中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

POSTAL SAVINGS BANK OF CHINA CO., LTD.
中國郵政儲蓄銀行股份有限公司

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

(Stock Code: 1658)

(Stock Code of Preference Shares: 4612)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors (the "**Board**") of Postal Savings Bank of China Co., Ltd. (the "**Bank**") is pleased to announce the unaudited results of the Bank and its subsidiaries for the six months ended June 30, 2020. The Audit Committee of the Board of the Bank has reviewed such interim results. This announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of interim results. The printed version of the Bank's Interim Report for 2020 will be sent to the shareholders of the Bank in due course and available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Bank at www.psbc.com.

By order of the Board
Postal Savings Bank of China Co., Ltd.
Du Chunye
Joint Company Secretary

Beijing, the PRC
August 28, 2020

As at the date of this announcement, the Board of the Bank comprises Mr. Zhang Jinliang as Chairman and Non-executive Director; Mr. Guo Xinshuang, 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.

* *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.*

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 Limited was officially established. In January 2012, the Bank was transformed into a joint stock limited liability company. In December 2015, the Bank introduced ten strategic investors from home and abroad. 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 offerings of A share and H share”.

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 as well as 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 implementing the national development strategy and supporting 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, continuously improves the development of the comprehensive risk management system featuring “all aspects, whole process and entire staff”, and maintains good 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, and 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 2020, 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 this year by Fitch and Moody’s respectively, which are the same as China’s sovereignty credit rating. It has been rated A by S&P Global Inc. It has been assigned AAAspc by S&P Global (China) Ratings with a stable prospect.

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.

進步與您同步

TOGETHER WE MAKE IT BETTER

Contents

Definitions

"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)
"CBIRC/CBRC"	China Banking and Insurance Regulatory Commission, or its predecessor, 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 former 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 granted by the Bank to the enterprises classified as small-, micro-, and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
"CSRC"	China Securities Regulatory Commission
"Group"	The Bank and its subsidiaries
"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

"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 Co., Ltd.
"PSBC Wealth Management"	PSBC Wealth Management Co., Ltd.
"Sannong"	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 Autonomous Region, the Tibetan inhabited areas in four provinces, four prefectures in southern Xinjiang Autonomous Region, Liangshan Prefecture of Sichuan Province, Nujiang Prefecture of Yunnan Province, and Linxia Prefecture of Gansu 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

Definitions

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 2020 Interim Report, highlights and results announcement have been reviewed and approved at the meeting of the Board of Directors of the Bank held on August 28, 2020. There were 13 Directors of the Bank eligible for attending the meeting, among which 13 Directors attended the meeting in person. The attendance was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association.

With the approval at the 2019 Annual General Meeting held on May 28, 2020, the Bank distributed cash dividends of RMB2.102 (tax included) per ten shares, totaling approximately RMB18,283 million (tax included), for the period from January 1, 2019 to December 31, 2019 to all the ordinary shareholders whose names appeared on the share register on the record date. The Bank did not declare or distribute interim dividends of 2020, nor did it convert any capital reserve to share capital.

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and procedures.

The 2020 interim financial report of the Bank, prepared in accordance with PRC GAAP and IFRSs, has been reviewed by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with Chinese and international auditing standards respectively.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
August 28, 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 declare and warrant the truthfulness, accuracy and completeness of the financial statements contained in this report.

This report contains forward-looking statements on the Bank's financial position, business performance and development. These statements are 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 any substantive commitments to investors by the Bank. 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 was not aware of 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.” (“PSBC”)
Legal representative:	Zhang Jinliang
Chairman:	Zhang Jinliang
President:	Guo Xinshuang
Authorized representatives:	Yao Hong, Du Chunye
Secretary to the Board of Directors:	Du Chunye Telephone: 86-10-68858158 Fax: 86-10-68858165 E-mail: psbc.ir@psbcoa.com.cn
Registered address and place of business:	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 Telephone: 86-10-68858158 Fax: 86-10-68858165 E-mail: psbc.ir@psbcoa.com.cn Website: www.psbc.com
Hotline for customer services and complaints:	86-95580
Information disclosure media:	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Interim report available at:	Office of the Board of Directors of the Bank, No. 3 Financial Street, Xicheng District, Beijing
Unified social credit code:	9111000071093465XC
A share listing, stock name, stock code and website for publication of interim 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 interim report: www.sse.com.cn
H share listing, stock name, stock code and website for publication of reports:	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 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 laws of the Chinese mainland:	King & Wood Mallesons

