., Ltd. as joint sponsors and joint underwriters, UBS Securities Co., Ltd. as the sole financial advisor and joint underwriter, and CITIC Securities Co., Ltd. as the underwriter of the A share issuance. Without taking into account of the over-allotment option for the A share issuance, the underwriting fee and sponsor fee are RMB402.55 million. After the full exercise of the over-allotment option for the A share issuance, the underwriting fee and the sponsor fee are RMB462.93 million.

Significant Changes to the Articles of Association during the Reporting Period

During the reporting period, the Bank received the Reply by the CBIRC on the Initial Public Offering of A Shares and Listing of Postal Savings Bank of China Co., Ltd. and Amendments to the Articles of Association (Yin Bao Jian Fu [2019] No. 565). On June 6, 2019, the CBIRC granted approval to the amended Articles of Association, where the amended terms regarding the A share offering and listing took effect since December 10, 2019 (the day when the Bank was listed on the A share market), while other amended terms took effect since the approval of the CBIRC. For details, please refer to the announcement of the Bank dated June 12, 2019 regarding the approval from the CBIRC concerning the A share offering and listing and amendments to the Articles of Association. The amendments will further help the Bank improve its corporate governance mechanism, satisfy the regulatory regulations after the listing of A shares, and implement the requirements of CBIRC on the equity management of commercial banks.

Internal Control and Internal Audit

Internal Control

The Bank continues to enhance its internal control system, improve internal control measures, strengthen internal control support, and clarify the responsibilities of the Board of Directors, the Board of Supervisors, senior management, functional departments of internal control management, internal audit departments and business departments, and has established an internal control governance and organizational structure with reasonable division of labour, clear responsibilities, and clear reporting relationships. Considering the purpose of the monitoring with the above internal control system is to manage rather than eliminate the risk of failing to achieve business objectives, the Board of Directors can only reasonably, not absolutely, assure that the above system and internal control can prevent any material misstatement or loss.

The Board of Directors is responsible for ensuring that the Bank establishes and implements an adequate and effective internal control system, operates prudently within the framework of laws and policies, formulates annual risk management strategies and risk appetite, and ensures that the senior management takes necessary risk control measures. The Board of Directors bears the ultimate responsibility for the risk management, internal control and compliance management, and is responsible for reviewing the effectiveness of such systems. The Board of Supervisors is responsible for supervising the Board of Directors and senior management to improve the internal control system and supervising the Board of Directors, senior management and its members to perform their internal control responsibilities. The senior management is responsible for executing decisions of the Board of Directors, formulating systematic systems, processes and methods, establishing and improving the internal organization, ensuring the effective performance of various responsibilities of internal control, and 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 evaluating the adequacy and effectiveness of internal control of the Bank, reporting on issues found in audit in a timely manner and supervising rectification. The Risk and Internal Control Committees at branches are responsible for the organization, supervision, and review of the internal control of the branches.

During the reporting period, the Bank strengthened the construction of the internal control system, consolidated the foundation of internal control management, issued the Guiding Opinions on Enhancing the Effectiveness of Internal Control, amended the Basic Provisions on Internal Control, improved the working mechanism of the “three lines of defense”, and clarified the boundaries of responsibilities. It reinforced the internal control system building at the primary level, published the Opinions on Further Strengthening the Internal Control in Institutions at the primary level, and promoted the implementation of Internal Control Management Manual at the primary level to raise the effectiveness of internal control. It strengthened operational risk management, formulated operational risk management measures, and launched operational risk management consulting projects. The Bank also strictly conducted compliance review, improved policy systems, carried out the review and planning on rules and regulations, and maintained and updated the library of rules and regulations in the Office Automation (OA) application. In addition, the Bank put more efforts in compliance risk monitoring, issued risk warnings, and enhanced compliance management capabilities. It encouraged the development of internal control and compliance culture, and organized campaigns such as “promoting compliance culture at the primary level”, case-based warnings and education and others. Through activities such as analyzing typical cases, preparing study manuals, and visiting the warnings and education bases, the law-abiding and compliance awareness by all employees has been enhanced.

In accordance with the requirements of the Basic Standards for Enterprise Internal Control and its supporting guidelines, the Guidelines for Internal Control of Commercial Banks, and other internal control regulatory requirements, combining with the Bank's internal control system and assessment methods, we have assessed the effectiveness of the internal control of the Bank as at December 31, 2019 (the base date of the internal control assessment report). Based on the Bank's specific identification criteria for internal control defects in financial reporting and specific identification criteria for internal control defects in non-financial reporting, as at the base date of the internal control assessment report, there were no significant internal control defects in financial reporting or significant internal control defects in non-financial reporting, and that the effective internal control measures in financial reporting and non-financial reporting have been maintained in all material aspects. The Board of Directors of the Bank deliberated on and approved the 2019 Annual Internal Control Assessment Report of Postal Savings Bank of China Co., Ltd., and please visit the website of SSE for details of the report.

PricewaterhouseCoopers Zhong Tian LLP has audited the effectiveness of the internal control in financial reporting of the Group as at December 31, 2019 in accordance with the relevant regulations, and issued an unqualified Internal Control Audit Report. For details, please visit the website of the SSE.

Internal Audit

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

The Audit Office at the Head Office is responsible for the overall audit work and the coordination of audit resources of the Bank. It mainly audits the Head Office and key areas of the Bank. 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 institutions within their authority. The 36 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 regulatory requirements and various work plans of the Head Office, and 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, protection of consumer rights and interests, 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.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank faithfully and diligently performed its information disclosure duties, disclosed information in a true, accurate, complete, timely and fairly manner in accordance with regulatory requirements, and released periodic reports and various types of interim reports compliantly; strictly abided by the regulatory requirements on A shares and H shares in Shanghai and Hong Kong, amended the administrative measures on information disclosure and other management policies according to the regulatory requirements of the CSRC and SSE, established administrative measures for suspension and exemption of information disclosure, forming a comprehensive and complete information disclosure system; proactively strengthened voluntary disclosure to address concerns of the market and investors; closely implemented the administrative measures for management of information insiders, strengthened the management of insider information, standardized the process of information transmission, and enhanced the compliance awareness of information insiders.

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

Investor Relations

The Bank adheres to the principle of closely following the market, being forward-looking in judgment, being professional and efficient, as well as comprehensiveness and synergy. By establishing contacts with various entities in the capital market, the Bank has established the multi-channel communication platform, continuously tracked regulatory trends, market focuses and analyst research reports, creating an effective internal and external coordination mechanism. It has taken investor communication activities as an opportunity and relied on platforms such as results presentations and roadshows, capital market corporate days, researches and summits, investor hotline and mailbox, and SSE info, to display business development achievements in an all-round way, convey investment value in a timely manner and addresses questions of interest. The Bank communicates with the capital market frequently and is widely recognized by the market.

During the reporting period, the Bank held the 2018 annual results presentation and roadshow, 2019 interim results presentation and roadshow, as well as the 2019 first quarter and third quarter presentation conference call. It held the Capital Market Corporate Day with the theme of "Integration, Empowerment and Reinvention – Building a New Retail Blue Ocean". In addition, it attended 12 investor summits at home and abroad; arranged around 30 on-site visits for investors and analysts at the Head Office and such branches as Nanjing, Ji'nan, Shaoxing and Suzhou; communicated with around 1,000 institutional investors and analysts domestic and overseas. During the IPO of A listing, through campaigns such as roadshows and group meetings in Beijing, Shanghai, Guangzhou, Shenzhen and other regions, the Bank achieved an extensive coverage of nearly 200 institutional investors, actively conveying the unique competitive advantages of the Bank, establishing a positive and proactive image and managing to boost investors' confidence.

If investors wish to enquire any questions related to business performance of the Bank, please contact:

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Social Responsibility

During the reporting period, adhering to the market positioning of serving Sannong customers, urban and rural residents and SMEs, the Bank continuously improved the quality and efficiency of serving the real economy and accelerated the new retail transformation. While enhancing the capacity on sustainable development of the Bank, it promoted the coordinated development of economy, society and environment.

Strengthening Responsibility Management

The Bank has continued to improve the social responsibility system by integrating the concept of social responsibility into all aspects of corporate governance, daily operation and business development, so as to consolidate the foundation of social responsibility management, strengthen in-depth interaction and communication with all stakeholders, and promote the harmonious unification of economic, environmental and social benefits.

Adhering to the Origin of Finance

The Bank proactively provides all-rounded financial support for the implementation of major national strategies such as the construction of the Xiongan New Area, the coordinated development of Beijing-Tianjin-Hebei region, the development of the Yangtze River Economic Belt, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. The Bank is also fully committed to serving the rural revitalization strategy, promoting the in-depth targeted poverty alleviation via financial services and supporting the development of private enterprises and small and micro enterprises through a variety of measures to continuously enhance the capacity of financial services in serving the real economy.

Focusing on Technology Innovation

The Bank has vigorously promoted the in-depth integration of finance and technology, stepped up investment in technology, implemented IT planning, promoted system construction, and accelerated the empowerment and transformation of financial technology. By leveraging technological means to create diversified, convenient and intelligent financial services, the Bank has been establishing an intelligent ecosystem of “finance + services”, so as to drive high-quality development with technological innovation.

Practicing Green Development

The Bank has incorporated the concept of green development into the operation management and business development, continuously improved the environmental and social risk management system, enhanced the professional capabilities of green financial service, actively innovated green financial products and services and implemented green operation, supporting the development of green, low-carbon and recycling economy, boosting ecological civilization and helping build a beautiful China.

Maintaining Sound Operation

The Bank has adhered to a prudent approach to risks on its operation, endeavored to promote the construction of an "all aspects, whole process and entire staff" comprehensive risk management system, continuously improved the internal control management mechanism and process, further promoted anti-corruption, strengthened the protection of intellectual property rights, focused on business continuity management and continued to maintain stable operation.

Sharing a Better Life

The Bank adheres to the principle of "people first", grows together with employees and actively integrates into community development. It has optimized financial services relating to people's livelihood, enhanced consumer protection, actively engaged in public charity activities, supported the pandemic prevention and control, and shared development achievements with the public.

For details of the Bank's performance of social responsibility, please refer to "2019 Corporate Social Responsibility (Environmental, Social and Governance) Report of Postal Savings Bank of China" to be published on the websites of the SSE, Hong Kong Stock Exchange and the Bank.

Principal Business and Business Review

The Bank and its subsidiaries are mainly engaged in provision of banking and related financial services. The Bank's business operations, information on Directors and Supervisors and business review as required by Schedule 5 of the Hong Kong Companies Ordinance are set out in relevant sections including "Messages from the Chairman and President", "Discussion and Analysis", "Directors, Supervisors and Senior Management", "Corporate Governance", "Significant Events", "Notes to the Consolidated Financial Statements" and this "Report of the Board of Directors".

Profits and Dividends Distribution

For the Bank's profit and financial position during the reporting period, please refer to "Financial Highlights" and "Discussion and Analysis – Analysis of Financial Statements".

With the approval at the 2018 Annual General Meeting held on May 30, 2019, the Bank distributed cash dividends of RMB1.937 (tax included) per ten shares, totaling approximately RMB15,696 million (tax included), for the period from January 1, 2018 to December 31, 2018 to the ordinary shareholders whose names appeared on the share register after the close of market on June 11, 2019. The Bank did not declare or distribute interim dividends of 2019, nor did it convert any capital reserve to share capital.

In accordance with the Company Law of the People's Republic of China, Administrative Measures for Provisioning of Financial Enterprises, the Articles of Association and relevant requirements, statutory surplus reserve of RMB6,068 million was drawn and a general risk reserve of RMB12,166 million was made in 2019. On the basis of 86,978,562,200 ordinary shares of the total share capital of the Bank, RMB18,283 million (tax included) of cash dividends will be distributed to all the ordinary shareholders whose names appeared on the share register on the record date with RMB2.102 (tax included) per ten ordinary shares. Cash dividends are denominated and declared in Renminbi, and paid to holders of A shares in Renminbi and to holders of H shares in Hong Kong dollars converted at the RMB central parity rate announced by the PBOC on the day of the Bank's 2019 Annual General Meeting. The remaining undistributed profits are carried forward to the next year. The Bank did not convert its capital reserve to share capital in 2019. The aforesaid annual dividend distribution plan of the 2019 is still subject to the approval of the Annual General Meeting for the Year 2019 of the Bank. Once approved, the above-mentioned dividends will be paid to the holders of A shares and H shares whose names appear on the share register of the Bank after the close of market on June 9, 2020 (Tuesday). The Bank will suspend the registration procedures of H share ownership transfer on June 4, 2020 (Thursday) (inclusive) till June 9, 2020 (Tuesday) (inclusive). The holders of H shares of the Bank that desire to receive the proposed cash dividends are requested to hand over their ownership transfer documents together with the H shares to the Bank's H share registrar – Computershare Hong Kong Investor Services Limited that is located at Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. of June 3, 2020 (Wednesday). Pursuant to relevant regulatory requirements and operational rules, dividends on A shares and H shares are expected to be paid on June 10, 2020 (Wednesday) and July 17, 2020 (Friday) respectively. For the aforesaid distribution scheme, please refer to the announcement on profit distribution plan for 2019 issued by the Bank.

For matters in relation to dividend-related taxes and tax deduction, please refer to the relevant announcement on the implementation of dividend distribution issued by the Bank.

The Bank had no plan for converting capital reserve to share capital in the last three years. The table below sets out the dividend distribution of ordinary shares of the Bank for the last three years:

Item	2019	2018	2017
Distributed dividends per ten shares (before tax, in RMB yuan)	**2.102**	1.937	1.471
Cash dividends (before tax, in millions of RMB)	**18,283**	15,696	11,920
Net profit attributable to shareholders of the Bank in the consolidated statements (in millions of RMB)	**60,933**	52,311	47,683
Percentage of cash dividends[1](%)	**30%**	30%	25%

Note (1): Calculated by dividing cash dividends on ordinary shares (tax included) by net profit attributable to shareholders of the Bank for the period.

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".

Implementation of Cash Dividend Policy

The Bank's profit distribution policy focuses on delivering reasonable returns to investors, maintaining continuity and stability, and meanwhile taking into account the long-term interests of the Bank, the overall interests of all shareholders and the sustainable development of the Bank. The Bank may distribute dividends in cash or in shares, and priority will be given to cash dividend distribution. In principle, the Bank distributes its profits once a year. Subject to conditions, interim profits may be distributed by the Bank.

The formulation and implementation of the Bank's cash dividend policy accords with the provisions stipulated in the Bank's Articles of Association and the requirements provided in the resolutions of the Shareholders' General Meeting, the decision-making procedure and mechanism are complete and the dividend distribution standards and proportions are clear and explicit. Independent Non-executive Directors have diligently fulfilled their obligations, played their due roles, and expressed their opinions. Minority shareholders can fully express their opinions and appeals to completely safeguard their legitimate rights.

Reserves

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

Financial Summary

For the summary of operating results, assets and liabilities for the five years ended December 31, 2019, please refer to "Financial Highlights".

Donations

During the reporting period, the Bank made external donations (domestic) of RMB19,738,100.

Fixed Assets

For details of the changes in fixed assets of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 22 Property and equipment".

Subsidiaries

For details of the Bank's majority-owned subsidiaries during the reporting period, please refer to "Discussion and Analysis – Majority-owned Subsidiaries" and "Notes to the Consolidated Financial Statements – 21 Investment in subsidiaries".

Share Capital and Public Float

As of the end of the reporting period, the Bank's total share capital of ordinary shares amounted to 86,202,738,200 shares (including 19,856,167,000 H shares and 66,346,571,200 A shares). As of the Latest Practicable Date and based on publicly available information, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules.

Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before December 31, 2019.

Holders of A Shares

In accordance with the Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies (Cai Shui [2012] No. 85) and the Notice on Differentiated Individual Income Tax Policy for Stock Dividends and Bonuses of Listed Companies (Cai Shui [2015] No. 101) issued jointly by MOF, State Administration of Taxation of PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the transfer market, where the holding period is less than one month (inclusive), the dividends and bonuses shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends and bonuses shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, the dividends and bonuses shall not be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on dividends and bonuses obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

In accordance with the provisions of Article 26.2 of the Enterprise Income Tax Law of the People's Republic of China, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the Implementation Rules for Enterprise Income Tax Law of the People's Republic of China, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the Enterprise Income Tax Law of the People's Republic of China mean those investment proceeds obtained from direct investment of resident enterprises in other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and the Implementation Rules for the Enterprise Income Tax Law of the People's Republic of China, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

Holders of H Shares

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between Mainland China and Hong Kong and Macao. Accordingly, the Bank generally withholds 10% of the dividends to be distributed to the individual H share holders as individual income tax unless otherwise specified by relevant tax laws, regulations and agreements.

In accordance with the provisions of the Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation of PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

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

The taxation of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect shall be implemented in accordance with the requirements of the Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No. 81) and the Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) by the MOF, the State Administration of Taxation, and CSRC.

Offshore Preference Shareholders

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

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

Purchase, Sale or Redemption of the Bank’s Shares

During the reporting period, the Bank and its subsidiaries did not purchase, sell or redeem any of its listed shares.

Pre-emptive Rights

The Articles of Association of the Bank has no mandatory requirements in relation to pre-emptive rights. According to the Articles of Association, the Bank may increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing shareholders, placing new shares to the existing shareholders, converting capital reserve to share capital and other methods as permitted by laws, regulations and relevant authorities.

Equity-linked Agreement

The Bank issued non-public offshore preference shares in overseas markets with an aggregate amount of USD7.25 billion on September 27, 2017. As of the end of the reporting period, the Bank did not enter into or renew any other equity-linked agreements other than the above preference shares.

In accordance with the Regulation Governing Capital of Commercial Banks (Provisional) and the Administrative Measures on Pilot Program of Preference Shares, commercial banks shall formulate rules governing the mandatory conversion of preference shares into ordinary shares, namely, upon the occurrence of certain trigger events, commercial banks shall convert the preference shares into ordinary shares as stipulated in the contract. Trigger events include the following situations: the Bank's core tier 1 capital adequacy ratio drops to 5.125% or below; CBIRC determines that the Bank would become non-viable if there is no conversion or write-down of capital; or the relevant authorities determine that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. In accordance with relevant regulations, the Bank has formulated rules on trigger events for the mandatory conversion of preference shares into ordinary shares. Assuming that these trigger events occur and all the preference shares are required to be converted into ordinary shares at the initial conversion price, the number of offshore preference shares to be converted into ordinary H shares shall not exceed 11,658,840,579 ordinary H shares.

During the reporting period, there were no events that would trigger a mandatory conversion of the Bank's offshore preference shares into ordinary shares.

Major Customers

During the reporting period, the aggregate interest income and other operating income of the Bank's top five customers did not exceed 30% of the interest income and other operating income of the Bank for the year.

Material Relationship with Employees and Suppliers

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

For details on the Bank's relationship with its employees, please refer to 2019 Corporate Social Responsibility (Environmental, Social and Governance) Report of Postal Savings Bank of China published on the websites of Hong Kong Stock Exchange and the Bank.

Use of Proceeds from Fund-raising Activities

On November 28, 2019, the Bank had an IPO of 5,172,164,200 RMB ordinary shares and completed the listing at an offer price of RMB5.5 per share on the Main Board of SSE on December 10, 2019, with the total funds raised of RMB28,446.90 million. After deducting the issuance fee, the net proceeds raised totaled RMB28,000.55 million. The joint underwriters exercised the over-allotment option in full on January 8, 2020. Based on the offer price of RMB5.50 per share, the Bank issued an additional 775,824,000 shares on the basis of the initial issuance of 5,172,164,200 shares, raising a total additional proceeds of RMB4,267.03 million. Together with the proceeds raised from the initial public offering of A shares, the total proceeds raised amounted to RMB32,713.94 million, and after deducting the issuance fee, the net proceeds were approximately RMB32,205.98 million. The funds raised have been used to replenish the Bank's capital and consolidate the Bank's capital base to support the continuing growth of the Bank's business. The funds raised were used for the purposes as disclosed in offering prospectuses.

For the future planning of the use of proceeds disclosed in the public disclosure documents such as previous offering prospectuses and fund raising prospectuses issued by the Bank, its implementation progress conformed to the planning as described after verification and analysis.

Directors' and Supervisors' Interests in Contracts of Significance

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

Directors' and Supervisors' Interests in Competing Businesses

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

During the reporting period, the Bank did not grant any rights to acquire shares or debentures to any of its Directors or Supervisors, nor were any of such rights exercised by any of the Bank's Directors or Supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement which would enable the Directors and Supervisors to benefit from the acquisition of shares or debentures of the Bank or any other companies.

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

As of the end of the reporting period, none of the Directors or Supervisors of the Bank held any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the SFO) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Bank and 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. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Changes in Share Capital and Shareholdings of Shareholders – Interests and Short Positions Held by Substantial Shareholders and Other Persons".

Connected Transactions

During the reporting period, the Bank followed laws, regulations and regulatory requirements to promote the management of connected transactions. It refined management mechanism, improved approval and filing procedures, organized training and continued to cultivate compliance culture to further strengthen the management of connected transactions. During the reporting period, the Bank's connected transactions were in compliance with relevant laws and the overall interests of the Bank and its minority shareholders.

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

For the related party transactions defined under domestic and overseas laws and regulations, and accounting standards, please refer to "Notes to the Consolidated Financial Statements – 38 Relationship and transactions with related parties".

Remuneration of Directors, Supervisors and Senior Management

The remuneration of senior management of the Bank shall be deliberated on and approved by the Board of Directors. The remuneration of Directors of the Bank is submitted to the Shareholders' General Meeting for further deliberation and approval after it is deliberated on and approved by the Board of Directors. The remuneration of Supervisors is submitted to the Shareholders' General Meeting for further deliberation and approval after it is deliberated on and approved by the Board of Supervisors. The annual remuneration of Directors, Supervisors and senior management will be determined according to their annual assessment results. For details of the remuneration, please refer to "Directors, Supervisors and Senior Management". The Bank did not formulate any share incentive plan for the Bank's Directors, Supervisors and senior management.

Permitted Indemnity Provision

According to the Articles of Association, unless the Directors, Supervisors or senior management members are proved to have failed in performing their duties and responsibilities honestly or in good faith, the Bank will bear the civil liability incurred by the Directors, Supervisors and senior management members during their terms of office to the greatest extent permitted by the laws and administrative regulations or so far as it is not prohibited by the laws and administrative regulations. The Bank has maintained liability insurance for its Directors, Supervisors and senior management members for the potential liabilities that may arise from their discharge of duties.

Financial, Business and Family Relations among Directors

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

Employee Benefit Plans

For details of employee benefit plans of the Bank, please refer to "Notes to the Consolidated Financial Statements – 32(1) Employee benefits payable".

Management Contracts

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

Auditors

The auditor's report of the Bank for 2019, prepared in accordance with the PRC GAAP and IFRSs, has been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers according to the Auditing Standards of China and International Standards on Auditing respectively, both of which are unqualified audit opinions.

Environmental Policy

The Bank strictly observed relevant laws and regulations on environmental protection in China and there were no major environmental issues during the reporting period. The Bank actively advocated environmental protection in the course of business and put low-carbon and green office into practice. The Bank also encouraged paperless office and called for saving water and using office supplies sparingly. With these efforts, the Bank contributed to resource conservation for the company and society and to the building of an environmentally friendly society.

Compliance with Important Laws, Regulations and Rules

During the reporting period, the Bank complied with the laws, regulations and regulatory requirements of the place where it operates in all material respects. During the reporting period, there was no investigation and circulated notice of criticism from CSRC or public denunciation from the stock exchanges, in relation to the Bank or the Bank's Directors, Supervisors and senior management, or penalties from other regulatory authorities which would have significant impact on the Bank's operations.

Significant Events

For other matters significant to the Bank for the knowledge of shareholders, please refer to "Significant Events".

Protection of Consumer Rights and Interests

In protecting consumer rights and interests, the Bank closely followed changes in customers' demands, proactively adapted to a new normal in economic development, incorporated consumer protection into corporate governance, corporate culture and business development, and made all-round efforts to formulate consumer protection strategies with respect to top-down design, resource input, policies, mechanism implementation, and dispute resolution, thus promoting consumer protection to a new level. The Bank received the honorary titles of Excellent Organizer of Joint Financial Education and Publicity Campaign from the CBIRC Financial Rights Protection Bureau and Excellent Organizer in the "3.15" Consumer Rights Protection Education and Publicity Week of the Banking Industry and Insurance Industry from the CBIRC Financial Rights Protection Bureau.

During the reporting period, the Bank continued to improve consumer protection covering the whole process of sale including pre-sale, in-process and after-sale, strengthened source management, and gave top priority to providing the best services. It continued to improve policies and mechanisms, made its operations and services more procedure-based, strengthened customer complaint management, improved product information disclosure, gave extra attention to the protection of people with special needs, and took a people-centered development approach. With these efforts, the Bank has effectively protected the legitimate rights and interests of financial consumers. In order to fulfill its social responsibilities and ensure financial safety of its customers, the Bank strengthened financial knowledge promotion and education, made full use of its strengths as it has a large number of outlets in many places, carried out regular financial consumer education and financial knowledge promotion with long-lasting effect, and raised public awareness about the importance of using financial products and services properly to prevent financial risks.

By Order of the Board of Directors
Zhang Jinliang
Chairman
March 25, 2020

Report of the Board of Supervisors

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank, in strict accordance with laws, regulations, regulatory requirements and the Articles of Association of the Bank, fully played its role in supervision on duty performance, risk management, finance and internal control, continuously promoted the improvement of corporate governance mechanisms, and proactively safeguarded legitimate rights and interests of the Bank, shareholders, employees, creditors and other stakeholders, to ensure stable operation as well as reform and development of the Bank. All Supervisors performed their duties diligently, attended meetings on corporate governance in person, had access to data and materials, reviewed and heard reports, actively participated in supervision and research studies, and provided valuable suggestions for development of the Bank, and their time of duty performance of the Bank was in compliance with the regulatory requirements.

Supervision on Duty Performance

The Board of Supervisors supervised and evaluated duty performance continuously, with the focus on whether the Board of Directors, the senior management and their members performed their duties according to laws and regulations and whether they fully implemented national macro policies, regulatory opinions and resolutions of the Shareholders' General Meeting. It actively promoted the deployment of major national policies and pursuit of key strategies throughout the Bank, and reinforced responsibilities of corporate governance entities. According to the latest regulatory requirements, the Board of Supervisors improved the annual duty performance assessment plan for the Board of Directors, the senior management and their members, achieved comprehensive coverage of regulatory indicators and assessment participants including the Board of Directors, the Board of Supervisor, the senior management, the Head Office and tier-one branches. It also conducted annual self-evaluation on duty performance within the Board of Supervisors and for its members to effectively strengthen self-supervision and continuously improve supervisory competence of Supervisors. In addition, it leveraged the application of assessment results, submitted assessment basis and results and reported to the Shareholders' General Meeting in strict accordance with regulatory requirements, provided Directors and senior management members with personal assessment feedback and improvement suggestions on duty performance, intensified incentives and constraints of the assessment, and practically played the role of supervision and checks and balances.

Supervision on Risk Management

The Board of Supervisors earnestly performed its responsibilities for supervision on risk management, continuously oversaw the Bank's risk management strategies, implementation of policies and risks in key areas, and paid close attention to the construction and implementation of an "all aspects, whole process and entire staff" comprehensive risk management system. With the focus on the thorough implementation of the new development concepts, building of a modern economic system and other areas, the Board of Supervisors conducted supervision on the Bank's support for rural revitalization strategies and development of private enterprises, and urged the Bank to implement the Party Central Committee's decisions and arrangements in a better manner, so as to enhance the Bank's ability to serve the real economy and prevent financial risks. It regularly reviewed and heard reports on comprehensive risk management, liquidity risk management and stress testing, paid close attention to and assessed the Bank's capital adequacy ratio, leverage ratio, liquidity risk and other regulatory indicators on a quarterly basis. Upholding the problem-oriented principle, the Board of Supervisors continued to strengthen risk supervision in key areas such as credit business, non-credit business and information technology, and launched thematic supervision on retail credit business, credit card business, PSBC consumer loans, interbank business with small and medium financial institutions, custody business and operation of key systems, encourage prevention and diffusion of potential risks. Pursuant to the Bank's overall requirements and key tasks for transformation and development, special researches on economic capital management, outlet management, and Suzhou Branch Innovation Lab were carried out to promote acceleration of the transformation towards "specialized, comprehensive, light, intelligent and intensive" development.

Supervision on Finance

The Board of Supervisors effectively performed its duty of supervision on the making and execution of significant financial decisions, and reviewed proposals including the Bank's regular reports, annual final account plans, profit distribution plans and the engagement of annual accounting firm. It strengthened communication with external auditors and supervised the independence and effectiveness of external audit. It closely monitored the Bank's financial operation and related party transactions, and supervised and urged the Board of Directors and the senior management to enhance management, improved the quality and efficiency of financial management, and facilitated the steady development of the Bank. In addition, it conducted special supervision on deposit business, promoted the optimization of the maturity structure of deposits, and facilitated the transformation of deposit business. It carried out supervision on tax-related statistics to drive the improvement of refined financial management.

Supervision on Internal Control

The Board of Supervisors conscientiously performed its duty of supervision on internal control, and kept a close watch on the effectiveness of internal control system and the compliance of the Bank's operations with laws and regulations. It reviewed the Bank's internal control evaluation report and issued independent opinions on a regular basis, and supervised the Board of Directors, the senior management and their members to improve internal control system and perform internal control duties. It emphasized the Bank's internal control system construction, compliance risk management, anti-money laundering and consumer protection, and actively propel the building of internal control system. According to regulatory requirements, the Board of Supervisors effectively cemented supervision on key areas and weak links in terms of internal control, provided supervision tips for key links in settlement and collection of non-performing assets, conducted special researches on retail credit authorization, and encouraged the Board of Directors and the senior management to continuously reinforce compliance management in key areas to effectively prevent operational risk, solidly promote supervision feedback and problem rectification, and enhance internal control on an on-going basis.

Self-building

The Board of Supervisors coordinated and pushed forward the addition and selection of External Supervisors and the re-election of Supervisors at the expiration of their terms of office, adjusted composition of special committees and completed the change of supervisors, to ensure the orderly transition in the organizational structure and effective operation of the Board of Supervisors. In addition to continuously carrying out daily supervision and monitoring, the Board of Supervisors persistently executed the regular reporting mechanism on finance, risk, and internal control supervision, and timely analyzed and prompted the risks or sensitive matters found during the supervision, effectively playing the role of supervision and warning. It made arrangement for Supervisors to attend the special training on corporate governance in Singapore, for the purpose of constantly improving Supervisors' professional competence for the performance of duties. By giving full play to the academic expertise of Supervisors, it actively conducted subject researches, developed the Research Report on PSBC's Support for Making China Strong in Manufacturing, and built an ever-learning and innovative organization.

Work of External Supervisors

During the reporting period, External Supervisors of the Bank acted in strict compliance with the Articles of Association, performed their duties diligently, discussed in the meeting in due course, and fully studied and considered all proposals. They actively participated in all supervision and survey activities carried out by the Board of Supervisors, attended meetings of the Board of Supervisors and special committees, and issued professional, rigorous and independent opinions and viewpoints, playing an active role in improving the corporate governance and promoting the management capability of the Bank. During the reporting period, time for each External Supervisor to engage in the Bank's supervision was in compliance with the requirements of regulatory authority.

Independent Opinions Issued by the Board of Supervisors

Compliant Operation

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

Annual Report

The preparation and review procedures of this report were in compliance with laws, regulations and regulatory provisions, and contents of this report reflected the actual conditions of the Bank truly, accurately and completely.

Use of Proceeds from Fund-raising Activities

During the reporting period, the use of proceeds from the Bank's fund-raising activities was in line with the purposes as disclosed in the offering prospectuses of the Bank.

Acquisition and Sale of Assets

During the reporting period, there was no insider dealing, or any other act that impaired the shareholders' interests or resulted in the loss of the Bank's assets in the process of the Bank's acquisition or sale of assets.

Connected Transactions

During the reporting period, the connected transactions of the Bank were conducted based on business principles. The Board of Supervisors did not find any act that impaired the interests of the Bank. The approval, voting, disclosure and implementation of connected transactions complied with applicable laws and regulations and the Articles of Association.

Implementation of Resolutions Passed at the Shareholders' General Meeting

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

Internal Control

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

Implementation of Information Disclosure Management Rules

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

Corporate Social Responsibilities

During the reporting period, the Bank earnestly performed its social responsibilities. The Board of Supervisors reviewed the Bank's corporate social responsibility (environmental, social and governance) report and had no objection to the report.

Performance Evaluation of Directors, Supervisors and Senior Management

All the Directors, Supervisors and senior management members who participated in the 2019 performance assessment were evaluated as competent.

Save as disclosed above, the Board of Supervisors had no objection to other supervision issues during the reporting period.

By Order of the Board of Supervisors
Chen Yuejun
Chairman of the Board of Supervisors
March 25, 2020

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

Connected Transactions with China Post Group

As of December 31, 2019, China Post Group directly held approximately 64.95% of the total issued equity shares of the Bank and held approximately 0.01% of the total issued equity shares of the Bank through China Post Securities Co., Ltd., and was the Bank's controlling shareholder. According to the Hong Kong Listing Rules, China Post Group and its associates are the Bank's related parties, the following transactions constitute the connected transactions of the Bank under the Hong Kong Listing Rules. During the reporting period, the Bank fully complied with the relevant rules for connected transactions under the Hong Kong Listing Rules, and entered into the following transactions with China Post Group and its associates in the ordinary course of business on normal or better business terms.

Agency Banking Businesses

On September 7, 2016, with an aim to leverage on the respective strengths of China Post Group and the Bank and to promote the long-term and stable growth of the Bank's businesses, the Bank and China Post Group entered into the Agency Banking Businesses Framework Agreement in relation to the Bank's entrustment of China Post Group to conduct part of the Bank's commercial banking businesses through agency outlets according to the requirements as stipulated in the Notice of the State Council on Issuing the Plan for Reforming the Postal System (Guo Fa [2005] No. 27) and the Notice of the China Banking Regulatory Commission on Issuing the Measures for the Administration of Agency Business Institutions of the Postal Savings Bank of China (Revision) (Yin Jian Fa [2015] No. 49). The Agency Banking Businesses Framework Agreement came into effect from September 7, 2016, with an indefinite term provided that the regulatory requirements are met in the place where the Bank's shares are listed or relevant requirements are exempted.

In accordance with the Notice of the State Council on Issuing the Plan for Reforming the Postal System (Guo Fa [2005] No. 27) and the Notice of the China Banking Regulatory Commission on Issuing the Measures for the Administration of Agency Business Institutions of the Postal Savings Bank of China (Revision) (Yin Jian Fa [2015] No. 49), both the Bank and China Post Group are required to follow the exclusive and indefinite business management model consisting of both directly-operated outlets and agency outlets, and neither the Bank nor China Post Group is entitled to terminate the agency arrangement. In the event that there is any change in national policies in the future permitting the termination of the agency arrangement between the Bank and China Post Group, following friendly negotiations between the Bank and China Post Group, where the Bank terminates the Agency Banking Businesses Framework Agreement, all Independent Directors of the Bank shall issue written opinions and resolutions shall be made by the Board of Directors, and the Bank shall follow the filing and approval procedures (if required) under relevant laws and regulations.

When the Bank listed its H shares in 2016 and A shares in 2019, due to the special nature of the agency banking businesses, it was not feasible to project the annual cap. According to the relevant provisions of the Hong Kong Listing Rules, requirements to keep the term of the agreement within three years and to project a cap amount were exempted. Meanwhile, pursuant to the relevant requirements of the SSE Listing Rules and the Guidance issued on the Implementation of Connected Transactions by Listed Companies, approval and disclosure of connected transactions were exempted.

Agency Deposit-taking Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides the Bank with agency Renminbi personal deposit-taking business and agency foreign currency personal deposit-taking business.

Agency Renminbi Deposit-taking Business

The Bank calculates the deposit agency fees for the agency Renminbi deposit-taking business paid to China Post Group according to the principle of "Fixed Rate, Scaled Fees Based on Deposit Type", i.e., different fee rates are applicable to deposits with different maturities (the "Scaled Fee Rates"), and the actual weighted average deposit agency fee rate (the "Composite Rate") is calculated based on the Scaled Fee Rates and the daily average balance of agency deposits. The cap on Composite Rate shall be at 1.50%.

The formula for calculating the deposit agency fees of the Bank is:

Monthly deposit agency fees at an outlet= Σ (aggregate amount of deposits for each type of deposits at the outlet for the month × the respective deposit agency fee rate of the relevant type of deposit/365) – aggregate cash (including that in transit) for the month at the relevant outlet × 1.50%/365.

According to aforesaid formula calculates the actual amount of deposit agency fees payable by the Bank with the deduction of the deposit agency fees corresponding to the cash at the relevant outlet, comprising the reserves held by agency outlets and the agency deposits in transit.

During the reporting period, the aggregate amount of the deposit agency fees the Bank paid for the agency Renminbi deposit-taking business was RMB78,805 million, and the Composite Rate was 1.32%, lower than the agreed cap on Composite Rate of 1.50%.

The table below sets forth the average daily balances, Scaled Fee Rates and the corresponding deposit agency fees for each type of deposits paid to China Post Group in respect of the agency Renminbi deposit-taking business of the Bank during the reporting period:

In millions of RMB, except for percentages

	For the year ended December 31, 2019		
Type	Average daily balance	Scaled Fee Rates (%)	Deposit agency fees
Demand deposits	1,759,950	2.30	40,479
Time-demand optional deposits	15,676	1.50	235
Call deposits	27,164	1.70	462
3-month time deposits	126,435	1.25	1,580
6-month time deposits	163,139	1.15	1,876
1-year time deposits	2,855,948	1.08	30,844
2-year time deposits	278,743	0.50	1,394
3-year time deposits	717,977	0.30	2,154
5-year time deposits	9,041	0.20	18
Balance of daily aggregate cash (including cash in transit)	15,813	1.50	(237)(1)
Total	5,954,073	1.32	78,805

Note (1): Pursuant to the Agency Banking Businesses Framework Agreement, 1.50% will be applied for calculating the deposit agency fee corresponding to cash, which is to be deducted from the total deposit agency fee payable.

The adjustment of the pricing of deposit agency fees is divided into active adjustment and passive adjustment. The Group and the Bank shall proactively adjust the Scaled Fee Rates according to factors such as actual operation demands. Meanwhile, according to the agreement of both parties, a passive adjustment mechanism will be triggered when there is a significant change in the interest rate environment in the future. Since the signing of the Agency Banking Businesses Framework Agreement on September 7, 2016, the Bank and China Post Group have never actively adjusted the Scaled Fee Rates of deposit agency fees, and there were no significant changes in the interest rate environment that triggered the passive adjustment of deposit agency fees.

To effectively manage the interest payment cost and maintain a stable growth in the size of deposits, the Bank launched relevant mechanisms to boost the increase of deposits, including the arrangements of cost sharing for floating interest rates of deposits and incentives for deposits. The Bank and China Post Group have agreed that the amount of deposit incentive shall not be higher than the payment by China Post Group under the cost sharing mechanism for floating interest rates of deposits in any circumstances. During the reporting period, the net settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-2,652 million[1].

1 Pursuant to the agreement between the Bank and China Postal Group, the deposit agency fee and the settlement amount of the relevant mechanism to promote deposit development were settled on a net basis, and the deposit agency fee and other amounts totaled RMB76,153 million in the year of 2019.

Agency Foreign Currency Deposit-taking Business

As the agency fees for foreign currency deposit-taking business were insignificant, they are calculated in line with the market practice, instead of according to the formula of “Fixed Rate, Scaled Fees Based on Deposit Type”:

For short-term foreign currency deposits (with a term of less than 12 months), the Bank calculated the deposit agency fee rate by deducting the Composite Rate of interests payable to customers on the foreign currency deposits with corresponding term from the composite interest rate calculated based on the interest rate of foreign currency with corresponding term on the PRC interbank foreign currency market quoted on Bloomberg. For long-term foreign currency deposits (with a term of 12 months or more), the Bank calculated the deposit agency fee rate by deducting the Composite Rate of interests payable to customers on the foreign currency deposits with corresponding term from the composite interest rate calculated based on the interest rate of foreign currency with corresponding term in the global interest rate swap market quoted on Bloomberg (adjusted by the difference between overnight interest rate on the PRC interbank foreign exchange market and London Interbank Offered Rate).

During the reporting period, the amount of deposit agency fees for the Bank’s foreign currency deposits was insignificant.

Agency Intermediary Banking Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides agency intermediary banking business to the Bank via agency outlets, which mainly includes settlement services, agency financial services and other services. The settlement services primarily include cross-region transactions, cross-bank transactions, personal remittance, international remittance, short message services (SMS) and other settlement businesses, while agency financial services and other services primarily include agency distribution of wealth management products, agency sales of funds and government bonds, agency sales of assets management plans, agency collection and payment services and other services.

Agency intermediary banking business is one of the core services the Bank provides to its customers. Most customers in agency outlets use their intermediary banking services. Comprehensive services including intermediary banking services available at agency outlets help attract customer deposits, enhance their loyalty, promote the cross-sales among business lines, and thereby are significant in boosting the Bank’s development and expansion. Since the Bank is the principal of the agency intermediary banking services and pursuant to the requirement of accounting standards, revenue from the agency intermediary banking business shall initially be recognized by the Bank, and the fees and commissions will then be paid to postal enterprises following the principle of “fee payable to the entity providing the services”.

During the reporting period, fees payable by the Bank for the agency intermediary banking business were RMB12,213 million, of which fees payable for the settlement services provided by agency outlets were RMB8,242 million, and fees payable for the agency financial services and other services by agency outlets were RMB3,971 million.

Land Use Rights and Properties Leasing

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement entered into between the Bank and China Post Group on September 2, 2016 (the "Land Use Rights and Properties Leasing Framework Agreement"), the Bank and China Post Group and its associates leased certain of their properties, ancillary equipment and other assets to each other in the form of operating leases in the ordinary course of business. If neither party to the agreement raises any objections and regulatory requirements are met in the place where the Bank's shares are listed, the Land Use Rights and Properties Leasing Framework Agreement will be automatically renewed for a further term of three years upon expiry. The extension period is from January 1, 2019 to December 31, 2021. For details of the renewal of the continuing connected transaction, please refer to the Bank's announcement titled Renewal of Continuing Connected Transactions and Proposed Annual Caps from 2019 to 2021 dated October 30, 2018.

During the reporting period, China Post Group and its associates rented certain of the Bank's properties and ancillary equipment for business or office purposes, the aggregate amount of the rental payments for the properties and ancillary equipment leased by China Post Group to the Bank was RMB85 million. China Post Group agreed to lease certain assets including land use rights, properties and ancillary equipment to the Bank. The rental of the above-mentioned properties and ancillary equipment by the Bank was mainly for its outlets or office purposes. The aggregate amount of the rental payments to China Post Group and its associates for the properties and ancillary equipment leased by the Bank was RMB1,008 million.

During the reporting period, the proportion of the leasing transaction amount provided to related parties by the Bank to the operating income and the proportion of the leasing transaction amount received by the Bank from related parties to the operating expenses were quite small. There was no significant difference between the price of the relevant leases and the market price of similar assets in the same region or adjacent regions.

Comprehensive Services and Other Transactions

Pursuant to the Comprehensive Services Framework Agreement between China Post Group Corporation and Postal Savings Bank of China Co., Ltd. entered into between the Bank and China Post Group on September 6, 2016 (the "Comprehensive Services Framework Agreement"), the Bank and China Post Group and its associates provide a number of comprehensive services to each other and conduct other transactions. If neither party to the agreement raises any objections and regulatory requirements are met in the place where the Bank's shares are listed, the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry. The extension period is from January 1, 2019 to December 31, 2021. For details of the renewal of the continuing connected transaction, please refer to the Bank's announcement titled Renewal of Continuing Connected Transactions and Proposed Annual Caps from 2019 to 2021 dated October 30, 2018.

Rendering other comprehensive services and selling general business materials to China Post Group and its associates

The comprehensive services provided by the Bank to related parties are mainly labour services and agency business services, among which, labour services include cash escort and vaults, equipment maintenance, and other services, and agency business services include bancassurance and distribution of fund products. The general business materials sold from the Bank to the related parties are mainly printed materials such as brochures used in the ordinary and usual course of business. During the reporting period, the total revenue from the comprehensive services and sales of general business materials provided by the Bank to China Post Group and its associates was RMB384 million.

The comprehensive services provided by and business supplies and other goods sold by the Bank to the related parties are priced after arm's length negotiations between parties with reference to terms and market prices comparable to those provided by independent third parties.

Receiving comprehensive services and purchasing products from China Post Group and its associates

The comprehensive services received by the Bank from related parties are mainly labour services and marketing services, among which, labour services include cash escort and vaults, equipment maintenance, advertising, mail and other services, and marketing services are mainly for deposits and other businesses. The goods purchased by the Bank from the related parties are mainly philatelic items and promotional supplies other than philatelic items, and other banking related materials. During the reporting period, the aggregate amount paid for the comprehensive services provided by and purchasing products from China Post Group and its associates by the Bank was RMB1,746 million.

The goods purchased from or comprehensive services provided by the related parties to the Bank are determined after arm's length negotiations between parties with reference to terms and market prices comparable to those purchased by or provided to independent third parties from the related parties.

Trademark Licensing

On September 5, 2016, the Bank entered into the Trademark Licensing Agreement with China Post Group. The agreement is for a term of 20 years commencing from the date of execution. During the term of the Trademark Licensing Agreement, China Post Group licenses the Bank to use trademarks under the agreement, and the Bank is not required to pay any consideration.

Disclosure and Consideration Requirements for Relevant Connected Transactions

The agency banking businesses are connected transactions as defined in the Hong Kong Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Hong Kong Stock Exchange has granted the Bank, in respect of the Agency Banking Businesses Framework Agreement, a waiver from strict compliance with the requirement to set a term of no more than three years under Rule 14A.52 of the Hong Kong Listing Rules; and for agency deposit-taking business and agency intermediary banking business, a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Hong Kong Listing Rules.

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

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

During the reporting period, the actual amounts of the above continuing connected transactions did not exceed the annual caps.

Save as the above-mentioned continuing connected transactions, the Bank has no other connected transactions that are required to be disclosed pursuant to the Hong Kong Listing Rules and the SSE Listing Rules.

Confirmation of Connected Transactions

Confirmation from Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the above continuing connected transactions in accordance with requirements of the Hong Kong Listing Rules and confirmed that the above continuing connected transactions were entered into:

- in the ordinary and usual course of business of the Bank;
- on normal commercial terms or better; and
- according to the agreement governing them, on terms that are fair and reasonable and in the interests of the Bank's shareholders as a whole.

The Independent Non-executive Directors also confirmed that:

- the methods and procedures established by the Bank were sufficient to ensure that the transactions had been conducted on normal commercial terms and brought no harm to the interests of the Bank and minority shareholders; and
- the Bank had established appropriate management procedures.

Confirmation from Auditor

The Bank has appointed PricewaterhouseCoopers to report continuing connected transactions in accordance with requirements of the Hong Kong Listing Rules. PricewaterhouseCoopers has written to the Board of Directors to confirm that it had not noticed anything that could make them consider that the continuing connected transactions:

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

Implementation of the Management System for Connected Transactions

During the reporting period, the Bank established a sound management system for connected transactions, improved the operating mechanism for connected transactions and enhanced the management of connected transactions in compliance with the regulatory requirements of CBIRC, CSRC, Hong Kong Stock Exchange and SSE and pursuant to the Measures for the Administration of Related Party Transactions of Postal Savings Bank of China (2019 Revision). First, after studying relevant regulatory requirements, the Bank established the identification standards for related parties, and prepared and constantly updated the list of related parties of the Bank. Second, the Bank made efforts to establish the management and organization system and operating mechanism for connected transactions with "scientific management and effective control". In addition, it further improved the process for the identification and reporting of related parties and the examination, approval, filing and reporting of connected transactions, ensuring the effective control of the risks of connected transactions. Third, the Bank continued the efforts to establish the management system for connected transactions, fully reviewed the connected transactions of the Bank and promoted the IT application to the management of connected transactions.

For more information on the operation of the Related Party Transactions Control Committee of the Board of Directors during the reporting period, please refer to "Corporate Governance".

For more information on related parties and transactions with related parties, please refer to "Notes to the Consolidated Financial Statements – 38 Relationship and transactions with related parties".

Significant Events

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 December 31, 2019, 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 aggregate claim amount was approximately RMB1,567 million. Accruals in respect of these matters have been fully established, and the Bank considers that these pending cases will not have any material adverse impact on the business, financial position or operating results of the Bank.

Major Asset Acquisition, Disposal and Merger

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

Significant Contracts and Their Performance

Material Custody, Subcontracting and Leasing

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

Material Guarantees

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

Specific Explanations and Independent Opinions in Relation to the External Guarantees of the Company issued by the Independent Non-executive Directors of Postal Savings Bank of China

In accordance with the Circular Concerning Several Issues on Regulating Fund Transfers between Listed Companies and Their Related Parties and External Guarantee of Listed Companies issued by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council, and the relevant regulations of the SSE, the Independent Non-executive Directors of Postal Savings Bank of China Co., Ltd. (hereinafter referred to as the "Bank"), based on the principles of impartiality, fairness and objectivity, hereby express the specific explanations and opinions in relation to the external guarantees of the Bank as follows:

Upon verification, the Bank carried out external guarantee business mainly by issuing letters of guarantee, which was one of the regular banking businesses within the scope of the Bank's daily operation approved by the People's Bank of China and the CBIRC. As of December 31, 2019, the balance of guarantees issued in the letters of guarantee by the Bank was RMB20,776 million.

The Bank attached great importance to the risk management of the external guarantee business, strictly regulated the credit standard of guaranteed companies, the operation process and the approval procedure of the guarantee business, and accordingly carried out relevant business. In our opinion, the risk control of the Bank's guarantee business is effective, and there is no cases of illegal external guarantees.

Independent Non-executive Directors of Postal Savings Bank of China Co., Ltd.
Fu Tingmei, Wen Tiejun, Chung Shui Ming Timpson, Hu Xiang, Pan Yingli

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

During the reporting period, no such material matters concerning entrusting other persons for cash management or entrusted loans occurred in the Bank.

Credibility

During the reporting period, there were no cases in which the Bank and its controlling shareholders failed to perform the effective judgment of the court in major litigation cases, and there were no cases in which the debts of a relatively large amount were due and unpaid.

Appropriation of Funds by Controlling Shareholders and Other Related Parties

During the reporting period, there was no appropriation of funds by controlling shareholders and other related parties. The auditor has issued the 2019 Special Explanation about Appropriation of Funds by Controlling Shareholders and Other Related Parties of Postal Savings Bank of China Co., Ltd.

Fulfillment of the Commitments

Undertakings during or carried forward to the reporting period by the de facto controller, shareholders, related parties, acquirers of the Bank, companies and other relevant parties are as follows:

Commitment background	Commitment type	Commitment by	Summary of the commitment	Time and term of the commitment	Is there a term for fulfilment	Whether timely and strictly fulfilled
Commitments in relation to initial public offering	Lock up of shares	China Post Group	Commitments in relation to the term of shareholding of shareholders	36 months since the date of A share listing	Yes	Yes
		China Life Insurance, China Telecommunications, Ant Financial, Shenzhen Tencent	Commitments in relation to the term of shareholding of shareholders	12 months since the date of A share listing	Yes	Yes
	Others	China Post Group	Commitments in relation to shareholders' intention to hold shares and intention to reduce their holdings	Long-term	Yes	Yes
		China Post Group	Measures in relation to stabilizing the share price	3 years since the date of A share listing	Yes	Yes
		Directors and senior management of the Bank	Measures in relation to stabilizing the share price	3 years since the date of A share listing	Yes	Yes
		The Bank	Measures in relation to stabilizing the share price	3 years since the date of A share listing	Yes	Yes
		China Post Group	Commitments in relation to the contents of the prospectus in the Bank's prospectus	Long-term	Yes	Yes
		Directors, Supervisors and senior management of the Bank	Commitments in relation to the contents of the prospectus in the Bank's prospectus	Long-term	Yes	Yes
		The Bank	Commitments in relation to the contents of the prospectus in the Bank's prospectus	Long-term	Yes	Yes
		Directors and senior management of the Bank	Commitments to take remedial measures for the dilution impact on immediate return	Long-term	Yes	Yes
		The Bank	Commitments to take remedial measures for the dilution impact on immediate return	Long-term	Yes	Yes
	Resolving horizontal competition amongst peers	China Post Group	Commitment in relation to avoiding horizontal competition amongst peers	Long-term	Yes	Yes
	Resolving defective title of lands and other items	China Post Group	Letter of confirmation on matters in relation to land and real estate injected into Postal Savings Bank of China Co., Ltd.	Long-term	Yes	Yes
	Resolving connected transactions	China Post Group	Commitment in relation to decreasing and standardizing connected transactions	Long-term	Yes	Yes

Pledge of Assets

For details relating to the pledge of assets of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 40.5 Collateral".

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

During the reporting period, neither the Bank nor any of its Directors, Supervisors, senior management members or controlling shareholder was subject to any investigation, compulsory measures or accusation of criminal responsibilities by relevant authorities or any investigation, administrative punishment or regulatory measures by CSRC, or had material administrative punishment imposed on them by other administrative authorities, or were publicly reprimanded by any stock exchange.

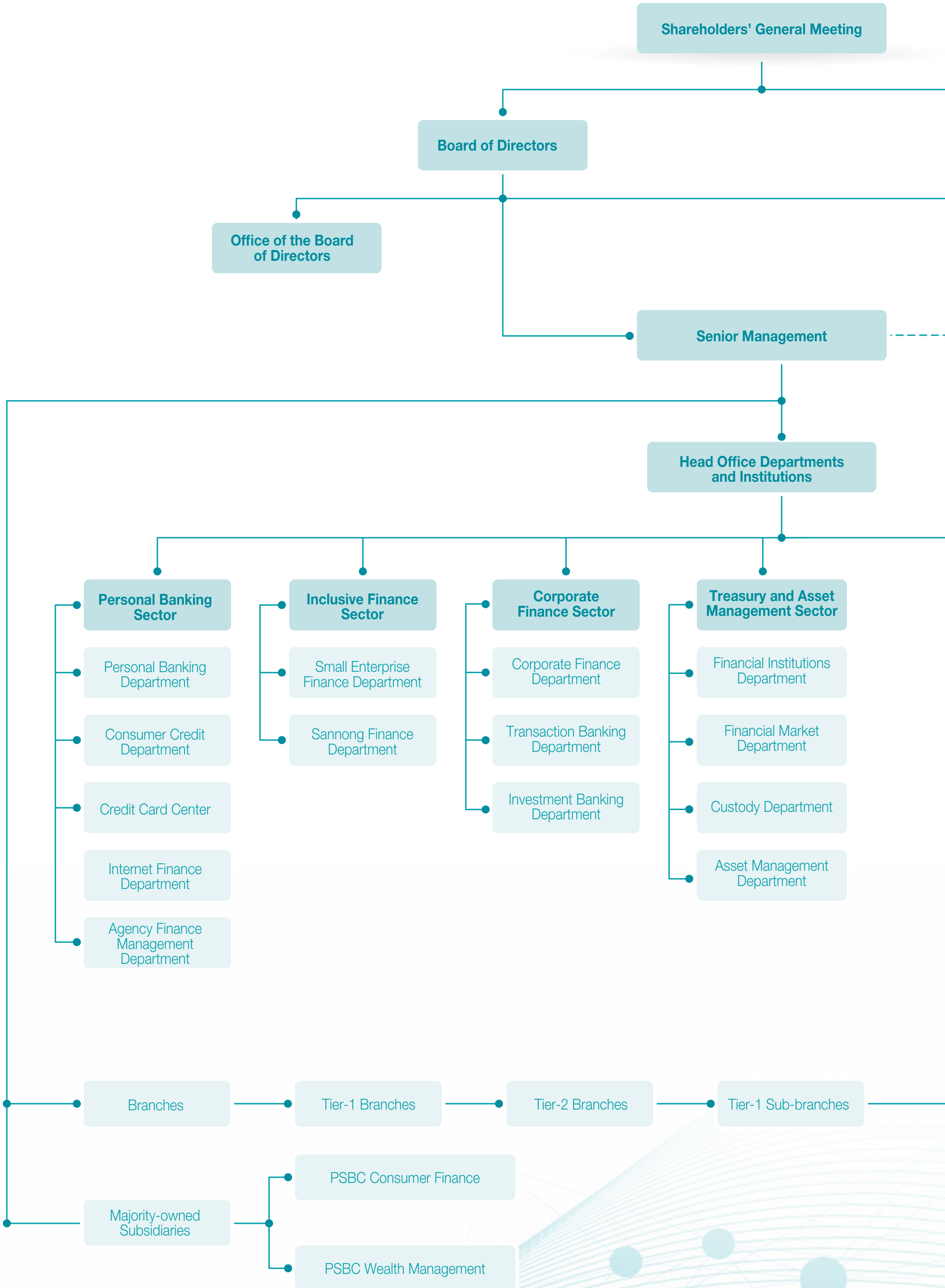
Targeted Poverty Alleviation by the Bank

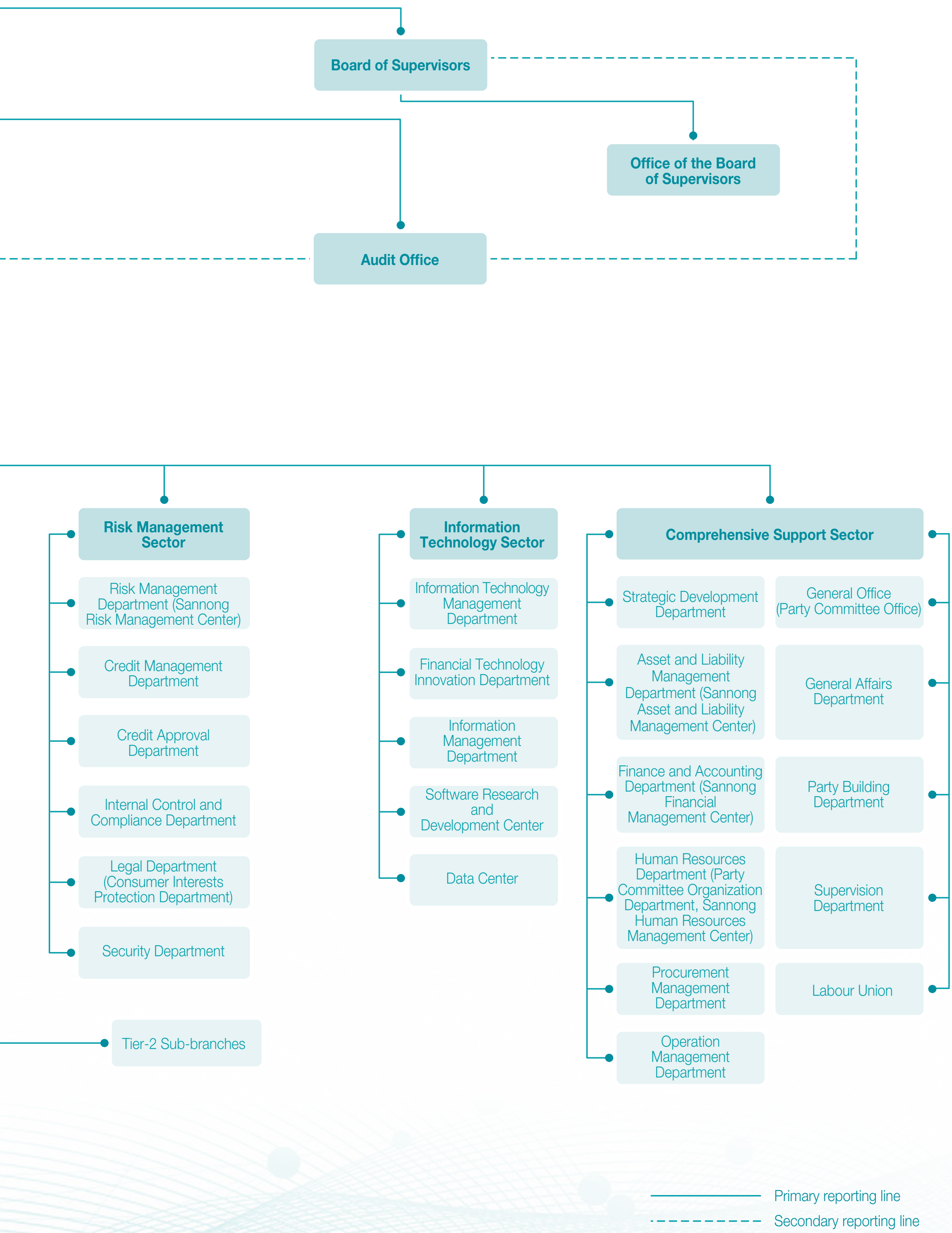
For details on the Bank's targeted poverty alleviation work, please refer to "Discussion and Analysis – Inclusive Finance".

Other Significant Events

In December 2018, the Board of Directors of the Bank deliberated on and approved the Proposal of the Establishment of Asset and Wealth Management Subsidiary, and proposed to invest no more than RMB8 billion to establish a wholly-owned subsidiary, namely PSBC Wealth Management. In May 2019, CBIRC approved the establishment of PSBC Wealth Management. In December 2019, CBIRC approved the commencement of operation of PSBC Wealth Management. For details, please refer to the announcements of the Bank published on Hong Kong Stock Exchange on December 7, 2018, May 29, 2019 and December 4, 2019. Please refer to "Discussion and Analysis – Majority-owned Subsidiaries" for relevant business development.

Organizational Structure





Board of Supervisors
Office of the Board of Supervisors
Audit Office
Risk Management Sector
Risk Management Department (Sannong Risk Management Center)
Credit Management Department
Credit Approval Department
Internal Control and Compliance Department
Legal Department (Consumer Interests Protection Department)
Security Department
Tier-2 Sub-branches
Information Technology Sector
Information Technology Management Department
Financial Technology Innovation Department
Information Management Department
Software Research and Development Center
Data Center
Comprehensive Support Sector
Strategic Development Department
General Office (Party Committee Office)
Asset and Liability Management Department (Sannong Asset and Liability Management Center)
General Affairs Department
Finance and Accounting Department (Sannong Financial Management Center)
Party Building Department
Human Resources Department (Party Committee Organization Department, Sannong Human Resources Management Center)
Supervision Department
Procurement Management Department
Labour Union
Operation Management Department
Primary reporting line
Secondary reporting line

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Postal Savings Bank of China Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 203 to 423, which comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost

- Agency Banking Transactions with China Post Group Co., Ltd.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost Refer to Note 2.9(3) to the Consolidated Financial Statements "Impairment of financial instruments" in significant accounting policies, Note 3.1 "Measurement of the expected credit loss allowance" in critical accounting estimates and judgements in applying accounting policies, Note 19 "Loans and advances to customers", Note 20.4 "Financial assets at amortized cost" in investments instruments and Note 25 "Movements of allowance for impairment losses". As at December 31, 2019, the Group's gross loans and advances to customers amounted to RMB4,974.19 billion, and a loss allowance of RMB166.85 billion was recognized in the Group's consolidated statement of financial position. Other debt instruments measured at amortized cost amounted to RMB72.23 billion, and the impairment losses on other debt instruments recognized in the Group's consolidated statement of financial position amounted to RMB21.15 billion.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers and other instruments measured at amortized cost, primarily including: Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on-going monitoring and optimization of the models; Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, forward-looking measurement and management overlay adjustments; Internal controls over the information systems for model-based measurement.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (continued) The balances of loss allowances for loans and advances to customers and other debt instruments measured at amortized cost represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under International Financial Reporting Standard 9: Financial Instruments expected credit losses models. The Group assesses whether the credit risk of loans and advances to customers and other debt instruments measured at amortized cost have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For loans and advances to customers classified into stage 1 and 2, loans and advances to customers classified into stage 3 which are not considered individually significant and other debt instruments measured at amortized cost, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For loans and advances to customers in stage 3 which are considered individually significant, the management assesses loss allowance by estimating the cash flows from the loans and advances.	The substantive procedures we performed, primarily included: We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, and significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management. We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (continued) The measurement of ECL involves significant management judgments and assumptions, mainly including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; (5) The estimated future cash flows for loans and advances to customers in stage 3 which are considered individually significant. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, other debt instruments measured at amortized cost and the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators, economic scenarios and weightings employed; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. We assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also selected samples to test the transmission of major data inputs between the models' measurement systems and other related information systems and we tested the calculation of ECL models to verify their accuracy and completeness on sample basis. For loans and advances to customers in stage 3 which are considered individually significant, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Agency Banking Transactions with China Post Group Co., Ltd. Refer to Note 38.3.1(1) "Agency banking services from China Post Group Co., Ltd. and provincial branches". The Group operates its business through both directly-operated outlets and agency outlets owned by China Post Group Co., Ltd. (the Group's controlling shareholder). In accordance with the Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets ("Framework Agreement") signed between the Group and China Post Group Co., Ltd., agency outlets can provide deposits taking, financial settlement, financial agency and other services under the name of the Group, and the Group pays agency fees to China Post Group Co., Ltd. for these services ("Agency Banking Transactions"). In 2019, deposit agency fee and others amounted to RMB76.15 billion, (representing 48.21% of total operating expenses of the Group); fees for agency savings settlement, and fees for agency sales and other commissions amounted to RMB8.24 billion and RMB3.97 billion, respectively, the two together representing 82.02% of total fee and commission expense. We focus on the Agency Banking Transactions due to the unique features, the amount and disclosure of these transactions, both have significant impacts on the financial statements, which drew our special attention in audit work, thus we have identified Agency Banking Transactions as a key audit matter.	Our procedures in relation to services from China Post Group Co., Ltd. include: • Understood and tested the controls designed and applied in the Agency Banking Transactions with China Post Group Co., Ltd.; • Tested the IT systems and controls applied by the Group in capturing data for calculation of agency fees; • Inspected the Framework Agreement, evaluated whether the transactions had been appropriately authorized and approved in accordance with specific terms and conditions of the agreement; • On a sample basis, inspected evidence of payments and receipts of transactions, recalculated the settlement amounts based on the Framework Agreement, and sent confirmations to China Post Group Co., Ltd. to confirm the transaction amounts and balances; and • Evaluated if the Agency Banking Transactions with China Post Group Co., Ltd. were properly disclosed in the consolidated financial statements. We found no significant exceptions from our above procedures.

Other Information

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, China
March 25, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	2019	2018
Interest income	4	**388,238**	360,166
Interest expense	4	**(148,014)**	(126,044)
Net interest income	4	**240,224**	234,122
Fee and commission income	5	**31,975**	29,141
Fee and commission expense	5	**(14,890)**	(14,707)
Net fee and commission income	5	**17,085**	14,434
Net trading gains	6	**3,747**	4,569
Net gains on investment securities	7	**12,456**	3,780
Net gains on derecognition of financial assets at amortized cost		**120**	–
Net other operating gains	8	**3,484**	4,340
Operating income		**277,116**	261,245
Operating expenses	9	**(157,976)**	(152,324)
Credit impairment losses	11	**(55,384)**	(55,414)
Impairment losses on other assets		**(11)**	(20)
Profit before tax		**63,745**	53,487
Income tax expenses	12	**(2,709)**	(1,103)
Net profit		**61,036**	52,384
Net profit attributable to			
Shareholders of the Bank		**60,933**	52,311
Non-controlling interests		**103**	73

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

	Note	2019	2018
Net profit		**61,036**	52,384
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		**(110)**	(42)
Subtotal		**(110)**	(42)
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		**(1,164)**	4,021
Subtotal		**(1,164)**	4,021
Total comprehensive income for the period		**59,762**	56,363
Total comprehensive income attributable to:			
Shareholders of the Bank		**59,659**	56,290
Non-controlling interests		**103**	73
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	13	**0.72**	0.62

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		As at December 31	
	Note	**2019**	2018
Assets			
Cash and deposits with central bank	14	**1,154,843**	1,202,935
Deposits with banks and other financial institutions	15	**28,373**	140,351
Placements with banks and other financial institutions	16	**269,597**	285,622
Derivative financial assets	17	**5,009**	7,166
Financial assets held under resale agreements	18	**147,394**	239,687
Loans and advances to customers	19	**4,808,062**	4,149,538
Investment instruments			
Financial assets at fair value through profit or loss	20.1	**310,161**	341,662
Financial assets at fair value through other comprehensive income-debt instruments	20.2	**228,672**	183,350
Financial assets at fair value through other comprehensive income-equity instruments	20.3	**1,053**	553
Financial assets at amortized cost	20.4	**3,135,144**	2,861,922
Property and equipment	22	**46,490**	45,399
Deferred tax assets	23	**47,237**	35,887
Other assets	24	**34,671**	22,139
Total assets		**10,216,706**	9,516,211
Liabilities			
Deposits from banks and other financial institutions	26	**47,252**	74,165
Placements from banks and other financial institutions	27	**25,796**	39,845
Financial liabilities at fair value through profit or loss	28	**–**	2,360
Derivative financial liabilities	17	**5,065**	6,463
Financial assets sold under repurchase agreements	29	**98,658**	134,919
Customer deposits	30	**9,314,066**	8,627,440
Debt securities issued	31	**96,979**	76,154
Other liabilities	32	**84,011**	79,552
Total liabilities		**9,671,827**	9,040,898

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

		As at December 31	
	Note	**2019**	2018
Equity			
Share capital	33	**86,203**	81,031
Other equity instruments			
Preference Shares	33	**47,869**	47,869
Capital reserve	34	**97,477**	74,648
Other reserves	35	**154,887**	137,923
Retained earnings		**157,431**	132,933
Equity attributable to Shareholders of the Bank		**543,867**	474,404
Non-controlling interests		**1,012**	909
Total equity		**544,879**	475,313
Total equity and liabilities		**10,216,706**	9,516,211

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

Approved and authorized for issue by the Board of Directors on March 25, 2020.

Zhang Jinliang	**Zhang Xuewen**
(On behalf of Board of Directors)	(On behalf of Board of Directors)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank									
					Other reserves						
	Note	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2019		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313
Profit for the year		–	–	–	–	–	–	60,933	60,933	103	61,036
Other comprehensive income	35.3	–	–	–	–	–	(1,274)	–	(1,274)	–	(1,274)
Total comprehensive income for the year		–	–	–	–	–	(1,274)	60,933	59,659	103	59,762
Capital contribution from shareholders	33	5,172	–	22,829	–	–	–	–	28,001	–	28,001
Appropriation to surplus reserve	35.1	–	–	–	6,068	–	–	(6,068)	–	–	–
Appropriation to general reserve	35.2	–	–	–	–	12,170	–	(12,170)	–	–	–
Dividends paid to ordinary shareholders	36	–	–	–	–	–	–	(15,696)	(15,696)	–	(15,696)
Dividends paid to preference shareholders	36	–	–	–	–	–	–	(2,501)	(2,501)	–	(2,501)
As at December 31, 2019		86,203	47,869	97,477	36,439	116,129	2,319	157,431	543,867	1,012	544,879

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank									
					Other reserves						
	Note	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non–controlling interests	Total equity
As at December 31, 2017		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	35.3	–	–	–	–	–	3,979	–	3,979	–	3,979
Total comprehensive income for the year		–	–	–	–	–	3,979	52,311	56,290	73	56,363
Issuance of preference shares	33.2	–	23	–	–	–	–	–	23	–	23
Appropriation to surplus reserve	35.1	–	–	–	5,212	–	–	(5,212)	–	–	–
Appropriation to general reserve	35.2	–	–	–	–	2,948	–	(2,948)	–	–	–
Change of share proportion of the subsidiary	34	–	–	(11)	–	–	–	–	(11)	511	500
Dividends paid to ordinary shareholders	36	–	–	–	–	–	–	(11,920)	(11,920)	–	(11,920)
Dividends paid to preference shareholders	36	–	–	–	–	–	–	(2,391)	(2,391)	–	(2,391)
As at December 31, 2018		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 consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

	Year ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**63,745**	53,487
Adjustments for:		
Amortization of intangible assets and other assets	**710**	272
Depreciation of property and equipment, investment properties and right-of-use assets	**6,515**	4,338
Impairment losses on assets	**55,395**	55,434
Interest income arising from investment instruments	**(126,293)**	(110,185)
Interest expense arising from debt securities issued	**3,459**	3,058
Net gains on investment securities	**(12,576)**	(3,780)
Unrealized exchange gains	**(1,846)**	(2,167)
Net losses from disposal of property, equipment and other assets	**28**	35
Subtotal	**(10,863)**	492
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	**49,528**	220,245
Deposits with banks and other financial institutions	**111,331**	157,515
Placements with banks and other financial institutions	**(26,836)**	(4,216)
Financial assets at fair value through profit or loss	**20,784**	(2,895)
Financial assets held under resale agreements	**1,701**	4,826
Loans and advances to customers	**(703,627)**	(635,226)
Other operating assets	**(11,394)**	2,134
Subtotal	**(558,513)**	(257,617)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Deposits from banks and other financial institutions	**(26,702)**	25,434
Placements from banks and other financial institutions	**(13,794)**	(33,852)
Financial liabilities at fair value through profit or loss	**(2,360)**	(39,985)
Financial assets sold under repurchase agreements	**(36,545)**	19,667
Customer deposits	**664,372**	470,698
Other operating liabilities	**31,427**	7,503
Subtotal	**616,398**	449,465
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	**47,022**	192,340
Income tax paid	**(20,579)**	(7,835)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**26,443**	184,505
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**269,723**	248,917
Interest paid	**(122,499)**	(115,761)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

		Year ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of investment instruments		**700,567**	758,344
Cash received from income arising from investment instruments		**121,729**	121,891
Cash paid for purchase of investment instruments		**(989,315)**	(963,876)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		**(6,734)**	(6,328)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		**39**	644
NET CASH USED IN INVESTING ACTIVITIES		**(173,714)**	(89,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from issuance of shares		**28,020**	–
Capital received from non-controlling interests for investment in subsidiary		**–**	500
Dividends paid		**(18,197)**	(14,311)
Interests paid on debt securities issued		**(3,015)**	(3,015)
Cash received from issuance of debt securities		**52,540**	7,213
Repayments of debt securities		**(32,160)**	(7,250)
Cash payments for principal portion and interest portion of the lease liability		**(3,331)**	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**23,857**	(16,863)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,342**	1,168
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(122,072)**	79,485
Balance of cash and cash equivalents at the beginning of the year		**402,420**	322,935
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	37	**280,348**	402,420

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 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. The initial registered capital of Postal Savings Bank Co., Ltd. is RMB20 billion. In September 2009 and October 2010, China Post Group increased the capital of Postal Savings Bank Co., Ltd. by RMB10 billion and RMB11 billion respectively.

In 2011, with the approval from the Ministry of Finance (the "MOF") of the People's Republic of China ("China" or the "PRC") and China Banking and Insurance Regulatory Commission (the "CBIRC", formally as China Banking Regulatory Commission), the Company was restructured into a joint-stock bank. According to the Approval by the Ministry of Finance on the State-owned Equity Management Plan of Postal Savings Bank Co., Ltd. (Finance (2011) No. 181), China Post Group is the sole sponsor of the Bank. 45 billion Promoter's shares were established and paid-in capital of the Bank amounted to RMB45 billion. In December 2013 and December 2014, China Post Group increased the capital of Postal Savings Bank Co., Ltd. by RMB2 billion and RMB10 billion respectively.

On December 8, 2015, in accordance with the Approval of the China Banking Regulatory Commission on Capital Increase and the Introduction of Strategic Investors by the Postal Savings Bank, the CBIRC agreed the Bank's non-public offering of no more than 11,604 million shares to UBS Limited, Chinese Life Insurance Co., Ltd., China Telecom Group Corporation, Canada Pension Fund Investment Corporation, Zhejiang Ant Micro Financial Services Group Co., Ltd., JPMorgan Bank China Investment Second Investment Co., Ltd., Futun Management Pte Ltd., International Finance Corporation, DBS Bank Co., Ltd. and Shenzhen Tencent Domain Calculator Network Co., Ltd. and 10 other institutions (hereinafter referred to as "Strategic Investors"). After the capital increase, the Bank's total shares amounted to 68,604 million.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. On December 10, 2019, the Bank was listed on the Shanghai Stock Exchange. Information regarding the Bank's share issuance is listed in Note 33.

As at December 31, 2019, the Bank had 86,203 million common shares, at a face value of RMB1 per share.

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

1 General information (continued)

The Bank and its subsidiaries (the "Group") conduct their operating activities in the PRC, and the principal activities include: personal and corporate financial services, treasury operations and other business activities as approved by the CBIRC.

As at December 31, 2019, the Bank had a total of 36 tier-one branches and 322 tier-two branches across China.

The consolidated financial statements were authorized for issue by the Board of Directors of the Bank on March 25, 2020.

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations

New and amended IFRSs effective on 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 IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 9	Prepayment Features with Negative Compensation	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
Amendments to IAS 1 and IAS 8	The Definition of Material	January 1, 2020
Amendments to IFRS 3	The Definition of A Business	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2021 (likely to be extended to January 1, 2023)
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 1 January 2019. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

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

2 Significant accounting policies (continued)

2.3 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 lessor 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;

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 accounts for each lease component and any associated non-lease components as a single lease component.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

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

(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.

The Group use the straight-line method to accrue depreciation for the right to use assets in the period from the beginning of the lease term to the end of the service life or the lease term, whichever is shorter. The estimated service life of the right of use asset is determined based on the same method as the estimated service life of the real estate and equipment. In addition, the impairment loss (if any) of the right of use assets is recognized on a regular basis and adjusted according to a number of remeasurement results of the leased liabilities.

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.

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.

2 Significant accounting policies (continued)

2.3 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 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.

(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 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) Specific accounting policies applied in the comparative period

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

(i) The Group as a lessor

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

(ii) The Group as lessee

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

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

As at December 31, 2018, the group has no property and equipment held under finance leases.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(3) 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 at 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.

Operating lease commitments disclosed as at December 31, 2018	10,805
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)
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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(3) Adjustment recognized on adoption of IFRS 16 (continued)

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

	As at December 31, 2019	As at January 1, 2019
Properties	**9,460**	8,998
Land use rights	**1,685**	1,739
Total	**11,145**	10,737

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 Significant accounting policies (continued)

2.4 Consolidation

The consolidated financial statements comprise the financial statements of the Bank, subsidiaries and all structured entities under the Bank's control (Note 39).

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

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

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

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

2 Significant accounting policies (continued)

2.5 Revenue recognition

(1) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) Purchased or originated credit-impaired ("POCI") financial assets, for which the original credit adjusted effective interest rate is applied to the amortized cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(2) Fee and commission income

Fee and commission income is recognized at the time or within the period when the Group has fulfilled its contractual obligations, i.e. when the customer obtains the control right of relevant services.

For performance obligations performed at a certain point of time, the Group recognizes income at the point when the customer acquires control of the relevant services, mainly including insurance agency service fee, settlement and clearing fee, bond underwriting income, etc. And for performance obligations performed within a certain period of time, the Group shall confirm the income in accordance with the progress during that period, mainly including consultants fee, custodian business fee income, etc.

2 Significant accounting policies (continued)

2.6 Foreign currency translation

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

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

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

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

2 Significant accounting policies (continued)

2.7 Taxation

Income tax expense comprises current and deferred tax.

Current tax

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

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

Deferred tax

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

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

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

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

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

2 Significant accounting policies (continued)

2.8 Employee benefits

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

(1) Short-term employee benefits

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

(2) Retirement benefits

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

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

Social welfare plan

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

Annuity Scheme

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

2 Significant accounting policies (continued)

2.8 Employee benefits (continued)

(2) Retirement benefits (continued)

Supplementary retirement benefit

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

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

(3) Early retirement benefits

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

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

2 Significant accounting policies (continued)

2.9 Financial Instruments

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

(1) Classification of financial instruments

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

– Amortized cost;

– Fair value through other comprehensive income ("FVOCI");

– Fair value through profit or loss ("FVTPL").

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cashflows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

Financial assets measured at amortized cost

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

(a) the business model for managing the financial assets is to collect contractual cash flows;

(b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal.

Financial assets measured at FVOCI

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

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

(a) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;

(b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognize dividend income in accordance with the relevant policies specified in Note 2.9(2). Once the designation is made, it cannot be revoked.

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

Financial assets and liabilities at FVTPL

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

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

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

(a) debt instruments that do not qualify for measurement at either amortized cost or FVOCI; and

(b) It has no control, joint control and significant impact on the equity instrument investment and equity instruments for which the entity has not designated at FVOCI.

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

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (eg. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

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

(a) the designation can eliminate or significantly reduce accounting mismatch; or

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

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

Financial liabilities measured at amortized cost

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

(2) Measurement of financial instruments

Initial recognition

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

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

Subsequent measurement

Subsequent measurement of financial instruments depends on the categories:

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial assets and liabilities measured at amortized cost

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

(a) deducting the principal repaid;

(b) adding or deducting the cumulative amortization of any difference between the amount at initial recognition and the amount at the maturity date using the effective interest method;

(c) deducting any loss allowance (solely for financial assets).

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

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

(a) a POCI financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortized cost; and

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

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial assets measured at FVOCI

Debt instruments

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

Interest income from these financial assets is included in "interest income" using the effective interest rate method.

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

Equity instruments

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

Financial assets at FVTPL

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

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial liabilities at FVTPL

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

(a) changes in the fair value of such financial liabilities due to changes in the Group's own credit risk shall be recognized in other comprehensive income;

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

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

(3) Impairment of financial instruments

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

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

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(3) Impairment of financial instruments (continued)

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

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money;

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

2 Significant accounting policies (continued)

2.9 Financial Instruments (continued)

(3) Impairment of financial instruments (continued)

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

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

(4) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

2 Significant accounting policies (continued)

2.10 Property and equipment

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

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

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

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

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

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

2 Significant accounting policies (continued)

2.10 Property and equipment (continued)

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

2.11 Land use rights

Land use rights are classified in other assets and amortized over the respective lease periods, which range from 10 to 40 years.

2.12 Investment property

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

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

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

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

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

2 Significant accounting policies (continued)

2.13 Intangible assets

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

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

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

2.14 Impairment of non-financial assets

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

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

2.15 Cash and cash equivalents

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

2 Significant accounting policies (continued)

2.16 Dividend distribution

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

2.17 Provisions

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

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

2.18 Fiduciary activities

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

2.19 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

– The amount of expected credit loss under Note 2.9(3); and

– The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

2 Significant accounting policies (continued)

2.19 Financial guarantee contracts and loan commitments (continued)

Loan commitments provided by the Group are measured as the amount of the expected credit loss.The Group has not provided any commitment to provide loans at a below market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but disclosed. The Group's contingent liabilities are disclosed in Note 40 "Contingent Liabilities and Commitments".

A provision is recognized when it meets the criteria as set forth in Note 2.17 "Provisions".

2.21 Segment Analysis

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Relevant committees led by the President allocate resources to and assesses the performance of the operating segments based on periodically reviewing this analysis. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3 Critical accounting estimates and judgements in applying accounting policies

The preparation of the 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.

3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 43.3 Credit Risk, which also sets out key sensitivities of the ECL to changes in these elements.

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

– Classifying the businesses with similar credit risk characteristics into the same portfolio, selecting appropriate measurement model and determining the key parameters related to measurement;

– Determining criteria for significant increase in credit risk;

– Establishing the number and relative weightings of forward-looking scenarios;

– Management overlay adjustment for major uncertainties not covered by the model;

– Forecast of future cash flow of loans with significant single amount in phase III.

Detailed information about the above judgements and estimates made by the Group is set out in Note 43.3 Credit Risk.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.2 Fair value of financial instruments

The fair value of financial instruments that are quoted in an active market is determined by the Group through market inquiry; the fair value of financial instruments that are not quoted in an active market is determined by the Group through valuation techniques. Valuation techniques include the use of recent prices of transaction between knowledgeable, willing parties, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are commonly used in the market. To the extent practical, models for the valuation of derivatives and other financial instruments use observable market data, such as interest yield curves and foreign exchange rates. Fair values calculated through valuation techniques are verified based on the industry practice and currently observable prices of same or similar financial instruments in the market.

The Group, through regular review and approval procedures, reviews the assumptions and market expectations adopted by the valuation technique, including the examination of assumptions and pricing factors of models, changes in assumption conditions of models, properties of market parameters, whether the market is active or not, adjustment factors of fair values which are not covered by models, and the consistency of valuation techniques between periods. Valuation techniques are regularly reviewed through validity tests and updated to reflect the market conditions at the balance sheet date where appropriate.

3.3 Actuarial valuation of early retirement benefits and supplementary retirement benefits liabilities

The Group has recognized early retirement benefits and supplementary retirement benefits as liabilities, and performed actuarial valuation of the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits using various assumptions. The assumptions include discount rates, growth rates of expenses, and mortality rates, etc. Any differences between the actual results and assumptions are accounted for in the current period in accordance with relevant accounting policies. The assumptions used are reasonable to the best knowledge of the Group's management, but the actual experience or changes in assumptions will affect the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.4 Income taxes

In the ordinary course of the Group's business, there are certain transactions and activities for which there are uncertainties concerning their ultimate tax treatment. In accordance with the current tax laws and regulations as well as the policies applicable to the Group from competent government authorities in the previous years, the Group makes tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. In calculating its income tax liabilities, the Group makes significant judgements. Where the final outcome of these tax matters is different from the amounts initially recorded, such differences will affect the current income tax and deferred income tax provisions in the period during which such a determination is made.

3.5 Control over structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it controls the structured entities. The principle of control includes three factors: (i) power over investees; (ii) exposure or right to the variable returns of investees, and (iii) ability to affect those returns through its power over the investees. If evidence shows that the factors of the control change, the Group shall reassess whether it has control on the investees. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (such as direct investment) that it holds in the structured entities.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31	
	2019	2018
Interest income		
Deposits with central bank	**17,784**	19,643
Deposits with banks and other financial institutions	**2,202**	12,335
Placements with banks and other financial institutions	**12,489**	13,611
Financial assets held under resale agreements	**4,608**	6,640
Loans and advances to customers	**224,862**	197,752
Including: Corporate loans and advances	**87,612**	82,595
Personal loans and advances	**137,250**	115,157
Investment instruments		
Financial assets at fair value through other comprehensive income-debt instruments	**7,410**	7,352
Financial assets at amortized cost	**118,883**	102,833
Subtotal	**388,238**	360,166
Interest expense		
Deposits from banks and other financial institutions	**(876)**	(772)
Placements from banks and other financial institutions	**(1,391)**	(1,793)
Financial assets sold under repurchase agreements	**(2,370)**	(2,584)
Customer deposits	**(139,918)**	(117,836)
Debt securities issued	**(3,459)**	(3,059)
Subtotal	**(148,014)**	(126,044)
Net interest income	**240,224**	234,122
Included in interest income		
Interest income from listed investments	**92,980**	63,734
Interest income from unlisted investments	**33,313**	46,451

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

		Year ended December 31	
	Note	**2019**	2018
Bank cards and POS fee income		**14,672**	12,952
Settlement and clearing fee income	(1)	**7,523**	5,985
Agency service fee income	(2)	**4,556**	4,330
Wealth management fee income		**3,950**	4,589
Custodian business fee income		**780**	830
Others		**494**	455
Fee and commission income		**31,975**	29,141
Fee and commission expense	(3)	**(14,890)**	(14,707)
Net fee and commission income		**17,085**	14,434

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

(2) Agency service 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 38.3.1(1) for expenses paid by the Bank to China Post Group.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

6 Net trading gains

	Year ended December 31	
	2019	2018
Debt securities	**3,810**	4,346
Derivative financial instruments	**(63)**	223
Total	**3,747**	4,569

7 Net gains on investment securities

	Year ended December 31	
	2019	2018
Net gains from financial assets at fair value through profit or loss	**11,737**	2,918
Net gains from financial assets at fair value through other comprehensive income	**719**	862
Total	**12,456**	3,780

8 Net other operating gains

	Year ended December 31	
	2019	2018
Net gains on foreign exchanges	**1,723**	2,641
Government subsidies	**794**	816
Precious metal sales income	**398**	346
Leasing income	**164**	165
Others	**405**	372
Total	**3,484**	4,340

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses

		Year ended December 31	
	Note	**2019**	2018
Deposit agency fee and others	(1)	**76,153**	73,012
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	**50,039**	44,920
Depreciation and amortization	(3)	**7,225**	4,610
Taxes and surcharges	(4)	**1,996**	1,843
Auditor's remuneration		**34**	29
Other expenses	(5)	**22,529**	27,910
Total		**157,976**	152,324

(1) Deposit agency fee and others mainly are payments by the Bank to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Bank (Note 38.3.1(1)).

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses (continued)

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

	Year ended December 31	
	2019	2018
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	**35,648**	31,213
Housing funds	**3,058**	2,754
Social security contributions	**2,516**	2,218
Including: Medical insurance	**2,313**	2,029
Maternity insurance	**148**	130
Work injury insurance	**55**	59
Staff welfare	**2,051**	1,857
Labour union funds and employee education funds	**1,301**	1,334
Subtotal	**44,574**	39,376
Defined contribution benefits		
Basic pensions	**4,221**	4,407
Annuity scheme	**1,121**	1,021
Unemployment insurance	**105**	94
Subtotal	**5,447**	5,522
Retirement benefits	**18**	22
Total	**50,039**	44,920

(3) For the year ended December 31, 2019, the depreciation and amortization of right-of-use assets amounted to RMB2,844 million due to the application of IFRS 16 (for the year ended December 31, 2018: N/A).

(4) Taxes and surcharges mainly include urban construction tax, educational surcharges, property tax, land use tax, vehicle and vessel use taxes, stamp duty, etc.

(5) For the year ended December 31, 2019, the rental expenses of short-term leases and the underlying asset of low value leases for unrecognized right-of use assets included in other expenses amounted to RMB1,369 million.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors

(1) Details of the directors and supervisors' emoluments are as follows:

		Year ended December 31, 2019				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Chairman						
Zhang Jinliang (張金良)	(i)	–	–	–	–	–
Executive directors						
Zhang Xuewen (張學文)		–	459	47	78	584
Yao Hong (姚紅)		–	436	47	78	561
Non-executive directors						
Han Wenbo (韓文博)	(ii)	–	–	–	–	–
Liu Yaogong (劉堯功)	(ii)	–	–	–	–	–
Liu Yue (劉悅)	(ii)	–	–	–	–	–
Ding Xiangming (丁向明)	(ii)	–	–	–	–	–
Independent non-executive directors						
Fu Tingmei (傅廷美)		300	–	–	–	300
Wen Tiejun (溫鐵軍)	(iii)	53	–	–	–	53
Chung Shui Ming Timpson (鍾瑞明)	(iii)	31	–	–	–	31
Hu Xiang (胡湘)		300	–	–	–	300
Pan Yingli (潘英麗)	(iv)	–	–	–	–	–

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

		Year ended December 31, 2019				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Supervisors						
Chen Yuejun (陳躍軍)		–	461	47	78	586
Li Yujie (李玉傑)	(v)	–	–	–	–	–
Zhao Yongxiang (趙永祥)	(v)	–	–	–	–	–
Wu Yu (吳昱)	(v)	–	–	–	–	–
Bai Jianjun (白建軍)	(vi)	43	–	–	–	43
Chen Shimin (陳世敏)	(vii)	–	–	–	–	–
Li Yue (李躍)	(viii)	–	–	–	–	–
Song Changlin (宋長林)	(viii)	–	–	–	–	–
Bu Dongsheng (卜東升)	(viii)	–	–	–	–	–
Directors and supervisors resigned						
Lyu Jiajin (呂家進)	(ix)	–	–	–	–	–
Tang Jian (唐健)	(x)	–	–	–	–	–
Chin Hung I David (金弘毅)	(xi)	–	309	–	–	309
Ma Weihua (馬蔚華)	(xii)	450	–	–	–	450
Bi Zhonghua (畢仲華)	(xii)	300	–	–	–	300
Gan Peizhong (甘培忠)	(xiii)	250	–	–	–	250
Zeng Kanglin (曾康霖)	(xiv)	200	–	–	–	200
Guo Tianyong (郭田勇)	(xv)	240	–	–	–	240
Total	(xvi)	2,167	1,665	141	234	4,207

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

(i) Mr. Zhang Jinliang was elected as Non-executive Director at the 2019 First Extraordinary General Meeting of the Bank on April 8, 2019. On the same day, the Board of Directors elected Mr. Zhang Jinliang as the Chairman of the Bank. On May 8, Mr. Zhang Jinliang was approved by the CBIRC for his qualification. According to relevant regulations, Mr. Zhang Jinliang has been the Chairman and Non-executive Director of the Bank since May 8, 2019. Mr. Zhang Jinliang receives emolument from China Post Group, the controlling shareholder of the Bank.

(ii) Non-executive Directors, Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue, Mr. Ding Xiangming, did not receive emolument from the Bank.

(iii) Mr. Wen Tiejun and Mr. Chung Shui Ming Timpson were elected as Independent Non-executive Directors of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started then.

(iv) Ms. Pan Yingli was elected as Independent Non-executive Director of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. According to relevant regulations, the term started from December 23, 2019.

(v) Mr. Li Yujie, Mr. Zhao Yongxiang and Mr. Wu Yu did not receive emolument from the Bank.

(vi) Mr. Bai Jianjun was elected as external supervisor of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started then.

(vii) Mr. Chen Shimin was elected as external supervisor of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started from December 8, 2019.

(viii) The employee supervisors were not remunerated for their role as supervisors, and their remuneration from the Bank as employees were not disclosed here.

(ix) Mr. Lyu Jiajin ceased to be Executive Director and President of the Bank on January 4, 2019. During the term of office, he received emolument from China Post Group, and received no emolument from the Bank.

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

(x) Mr. Tang Jian ceased to be the Non-executive Director of the Bank on January 17, 2019. During the term of office, he did not receive emolument from the Bank.

(xi) Mr. Chin Hung I David ceased to be Non-executive Director of the Bank on August 21, 2019.

(xii) Mr. Ma Weihua and Ms. Bi Zhonghua ceased to be Independent Non-executive Directors of the Bank on January 1, 2020.

(xiii) Mr. Gan Peizhong ceased to be Independent Non-executive Director of the Bank on October 29, 2019.

(xiv) Mr. Zeng Kanglin ceased to be external supervisor of the Bank on October 29, 2019.

(xv) Mr. Guo Tianyong ceased to be external supervisor of the Bank on December 8, 2019.

(xvi) The total compensation packages for certain directors and supervisors for the year ended December 31, 2019 have not been finalized at the date of this consolidated financial statements. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended December 31, 2019. The final compensation will be disclosed when determined.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

		Year ended December 31, 2018				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Executive directors						
Zhang Xuewen (張學文)		–	1,523	105	71	1,699
Yao Hong (姚紅)		–	1,396	102	71	1,569
Non-executive directors						
Han Wenbo (韓文博)	(i)	–	–	–	–	–
Tang Jian (唐健)	(i)	–	–	–	–	–
Liu Yaogong (劉堯功)	(i)	–	–	–	–	–
Chin Hung I David (金弘毅)		–	816	–	–	816
Liu Yue (劉悅)	(i)	–	–	–	–	–
Ding Xiangming (丁向明)	(i)	–	–	–	–	–
Independent non-executive directors						
Ma Weihua (馬蔚華)		450	–	–	–	450
Bi Zhonghua (畢仲華)		300	–	–	–	300
Fu Tingmei (傅廷美)		300	–	–	–	300
Gan Peizhong (甘培忠)		300	–	–	–	300
Hu Xiang (胡湘)		300	–	–	–	300

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

		Year ended December 31, 2018				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Supervisors						
Chen Yuejun (陳躍軍)		–	1,525	105	71	1,701
Li Yujie (李玉傑)	(ii)	–	–	–	–	–
Zhao Yongxiang (趙永祥)	(ii)	–	–	–	–	–
Zeng Kanglin (曾康霖)		250	–	–	–	250
Guo Tianyong (郭田勇)		250	–	–	–	250
Wu Yu (吳昱)	(iii)	–	–	–	–	–
Li Yue (李躍)	(iv)	–	–	–	–	–
Song Changlin (宋長林)	(iv)	–	–	–	–	–
Bu Dongsheng(卜東升)	(iv)	–	–	–	–	–
Directors and supervisors resigned						
Li Guohua (李國華)	(v)	–	–	–	–	–
Lyu Jiajin (呂家進)	(vi)	–	–	–	–	–
Total	(vii)	2,150	5,260	312	213	7,935

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows: (continued)

(i) Non-executive directors, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Liu Yue, Mr. Ding Xiangming, did not receive emolument from the Bank.

(ii) The shareholders' representative supervisors, Mr. Li Yujie and Mr. Zhao Yongxiang, did not receive emolument from the Bank.

(iii) Mr. Wu Yu, an external supervisor, did not receive emolument from the Bank.

(iv) The employee supervisors were not remunerated for their role as supervisors, and their remuneration from the Bank as employees' were not disclosed here.

(v) Mr. Li Guohua ceased to be the Chairman of the Bank in August 2018. During the term of office, he received emolument from China Post Group, but not received emolument from the Bank.

(vi) Mr. Lyu Jiajin ceased to be the Executive Director and President of the Bank on January 4, 2019. During the term of office, he received emolument from China Post Group, but not received emolument from the Bank.

(vii) The total remuneration of directors and supervisors of the Bank in 2018 has been approved by the Second Extraordinary General Meeting of the Bank in 2019.

(2) Five highest paid individuals

For the years ended December 31, 2019 and 2018, the five highest paid individuals did not include any member of the directors or supervisors. The emoluments of the five highest paid individuals in the Group are as follows:

	Year ended December 31	
	2019	2018
	RMB thousand	RMB thousand
Remunerations paid	**7,006**	7,496
Contribution to pension schemes	**250**	508
Benefits in kind	**389**	324
Total	**7,645**	8,328

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(2) Five highest paid individuals (continued)

The number of these individuals, whose emoluments fell within the following bands, is as follows:

	Year ended December 31	
	2019	2018
	Headcount	Headcount
RMB1,000,001-RMB1,500,000	**2**	–
RMB1,500,001-RMB2,000,000	**3**	5

(3) Benefits and interests of directors and connected entities

(i) The Group enters into credit transactions with the directors, supervisors or certain corporates and connected entities controlled by the directors or supervisors in general commercial terms in the ordinary course of business. For the years ended December 31, 2019 and 2018, the balance of loans and advances from the Group to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors was not significant. The Group did not provide any guarantee or security to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

(ii) For the years ended December 31, 2019 and 2018, no emolument was paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the annuity scheme and pension scheme, other retirement benefits for directors or supervisors were not significant, and there were no consideration provided to third parties for making available directors' or supervisors' services; and none of the directors or supervisors forfeited fees or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

11 Credit impairment losses

	Year ended December 31	
	2019	2018
Deposits with banks and other financial institutions	**(277)**	(846)
Placements with banks and other financial institutions	**179**	805
Financial assets held under resale agreements	**69**	669
Loans and advances to customers	**47,434**	43,134
Investment instruments		
Financial assets at fair value through other comprehensive income-debt instruments	**200**	69
Financial assets at amortized cost	**7,751**	10,236
Credit commitment	**(434)**	976
Other financial assets	**462**	371
Total	**55,384**	55,414

12 Income tax expense

	Year ended December 31	
	2019	2018
Current income tax	**13,935**	16,255
Deferred income tax (Note 23)	**(11,226)**	(15,152)
Total	**2,709**	1,103

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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

12 Income tax expense (continued)

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

	Note	Year ended December 31 2019	2018
Profit before income tax		**63,745**	53,487
Income tax expense calculated at the statutory tax rate of 25%		**15,936**	13,372
Tax effect of non-taxable income and tax reduction	(1)	**(13,531)**	(11,205)
Tax refund	(2)	**–**	(1,513)
Tax effect of items not deductible for tax purpose	(3)	**304**	449
Income tax expense		**2,709**	1,103

(1) Interest income from government bonds, local government bonds and income from securities investment funds is not subject to income tax. Interest income from railway construction bonds and micro loans to farmers is entitled to income tax reduction in accordance with the relevant PRC tax regulations. In accordance with the *"Notice of the Ministry of Finance and the State Administration of Taxation on the corporate income tax policy of special bond interest income of Postal Savings Bank of China (Fiscal and Taxation [2015]No. 150)"* 《財政部、國家稅務總局關於中國郵政儲蓄銀行專項債券利息收入企業所得稅政策問題的通知》*(財稅[2015]150號)*, the Bank's interest income from special bonds issued by China Development Bank and Agricultural Development Bank of China enjoys income tax reduction.

(2) Income from securities investment funds is not 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)"* 《財政部、國家稅務總局關於企業所得稅若幹優惠政策的通知》*(財稅[2008]1號)*. In 2018, the tax bureau refunded the relevant income tax payments paid in previous years.

(3) Non-deductible expenses mainly include staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.

13 Basic and diluted earnings per share

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

	Year ended December 31	
	2019	2018
Net profit attributable to shareholders of the Bank (in RMB millions)	**60,933**	52,311
Less: Net profit for the year 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)	**58,432**	49,920
Weighted average number of ordinary shares in issue (in millions)	**81,341**	81,031
Basic earnings per share (in RMB Yuan)	**0.72**	0.62

(2) Diluted earnings per share

For the years ended December 31, 2019 and 2018, as there were no potential diluted ordinary shares, the diluted earnings per share were the same as the basic earnings per share.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

14 Cash and deposits with central bank

		As at December 31	
	Note	**2019**	2018
Cash on hand		**43,922**	47,491
Statutory reserve with central bank	(1)	**1,059,215**	1,110,977
Surplus reserve with central bank	(2)	**46,589**	41,620
Fiscal deposits with central bank		**5,117**	2,847
Total		**1,154,843**	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 December 31, 2019, the ratio for RMB deposits statutory reserve was 11.5% (December 31, 2018: 13%), whereas the ratio for foreign currency deposits was 5% (December 31, 2018: 5%).

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

15 Deposits with banks and other financial institutions

	As at December 31	
	2019	2018
Deposits with:		
Domestic banks	**24,298**	135,625
Other domestic financial institutions	**171**	162
Overseas banks	**3,953**	4,890
Gross amount	**28,422**	140,677
Allowance for impairment losses	**(49)**	(326)
Carrying amount	**28,373**	140,351

16 Placements with banks and other financial institutions

	As at December 31	
	2019	2018
Placements with:		
Domestic banks	**22,478**	74,266
Other domestic financial institutions	**248,580**	212,024
Overseas banks	**198**	812
Gross amount	**271,256**	287,102
Allowance for impairment losses	**(1,659)**	(1,480)
Carrying amount	**269,597**	285,622

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

17 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 at 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.

By types of contracts:

	As at December 31, 2019		
	Contractual/ Notional amounts	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts	**563,513**	**4,496**	**(4,598)**
Interest rate contracts	**155,917**	**513**	**(467)**
Total	**719,430**	**5,009**	**(5,065)**

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

17 Derivative financial assets and liabilities (continued)

Analyzed by credit risk-weighted amount for counterparty:

	As at December 31	
	2019	2018
Credit risk-weighted amount		
Exchange rate contracts	**4,856**	2,733
Interest rate contracts	**5**	206
Subtotal	**4,861**	2,939
Credit value adjustments	**3,502**	4,414
Total	**8,363**	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 CBIRC rules and requirements, the counterparty's credit risk-weighted assets now include adjustments to credit valuations, which are calculated based on the positions of counterparties and the specifics of the remaining maturities.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

18 Financial assets held under resale agreements

	As at December 31	
	2019	2018
By collateral:		
Bills	**30,304**	33,340
Debt securities	**117,981**	207,169
Gross amount	**148,285**	240,509
Allowance for impairment losses	**(891)**	(822)
Carrying amount	**147,394**	239,687

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 40.5 Contingent liabilities and commitments – Collateral". As at December 31, 2019 and December 31, 2018, the Group did not have any netting arrangements or similar agreements with counterparties.

19 Loans and advances to customers

19.1 Loans and advances by types

Loans and advances to customers

		As at December 31	
	Note	**2019**	2018
Loans and advances to customers			
– At amortized cost	(1)	**4,320,547**	3,620,003
– At fair value through other comprehensive income	(2)	**487,515**	526,672
– At fair value through profit or loss	(3)	**–**	2,863
Total		**4,808,062**	4,149,538

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.1 Loans and advances by types (continued)

(1) Loans and advances to customers at amortized cost

	As at December 31	
	2019	2018
Corporate loans and advances		
– Loans	**1,562,622**	1,384,501
– Discounted bills	**173,261**	42,989
Subtotal	**1,735,883**	1,427,490
Personal loans and advances		
Consumer loans	**2,017,399**	1,693,442
– Residential mortgage loans	**1,700,049**	1,417,898
– Other consumer loans	**317,350**	275,544
Personal micro loans	**610,201**	527,085
Credit cards overdrafts and others	**123,188**	99,313
Subtotal	**2,750,788**	2,319,840
Gross loans and advances to customers at amortized cost	**4,486,671**	3,747,330
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
– Stage 1	**(114,698)**	(85,115)
– Stage 2	**(13,101)**	(8,905)
– Stage 3	**(38,325)**	(33,307)
Net loans and advances to customers at amortized cost	**4,320,547**	3,620,003

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.1 Loans and advances by types (continued)

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

	As at December 31	
	2019	2018
Corporate loans and advances		
– Loans	**177,942**	167,901
– Discounted bills	**309,573**	358,771
Loans and advances to customers at fair value through other comprehensive income	**487,515**	526,672

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

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

As at December 31, 2018, part of the Group's discounted bills' business model was neither "only for the collection of contractual cash flows" nor "both for collecting contractual cash flows and selling halfway", and was therefore classified as FVTPL. As at December 31, 2019, there was no such loans and advances as above.

19.2 Detailed information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation is set out in Note 43.3.4.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.3 Loans and advances by allowance for impairment losses

	As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers at amortized cost	4,405,384	37,411	43,876	4,486,671
Allowance for impairment losses of loans and advances to customers at amortized cost	(114,698)	(13,101)	(38,325)	(166,124)
Net loans and advances to customers at amortized cost	4,290,686	24,310	5,551	4,320,547
Gross loans and advances to customers at fair value through other comprehensive income	483,981	3,336	198	487,515
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	(646)	(44)	(40)	(730)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

	As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
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
Gross 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)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments

20.1 Financial assets at fair value through profit or loss

	Note	**As at December 31, 2019**	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
– Listed in Hong Kong		**202**	163
– Listed outside Hong Kong		**63,281**	49,435
Subtotal		**63,483**	49,598
Interbank certificates of deposits			
– Listed outside Hong Kong		**60,991**	97,368
– Unlisted		**20,939**	4,109
Subtotal		**81,930**	101,477
Asset-backed securities			
– Listed outside Hong Kong		**4,937**	11,076
Fund investments			
– Unlisted		**115,783**	103,745
Trust investment plans and asset management plans			
– Unlisted		**42,287**	39,499
Commercial bank wealth management products			
– Unlisted		**–**	31,964
Equity instruments			
– Unlisted		**1,741**	2,090
Subtotal		**310,161**	339,449

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

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

	Note	**As at December 31, 2019**	As at December 31, 2018
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		**310,161**	341,662

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

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

Analyzed by types of issuers:

	Note	**As at December 31, 2019**	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)			
Debt securities			
– Government		**2,139**	1,036
– Public institutions and quasi-government		**176**	52
– Financial institutions		**43,583**	35,989
– Corporates		**17,585**	12,521
Subtotal		**63,483**	49,598
Interbank certificates of deposits			
– Financial institutions		**81,930**	101,477
Asset-backed securities			
– Financial institutions		**4,937**	11,076
Fund investments			
– Financial institutions		**115,783**	103,745
Trust investment plans and asset management plans			
– Financial institutions		**42,287**	39,499
Commercial bank wealth management products			
– Financial institutions		**–**	31,964

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

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

Analyzed by types of issuers: (continued)

	Note	**As at December 31, 2019**	As at December 31, 2018
Equity instruments			
– Financial institutions		**14**	13
– Corporates		**1,727**	2,077
Subtotal		**1,741**	2,090
Subtotal		**310,161**	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		**310,161**	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 December 31, 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 as at fair value through profit or loss has no significant changes due to changes arising from their credit risk exposures.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

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

	As at December 31, 2019	As at December 31, 2018
Debt securities		
– Listed in Hong Kong	**6,924**	8,710
– Listed outside Hong Kong	**221,527**	170,930
– Unlisted	**–**	693
Subtotal	**228,451**	180,333
Asset-backed securities		
– Listed outside Hong Kong	**221**	3,017
Total	**228,672**	183,350

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

Analyzed by types of issuers:

	As at December 31, 2019	As at December 31, 2018
Debt securities		
– Government	**60,711**	59,470
– Financial institutions	**128,614**	107,552
– Corporates	**39,126**	13,311
Subtotal	**228,451**	180,333
Asset-backed securities		
– Financial institutions	**221**	3,017
Total	**228,672**	183,350

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

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

	As at December 31, 2019	As at December 31, 2018
Equity instruments		
– Unlisted	**1,053**	553
Total	**1,053**	553

Analyzed by types of issuers:

	As at December 31, 2019	As at December 31, 2018
Equity instruments		
– Financial institutions	**1,053**	553
Total	**1,053**	553

The Group designates part of non-trading equity investments as financial assets at fair value through other comprehensive income-equity instruments. As at December 31, 2019, the fair value of such equity investments was RMB1,053 million (December 31, 2018: RMB553 million). During the year, dividend income recognized for such equity investments was RMB3 million (During the year 2018: RMB2 million). During the year 2019 and 2018, the Group did not dispose such equity investments.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

20.4 Financial assets at amortized cost

	Note	As at December 31, 2019	As at December 31, 2018
Debt securities			
– Listed in Hong Kong		**20,958**	7,939
– Listed outside Hong Kong		**2,063,667**	1,658,228
– Unlisted	(1)	**770,608**	968,147
Subtotal		**2,855,233**	2,634,314
Interbank certificates of deposits			
– Listed outside Hong Kong		**183,537**	87,313
Asset-backed securities			
– Listed outside Hong Kong		**43,869**	35,823
– Unlisted		**5,277**	7,282
Subtotal		**49,146**	43,105
Other debt instruments			
– Unlisted	(2)	**72,228**	114,170
Gross amount		**3,160,144**	2,878,902
Allowance for impairment losses		**(25,000)**	(16,980)
Carrying amount		**3,135,144**	2,861,922

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

(1) Debt securities included long term special financial bonds issued by 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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

20 Investments instruments (continued)

20.4 Financial assets at amortized cost (continued)

Analyzed by types of issuers:

	As at December 31, 2019	As at December 31, 2018
Debt securities		
– Government	**998,949**	849,483
– Financial institutions	**1,740,770**	1,703,296
– Corporates	**115,514**	81,535
Subtotal	**2,855,233**	2,634,314
Interbank certificates of deposits		
– Financial institutions	**183,537**	87,313
Asset-backed securities		
– Financial institutions	**49,146**	43,105
Other debt instruments		
– Financial institutions	**70,819**	114,170
– Corporates	**1,409**	–
Subtotal	**72,228**	114,170
Gross amount	**3,160,144**	2,878,902
Allowance for impairment losses	**(25,000)**	(16,980)
Carrying amount	**3,135,144**	2,861,922

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

21 Investment in subsidiaries

The Bank

	As at December 31	
	2019	2018
Investment cost	**10,115**	2,115

Name of entities	Place of registration	Authorized/ paid-in capital	Nature of business	Percentage of equity interest	Proportion of voting rights	Year of registration
PSBC Consumer Finance Co., Ltd.	Guangzhou, Guangdong Province, PRC	RMB3 billion	Consumer Finance	70.50%	70.50%	2015
PSBC Wealth Management Co., Ltd.	Beijing, PRC	RMB8 billion	Asset Management	100.00%	100.00%	2019

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 from domestic shareholders and their domestic subsidiaries; 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 as approved by CBIRC.

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

On December 18, 2019, the Bank, according to the CBIRC's approval, established PSBC Wealth Management Co., Ltd., wholly-owned by the Bank. The business scope of the company: to provide unspecified general public with wealth management products, and carry out investment and management of properties entrusted by investors; issue nonpublic wealth management products to eligible investors, and carry out investment and management of properties entrusted by investors; financial advising and consulting services; other businesses approved by CBIRC.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

22 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	218	468	80	329	4,483	5,578
Transfer-in from investment properties	19	–	–	–	–	19
Transfer-in from construction in progress	3,605	248	–	49	(3,902)	–
Less: Deductions	(57)	(467)	(21)	(153)	(896)	(1,594)
As at December 31, 2019	48,191	10,493	1,243	4,597	11,765	76,289
Accumulated depreciation						
As at January 1, 2019	(14,043)	(8,573)	(1,112)	(3,159)	–	(26,887)
Add: Charge for the year	(2,375)	(786)	(20)	(363)	–	(3,544)
Transfer-in from investment properties	(6)	–	–	–	–	(6)
Less: Disposals	31	445	20	142	–	638
As at December 31, 2019	(16,393)	(8,914)	(1,112)	(3,380)	–	(29,799)
Carrying amount						
As at December 31, 2019	31,798	1,579	131	1,217	11,765	46,490
As at January 1, 2019	30,363	1,671	72	1,213	12,080	45,399

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

22 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

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22 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 December 31, 2019 (December 31, 2018: RMB1 billion), with net book value amounted to RMB0.5 billion as at December 31, 2019 (December 31, 2018: RMB0.5 billion).

In addition, as at December 31, 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 RMB3.6 billion (December 31, 2018: RMB3.4 billion), with net book value of RMB3.1 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.

As at December 31, 2019 and 2018, the Group has no property and equipment held under finance leases.

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

23 Deferred taxation

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

	As at December 31	
	2019	2018
Deferred tax assets	**47,237**	35,887

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23 Deferred taxation (continued)

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

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Contract liabilities	Total
January 1, 2019	**29,604**	**757**	**2,781**	**2,143**	**602**	**35,887**
Credit to profit or loss	**12,067**	**487**	**(824)**	**(321)**	**(183)**	**11,226**
Charge to other comprehensive income	**(281)**	**–**	**405**	**–**	**–**	**124**
December 31, 2019	**41,390**	**1,244**	**2,362**	**1,822**	**419**	**47,237**

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Contract liabilities	Total
December 31, 2017	18,279	418	1,725	1,474	362	22,258
Change in accounting policies	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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

23 Deferred taxation (continued)

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

	As at December 31			
	2019		2018	
	Deductible/ (Taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**166,684**	**41,671**	118,416	29,604
Fair value changes of financial instruments	**11,824**	**2,956**	11,269	2,817
Provisions	**7,288**	**1,822**	8,571	2,143
Staff cost accrued but not paid	**4,976**	**1,244**	3,030	757
Contract liabilities	**1,676**	**419**	2,407	602
Total	**192,448**	**48,112**	143,693	35,923
Deferred tax liabilities				
Fair value changes of financial instruments	**(2,375)**	**(594)**	(145)	(36)
Allowance for impairment losses	**(1,125)**	**(281)**	–	–
Total	**(3,500)**	**(875)**	(145)	(36)
Net	**188,948**	**47,237**	143,548	35,887

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24 Other assets

	Note	As at December 31 2019	2018
Right-of-use assets	(1)	**11,145**	N/A
Accounts receivable and temporary payment		**7,872**	6,558
Other accounts receivable		**2,595**	2,256
Continuing involvement assets (Note 41.2)		**2,372**	1,899
Intangible assets	(2)	**2,060**	1,696
Receivable of fee and commission		**1,980**	1,182
Prepaid expenses		**1,619**	2,961
Deferred expenses		**1,205**	1,044
Interest receivable		**970**	862
Low-value consumables		**565**	407
Investment properties		**544**	619
Foreclosed assets		**227**	210
Land use rights		**N/A**	1,739
Others		**2,180**	1,299
Gross amount		**35,334**	22,732
Allowance for impairment losses		**(663)**	(593)
Net value		**34,671**	22,139

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

24 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	3,449	–	3,449
Less: Deductions	(188)	–	(188)
As at December 31, 2019	12,259	2,270	14,529
Accumulated depreciation/amortization			
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	(2,855)	(54)	(2,909)
Less: Disposals	56	–	56
As at December 31, 2019	(2,799)	(585)	(3,384)
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 December 31, 2019	9,460	1,685	11,145

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

25 Movements of allowance for impairment losses

25.1 The loss allowance recognized in the year 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) in 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 in this year other than write-off;

Additional allowance for new financial instruments recognized in this year;

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 in this year.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors:

Financial assets held under resale agreements	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2019	822	–	–	822
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(7)	7	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	433	–	433
Financial assets derecognized or settled during the period	(815)	–	–	(815)
New financial assets originated or purchased	451	–	–	451
Remeasurement	–	–	–	–
Unwind of discount	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	451	440	–	891

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors: (continued)

Corporate loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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	137	(135)	(2)	–
Transfer to stage 2	(3,011)	3,018	(7)	–
Transfer to stage 3	(2,553)	(373)	2,926	–
Changes of ECL arising from transfer of stage	(127)	208	5,636	5,717
Financial assets derecognized during the period	(9,641)	(1,414)	(2,069)	(13,124)
New financial assets originated or purchased	20,434	–	–	20,434
Remeasurement	11,316	2,379	120	13,815
Write-offs	–	–	(3,529)	(3,529)
Loss allowance as at December 31, 2019	67,105	10,170	15,302	92,577

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors: (continued)

Personal loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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	590	(308)	(282)	–
Transfer to stage 2	(913)	1,022	(109)	–
Transfer to stage 3	(1,984)	(967)	2,951	–
Changes of ECL arising from transfer of stage	(566)	1,552	10,098	11,084
Financial assets derecognized or settled during the period	(10,234)	(644)	(3,275)	(14,153)
New financial assets originated or purchased	20,043	–	–	20,043
Remeasurement	6,092	(142)	480	6,430
Write-offs	–	–	(7,920)	(7,920)
Loss allowance as at December 31, 2019	47,593	2,931	23,023	73,547

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25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors: (continued)

Loans and advances to customers at fair value through other comprehensive income	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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	(44)	44	–	–
Transfer to stage 3	(40)	–	40	–
Changes of ECL arising from transfer of stage	–	–	–	–
Financial assets derecognized or settled during the period	(599)	–	–	(599)
New financial assets originated or purchased	730	–	–	730
Remeasurement	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	646	44	40	730

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25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors: (continued)

	Year ended December 31, 2019			
Investment instruments – financial assets at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
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	(404)	404	–	–
Transfer to stage 3	(1)	(187)	188	–
Changes of ECL arising from transfer of stage	–	6,280	1,305	7,585
Financial assets derecognized during the period	(1,001)	(906)	–	(1,907)
New financial assets originated or purchased	1,676	–	–	1,676
Remeasurement	(174)	(184)	755	397
Unwind of discount	–	–	269	269
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	2,616	9,486	12,898	25,000

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25 Movements of allowance for impairment losses (continued)

25.2(a) The following tables explain the changes in the loss allowance between the beginning and the end of the 2019 annual period due to these factors: (continued)

Investment instruments - financial assets at fair value through other comprehensive income-debt instruments	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2019	156	39	–	195
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(3)	3	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	10	–	10
Financial assets derecognized or settled during the period	(51)	(39)	–	(90)
New financial assets originated or purchased	271	–	–	271
Remeasurement	9	–	–	9
Unwind of discount	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	382	13	–	395

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25 Movements of allowance for impairment losses (continued)

25.2(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:

	Year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
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 stage	(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
Remeasurement	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

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25 Movements of allowance for impairment losses (continued)

25.2(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			
Personal loans and advances to customers – financial assets at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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
Remeasurement	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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.2(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			
	Stage 1	Stage 2	Stage 3	
Investment instruments – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
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
Remeasurement	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

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25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period:

	Year ended December 31, 2019			
Financial assets held under resale agreements	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**240,509**	**–**	**–**	**240,509**
Transfers:				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(5,507)**	**5,507**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(235,002)**	**–**	**–**	**(235,002)**
New financial assets originated or purchased	**142,778**	**–**	**–**	**142,778**
Write-offs	**–**	**–**	**–**	**–**
Gross carrying amount as at December 31, 2019	**142,778**	**5,507**	**–**	**148,285**

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25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period: (continued)

Corporate loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	1,388,491	25,502	13,497	1,427,490
Transfers:				
Transfer to stage 1	325	(322)	(3)	–
Transfer to stage 2	(15,143)	15,150	(7)	–
Transfer to stage 3	(8,464)	(1,501)	9,965	–
Financial assets derecognized or settled during the period	(691,434)	(11,005)	(3,379)	(705,818)
New financial assets originated or purchased	1,017,740	–	–	1,017,740
Write-offs	–	–	(3,529)	(3,529)
Gross carrying amount as at December 31, 2019	1,691,515	27,824	16,544	1,735,883

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period: (continued)

Personal loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	2,286,422	8,608	24,810	2,319,840
Transfers:				
Transfer to stage 1	1,013	(697)	(316)	–
Transfer to stage 2	(7,535)	7,656	(121)	–
Transfer to stage 3	(14,631)	(2,251)	16,882	–
Financial assets derecognized or settled during the period	(673,698)	(3,729)	(6,003)	(683,430)
New financial assets originated or purchased	1,122,298	–	–	1,122,298
Write-offs	–	–	(7,920)	(7,920)
Gross carrying amount as at December 31, 2019	**2,713,869**	**9,587**	**27,332**	**2,750,788**

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25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period: (continued)

Loans and advances to customers at fair value through other comprehensive income	Year ended December 31, 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	526,672	–	–	526,672
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(3,336)	3,336	–	–
Transfer to stage 3	(198)	–	198	–
Financial assets derecognized or settled during the period	(526,672)	–	–	(526,672)
New financial assets originated or purchased	487,515	–	–	487,515
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2019	483,981	3,336	198	487,515

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25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period: (continued)

	Year ended December 31, 2019			
Investment instruments – financial assets at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
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	**(18,996)**	**18,996**	**–**	**–**
Transfer to stage 3	**(376)**	**(1,535)**	**1,911**	**–**
Financial assets derecognized or settled during the period	**(468,528)**	**(6,854)**	**208**	**(475,174)**
New financial asset originated or purchased	**756,416**	**–**	**–**	**756,416**
Write-offs	**–**	**–**	**–**	**–**
Gross carrying amount as at December 31, 2019	**3,119,753**	**27,050**	**13,341**	**3,160,144**

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.3(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 2019 annual period: (continued)

Investment instruments – financial assets at fair value through other comprehensive income-debt instruments	Year ended December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	183,053	297	–	183,350
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(100)	100	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(54,067)	(297)	–	(54,364)
New financial assets originated or purchased	99,686	–	–	99,686
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2019	228,572	100	–	228,672

As at December 31, 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. The changes in the loss allowance and gross carrying amount are caused by new financial assets originated or purchased, remeasurement and financial assets derecognized or settled during this period.

As at December 31, 2019, changes of allowance for impairment losses of other assets would have no significant impact on the Group's financial position or operating results.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.3(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:

Corporate loans and advances to customers – financial assets at amortized cost	Year ended December 31, 2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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 or settled 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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.3(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			
Personal loans and advances to customers – financial assets at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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 or settled 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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

25 Movements of allowance for impairment losses (continued)

25.3(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			
	Stage 1	Stage 2	Stage 3	
Investment instruments – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
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 or settled 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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

26 Deposits from banks and other financial institutions

	As at December 31	
	2019	2018
Deposits from:		
Domestic banks	**20,137**	21,922
Other domestic financial institutions	**27,115**	52,243
Total	**47,252**	74,165

27 Placements from banks and other financial institutions

	As at December 31	
	2019	2018
Placements from:		
Domestic banks	**22,611**	35,723
Other domestic financial institutions	**–**	300
Overseas banks	**3,185**	3,822
Total	**25,796**	39,845

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

28 Financial liabilities at fair value through profit or loss

	As at December 31	
	2019	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 December 31, 2019, all principal guaranteed wealth management products issued by the Group were matured and redeemed.

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.

As at December 31, 2018, there was 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.

29 Financial assets sold under repurchase agreements

	As at December 31	
	2019	2018
Analyzed by type of collateral:		
Debt securities	**64,010**	126,647
Bills	**34,648**	8,272
Total	**98,658**	134,919

The collateral pledged under repurchase agreement is disclosed in "Note 40.5 Contingent liabilities and commitments – Collateral".

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

30 Customer deposits

	As at December 31	
	2019	2018
Demand deposits		
Corporates	**771,034**	770,917
Personal	**2,701,369**	2,615,326
Subtotal	**3,472,403**	3,386,243
Time deposits		
Corporates	**357,931**	386,863
Personal	**5,481,019**	4,852,585
Subtotal	**5,838,950**	5,239,448
Structured deposits		
Personal	**926**	–
Subtotal	**926**	–
Other deposits	**1,787**	1,749
Total	**9,314,066**	8,627,440

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

31 Debt securities issued

	Note	As at December 31 2019	2018
Debt securities issued	(1)	**76,158**	76,154
Interbank certificates of deposits		**20,821**	–
Total		**96,979**	76,154

(1)

	Note	As at December 31 2019	2018
10-year tier-2 capital bonds at fixed interest rate	(i)	**25,330**	25,328
10-year tier-2 capital bonds at fixed interest rate	(ii)	**30,151**	30,148
10-year tier-2 capital bonds at fixed interest rate	(iii)	**20,677**	20,678
Total		**76,158**	76,154

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

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

31 Debt securities issued (continued)

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

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

During the year of 2019, the Group issued interbank certificates of deposit with the total face value of RMB53.37 billion ranged from one month to one year, with interest rates ranging from 2.40% to 3.05%. As at December 31, 2019, the interbank certificates of deposit, which have not reached their maturities, with the face value of RMB21.21 billion.

During the year of 2018, the Group issued interbank certificates of deposit with the total face 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 outstanding value.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities

		As at December 31	
	Note	**2019**	2018
Payables for agency services		**17,594**	16,465
Employee benefits payable	(1)	**14,046**	9,698
Tax payable		**12,931**	17,832
Provisions	(2)	**9,658**	11,287
Lease liabilities	(3)	**8,396**	N/A
Continuing involved liabilities (Note 41.2)		**2,372**	1,899
Payables to China Post Group and other related parties (Note 38.3.1 (9))		**2,231**	1,933
Dormant deposit payables		**2,150**	1,559
Settlement and clearance payables		**1,961**	5,952
Contract liabilities		**1,462**	1,855
Payable for construction cost		**1,079**	1,086
Exchange transaction payables		**915**	1,034
Others		**9,216**	8,952
Total		**84,011**	79,552

(1) Employee benefits payable

		As at December 31	
	Note	**2019**	2018
Short-term employee benefits	(i)	**12,107**	8,445
Defined contribution benefits	(ii)	**1,309**	722
Supplementary retirement benefits and early retirement benefits	(iii)	**630**	531
Total		**14,046**	9,698

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits

	2019			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Wages and salaries, bonus, allowance and subsidies	7,086	35,648	(32,275)	10,459
Staff welfare	–	2,051	(2,051)	–
Social security contributions	68	2,516	(2,493)	91
Including: Medical insurance	65	2,313	(2,290)	88
Maternity insurance	2	148	(148)	2
Work injury insurance	1	55	(55)	1
Housing funds	15	3,058	(3,059)	14
Labour union funds and employee education funds	1,276	1,301	(1,034)	1,543
Total	8,445	44,574	(40,912)	12,107

	2018			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Wages and salaries, bonus, 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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(ii) Defined contribution benefits

	2019			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Basic pensions	**112**	**4,221**	**(4,238)**	**95**
Unemployment insurance	**4**	**105**	**(105)**	**4**
Annuity scheme	**606**	**1,121**	**(517)**	**1,210**
Total	**722**	**5,447**	**(4,860)**	**1,309**

	2018			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the 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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(iii) Supplementary retirement benefits

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

	As at December 31	
	2019	2018
Balance at the beginning of year	**531**	495
Interest expenses	**18**	20
Gain or loss from actuarial calculation	**110**	44
– Charge to profit or losses	**–**	2
– Charge to other comprehensive income	**110**	42
Benefits paid	**(29)**	(28)
Balance at the end of year	**630**	531

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

	As at December 31	
	2019	2018
Discount rate-retirement benefit plan	**3.50%**	3.50%
Discount rate-early retirement benefit plan	**2.75%**	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 December 31, 2019 and December 31, 2018, the Group has no default on the staff costs payable above.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(2) Provisions

		Year ended December 31, 2019		
	Note	**Balance at the beginning of the year**	**Current period provisions**	**Balance at the end of the year**
Guarantee and Commitments	(i)	**2,694**	**(434)**	**2,260**
Litigation and others	(ii)	**8,593**	**(1,195)**	**7,398**
Total		**11,287**	**(1,629)**	**9,658**

		Year ended December 31, 2018				
	Note	IAS 39 carrying amount December 31, 2017	Remeasurement	IFRS 9 carrying amount January 1, 2018	Current year provisions	Balance at the end of the year
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(2) Provisions (continued)

(i) Guarantee and Commitments

	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	(5)	5	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(1,166)	(136)	(50)	(1,352)
New financial assets originated or purchased	1,020	–	–	1,020
Remeasurement	(102)	–	–	(102)
Provisions as at December 31, 2019	2,254	6	–	2,260

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) As at December 31, 2019 and December 31, 2018, the Group established accruals according to the best estimation for a variety of risk events and outflow of economic benefits.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(3) Lease liabilities

	As at December 31	
	2019	2018
Net present value of lease payments	**8,060**	N/A
Interest adjustments	**336**	N/A
Total	**8,396**	N/A

33 Share capital and other equity instruments

33.1 Share capital

	As at December 31 2019	
	Quantity (million shares)	**Face value**
Domestically listed (A shares)	**66,347**	**66,347**
Listed overseas (H shares)	**19,856**	**19,856**
At the end of year	**86,203**	**86,203**

	As at December 31 2018	
	Quantity (million shares)	Face value
Domestic non-tradable shares	61,175	61,175
Listed overseas (H shares)	19,856	19,856
At the end of year	81,031	81,031

33 Share capital and other equity instruments (continued)

33.1 Share capital (continued)

A shares refer to ordinary shares that are subscribed and traded in RMB, and H shares are shares that are approved to be listed in Hong Kong and denominated in RMB, but subscribed and traded in Hong Kong dollars.

All H shares and A shares issued by the Bank are ordinary shares with a par value of RMB1.00 per share and enjoy equal rights.

Approved by the China Banking Regulatory Commission *China Banking Regulatory Commission approved the Initial Public Offering of A Shares by the Postal Savings Bank of China and amendment of the Articles of Association (Yinbaojianfu [2019]No.565)《中國銀保監會關於郵儲銀行首次公開發行A股股票並上市和修改公司章程的批复》(銀保監复[2019]565號)* and approved by the China Securities Regulatory Commission *the China Securities Regulatory Commission Approval of Postal Savings Bank Co., Ltd.'s Initial Public Offering (CSRC License [2019] No.1991) 《關於核准中國郵政儲蓄銀行股份有限公司首次公開發行股票的批复》(證監許可[2019]1991號文)*.The Bank completed the initial public offering of 5,172 million A shares (excluding over-allotment) in December 2019. The face value of A shares is RMB1.00 per share, and the issue price is RMB5.50 per share. The net proceeds raised were RMB28,001 million, of which the share capital was RMB5,172 million and the capital reserve was RMB22,829 million.

As at December 31, 2019, the total number of ordinary shares of the Bank was 86,203 million, of which 63,373 million shares were restricted for sales and 22,830 million shares were unrestricted stock. The sales restriction period ranges from six months to three years. (As at December 31, 2018, the Bank does not have restricted shares).

Over-allotment option was exercised in January 2020. The over-allotment issued 776 million A shares at a face value of RMB1.00 and an issue price of RMB5.50 per share. The net proceeds raised were RMB4,205 million, of which the share capital was RMB776 million and the capital reserve was RMB3,429 million.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments

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

						Total amount (million)				
Financial instruments	Issue date	Classification	Initial dividend rate	Issue price	Quantity (million shares)	Original Currency (USD million)	Equivalent (RMB million)	Conversion condition	Maturity date	Conversion
Offshore preference shares	September 27, 2017	Equity instruments	4.50%	USD20/share	362.5	7,250	47,989	Mandatory	No Maturity Date	None
Less: Issuance fee							(120)			
Carrying amount							47,869			

The key terms are as below:

(1) Dividends

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 shareholders' 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.

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

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

(4) Mandatory conversion trigger events

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

(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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of year (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 in 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

	January 1, 2019		Increase in current year		December 31, 2019	
Financial Instruments	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**

	January 1, 2018		Increase in current year		December 31, 2018	
Financial Instruments	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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

(c) Equity attributable to the holders of equity instruments

Items	As at December 31 2019	2018
1. Total equity attributable to equity holders of the Bank	**543,867**	474,404
(1) Equity attributable to ordinary equity holders of the Bank	**495,998**	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	**1,012**	909
(1) Equity attributable to non-controlling interests of ordinary shares	**1,012**	909
(2) Equity attributable to non-controlling interests of preference shares	**–**	–

34 Capital reserve

	Note	As at December 31 2019	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)
Share premium arising from the Bank's initial public offering of A shares (net of listing expenses)	(2)	**22,829**	–
Total		**97,477**	74,648

(1) The Bank increased its share capital injection on PSBC Consumer Finance by RMB1.5 billion on January 18, 2018, after the capital injections, the Bank's 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.

(2) The Bank completed the initial public offering of 5,172 million A shares (excluding over-allotment) on the Shanghai Stock Exchange in December 2019. The face value of A shares is RMB1.00 per share, and the issue price is RMB5.50 per share. The net proceeds raised were RMB28,001 million of which the capital stock was RMB5,172 million and the capital reserve was RMB22,829 million.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

35 Other reserves

35.1 Surplus reserve

	Year ended December 31	
	2019	2018
At the beginning of year	**30,371**	25,159
Appropriations in current year	**6,068**	5,212
At the end of year	**36,439**	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.

35.2 General reserve

	Year ended December 31	
	2019	2018
At the beginning of year	**103,959**	101,011
Appropriations in current year	**12,170**	2,948
At the end of year	**116,129**	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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

35 Other reserves (continued)

35.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
December 31, 2018	**4,575**	**(982)**	**3,593**
Remeasurement of retirement benefit obligations	**(110)**	**–**	**(110)**
Gains arising from changes in fair value of debt instruments at fair value through other comprehensive income	**(1,597)**	**405**	**(1,192)**
Changes in impairment provision of financial assets at fair value through other comprehensive income	**309**	**(281)**	**28**
December 31, 2019	**3,177**	**(858)**	**2,319**

	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

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36 Dividends distribution

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

Upon the approval of the annual shareholders' meeting in June 2018, the Bank distributed RMB11.920 billion (tax included) of cash dividends for the year ended December 31, 2017 to all the ordinary shareholders whose names appeared on the share register with RMB1.471 per ten shares (tax included). The cash dividends was paid in August 2018.

In the Board of Directors' Meeting held in May 2019, the directors approved the payment of dividends to offshore preference shareholders, amounted to RMB2,501 million (including tax). The Bank paid the dividends in September 2019.

In the Board of Directors' Meeting held in June 2018, the directors approved the payment of dividends to offshore preference shareholders, amounted to RMB2,391 million (tax included). The Bank paid the dividends in September 2018.

37 Cash and cash equivalents

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

	As at December 31	
	2019	2018
Cash	**43,922**	47,491
Surplus reserve with central bank	**46,584**	41,613
Deposits with banks and other financial institutions	**8,526**	9,080
Placements with banks and other financial institutions	**30,458**	73,098
Financial assets held under resale agreements	**140,929**	231,138
Short-term debt securities	**9,929**	–
Total	**280,348**	402,420

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties

38.1 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 controlled by the Ministry of Finance on behalf of the State Council.

(2) Registered capital of the parent company

	Balance at the end of the year 2018	Change in current year	Balance at the end of the year 2019
China Post Group	**108,821**	**28,779**	**137,600**

(3) As at December 31, 2019, China Post Group directly held 64.95% of the equity shares and voting rights in the Bank, China Post Securities Co., Ltd. held 0.01% of the equity shares and voting rights in the Bank (as at December 31, 2018, China Post Group directly held 68.92% of the equity shares and voting rights in the Bank).

38 Relationship and transactions with related parties (continued)

38.2 Information of major related parties

Name of enterprise	Relationship with the Bank
Shanghai International Port (Group) Co., Ltd.	Major shareholder of the Bank
China Shipbuilding Industry Co., Ltd.	Major shareholder of the Bank
Provincial branches of China Post Group	Company under the common control of China Post Group
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
Qianhai Reinsurance Co., Ltd.	An associate of China Post Group
Bank of Shanghai Co., Ltd.	Related party of the major shareholder of the Bank
Shenzhen Shipbuilding Trading Co., Ltd.	Related party of the major shareholder of the Bank
China UnionPay Co., Ltd.	Related party of the related natural persons of the Bank
Shenzhen Investment Holdings Co., Ltd.	Related party of the related natural persons of the Bank

38 Relationship and transactions with related parties (continued)

38.2 Information of major related parties (continued)

The Group's related natural persons include 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 persons. The Group's other related parties include other related parties of China Post Group, other related parties of major shareholders of the Bank and other related legal persons triggered by natural persons.

38.3 Related party transactions

For transactions between the Group and related parties in accordance with general commercial terms and normal business procedures, the pricing principle is the same as that of independent third party transactions. For transactions other than normal banking business between the Group and related parties, the pricing principle shall be determined by both parties through negotiation in accordance with general commercial terms.

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises

(1) Agency banking services from China Post Group and provincial branches

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

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(1) Agency banking services from China Post Group and provincial branches (continued)

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

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

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(1) Agency banking services from China Post Group and provincial branches (continued)

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.

To effectively manage the interest payment cost and maintain a stable growth in the size of deposits, the Bank launched relevant mechanisms to boost the increase of deposits, including the arrangements of cost sharing for floating interest rates of deposits and incentives for deposits. The Bank and China Post Group have agreed that the amount of deposit incentive shall not be higher than the payment by China Post Group under the cost sharing mechanism for floating interest rates of deposits in any circumstances.

The agency fee, floating interest rates and incentives for deposits between the Bank and China Post Group and provincial branches are settled with an offsetting amount in fixed period.

		Year ended December 31	
	Note	**2019**	2018
Deposit agency fee and others	(i)	**76,153**	73,012
Fees for agency savings settlement		**8,242**	7,958
Fees for agency sales and other commissions		**3,971**	3,822
Total		**88,366**	84,792

(i) In 2019, deposit agency fee amounted to RMB78,805 million (in 2018, RMB75,250 million). The offsetting settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-2,652 million (in 2018, RMB-2,238 million). According to the settlement arrangement between the Bank and China Post Group, deposit agency fee and others are settled in net.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(2) Operating lease with China Post Group and its related parties

The Group and China Post Group and its related parties lease buildings, ancillary equipment and other properties from each other.

As lessor

	Year ended December 31	
	2019	2018
Buildings and others	**85**	84

As lessee

	Year ended December 31	
	2019	2018
Buildings and others	**1,008**	985

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

	As at December 31	
	2019	2018
Right-of-use assets	**723**	N/A
Lease liabilities	**717**	N/A

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(3) Comprehensive services and goods transactions with China Post Group and its related parties

Rendering other comprehensive services and selling general office materials to China Post Group and its related parties

	Note	Year ended December 31 2019	2018
Comprehensive services rendered	(i)	**34**	32
General office materials sold		**56**	2
Agency sales of insurance products		**203**	168
Agency sales of fund products		**32**	11
Custodian business		**59**	54
Total		**384**	267

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

Receiving services or purchasing products from China Post Group and its related parties

	Note	Year ended December 31 2019	2018
Comprehensive services received	(ii)	**999**	930
Marketing services received		**423**	404
Goods purchased		**275**	181
Supplementary employee medical insurance		**49**	36
Total		**1,746**	1,551

(ii) Services received from China Post Group and its related parties include cash escort, equipment maintenance, advertisement, mailing and other services.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(4) Loans and letters of guarantee

	Note	As at December 31 2019	2018
China Post Group and other related parties	(i)	**11**	2

(i) The Group granted loans and issued letters of guarantee mainly to Zhejiang China Post Logistics Co., Ltd., Shenzhen Postal Express and Logistics Co., Ltd., and Jiangsu Post and Telecommunication Printing Factory.

(5) Deposits from related parties

	Note	As at December 31 2019	2018
China Post Group and provincial branches		**9,188**	9,455
Other related parties	(i)	**2,494**	1,799
Total		**11,682**	11,254
Interest rates per annum		**0.30%-2.94%**	0.30%-2.90%

(i) Other related parties include China Postal Express & Logistics Company Limited and its subsidaries, Shanghai Ule Network Technology Co., Ltd. and China National Philatelic Corporation.

(6) Deposits from banks and other financial institutions

	Note	As at December 31 2019	2018
Other related parties	(i)	**1,034**	7,546

(i) Deposits from banks and other financial institutions were mainly taken from China Post Life Insurance Company Limited and China Post Securities Co., Ltd.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(7) Investment instruments

	As at December 31	
	2019	2018
Financial assets at fair value through profit or loss		
– China Post Group	**–**	1,217
– China Post & Capital Fund Management Co., Ltd.	**250**	507
Financial assets at amortized cost		
– China Post Group	**399**	–
Financial assets at fair value through other comprehensive income-debt instruments		
– China Post Group	**1,727**	2,318

(8) Other receivables

	As at December 31	
	2019	2018
China Post Group and other related parties	**371**	265

(9) Other payables

	As at December 31	
	2019	2018
China Post Group and other related parties (Note 32)	**2,231**	1,933

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(10) Commitments to related parties

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

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

(11) Interest income, interest expense, fee and commission income and operating expense

	Year ended December 31	
	2019	2018
Interest income	**93**	45
Fee and commission income	**8**	3
Interest expense	**172**	241
Operating expense	**2**	–

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.2 Transactions with major shareholders of the Bank and their related parties

Transaction	Note	As at December 31 2019	2018
Assets			
Placements with banks and other financial institutions		–	1,026
Derivative financial assets	(i)	10	72
Financial assets held under resale agreements		–	808
Loans and advances to customers		4,305	1,294
Financial assets at fair value through profit or loss	(i)	1,010	300
Financial assets at amortized cost	(i)	35	35
Liabilities			
Derivative financial liabilities	(i)	26	82
Placements from banks and other financial institutions	(i)	2,002	–
Customer deposits		123	19

Transaction	Year ended December 31 2019	2018
Interest income	142	151
Interest expense	54	135

(i) Derivative financial assets, financial assets at fair value through profit or loss, financial assets at amortized cost, placements from banks and other financial institutions and derivative financial liabilities are mainly with Bank of Shanghai Co., Ltd.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.3 Transactions with related legal persons triggered by the related natural persons of the Bank

Transaction	Note	As at December 31 2019	2018
Assets			
Deposits with banks and other financial institutions		–	8,109
Placements with banks and other financial institutions		–	7,896
Loans and advances to customers	(i)	366	22,955
Financial assets at fair value through profit or loss		–	6,147
Financial assets at amortized cost	(ii)	509	6,646
Financial assets at fair value through other comprehensive income-debt instruments	(iii)	647	311
Financial assets at fair value through other comprehensive income-equity instruments	(iv)	53	53
Right-of-use assets		19	N/A
Other assets		3	9
Liabilities			
Customer deposits		3,434	2,079
Lease liabilities		19	N/A
Other liabilities		5	9

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.3 Transactions with related legal persons triggered by the related natural persons of the Bank (continued)

		Year ended December 31	
Transaction	Note	**2019**	2018
Interest income		**118**	3,333
Fee and commission income	(v)	**4,365**	3,985
Interest expense		**57**	393
Fee and commission expense	(v)	**963**	1,163
Operating expense		**–**	71

As at December 31, 2018, the Group's related legal persons triggered by related natural persons included China Everbright Bank Co., Ltd. and Bank of Tianjin Co., Ltd. It was mainly due to certain director and supervisor of the Bank left their previous position in these banks respectively for less than one year, so the two banks were continually regarded as related parties of the Group. In 2018, the transactions between the Group and these related legal persons mainly include deposits with banks and other financial institutions, placements with banks and other financial institutions, loans and advances, financial assets at fair value through profit or loss, financial assets at amortized cost and financial assets at fair value through other comprehensive income-debt instruments. As at December 31, 2019, China Everbright Bank Co., Ltd. and Bank of Tianjin Co., Ltd. were no longer regarded as related parties of the Group as the relevant director and supervisor had left their previous position respectively for more than one year.

(i) Loans and advances to customers is mainly with Shenzhen Investment Holdings Co., Ltd., Anhui Ltech Information Technology Co., Ltd. and Yunnan Lingyu Security Consulting Co., Ltd. in 2019.

(ii) Financial assets at amortized cost is mainly with Shenzhen Investment Holdings Co., Ltd. in 2019.

(iii) Financial assets at fair value through other comprehensive income-debt instruments is mainly with Shenzhen Investment Holdings Co., Ltd. in 2019.

(iv) Financial assets at fair value through other comprehensive income-equity instruments is mainly with China UnionPay Co., Ltd. in 2019.

(v) The net fee and commission income is mainly capital settlement with China UnionPay Co., Ltd. from clearance services in 2019.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.4 Transactions with related natural persons of the Bank

	As at December 31	
Transaction	**2019**	2018
Assets		
Loans and advances to customers	**72**	68
Liabilities		
Customer deposits	**228**	320

	Year ended December 31	
Transaction	**2019**	2018
Interest income	**2**	3
Interest expense	**3**	3

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.5 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.

38.4 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.

		Year ended December 31	
	Note	**2019**	2018
Key management personnel compensation	(i)	**7**	15

(i) Part of the remuneration for key management personnel in 2019 will be subject to strategic performance assessment after the reporting date and has not yet been paid; and the remuneration for key management personnel in 2018 is the remuneration after assessment.

39 Structured entities

39.1 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 of 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 December 31, 2019 and 2018, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB809.9 billion and RMB757.5 billion, respectively. The Group earned fee and commission of around RMB4.0 billion and RMB4.6 billion from these non-principal guaranteed WMPs for the years ended December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 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 December 31, 2019 and 2018, the non-principal guaranteed WMP vehicles did not incur any losses, or experience any difficulties in financing their activities.

39.2 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. The nature and purpose of the structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of notes to investors. As at December 31, 2019 and December 31, 2018, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

39 Structured entities (continued)

39.2 Unconsolidated structured entities held by the Group (continued)

	As at December 31, 2019			
	Financial assets at fair value through profit or loss	**Financial assets at amortized cost**	**Financial assets at fair value through other comprehensive income**	**Total**
Fund investments	**115,783**	**–**	**–**	**115,783**
Trust investment plans and asset management plans	**42,287**	**–**	**–**	**42,287**
Asset-backed securities	**4,937**	**48,312**	**221**	**53,470**
Other debt instruments	**–**	**50,647**	**–**	**50,647**
Total	**163,007**	**98,959**	**221**	**262,187**

	As at December 31, 2018			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

39 Structured entities (continued)

39.2 Unconsolidated structured entities held by the Group (continued)

The income from these unconsolidated structured entities earned by the Group was as follows:

	Year ended December 31	
	2019	2018
Interest income	**8,266**	11,034
Net gain arising from investment securities	**9,690**	309
Other comprehensive income	**17**	213
Total	**17,973**	11,556

39.3 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 years ended December 31, 2019 and 2018, the Group did not provide any financial support to any of these principal guaranteed WMPs and the special purpose trust.

40 Contingent liabilities and commitments

40.1 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 32 Other Liabilities.

40.2 Capital commitments

		As at December 31	
	Note	**2019**	2018
Contracts signed but not executed	(1)	**2,340**	3,860

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments (continued)

40.3 Credit commitments

	As at December 31	
	2019	2018
Loan commitments		
– With an original maturity of less than 1 year	**18,808**	15,605
– With an original maturity of 1 year or above	**415,969**	373,392
Subtotal	**434,777**	388,997
Bank acceptances	**31,583**	20,444
Guarantees and letters of guarantee	**20,447**	20,896
Letters of credit	**17,846**	12,100
Unused credit card commitments	**267,537**	204,358
Total	**772,190**	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, guarantees and letters of guarantee or bank acceptances.

40.4 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	
	2019	2018
Within 1 year	**N/A**	3,543
1 to 2 years	**N/A**	2,584
2 to 3 years	**N/A**	1,691
3 to 5 years	**N/A**	1,785
Over 5 years	**N/A**	1,202
Total	**N/A**	10,805

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments (continued)

40.5 Collateral

Assets pledged as collaterals

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

	As at December 31	
	2019	2018
Debt securities	**72,835**	130,572
Bills	**34,797**	8,311
Total	**107,632**	138,883

In addition, due to business needs, some of the debt securities held by the Group were pledged as collaterals. As at December 31, 2019, the carrying amount of debt securities pledged as collaterals amounted to RMB72.3 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 December 31, 2019, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB2 billion (December 31, 2018: RMB2.2 billion).

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments (continued)

40.6 Redemption commitment for government bonds

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

As at December 31, 2019, the nominal value of treasury bonds the Group was obligated to redeem was RMB128.8 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.

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

	As at December 31	
	2019	2018
Financial guarantees and credit commitments	**320,873**	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%.

41 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. When the Group neither transfers nor retains almost all risks and rewards of the ownership of the financial assets, and does not give up the control over the financial assets, the relevant financial assets and liabilities shall be recognized according to the extent to which the Group continues to be involved in the transferred financial assets, i.e. the risk level faced by the group due to the change of the value of the financial assets.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Transfer of financial assets (continued)

41.1 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 December 31, 2019	As at December 31, 2018
	Financial assets at amortized cost	Financial assets at amortized cost
Carrying amount of the collateral	**796**	995
Financial assets sold under repurchase agreements	**(801)**	(1,010)

41.2 Credit assets securitization transactions

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

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

41 Transfer of financial assets (continued)

41.2 Credit assets securitization transactions (continued)

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

	As at December 31	
	2019	2018
ABS issued-par value	**26,120**	21,097
Assets retained by the Group, gross	**2,372**	1,899
Assets retained by the Group, net	**2,110**	1,687

As at December 31, 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 RMB87 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. In the years of 2019 and 2018, the Group did not provide financial support to the above-mentioned special purpose trust.

42 Segment analysis

42.1 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.

42 Segment analysis (continued)

42.1 Business segment (continued)

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 investments, investment banking and wealth management products. The issuance of bond securities also falls into this range.

Others

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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	Year ended December 31, 2019				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	142,537	91,896	153,805	–	388,238
Interest expense to external customers	(126,204)	(13,714)	(8,096)	–	(148,014)
Intersegment net interest income/(expense)	144,333	(19,290)	(125,043)	–	–
Net interest income	160,666	58,892	20,666	–	240,224
Net fee and commission income	14,423	766	1,896	–	17,085
Net trading gains	–	–	3,747	–	3,747
Net gains from investment securities	–	–	12,456	–	12,456
Net gains on derecognition of financial assets at amortized cost	–	–	120	–	120
Net other operating gains	1,547	158	1,368	411	3,484
Operating expenses	(129,664)	(14,352)	(13,755)	(205)	(157,976)
Credit impairment losses	(21,839)	(25,624)	(7,921)	–	(55,384)
Impairment losses on other assets	(11)	–	–	–	(11)
Profit before income tax	25,122	19,840	18,577	206	63,745
Supplementary information					
Depreciation and amortization	6,202	927	96	–	7,225
Capital expenditures	5,780	864	90	–	6,734

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	As at December 31, 2019				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	3,098,469	2,428,501	4,642,499	–	10,169,469
Deferred tax assets					47,237
Total assets					10,216,706
Segment liabilities	(8,254,382)	(1,140,069)	(277,376)	–	(9,671,827)
Supplementary information					
Credit commitments	267,537	504,653	–	–	772,190

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	Year ended December 31, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	120,568	87,112	152,486	–	360,166
Interest expense to external customers	(102,085)	(15,751)	(8,208)	–	(126,044)
Intersegment net interest income/(expense)	132,054	(16,432)	(115,622)	–	–
Net interest income	150,537	54,929	28,656	–	234,122
Net fee and commission income	11,420	540	2,474	–	14,434
Net trading gains	–	–	4,569	–	4,569
Net gains from investment securities	–	–	3,780	–	3,780
Net other operating gains	1,654	288	2,008	390	4,340
Operating expenses	(124,921)	(12,777)	(13,967)	(659)	(152,324)
Credit impairment losses	(17,136)	(27,322)	(10,956)	–	(55,414)
Impairment losses on other assets	(20)	–	–	–	(20)
Profit/(loss) before income tax	21,534	15,658	16,564	(269)	53,487
Supplementary information					
Depreciation and amortization	3,956	593	61	–	4,610
Capital expenditures	5,430	814	84	–	6,328

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	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

42.2 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.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	Year ended December 31, 2019								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	180,362	38,054	29,989	31,897	55,662	39,069	13,205	–	388,238
Interest expense to external customers	(15,536)	(21,618)	(10,746)	(20,266)	(42,194)	(28,150)	(9,504)	–	(148,014)
Intersegment net interest (expense)/income	(140,616)	15,109	9,126	20,503	49,870	34,383	11,625	–	–
Net interest income	24,210	31,545	28,369	32,134	63,338	45,302	15,326	–	240,224
Net fee and commission income	(2,659)	3,018	3,500	2,967	4,813	4,056	1,390	–	17,085
Net trading gains/(losses)	3,727	–	(1)	4	1	12	4	–	3,747
Net gains on derecognition of financial assets at amortized cost	11,869	185	78	88	108	57	71	–	12,456
Net gains from investment securities	120	–	–	–	–	–	–	–	120
Net other operating gains	1,522	188	399	224	423	632	96	–	3,484
Operating expenses	(7,110)	(20,894)	(18,138)	(21,699)	(42,707)	(34,302)	(13,126)	–	(157,976)
Credit impairment losses	(10,533)	(6,467)	(6,726)	(8,120)	(10,507)	(10,995)	(2,036)	–	(55,384)
Impairment losses on other assets	–	–	–	(13)	–	2	–	–	(11)
Profit before income tax	21,146	7,575	7,481	5,585	15,469	4,764	1,725	–	63,745
Supplementary information									
Depreciation and amortization	855	1,126	722	1,096	1,329	1,560	537	–	7,225
Capital expenditures	1,517	656	525	843	1,338	1,202	653	–	6,734

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	As at December 31, 2019								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	6,725,834	1,703,964	1,084,787	1,763,158	3,327,545	2,405,710	838,511	(7,680,040)	10,169,469
Deferred tax assets									47,237
Total assets									10,216,706
Segment liabilities	(6,304,475)	(1,692,104)	(1,072,402)	(1,743,708)	(3,305,624)	(2,396,851)	(835,986)	7,679,323	(9,671,827)
Supplementary information									
Credit commitments	267,537	79,515	94,437	109,833	103,035	96,442	21,391	-	772,190

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	Year ended December 31, 2018								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	177,897	32,178	25,120	27,962	47,370	36,109	13,530	–	360,166
Interest expense to external customers	(17,078)	(17,158)	(9,273)	(16,612)	(34,840)	(23,286)	(7,797)	–	(126,044)
Intersegment net interest (expense)/income	(128,207)	14,248	9,260	18,814	46,164	30,331	9,390	–	–
Net interest income	32,612	29,268	25,107	30,164	58,694	43,154	15,123	–	234,122
Net fee and commission income	(2,829)	2,785	3,012	2,672	4,024	3,475	1,295	–	14,434
Net trading gains	4,447	–	–	–	–	122	–	–	4,569
Net gains from investment securities	3,227	227	99	–	147	–	80	–	3,780
Net other operating gains	2,709	197	166	213	408	580	67	–	4,340
Operating expenses	(9,825)	(19,725)	(16,752)	(20,258)	(40,492)	(32,456)	(12,816)	–	(152,324)
Credit impairment losses	(14,033)	(6,517)	(4,813)	(5,508)	(9,166)	(11,321)	(4,056)	–	(55,414)
Impairment losses on other assets	–	–	–	(2)	–	(9)	(9)	–	(20)
Profit before income tax	16,308	6,235	6,819	7,281	13,615	3,545	(316)	–	53,487
Supplementary information									
Depreciation and amortization	917	697	317	568	839	937	335	–	4,610
Capital expenditures	148	1,216	534	672	2,035	1,227	496	–	6,328

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	As at December 31, 2018								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
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

43 Financial risk management

43.1 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 exchange rate risk and interest rate risk.

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

The amount and scale of subsidiaries and structured entities included in the consolidated statements of the group are not significant, so the following mainly analyzes the financial risks faced by the Group.

43 Financial risk management (continued)

43.2 Framework of financial risk management

The Group manages its risks at four levels, i.e., Board of Directors, Board of Supervisors, senior management, risk management departments at the head office and the branches.

The Group's Board of Directors, the ultimate owner of the Group's risk management, is responsible for determining the Group's risk strategies and risk appetites. The Board of Directors oversees senior management's risk control through its Risk Management Committee and proposes requests and advices for the improvement of risk management and internal risk control. The Risk Management Committee meets regularly to deliberate the significant matters of risk management and supervise the Group's operation of risk management system and our risk profile.

The Board of Supervisors assumes the supervisory responsibilities for comprehensive risk management of the Bank. It is responsible for supervising the Board of Directors in respect of the formulation of risk management strategies, policies and procedures, supervising and inspecting risk management and internal control of the Bank and urging rectifications thereof, and evaluating the performance of Directors, Supervisors and the senior management members in respect of risk management.

Senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, developing risk management measures and policies, and approving internal rules and procedures for risk management. The Risk Management Committee under the senior management is responsible for reviewing risk management, internal control, basic policies and procedures for risk management, regularly reviewing risk management status and performance across the Group, and evaluating significant risk issues and discussing solutions.

Under the oversight and guidance of the Group's senior management and its Risk Management Committee, the Risk Management Department at the head office is a comprehensive risk management function, which organizes the implementation of the comprehensive risk management system and takes the lead in coordinating risk identification, measurement, evaluation, monitoring, control or mitigation. Other management departments are responsible for policy formulation and daily management of risk management within the scope of their duties under the enterprise-wide risk management framework. Under the comprehensive risk management system, all business departments organize and carry out business-related risk management.

Risk management and internal management control committees under the management of tier-one branches and tier-two branches are responsible for decision-making within their respective authority limits, organizing plans and procedures to meet their risk management objectives and assessing the risk position and organizing risk management activities within their respective jurisdictions. Meanwhile, risk management departments in tier-one branches and tier-two branches are responsible for developing risk management rules and measures at their level and overseeing the implementation of risk management policies.

43 Financial risk management (continued)

43.3 Credit risk

Credit risk refers to the risk of loss caused by the default or the reduction of credit rating and performance ability of the debtor or the counterparty.

The main sources of the group's credit risk include: loan business, capital business (including deposits and placements, redemptions, corporate bonds and financial bonds investment, inter-bank investment, etc.), off-balance sheet credit business (including guarantee, commitment, etc.).

To effectively recognize, measure, monitor, control and report the credit risk, the Group has designed the organisation structure for risk management and established credit granting policies and procedures. The Board and its Risk Management Committee are responsible for determining credit risk strategy and risk appetite, supervising the implementation of the risk appetite and credit risk policies. Senior management and its risk management committee are responsible for considering the methodology and standards of credit rating, examining the strategy and quota of credit risk management, implementing risk strategy and risk appetite determined by the Board.

Credit management departments at all levels are responsible for leading the management of credit risk at their corresponding levels, and each business department are responsible for the implementation of policies, standards and requirements of credit risk management in its field of business in accordance with the division of functions. They will implement specific risk control from pre-loan investigations, loan review and post-loan management.

(1) Loans and advances to customers, loan commitments and financial guarantees

The risk on its loan portfolio refers to the risk of uncertain income or loan losses from a non-performing loans due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered as a principal credit risk.

The Group persisted in adopting a prudent and stable credit risk management policies, actively implemented national strategic deployments, optimized the credit risk management system, 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 management system for corporate and SME customers and completed 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, implemented specialized rectification requirements of the regulatory authorities, improved the quality of credit assets and enhanced the capacity of risk compensation offsetting. In addition, it intensified efforts of asset preservation, enriched the means of collection and disposal, and enhanced the effect of risk mitigation.

43 Financial risk management (continued)

43.3 Credit risk (continued)

(2) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly trust investment plans and assets management plans.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

(3) Interbank financing business

The Group manages the credit quality of deposits and placements with banks and other financial institutions and financial assets held under resale agreements by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

43.3.1 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 43.3.1(2) for the criteria of a significant increase in credit risk.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

Stage 3 includes financial assets that are credit-impaired. Please refer to note 43.3.1(3) for the Group's criteria of impaired financial assets.

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 accessed using expected credit loss model.

The Group has incorporated forward-looking information for measuring ECL 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.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(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.

(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 Credit-Impaired

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;

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(3) Definition of Default and Credit-Impaired (continued)

– 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.

(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.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(4) Description of Parameters, Assumptions, and Estimation Techniques (continued)

Loss Given Default (LGD) refers to the ratio of the expected loss in the total amount of a loan, which is the extent of loss on a defaulted exposure. The Group's LGD is calculated by internal rating model. For financial asset that does not use this model, historical analysis is adopted, where the loss of default has been calculated over a certain period from the time of default, in line with one-by-one recovery amount and date computed according to customer type, guarantee method, and historical non-performing loan collection experience, etc.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

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

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 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 December 31, 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 December 31, 2019 would be no more than 5%.

Assuming Stage 2 financial assets transferred into Stage 1, the balance of loss allowance as at December 31, 2019 would accordingly decrease by no more than 10%.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 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 exhausted all practical 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 year ended December 31, 2019 were RMB11,449 million (December 31, 2018: RMB7,164 million).

43.3.2 Credit risk limit control and mitigation policy

In accordance with risk policies and limits, the risk management and business departments of the Group made risk management measures. That aims to optimize business processes and monitor the implementation of risk control indicators.

To reduce risks, the Group requires customers to provide collateral or guarantees when appropriate. The Group has established guidelines for the acceptability of specific types of collateral, and set up a collateral management system to standardizing the collateral operation process. At the same time, the value, structure and legal documents of the collateral are regularly reviewed to ensure that it can continue to fulfill its intended purpose and conform to market practices.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures

(1) Maximum credit risk exposures

The table below presents the Group's maximum credit risk exposures before considering any collaterals or other credit enhancements as at December 31, 2019 and 2018. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

	As at December 31	
	2019	2018
Deposits with central bank	**1,110,921**	1,155,444
Deposits with banks and other financial institutions	**28,373**	140,351
Placements with banks and other financial institutions	**269,597**	285,622
Derivative financial assets	**5,009**	7,166
Financial assets held under resale agreements	**147,394**	239,687
Loans and advances to customers	**4,808,062**	4,149,538
Investment instruments		
Financial assets at fair value through profit or loss – debt instruments	**308,420**	339,572
Financial assets at fair value through other comprehensive income – debt instruments	**228,672**	183,350
Financial assets at amortized cost	**3,135,144**	2,861,922
Other financial assets	**15,396**	13,343
Subtotal	**10,056,988**	9,375,995
Credit commitments	**772,190**	646,795
Total	**10,829,178**	10,022,790

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 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 amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Deposits and placements with banks and other financial institutions and financial assets held under resale agreements	As at December 31, 2019 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit Grade				
Risk level 1	**383,583**	**–**	**–**	**383,583**
Risk level 2	**58,873**	**5,507**	**–**	**64,380**
Risk level 3	**–**	**–**	**–**	**–**
Default	**–**	**–**	**–**	**–**
Gross Carrying amount	**442,456**	**5,507**	**–**	**447,963**
Loss allowance	**(2,159)**	**(440)**	**–**	**(2,599)**
Carrying amount	**440,297**	**5,067**	**–**	**445,364**

Deposits and placements with banks and other financial institutions and financial assets held under resale agreements	As at December 31, 2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 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 December 31, 2019 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit Grade				
Risk level 1	**1,681,469**	**1,026**	**–**	**1,682,495**
Risk level 2	**10,046**	**15,721**	**–**	**25,767**
Risk level 3	**–**	**11,077**	**–**	**11,077**
Default	**–**	**–**	**16,544**	**16,544**
Gross Carrying amount	**1,691,515**	**27,824**	**16,544**	**1,735,883**
Loss allowance	**(67,105)**	**(10,170)**	**(15,302)**	**(92,577)**
Carrying amount	**1,624,410**	**17,654**	**1,242**	**1,643,306**

Corporate loans and advances to customers – financial assets at amortized cost	As at December 31, 2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43. Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019 ECL Staging			
Personal loans and advances to customers — financial assets at amortized cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**2,709,098**	**–**	**–**	**2,709,098**
Risk level 2	**4,771**	**6,069**	**–**	**10,840**
Risk level 3	**–**	**3,518**	**–**	**3,518**
Default	**–**	**–**	**27,332**	**27,332**
Gross Carrying amount	**2,713,869**	**9,587**	**27,332**	**2,750,788**
Loss allowance	**(47,593)**	**(2,931)**	**(23,023)**	**(73,547)**
Carrying amount	**2,666,276**	**6,656**	**4,309**	**2,677,241**

	As at December 31, 2018 ECL Staging			
Personal loans and advances to customers – financial assets at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 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, 2019 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	total
Credit Grade				
Risk level 1	**225,654**	**–**	**–**	**225,654**
Risk level 2	**2,918**	**100**	**–**	**3,018**
Risk level 3	**–**	**–**	**–**	**–**
Default	**–**	**–**	**–**	**–**
Carrying amount	**228,572**	**100**	**–**	**228,672**

Investment instruments – financial assets at fair value through other comprehensive income – debt instruments	As at December 31, 2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 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, 2019 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit Grade				
Risk level 1	**3,074,390**	**–**	**–**	**3,074,390**
Risk level 2	**45,363**	**27,050**	**–**	**72,413**
Risk level 3	**–**	**–**	**293**	**293**
Default	**–**	**–**	**13,048**	**13,048**
Gross Carrying amount	**3,119,753**	**27,050**	**13,341**	**3,160,144**
Loss allowance	**(2,616)**	**(9,486)**	**(12,898)**	**(25,000)**
Carrying amount	**3,117,137**	**17,564**	**443**	**3,135,144**

Investment instruments – financial assets at amortized cost	As at December 31, 2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
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 majority of maximum credit risk exposure for the credit commitment is in Stage I with credit grade as “Risk level 1”.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers

(1) Loans and advances by geographical region:

	As at December 31			
	2019		2018	
	Amount	Proportion	Amount	Proportion
Head Office	**294,229**	**6%**	270,476	6%
Central China	**1,216,003**	**25%**	1,030,335	24%
Western China	**851,016**	**17%**	766,342	18%
Yangtze River Delta	**979,711**	**20%**	796,752	19%
Bohai Rim	**759,469**	**15%**	649,228	15%
Pearl River Delta	**570,988**	**11%**	479,018	11%
Northeastern China	**302,770**	**6%**	284,714	7%
Total	**4,974,186**	**100%**	4,276,865	100%

(2) Loans and advances by types:

	As at December 31			
	2019		2018	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including:				
Corporate loans	**1,740,564**	**35%**	1,552,402	37%
Discounted bills	**482,834**	**10%**	404,623	9%
Personal loans and advances	**2,750,788**	**55%**	2,319,840	54%
Total	**4,974,186**	**100%**	4,276,865	100%

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers (continued)

(3) Loans and advances by industries:

	As at December 31			
	2019		2018	
	Amount	**Proportion**	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services (i)	**508,233**	**11%**	418,878	10%
Manufacturing	**273,074**	**6%**	240,122	6%
Financial services	**206,322**	**4%**	192,527	5%
Production and supply of electricity, heating, gas and water	**187,145**	**4%**	191,948	5%
Wholesale and retail	**104,441**	**2%**	88,551	2%
Construction	**103,094**	**2%**	82,399	2%
Leasing and business services	**99,571**	**2%**	86,909	2%
Management of water conservancy, environmental and public facilities	**71,449**	**1%**	76,810	2%
Real estate	**70,158**	**1%**	56,345	1%
Mining	**58,479**	**1%**	56,100	1%
Other industries	**58,598**	**1%**	61,813	1%
Subtotal	**1,740,564**	**35%**	1,552,402	37%
Discounted bills	**482,834**	**10%**	404,623	9%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	**1,700,049**	**34%**	1,417,898	33%
– Other consumer loans	**317,350**	**6%**	275,544	6%
Personal micro loans	**610,201**	**13%**	527,085	13%
Credit card overdraft and others	**123,188**	**2%**	99,313	2%
Subtotal	**2,750,788**	**55%**	2,319,840	54%
Total	**4,974,186**	**100%**	4,276,865	100%

(i) As at December 31, 2019, the balance included loans to China State Railway Group Co., Ltd. (In June 2019, China Railway Corporation was restructured and renamed as China State Group Co., Ltd.) of RMB182,673 million (December 31, 2018: RMB176,803 million).

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers (continued)

(4) Loans and advances by types of collateral:

	As at December 31			
	2019		2018	
	Amount	Proportion	Amount	Proportion
Unsecured loans	**1,255,903**	**25%**	1,089,195	25%
Guaranteed loans	**298,011**	**6%**	282,088	7%
Loans secured by mortgages	**2,476,942**	**50%**	2,128,232	50%
Loans secured by pledges	**460,496**	**9%**	372,727	9%
Discounted bills	**482,834**	**10%**	404,623	9%
Total	**4,974,186**	**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 December 31, 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	5,220	3,162	2,220	141	10,743
Guaranteed loans	2,314	2,211	2,749	816	8,090
Loans secured by mortgages	9,019	6,900	7,427	2,480	25,826
Loans secured by pledges	5,493	77	590	254	6,414
Discounted bills	–	10	–	–	10
Total	22,046	12,360	12,986	3,691	51,083

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 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				
	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	2,205	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 December 31, 2019, rescheduled loans and advances of the Group were RMB491 million (December 31, 2018: RMB1,063 million).

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments

(1) Credit quality of debt instruments

The table below represents the carrying amounts and allowance for impairment losses of financial assets at amortized cost and financial assets at fair value through other comprehensive income.

	As at December 31, 2019			
	Stage 1[i]	**Stage 2**	**Stage 3**	**Total**
Financial assets at amortized cost	**3,117,137**	**17,564**	**443**	**3,135,144**
Financial assets at fair value through other comprehensive income-debt instruments	**228,572**	**100**	**–**	**228,672**
Total	**3,345,709**	**17,664**	**443**	**3,363,816**

	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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1

	As at December 31, 2019		
The types of debt instruments	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Debt securities-by types of issuers:			
Government	998,949	60,711	1,059,660
Financial institutions	1,740,770	128,614	1,869,384
Corporates	113,993	39,026	153,019
Interbank certificates of deposits	176,562	–	176,562
Asset-backed securities	48,484	221	48,705
Other debt instruments	40,995	–	40,995
Gross amount	3,119,753	228,572	3,348,325
Less: Allowance for impairment losses	(2,616)	–	(2,616)
Carrying amount of debt instruments at stage 1	3,117,137	228,572	3,345,709

The allowance for impairment losses of debt instruments at fair value through other comprehensive income is RMB395 million, which is reflected in other comprehensive income.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1 (continued)

	As at December 31, 2018		
The types of debt instruments	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Debt securities-by types of issuers:			
Government	849,483	59,470	908,953
Financial institutions	1,703,296	107,552	1,810,848
Corporates	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 debt instruments at fair value through other comprehensive income is RMB195 million, which is reflected in other comprehensive income.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 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 December 31, 2019					
	Unrated[(i)]	AAA	AA	A	Below A	Total
Government bonds	648,912	412,887	–	–	–	1,061,799
Public sector and quasi-government bonds	176	–	–	–	–	176
Financial institution bonds	1,775,207	117,728	3,334	15,366	1,332	1,912,967
Corporate bonds	14,845	154,075	909	1,701	695	172,225
Interbank certificates of deposits	265,467	–	–	–	–	265,467
Asset-backed securities	8,283	44,686	1,335	–	–	54,304
Fund investments	115,783	–	–	–	–	115,783
Trust investment plans and asset management plans	42,287	–	–	–	–	42,287
Other debt instruments	72,228	–	–	–	–	72,228
Total	2,943,188	729,376	5,578	17,067	2,027	3,697,236

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

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

	As at December 31, 2018					
	Unrated(i)	AAA	AA	A	Below A	Total
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, interbank certificates of deposits 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.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.6 Concentration of credit risk

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

43.4 Liquidity risk

Liquidity risk refers to the risk of failure to obtain sufficient funds by commercial bank at a reasonable cost in a timely manner to repay maturing debts, fulfill other payment obligations and meet other financial needs of normal operation. Events or factors that cause the Group's liquidity risk include: deposit customers withdrawing deposits, loan customers withdrawing, debtors failing to repay principal and interest, excessive mismatch of maturity of assets and liabilities, difficulty in realizing assets, operating losses, decline in financing capacity, etc. The objective of liquidity risk management of the Group is to meet the liquidity needs and fulfill its payment obligation to external parties during the normal operation or at a highly stressed condition which is achieved through the establishment of a scientific and comprehensive liquidity risk management mechanism, through which liquidity risk can be timely identified, measured and effectively controlled.

The Group conducts liquidity risk stress tests on a quarterly basis to identify potential liquidity risks and continually improve stress testing methods based on regulatory and internal management requirements. The stress test results show that under the various scenario pressure assumptions, the Bank can pass the minimum life expectancy test.

The Group is mainly funded by personal deposits, which is considered as a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as cash and deposits with banks and other financial institutions, and government bonds. During the reporting period, the bank's liquidity regulatory indicators were functioning normally, with sufficient liquidity as a whole and safe and controllable.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

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

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

	As at December 31, 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
Cash and deposits with central bank	–	90,506	–	591	–	–	–	1,063,746	1,154,843
Deposits with banks and other financial institutions	–	8,507	–	14	19,852	–	–	–	28,373
Placements with banks and other financial institutions	–	–	38,719	14,381	177,274	39,223	–	–	269,597
Derivative financial assets	–	–	1,044	1,177	2,123	665	–	–	5,009
Financial assets held under resale agreements	–	–	123,679	16,532	7,183	–	–	–	147,394
Loans and advances to customers	9,198	–	309,523	386,289	1,421,427	841,854	1,839,771	–	4,808,062
Financial assets at fair value through profit or loss	71	114,882	18,653	17,641	57,115	23,409	76,649	1,741	310,161
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,547	17,128	40,585	159,254	3,158	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	1,053	1,053
Financial assets at amortized cost	178	–	40,037	117,883	404,115	1,760,904	812,027	–	3,135,144
Other financial assets	970	9,370	149	1,669	79	448	2,533	178	15,396
Total financial assets	10,417	223,265	540,351	573,305	2,129,753	2,825,757	2,734,138	1,066,718	10,103,704

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

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

	As at December 31, 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	–	46,190	221	44	401	396	–	–	47,252
Placements from banks and other financial institutions	–	–	2,139	5,936	17,721	–	–	–	25,796
Derivative financial liabilities	–	–	999	1,445	2,172	449	–	–	5,065
Financial assets sold under repurchase agreements	–	–	61,651	19,383	17,624	–	–	–	98,658
Customer deposits	–	3,528,475	524,808	1,478,123	2,457,929	1,324,731	–	–	9,314,066
Debt securities issued	–	–	–	2,118	19,917	–	74,944	–	96,979
Other financial liabilities	–	14,396	18,640	2,332	224	1,016	2,372	–	38,980
Total financial liabilities	–	3,589,061	608,458	1,509,381	2,515,988	1,326,592	77,316	–	9,626,796
Net liquidity	10,417	(3,365,796)	(68,107)	(936,076)	(386,235)	1,499,165	2,656,822	1,066,718	476,908

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

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

	As at December 31, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	–	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	–	–	–	–	–	–	–	553	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	2,737,307	1,116,089	9,426,129

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

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

	As at December 31, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
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	2,660,471	1,116,089	424,049

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

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

	As at December 31, 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 assets									
Cash and deposits with central bank	-	90,506	-	591	-	-	-	1,063,746	1,154,843
Deposits with banks and other financial institutions	-	8,507	-	156	20,394	-	-	-	29,057
Placements with banks and other financial institutions	-	-	38,984	16,790	183,378	40,218	-	-	279,370
Financial assets held under resale agreements	-	-	124,648	16,611	7,254	-	-	-	148,513
Loans and advances to customers	9,959	-	329,933	419,664	1,551,996	1,213,876	2,517,895	-	6,043,323
Financial assets at fair value through profit or loss	228	114,882	18,719	18,165	59,581	31,430	81,622	1,741	326,368
Financial assets at fair value through other comprehensive income-debt instruments	-	-	8,568	17,320	44,177	168,877	4,394	-	243,336
Financial assets at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	-	1,053	1,053
Financial assets at amortized cost	13,240	-	42,372	125,199	472,462	2,086,002	1,011,385	-	3,750,660
Other financial assets	-	9,370	149	1,669	79	448	2,533	178	14,426
Total non-derivative financial assets	23,427	223,265	563,373	616,165	2,339,321	3,540,851	3,617,829	1,066,718	11,990,949

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 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	–	46,190	221	45	406	418	–	–	47,280
Placements from banks and other financial institutions	–	–	2,141	6,113	17,979	–	–	–	26,233
Financial assets sold under repurchase agreements	–	–	65,362	30,962	19,507	–	–	–	115,831
Customer deposits	–	3,528,475	525,241	1,482,843	2,490,229	1,412,205	–	–	9,438,993
Debt securities issued	–	–	–	2,330	21,895	12,060	80,805	–	117,090
Other financial liabilities	–	14,396	18,640	2,332	224	1,016	2,372	–	38,980
Total non-derivative financial liabilities	–	3,589,061	611,605	1,524,625	2,550,240	1,425,699	83,177	–	9,784,407
Net liquidity	23,427	(3,365,796)	(48,232)	(908,460)	(210,919)	2,115,152	3,534,652	1,066,718	2,206,542

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
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	–	–	–	–	–	–	–	553	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	3,482,523	1,116,089	11,011,750

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
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	3,395,904	1,116,089	1,898,252

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Cash flow of derivative financial instruments

Derivative financial instruments settled on a net basis

The fair values of the Group's derivative financial instruments that will be settled on a net basis are primarily related to changes in 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 December 31, 2019					
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate derivative financial instruments	**10**	**1**	**24**	**10**	**–**	**45**

	As at December 31, 2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	11	3	34	49	–	97

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Cash flow of derivative financial instrument (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 December 31, 2019					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
– Cash inflow	**152,175**	**99,818**	**305,078**	**6,819**	**–**	**563,890**
– Cash outflow	**(152,101)**	**(100,041)**	**(305,098)**	**(6,493)**	**–**	**(563,733)**
Total	**74**	**(223)**	**(20)**	**326**	**–**	**157**

	As at December 31, 2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Cash flow of derivative financial instrument (continued)

Credit commitments

The off-balance sheet items of the Group are listed in the following table by remaining contractual maturity, and the financial guarantees are listed in the nominal amount according to the earliest contract expiration date.

	As at December 31, 2019			
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Loan commitments	**118,307**	**278,652**	**37,818**	**434,777**
Bank acceptances	**31,583**	**–**	**–**	**31,583**
Guarantees and letters of guarantee	**9,153**	**7,785**	**3,509**	**20,447**
Letters of credit	**17,846**	**–**	**–**	**17,846**
Unused credit card commitments	**267,537**	**–**	**–**	**267,537**
Total	**444,426**	**286,437**	**41,327**	**772,190**

	As at December 31, 2018			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	108,500	240,654	39,843	388,997
Bank acceptances	20,444	–	–	20,444
Guarantees 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

43 Financial risk management (continued)

43.5 Market risk

Market risk refers to the risk of losses to the Group's on- and off-balance sheet activities arising from unfavourable changes on market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The Group is primarily exposed to interest rate risk and exchange rate risk in the course of business. In managing its market risks, the Group aims to control the market risk within a acceptable range, according to the Group's risk appetite, and to maximize risk-adjusted returns.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books, and valuation of financial assets. The Group applies such rules and procedures to separate banking and trading books, and to identify, measure, monitor and control market risks on banking book and trading book.

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from loss in value of financial instruments in the trading book due to adverse changes of market interest rates and exchange rates.

The Group uses limit management, sensitivity analysis, exposure analysis, stress test and other methods to manage the market risk of trading book and control the risk exposure within an acceptable range.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Techniques for measuring and limits for market risks (continued)

Banking book

The interest rate risk of the Group includes the risk that the adverse changes in the interest rate level and term structure may affect the economic value and overall income of the Group, mainly based on the repricing risk and the benchmark risk of assets and liabilities.

The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch by monitoring the interest rate sensitivity gap mainly through repricing gap analysis, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

Sensitivity analysis on net interest income

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that all interest rates move by the same margin and the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, benchmark interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes to net interest income of the current year.

The table below shows the potential impact on the Group's net interest income by an upward 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 December 31, 2019	As at December 31, 2018
Upward parallel shift of 100 bps for yield curves	**(1,262)**	(3,641)
Downward parallel shift of 100 bps for yield curves	**1,262**	3,641

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk

The Group's interest rate risk exposure is shown in the table below. The following table is classified and listed according to the book value of the Group's financial assets and financial liabilities according to the earlier of the repricing date or maturity date agreed in the contract.

	As at December 31, 2019						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,104,061	–	–	–	–	50,782	1,154,843
Deposits with banks and other financial institutions	8,507	–	19,851	–	–	15	28,373
Placements with banks and other financial institutions	38,655	14,036	177,267	39,222	–	417	269,597
Derivative financial assets	–	–	–	–	–	5,009	5,009
Financial assets held under resale agreements	123,575	16,470	7,176	–	–	173	147,394
Loans and advances to customers	2,944,893	413,512	1,335,181	84,238	11,505	18,733	4,808,062
Financial assets at fair value through profit or loss	20,085	18,448	54,867	20,843	33,784	162,134	310,161
Financial assets at fair value through other comprehensive income-debt instruments	9,697	19,558	40,506	152,544	2,355	4,012	228,672
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	1,053	1,053
Financial assets at amortized cost	174,278	719,434	411,823	1,195,888	588,145	45,576	3,135,144
Other financial assets	–	–	–	–	–	15,396	15,396
Total financial assets	4,423,751	1,201,458	2,046,671	1,492,735	635,789	303,300	10,103,704

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2019						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Deposits from banks and other financial institutions	46,380	43	383	380	–	66	47,252
Placements from banks and other financial institutions	2,111	5,889	17,606	–	–	190	25,796
Derivative financial liabilities	–	–	–	–	–	5,065	5,065
Financial assets sold under repurchase agreements	61,557	19,248	17,460	–	–	393	98,658
Customer deposits	4,033,582	1,448,825	2,428,501	1,282,268	–	120,890	9,314,066
Debt securities issued	–	1,424	19,397	–	74,944	1,214	96,979
Other financial liabilities	–	–	–	–	–	38,980	38,980
Total financial liabilities	4,143,630	1,475,429	2,483,347	1,282,648	74,944	166,798	9,626,796
Interest rate risk gap	280,121	(273,971)	(436,676)	210,087	560,845	136,502	476,908

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2019 and 2018. The Group's RMB exposures are included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments are stated at their carrying amounts in RMB equivalent.

The major currency of the Group for daily operation is RMB. Other currencies used by the Group include United States Dollars (USD), Euro (EUR), Hong Kong Dollars (HKD) and U.K. Pound Sterling (pound).

	As at December 31, 2019			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,153,497	1,269	77	1,154,843
Deposits with banks and other financial institutions	23,560	3,536	1,277	28,373
Placements with banks and other financial institutions	253,919	15,678	–	269,597
Derivative financial assets	507	4,502	–	5,009
Financial assets held under resale agreements	147,394	–	–	147,394
Loans and advances to customers	4,786,228	17,267	4,567	4,808,062
Financial assets at fair value through profit or loss	285,909	24,252	–	310,161
Financial assets at fair value through other comprehensive income-debt instruments	219,525	9,147	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments	1,053	–	–	1,053
Financial assets at amortized cost	3,111,636	23,508	–	3,135,144
Other financial assets	10,739	4,529	128	15,396
Total financial assets	9,993,967	103,688	6,049	10,103,704

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2019			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Deposits from banks and other financial institutions	47,249	3	–	47,252
Placements from banks and other financial institutions	17,998	7,798	–	25,796
Derivative financial liabilities	464	4,601	–	5,065
Financial assets sold under repurchase agreements	98,658	–	–	98,658
Customer deposits	9,268,878	44,785	403	9,314,066
Debt securities issued	96,979	–	–	96,979
Other financial liabilities	37,745	1,222	13	38,980
Total financial liabilities	9,567,971	58,409	416	9,626,796
Net on-balance sheet position	425,996	45,279	5,633	476,908
Net notional amount of derivative financial instruments	8,022	(3,282)	(4,808)	(68)
Credit commitments	761,771	6,258	4,161	772,190

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2018			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2018			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

Exchange Rate Sensitivity Analysis

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

Exchange rate changes	As at December 31	
	2019	2018
5% of appreciation of USD against RMB	**191**	691
5% of depreciation of USD against RMB	**(191)**	(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 year 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.

43.6 Operational risk

Operational risk refers to risks caused by imperfect or problematic internal procedures, employee misconduct and IT system failures, and external events. The types of operational risks that the Group may face include seven categories: internal fraud, external fraud, employment systems and workplace safety, customers, products and business activities, damage to physical assets, information technology system failures, execution, delivery and process management.

Guided by the operational risk preference approved by the Board of Directors, the Group's senior management is mainly responsible for building and implementing the operational risk management policies and limitations. The policies aim to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, improve the information technology capability, enrich the basis of operation management, intensify monitoring report, regulate staff behaviour, foster risk management culture and initiative awareness to regulations and ensure the security of business operation.

43 Financial risk management (continued)

43.7 Fair value of financial instruments

Most of the balance sheet items of the Group are financial assets and financial liabilities. The fair value measurement of non-financial assets and non-financial liabilities will not have a significant impact on the Group's overall financial performance.

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

(1) Valuation techniques, input parameters and processes

The fair value of financial assets and financial liabilities is determined according to the following methods:

– The fair value of financial assets and financial liabilities with standard terms and conditions and traded in an active circulation market is determined by reference to the market price.

– For non-option derivative financial instruments, the fair value is determined by discounted cash flow analysis using the applicable yield curve within the term of the instrument.

– The fair value of other financial assets and financial liabilities is determined according to the generally accepted pricing model or the current market price observable for similar instruments based on the discounted cash flow analysis. If there is no observable market transaction price for similar instruments, the net assets are used for valuation, and the price is analyzed by the management.

The Group has established an independent valuation process for financial assets and financial liabilities. According to the division of responsibilities, relevant departments are respectively responsible for valuation, model verification and accounting treatment.

In 2019 and 2018, there was no significant change in the valuation technology and input value used in the fair value measurement of the Group's financial statements.

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(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.

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

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, loans and advances to customers, financial assets measured at amortized cost, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

The tables below summarize the fair values of the financial assets measured at amortizd cost and debt securities issued which are not set out in the statement of financial position.

	As at December 31, 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	**3,135,144**	**3,187,178**	**23,456**	**2,282,348**	**881,374**
Financial liabilities					
Debt securities issued	**96,979**	**97,611**	**–**	**97,611**	**–**

	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 cash flows. There is no significant difference between their carrying amounts and their fair value.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 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 December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– At fair value through other comprehensive income	–	177,942	309,573	487,515
Subtotal	–	177,942	309,573	487,515
Financial assets at fair value through profit or loss				
– Debt securities	202	63,281	–	63,483
– Interbank certificates of deposits	20,939	60,991	–	81,930
– Asset-backed securities	–	4,937	–	4,937
– Fund investments	–	114,882	901	115,783
– Trust investment plans and asset management plans	–	–	42,287	42,287
– Equity instruments	–	–	1,741	1,741
Subtotal	21,141	244,091	44,929	310,161
Derivative financial assets				
– Exchange rate derivatives	–	4,496	–	4,496
– Interest rate derivatives	–	513	–	513
Subtotal	–	5,009	–	5,009

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 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, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets (continued)				
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	9,147	219,304	–	228,451
– Asset-backed securities	–	221	–	221
Subtotal	9,147	219,525	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	–	1,053	1,053
Subtotal	–	–	1,053	1,053
Total financial assets	30,288	646,567	355,555	1,032,410

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Customer deposits				
– Structured deposits	–	(926)	–	(926)
Subtotal	–	(926)	–	(926)
Derivative financial liabilities				
– Exchange rate derivatives	–	(4,598)	–	(4,598)
– Interest rate derivatives	–	(467)	–	(467)
Subtotal	–	(5,065)	–	(5,065)
Total financial liabilities	–	(5,991)	–	(5,991)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 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			
	Level 1	Level 2	Level 3	Total
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 banks 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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 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			
	Level 1	Level 2	Level 3	Total
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

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 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			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(2,360)	(2,360)
Subtotal	–	–	(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 years ended December 31, 2019, and 2018.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices. Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread.

Changes in Level 3 financial assets are analyzed below:

	Year ended December 31, 2019			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income-equity instruments	Loans and advances to customers	Financial liabilities at fair value through profit or loss
Balance at the beginning of the year	76,802	553	361,634	(2,360)
Increased	–	500	630,287	–
Settled	(34,316)	–	(681,793)	2,360
Total gains or losses recognized in				
– Profit or loss	2,443	–	(14)	–
– Other comprehensive income	–	–	(541)	–
Balance at the end of the year	44,929	1,053	309,573	–

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

Changes in Level 3 financial liabilities are analyzed below: (continued)

	Year ended December 31, 2018			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income-equity instruments	Loans and advances to customers	Financial liabilities at fair value through profit or loss
Balance at the beginning of the year	396,510	53	–	(42,193)
Increased	13,050	500	941,712	(12,642)
Settled	(315,879)	–	(580,568)	52,478
Total gains or losses recognized in				
– Profit or loss	(16,879)	–	14	(3)
– Other comprehensive income	–	–	476	–
Balance at the end of the year	76,802	553	361,634	(2,360)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

December 31, 2019	Note	Fair Value	Valuation technique	Unobservable inputs		
				Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets at fair value through profit or loss						
– Fund investments	(i)	901	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	42,287	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,741	Net asset method	Net assets		Positive correlation
Subtotal		44,929				
Financial assets at fair value through other comprehensive income-equity instruments	(i)	1,053	Net asset method	Net assets		Positive correlation
Financial assets at fair value through other comprehensive income-loans and advances	(ii)	309,573	Discounted cash flow method	Discount rate	2.52%-4.15%	Negative correlation
Total		355,555				

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below (continued):

(i) The fair value of industrial funds, equity instruments, trust investment plans and asset management plans of FVTPL, and the fair value of equity instruments of FVOCI are determined using net asset method, where the significant non-observable data are the net assets.

(ii) The fair value of loans and advances to customers in financial assets at fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below (continued)

				Unobservable inputs		
December 31, 2018	Note	Fair Value	Valuation technique	Inputs	Range of inputs/weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss	(i)	2,213	Discounted cash flow method	Discount rate	3.26%-3.37%	Negative correlation
Financial assets at fair value through profit or loss						
– Fund investments	(ii)	1,036	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(ii)	39,499	Net asset method	Net assets		Positive correlation
– Commercial bank wealth management products	(iii)	31,964	Discounted cash flow method	Discount rate	3.85%-4.84%	Negative correlation
– Equity instruments	(ii)	2,090	Net asset method	Net assets		Positive correlation
Financial assets at fair value through profit or loss-loans and advances	(iv)	2,863	Discounted cash flow method	Discount rate	2.96%-3.85%	Negative correlation
Subtotal		79,665				
Financial assets at fair value through other comprehensive income-equity instruments	(ii)	553	Net asset method	Net assets		Positive correlation
Financial assets at fair value through other comprehensive income-loans and advances	(v)	358,771	Discounted cash flow method	Discount rate	2.86%-3.95%	Negative correlation
Total		438,989				
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	(i)	(2,360)	Discounted cash flow method	Discount rate	3.94%	Negative correlation

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

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

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below (continued):

(i) The fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(ii) The fair value of industrial funds, equity instruments, trust investment plans and asset management plans of FVTPL, and the fair value of equity instruments of FVOCI are determined using net asset method, where the significant non-observable data are the net assets.

(iii) The fair value of commercial bank wealth management products of FVTPL is determined using the discounted cash flow method, where the significant non-observable inputs are the yield curves of similar financial instruments to be used as discount rates.

(iv) The fair value of loans and advances to customers in financial assets at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(v) The fair value of loans and advances to customers in financial assets at fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

43 Financial risk management (continued)

43.8 Capital management

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to deliver its management objectives, including performance assessment against plans and budgets and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; help drive risk management across the Group; ensure a disciplinary expansion of its assets; and improve its business structure and operating models.

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the utilisation of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximises returns to shareholders without compromising its risk control, the Group makes strong efforts to promote the establishment of capital constraints system, strengthen the control of total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through comprehensively using several measures such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

In accordance with *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*《商業銀行資本管理辦法(試行)》 promulgated by CBIRC and the related provisions, as from January 1, 2013, CBIRC requires commercial banks to maintain a minimum capital adequacy ratio, where core tier 1 capital adequacy ratio not lower than 5%, tier 1 capital adequacy ratio not lower than 6%, and capital adequacy ratio not lower than 8%. Meanwhile, in accordance with the *Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)*《中國銀監會關於實施<商業銀行資本管理辦法(試行)>過渡期安排相關事項的通知》, capital reserve requirement will be gradually introduced within the transitional period, and is to be satisfied by the core tier 1 capital of commercial banks. In accordance with this provision, as at December 31, 2019, the Group's core tier 1 capital adequacy ratio should be 7.50%, tier 1 capital adequacy ratio should be 8.50%, and capital adequacy ratio should be 10.50% (as at December 31, 2018: 7.50%, 8.50% and 10.50%, respectively). The Group continuously intensifies the monitoring, analyzing and reporting of capital adequacy ratios, constantly optimizes the risk asset structure, increases internal capital accumulation, and promotes the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.8 Capital management (continued)

The Group's regulatory capital as calculated according to the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法(試行)) promulgated by the CBIRC and Accounting Standards for Business Enterprises as issued by the MOF as at December 31, 2019 and December 31, 2018 is as follows:

	Note	As at December 31	
		2019	2018
Core tier 1 capital adequacy ratio	(1)	**9.90%**	9.77%
Tier 1 capital adequacy ratio	(1)	**10.87%**	10.88%
Capital adequacy ratio	(1)	**13.52%**	13.76%
Core tier 1 capital		**494,270**	423,374
Deductions of core tier 1 capital	(2)	**(2,058)**	(1,696)
Core tier 1 capital – net		**492,212**	421,678
Other tier 1 capital		**47,948**	47,927
Tier 1 capital – net		**540,160**	469,605
Tier 2 capital			
Directly issued qualifying tier 2 instruments including related premium		**74,944**	74,937
Excess provision for loan loss		**56,572**	49,072
Non-controlling interest given recognition in tier 2 capital		**158**	115
Net capital	(3)	**671,834**	593,729
Risk-weighted assets	(4)	**4,969,658**	4,316,219

(1) Core tier 1 capital adequacy ratio is equal to net core tier 1 capital divided by risk-weighted assets; tier 1 capital adequacy ratio is equal to net tier 1 capital divided by risk-weighted assets; and capital adequacy ratio is equal to net capital divided by risk-weighted assets.

(2) Deductions from core tier 1 capital include other intangible assets (not including land use rights).

(3) Net capital is equal to total capital net of deductions from total capital.

(4) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk-weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

44 Reclassification of comparative figures

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

45 Events after the balance sheet date

(1) Exercise of over-allotment right

On January 8, 2020, the over-allotment option of the A Shares Offering was fully exercised. The net proceeds of RMB4,205 million was entirely used to strengthen the capital base of the Bank.

(2) Evaluate the impact of COVID-19

Since the outbreak of COVID-19 in January 2020, the prevention and control of COVID-19 is continuing nationwide. The Group will earnestly implement the requirements of the notice on further strengthening financial support and prevention and control of new coronavirus infection pneumonia jointly issued by the people's Bank of China, the Ministry of finance, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the State Administration of foreign exchange, and strengthen financial support for the prevention and control of the pandemic.

The COVID-19 pandemic will affect the business operation and overall economic operation of some provinces and industries, including Hubei Province, which may affect the asset quality or income level of the Group's credit assets and investment assets to a certain extent. The degree of impact will depend on the situation, duration and implementation of various control policies.

The Group will continue to pay close attention to the situation of COVID-19, evaluate and actively respond to its impact on the Group's financial situation, operating results and other aspects. As at the date of this report, the assessment is still in progress.

(3) Issuance of non-fixed term capital bond

On March 18, 2020, the Bank publicly issued a non-fixed term capital bond of RMB80 billion in the national interbank bond market. After deducting the issuance fee, the proceeds will be used to supplement additional tier 1 capital of the Bank in accordance with the applicable laws and the approval of relevant authorities.

(4) Dividend distribution

On March 25, 2020, the Board of Directors proposed the following profit distribution scheme for the year ended December 31, 2019, in accordance with the Company Law of the People's Republic of China (中華人民共和國公司法), Administrative Measures for Provisioning of Financial Enterprises (金融企業準備金計提管理辦法) and the Articles of Association and other relevant provisions: declaration of cash dividend of RMB2.102 per ten shares (tax included), totalling RMB18,283 million (tax included) to ordinary shareholders based on 86,979 million ordinary shares issued. In 2019, the Bank will not implement the conversion of capital reserve funds into share capital. The proposed profit distribution scheme is subject to the approval in the forthcoming Annual General Meeting for the year of 2019. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

46 Statement of Financial Position of the Bank

	As at December 31	
	2019	2018
Assets		
Cash and deposits with central bank	**1,154,843**	1,202,935
Deposits with banks and other financial institutions	**30,694**	143,680
Placements with banks and other financial institutions	**275,380**	288,423
Derivative financial assets	**5,009**	7,166
Financial assets held under resale agreements	**147,394**	239,687
Loans and advances to customers	**4,779,643**	4,127,252
Investment instruments		
Financial assets at fair value through profit or loss	**310,161**	341,662
Financial assets at fair value through other comprehensive income-debt instruments	**228,672**	183,350
Financial assets at fair value through other comprehensive income-equity instruments	**1,053**	553
Financial assets at amortized cost	**3,135,144**	2,861,922
Investment in subsidiary	**10,115**	2,115
Property and equipment	**46,454**	45,373
Deferred tax assets	**46,513**	35,489
Other assets	**34,421**	22,092
Total assets	**10,205,496**	9,501,699

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

46 Statement of Financial Position of the Bank (continued)

	As at December 31	
	2019	2018
Liabilities		
Deposits from banks and other financial institutions	**56,015**	74,805
Placements from banks and other financial institutions	**7,948**	26,303
Financial liabilities at fair value through profit or loss	**–**	2,360
Derivative financial liabilities	**5,065**	6,463
Financial assets sold under repurchase agreements	**98,658**	134,919
Customer deposits	**9,314,066**	8,627,440
Debt securities issued	**96,979**	76,154
Other liabilities	**83,232**	78,936
Total liabilities	**9,661,963**	9,027,380
Equity		
Share capital	**86,203**	81,031
Other equity instrument		
Preference shares	**47,869**	47,869
Capital reserve	**97,488**	74,659
Other reserves	**154,874**	137,914
Retained earnings	**157,099**	132,846
Total equity	**543,533**	474,319
Total equity and liabilities	**10,205,496**	9,501,699

Approved and authorized for issue by the Board of Directors on March 25, 2020.

Zhang Jinliang	**Zhang Xuewen**
(On behalf of Board of Directors)	(On behalf of Board of Directors)

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

47 Statement of Changes in Equity of the Bank

			Other reserves					
	Share capital	Other equity instruments- Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total
As at January 1, 2019	81,031	47,869	74,659	30,371	103,950	3,593	132,846	474,319
Profit for the year	-	-	-	-	-	-	60,684	60,684
Other comprehensive income	-	-	-	-	-	(1,274)	-	(1,274)
Total comprehensive income for the year	-	-	-	-	-	(1,274)	60,684	59,410
Capital contribution from shareholders	5,172	-	22,829	-	-	-	-	28,001
Appropriations to surplus reserve	-	-	-	6,068	-	-	(6,068)	-
Appropriations to general reserve	-	-	-	-	12,166	-	(12,166)	-
Dividends paid to ordinary shareholders	-	-	-	-	-	-	(15,696)	(15,696)
Dividends paid to preference shareholders	-	-	-	-	-	-	(2,501)	(2,501)
As at December 31, 2019	86,203	47,869	97,488	36,439	116,116	2,319	157,099	543,533

For the year ended December 31, 2019 (All amounts in millions of RMB unless otherwise stated)

47 Statement of Changes in Equity of the Bank (continued)

			Other reserves					
	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total
As at December 31, 2017	81,031	47,846	74,659	25,159	101,011	(5,044)	106,312	430,974
Change on application of new accounting policy	–	–	–	–	–	4,658	(3,124)	1,534
As at January 1, 2018 (restated)	81,031	47,846	74,659	25,159	101,011	(386)	103,188	432,508
Profit for the year	–	–	–	–	–	–	52,120	52,120
Other comprehensive income	–	–	–	–	–	3,979	–	3,979
Total comprehensive income for the year	–	–	–	–	–	3,979	52,120	56,099
Issuance of preference shares	–	23	–	–	–	–	–	23
Appropriations to surplus reserve	–	–	–	5,212	–	–	(5,212)	–
Appropriations to general reserve	–	–	–	–	2,939	–	(2,939)	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(11,920)	(11,920)
Dividends paid to preference shareholders	–	–	–	–	–	–	(2,391)	(2,391)
As at December 31, 2018	81,031	47,869	74,659	30,371	103,950	3,593	132,846	474,319

List of Organizations

Tier-1 Branches

Beijing Branch

Address: No. 1 Jia 6, Second Yard, Beijiadi Road, Fengtai District, Beijing
Postal Code: 100068
Telephone: 010-86353872
Fax: 010-86353845

Tianjin Branch

Address: No. 121, Dagu North Road, Heping District, Tianjin
Postal Code: 300040
Telephone: 022-88588888
Fax: 022-88588858

Hebei Branch

Address: Zhongxin Building, No. 29 Jiangshe South Street, Chang'an District, Shijiazhuang, Hebei
Postal Code: 050011
Telephone: 0311-86683329
Fax: 0311-86698360

Shanxi Branch

Address: Postal Building, No.2 Bingzhou North Road, Taiyuan, Shanxi
Postal Code: 030001
Telephone: 0351-2112807
Fax: 0351-2112840

Inner Mongolia Branch

Address: No. 7, Yingbin North Road, Xincheng District, Hohhot, Inner Mongolia Autonomous Region
Postal Code: 010010
Telephone: 0471-6924787
Fax: 0471-6263020

Liaoning Branch

Address: No. 72, Beizhan Road, Shenhe District, Shenyang, Liaoning
Postal Code: 110013
Telephone: 024-31927017
Fax: 024-31927000

Jilin Branch

Address: No. 758, Qianjin Street, Chaoyang District, Changchun, Jilin
Postal Code: 130012
Telephone: 0431-89665579
Fax: 0431-88985924

Heilongjiang Branch

Address: No. 55, West 14th Street, Daoli District, Harbin, Heilongjiang
Postal Code: 150010
Telephone: 0451-87658710
Fax: 0451-86209997

Shanghai Branch

Address: No. 1080, Dongdaming Road, Hongkou District, Shanghai
Postal Code: 200082
Telephone: 021-35965825
Fax: 021-63293120

Jiangsu Branch

Address: Building No. 2, Nanjing Financial City, No. 242 Lushan Road, Jianye District, Nanjing, Jiangsu
Postal Code: 210019
Telephone: 025-83632376
Fax: 025-83796099

Zhejiang Branch

Address: No. 87, Baijingfang Lane, Xiacheng District, Hangzhou, Zhejiang
Postal Code: 310003
Telephone: 0571-87335016
Fax: 0571-85164911

Anhui Branch

Address: No. 12236, Fanhua Avenue, Economic and Technology Development Zone, Hefei, Anhui
Postal Code: 230061
Telephone: 0551-62256516
Fax: 0551-62256677

Fujian Branch

Address: No.101, Gutian Road, Gulou District, Fuzhou, Fujian
Postal Code: 350005
Telephone: 0591-87117836
Fax: 0591-83373480

Jiangxi Branch

Address: No. 969, Shimao Road, Jingutan New District, Nanchang, Jiangxi
Postal Code: 330038
Telephone: 0791-88891787
Fax: 0791-86730810

Shandong Branch

Address: Building No. 6, District 4, Hanyu Financial Business Center, No. 7000 Jingshi Road, High-tech Zone, Jinan, Shandong
Postal Code: 250102
Telephone: 0531-58558790
Fax: 0531-58558675

Henan Branch

Address: No. 59, Huayuan Road, Jinshui District, Zhengzhou, Henan
Postal Code: 450008
Telephone: 0371-69199191
Fax: 0371-69199191

Hubei Branch

Address: No. 195, Xinhua Road, Jianghan District, Wuhan, Hubei
Postal Code: 430022
Telephone: 027-65778410
Fax: 027-85722512

Hunan Branch

Address: No. 489, Section 1, Furong Middle Road, Changsha, Hunan
Postal Code: 410005
Telephone: 0731-85989231
Fax: 0731-85988351

Guangdong Branch

Address: Fengyuan Building, No. 1 Tiyu West Road, Tianhe District, Guangzhou, Guangdong
Postal Code: 510620
Telephone: 020-38186590
Fax: 020-38186666

Guangxi Branch

Address: No. 35, Minzhu Road, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region
Postal Code: 530015
Telephone: 0771-5810261
Fax: 0771-5810288

Hainan Branch

Address: No. 1, West Forth Road, Dayingshan, Meilan District, Haikou, Hainan
Postal Code: 570203
Telephone: 0898-66556005
Fax: 0898-66788066

Chongqing Branch

Address: Building T2, No. 2 Jiangbeizui Financial City, Jiangbei District, Chongqing
Postal Code: 400024
Telephone: 023-63859333
Fax: 023-63859222

Sichuan Branch

Address: No. 588, Tianfu Forth Street, Gaoxin District, Chengdu, Sichuan
Postal Code: 610094
Telephone: 028-88619030
Fax: 028-88619020

Guizhou Branch

Address: Qianyuan Building, No. 46 Dusi Viaduct Road, Nanming District, Guiyang, Guizhou
Postal Code: 550002
Telephone: 0851-85208005
Fax: 0851-85258832

Yunnan Branch

Address: No. 388, Xuefu Road, Wuhua District, Kunming, Yunnan
Postal Code: 650033
Telephone: 0871-63318155
Fax: 0871-63326698

Tibet Branch

Address: No. 5, Linkuo East Road Lane 1, Lhasa, Tibet Autonomous Region
Postal Code: 850014
Telephone: 0891-6310332
Fax: 0891-6310332

Shaanxi Branch

Address: Postal Information Building, No. 5 Tangyan Road, Gaoxin District, Xi'an, Shaanxi
Postal Code: 710075
Telephone: 029-88602848
Fax: 029-88602861

Gansu Branch

Address: No. 369, Qingyang Road, Chengguan District, Lanzhou, Gansu
Postal Code: 730030
Telephone: 0931-8429893
Fax: 0931-8429891

Qinghai Branch

Address: Qinghai Guotou Square, No. 32 Wenjing Street, Chengxi District, Xining, Qinghai
Postal Code: 810008
Telephone: 0971-8299694
Fax: 0971-8299178

Ningxia Branch

Address: No. 9, Jiefang West Street, Xingqing District, Yinchuan, Ningxia Hui Autonomous Region
Postal Code: 750001
Telephone: 0951-6920851
Fax: 0951-6920505

Xinjiang Branch

Address: No. 239, Jiefang North Road, Urumqi, Xinjiang Uygur Autonomous Region
Postal Code: 830002
Telephone: 0991-2357992
Fax: 0991-2357988

Dalian Branch

Address: No. 191, Chengren Street, Shahekou District, Dalian, Liaoning
Postal Code: 116021
Telephone: 0411-84376606
Fax: 0411-84376688

Ningbo Branch

Address: No. 120, Taodu Road, Jiangbei District, Ningbo, Zhejiang
Postal Code: 315020
Telephone: 0574-87950959
Fax: 0574-87950986

Xiamen Branch

Address: Commercial Building of Panji Center, No. 1 Lianyue Road, Siming District, Xiamen, Fujian
Postal Code: 361012
Telephone: 0592-2205134
Fax: 0592-2206124

Qingdao Branch

Address: No. 222, Yan'an Third Road, Shinan District, Qingdao, Shandong
Postal Code: 266071
Telephone: 0532-83886609
Fax: 0532-83877070

Shenzhen Branch

Address: Main Building of Information Hub Building, No. 48 Yitian Road, Futian District, Shenzhen, Guangdong
Postal Code: 518048
Telephone: 0755-22228000
Fax: 0755-22228002

Majority-owned Subsidiaries

PSBC Consumer Finance Company Limited

Address: Tian Lun Holdings Building, No. 281 Linhe East Road, Tianhe District, Guangzhou, Guangdong
Postal Code: 510610
Telephone: 020-22361011
Fax: 020-22361004

PSBC Wealth Management Co., Ltd.

Address: Xinsheng Building, No. 5 Financial Street, Xicheng District, Beijing
Postal Code: 100034
Telephone: 010-68857004
Fax: 010-68857024

LIQUIDITY COVERAGE RATIO

In millions of RMB, except for percentages

Item	**December 31, 2019**	December 31, 2018
High-quality liquid assets	**2,087,050**	1,578,769
Net cash outflow for the next 30 days	**892,514**	701,046
Liquidity coverage ratio (%)	**233.84**	225.20

The Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	**December 31, 2019**	September 30, 2019	June 30, 2019
Total available stable funding	**8,707,480**	8,562,391	8,480,362
Total required stable funding	**5,236,481**	5,172,983	5,360,420
The net stable funding ratio (%)	**166.28**	165.52	158.20

The net stable funding ratio ("NSFR") is introduced to ensure commercial banks have sufficient stable sources of funding to meet the needs for stable funding of assets and off-balance sheet risk exposures. 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 December 2019, the NSFR was 166.28%, meeting the regulatory requirement.

LEVERAGE RATIO

In millions of RMB, except for percentages

Item	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Tier 1 capital – net	**540,160**	505,633	488,763	488,067
On and off-balance sheet assets after adjustments	**10,669,732**	10,559,371	10,463,878	10,556,374
Leverage ratio (%)	**5.06**	4.79	4.67	4.62

No.	Item	December 31, 2019	December 31, 2018
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**10,064,303**	9,269,358
2	Less: Deduction from tier 1 capital	**2,058**	1,696
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	**10,062,245**	9,267,662
4	Replacement costs of various derivatives (excluding eligible margin)	**4,094**	7,166
5	Potential risk exposures of various derivatives	**10,958**	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	**15,052**	19,676
12	Accounting assets arising from securities financing transactions	**147,394**	239,687
13	Less: Deductible assets arising from securities financing transactions	**–**	–
14	Counter-party credit risk exposure arising from securities financing transactions	**7,910**	3,169
15	Assets arising from the agency services in connection with securities financing transactions	**0**	–
16	Securities financing transactions assets	**155,304**	242,856
17	Off-balance sheet assets	**1,336,713**	1,066,842
18	Less: Decrease in off-balance sheet assets due to credit conversion	**899,582**	725,870
19	Off-balance sheet assets after adjustments	**437,131**	340,972
20	Tier 1 capital – net	**540,160**	469,605
21	On and off-balance sheet assets after adjustments	**10,669,732**	9,871,166
22	Leverage ratio (%)	**5.06**	4.76

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, investments in debt securities, interbank investment and others.

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.

International Claims

In millions of RMB

	December 31, 2019			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	**3,704**	**63,932**	**19,588**	**87,224**
– of which attributed to Hong Kong	**–**	**1,102**	**3,183**	**4,285**
North and South America	**–**	**3,120**	**4,551**	**7,671**
Europe	**–**	**2,401**	**7,298**	**9,699**
Total	**3,704**	**69,453**	**31,437**	**104,594**

In millions of RMB

	December 31, 2018			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
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 II: COMPOSITION OF CAPITAL

In millions of RMB, except for percentages

Core tier 1 capital:		Amount
1	Paid-in capital	86,203
2	Retained earnings	309,999
2a	Surplus reserves	36,439
2b	General reserve	116,129
2c	Undistributed profits	157,431
3	Accumulated other comprehensive income and disclosed reserve	97,477
3a	Capital reserve	97,477
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	591
6	Core tier 1 capital before regulatory adjustments	494,270
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)	2,058
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	–
11	Reserves that relate to the cash flow hedging of items that are not fair valued on the balance sheet	–
12	Shortfall of provision for loan impairment	0
13	Gain on sale related to asset securitization	–
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	–
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–
16	Directly or indirectly holding in own ordinary shares	–
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
20	Mortgage servicing rights	–
21	Other deductible amount in deferred tax assets dependent on future profitability	0
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

Core tier 1 capital:		Amount
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	2,058
29	Core tier 1 capital	492,212
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	79
35	Including: invalid portion to additional tier 1 capital excluded after the transition period	–
36	Additional tier 1 capital before regulatory adjustments	47,948
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
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	47,948
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	540,160

APPENDIX II: COMPOSITION OF CAPITAL

Core tier 1 capital:		Amount
Tier 2 capital:		
46	Tier 2 capital instruments and related premium	74,944
47	Invalid instruments to tier 2 capital after the transition period	–
48	Valid portion of minority interests	158
49	Including: Invalid portion to tier 2 capital after the transition period	–
50	Valid portion of surplus provision for loan impairment	56,572
51	Tier 2 capital before regulatory adjustments	131,674
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	131,674
59	Total capital (tier 1 capital + tier 2 capital)	671,834
60	Total risk-weighted assets	4,969,658
Requirements for capital adequacy ratio and reserve capital		
61	Core tier 1 capital adequacy ratio	9.90
62	Tier 1 capital adequacy ratio	10.87
63	Capital adequacy ratio	13.52
64	Institution specific capital requirement	2.50
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	2.40
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

Core tier 1 capital:		Amount
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	37,256
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)	47,237
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	168,115
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	56,572
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	–

Detailed Description of Related Items

in millions of RMB

	The regulatory consolidated balance sheet	Code
Goodwill	0	a
Intangible assets	2,058	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	86,203	e
Other equity instruments		
Including: Preference shares	47,869	f
Capital reserve	97,477	g
Others	0	h
Surplus reserves	36,439	i
General reserve	116,129	j
Undistributed profits	157,431	k

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

in RMB millions

Core tier 1 capital:		Amount	Code
1	Paid-in capital	86,203	e
2	Retained earnings	309,999	i+j+k
2a	Surplus reserves	36,439	i
2b	General reserve	116,129	j
2c	Undistributed profits	157,431	k
3	Accumulated other comprehensive income and disclosed reserve	97,477	g+h
3a	Capital reserve	97,477	g
3b	Others	0	h
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	
5	Valid portion of minority interests	591	
6	Core tier 1 capital before regulatory adjustments	494,270	
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)	2,058	a
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	–	b-c-d
11	Reserves that relate to the cash flow hedging of items that are not fair valued on the balance sheet	–	
12	Shortfall of provision for loan impairment	0	
13	Gain on sale related to asset securitization	–	
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	–	
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	
16	Directly or indirectly holding in own ordinary shares	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0	
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0	
20	Mortgage servicing rights	–	
Additional tier 1 capital:			
30	Additional tier 1 capital instruments and related premium	47,869	f
31	Including: Portion classified as equity	47,869	f

Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	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.	Postal Savings Bank of China Co., Ltd.
2 Identification code	601658.SH	1658.HK	1528007.IB	1628016.IB	1728005.IB	4612
3 Applicable laws	PRC laws	PRC/Hong Kong laws	PRC laws	PRC laws	PRC laws	The creation and issuance of the Offshore Preference Shares and the rights and obligations (including 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	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	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	Bank and group level
7 Instrument type	Core tier 1 capital instruments	Core tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Additional tier 1 capital instruments
8 Amount that can be included in regulatory capital (in millions; on the latest reporting date)	RMB28,001	RMB74,482	RMB24,983	RMB29,977	RMB19,984	RMB47,869
9 Par value of instrument (in millions)	RMB67,122	RMB19,856	RMB25,000	RMB30,000	RMB20,000	USD7,250
10 Accounting treatment	Share capital, capital reserve	Share capital, capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments
11 Initial issuance date	November 28, 2019	September 28, 2016	September 7, 2015	October 26, 2016	March 22, 2017	September 27, 2017
12 Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual
13 Including: Original maturity date	No Maturity Date	No Maturity Date	September 9, 2025	October 28, 2026	March 24, 2027	No Maturity Date

Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	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	No	Yes	Yes	Yes	Yes
15 Including: Redemption date (or contingent redemption date) and amount	Not applicable	Not applicable	September 9, 2020, part or full	October 28, 2021, part or full	March 24, 2022, part or full	The first redemption date is September 27, 2022, full or part
16 Including: Subsequent redemption date (if any)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	September 27 in each year after the first redemption date
Dividend or interest payment						
17 Including: Fixed or floating dividend or interest payment	Floating	Floating	Fixed	Fixed	Fixed	Floating: The dividend yield is fixed in a single dividend yield adjustment cycle (five years) and is reset every five years
18 Including: Coupon rate and relevant indicators	Not applicable	Not applicable	4.50%	3.30%	4.50%	The dividend yield in the first five years is 4.50%, and it is reset every five years based on the yield of five-year US treasury bond on the resetting date plus 263.4 basis points
19 Including: Existence of dividend brake mechanism	Not applicable	Not applicable	No	No	No	Yes
20 Including: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	No	No	No	Full discretion
21 Including: Existence of redemption incentive mechanism	No	No	No	No	No	No
22 Including: Cumulative or noncumulative	Noncumulative	Noncumulative	Not applicable	Not applicable	Not applicable	Noncumulative
23 Conversion into shares	No	No	No	No	No	Yes

Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
24 Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, that is, the CET 1 CAR drops to 5.125% or below; or upon the occurrence of any tier 2 capital instrument trigger event, which means either of the following circumstances (whichever is earlier): (1) the CBIRC having concluded that a share conversion or write-off is necessary without which the Bank would become non-viable; or (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
25 Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of additional tier 1 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all or part of the issued and outstanding overseas preference shares into common H shares; upon the occurrence of tier 2 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all of the issued and outstanding overseas preference shares into common H shares
26 Including: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	The initial conversion price is the average trading price of common H shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution (March 24, 2017) on the Offshore Preference Shares issuance

Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
27 Including: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Mandatory
28 Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Core tier 1 capital
29 Including: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	The Bank
30 Write-down or not	No	No	Yes	Yes	Yes	No
31 Including: Please specify the trigger point of write-down, if allowed	Not applicable	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Not applicable
32 Including: Please specify write-down in part or in whole, if allowed	Not applicable	Not applicable	In whole	In whole	In whole	Not applicable
33 Including: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Not applicable	Perpetual	Perpetual	Perpetual	Not applicable

Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
34 Including: Please specify the book entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35 Hierarchy of claims (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital bonds) and additional tier 1 capital instruments	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital bonds) and additional tier 1 capital instruments	After depositor and general creditor and before equity capital, additional tier 1 capital instruments and mixed capital bonds; the current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds and are in the same priority as additional 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 instruments and mixed capital bonds; the current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds and are in the same priority as additional 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 additional 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?	No	No	No	No	No	No
37 Including: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

APPENDIX III: REFERENCE MATERIALS FOR SHAREHOLDERS

Financial Calendar for 2020

2019 annual results announcement	Announced on March 25, 2020
2019 annual report	Announced on April 23, 2020
2020 interim results announcement	To be announced no later than August 30, 2020

Securities Information

Listing

The ordinary A shares of the Bank were listed on the SSE on December 10, 2019, the ordinary H shares were listed on the Hong Kong Stock Exchange on September 28, 2016, and the offshore preference shares were listed on the Hong Kong Stock Exchange on September 28, 2017.

Ordinary Shares

Issued A shares: 66,346,571,200 shares (as at December 31, 2019).

Issued H shares: 19,856,167,000 shares (as at December 31, 2019).

Preference Shares

Issued offshore preference shares: 362,500,000 shares (as at December 31, 2019).

Market Capitalization

As at the last trading day in 2019 (December 31, 2019), the Bank's A share market capitalization was RMB388.8 billion, H share market capitalization was HKD105.2 billion, and the total market capitalization was RMB487.6 billion (based on the closing price on December 31, 2019).

Securities Price

	Closing price on December 31, 2019	Highest trading price during the year	Lowest trading price during the year
A shares	RMB5.86/share	RMB6.14/share	RMB5.53/share
H shares	HKD5.3/share	HKD5.44/share	HKD4.12/share

Securities Information

	Stock exchange where shares are listed	Stock name	Stock code
A shares	Shanghai Stock Exchange	Postal Savings Bank of China	601658
H shares	The Stock Exchange of Hong Kong Limited	Postal Savings Bank of China	1658
Offshore preference shares	The Stock Exchange of Hong Kong Limited	PSBC 17USDPREF	4612

Shareholder Enquiries

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

Computershare Hong Kong Investor Services Limited

17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: (852)2862 8555
Fax: (852)2865 0990

Credit Rating

Standard & Poor's	A (stable)
Moody's	A1 (stable)
Fitch Ratings	A+ (stable)
S&P Global (China) Ratings	AAA spc (stable)
CCXI	AAA (stable)

Index Constituents

Hang Seng China 50 Index
Hang Seng China Enterprises Index
Hang Seng Composite Index Series
Hang Seng Global Composite Index
Hang Seng SCHK Mainland China Banks Index
FTSE China 50 Index
MSCI Index Series
SSE Composite Index

Investor Enquiries

The Board Office of Postal Savings Bank of China Co., Ltd.
No. 3 Financial Street, Xicheng District, Beijing, PRC
Telephone: (86)10 6885 8158
Fax: (86)10 6885 8165
Email: ir@psbc.com

Other Information

You may write to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRSs or visit the Bank's office address for copies prepared under PRC GAAP. The Chinese and/or English versions of the annual report are also available on the following websites: www.psbc.com, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's A share registrar at (86) 4008 058 058, H share registrar at (852) 2862 8555 or the Bank's hotline at (86) 10 6885 8158.

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