Legal Advisor as to laws of Hong Kong, PRC:	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	For the six months ended June 30 2020	2019	2018
Operating results			
Operating income	**146,485**	141,704	132,408
Net interest income	**122,954**	119,082	111,662
Net fee and commission income	**9,728**	9,339	7,682
Operating expense	**76,664**	73,222	74,770
Credit impairment losses	**33,590**	27,693	23,366
Impairment losses on other assets	**4**	3	5
Profit before income tax	**36,227**	40,786	34,267
Net profit	**33,673**	37,422	32,547
Net profit attributable to shareholders of the Bank	**33,658**	37,381	32,523
Net cash flow from operating activities	**(10,929)**	113,271	79,590
Per share data (in RMB)			
Basic and diluted earnings per share(1)	**0.36**	0.43	0.37

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. There were no potential diluted ordinary shares of the Group, so the diluted earnings per share were the same as the basic earnings per share.

In millions of RMB, unless otherwise stated

Item[4]	**As at June 30, 2020**	As at December 31, 2019	As at December 31, 2018
Data as at the end of the reporting period			
Total assets	**10,966,186**	10,216,706	9,516,211
Total loans to customers[1]	**5,481,104**	4,974,186	4,276,865
Allowance for impairment losses on loans to customers[2]	**193,610**	166,124	127,327
Loans to customers, net	**5,287,494**	4,808,062	4,149,538
Financial investments[3]	**3,960,416**	3,675,030	3,387,487
Cash and deposits with central bank	**1,129,845**	1,154,843	1,202,935
Total liabilities	**10,324,470**	9,671,827	9,040,898
Customer deposits[1]	**9,866,583**	9,314,066	8,627,440
Equity attributable to shareholders of the Bank	**640,689**	543,867	474,404
Net capital	**775,284**	671,834	593,729
Core tier 1 capital, net	**508,652**	492,212	421,678
Additional tier 1 capital, net	**127,934**	47,948	47,927
Risk-weighted assets	**5,549,344**	4,969,658	4,316,219
Per share data (in RMB)			
Net assets per share[5]	**5.90**	5.75	5.26

Note (1): For ease of reference, the "loans and advances to customers" is referred as "loans to customers" and "customer deposits" refers to "deposits from customers" in this report.

Note (2): Allowance for impairment losses on loans to customers at amortized cost.

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

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 consists of the interest from corresponding assets and liabilities, and interest receivable and interest payable are no longer shown separately from 2018 onwards. 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	For the six months ended June 30 2020	2019	2018
Profitability (%)			
Return on average total assets(1)(2)	**0.64**	0.77	0.72
Return on weighted average equity(1)(3)	**12.65**	16.38	16.32
Net interest margin(1)(4)	**2.42**	2.55	2.64
Net interest spread(1)(5)	**2.36**	2.51	2.65
Net fee and commission income to operating income ratio	**6.64**	6.59	5.80
Cost to income ratio(6)	**51.57**	50.95	55.80

Item	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018
Asset quality(%)			
Non-performing loans ratio(7)	**0.89**	0.86	0.86
Allowance to NPLs ratio(8)	**400.12**	389.45	346.80
Allowance to loans ratio(9)	**3.54**	3.35	2.99
Capital adequacy ratio (%)			
Core tier 1 capital adequacy ratio(10)	**9.17**	9.90	9.77
Tier 1 capital adequacy ratio(11)	**11.47**	10.87	10.88
Capital adequacy ratio(12)	**13.97**	13.52	13.76
Risk-weighted assets to total assets ratio(13)	**50.60**	48.64	45.36
Total equity to total assets ratio	**5.85**	5.33	4.99

Note (1): On an annualized basis.

Note (2): Represents net profit as a percentage of average balance of total assets at the beginning and the end of the period.

Note (3): Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by CSRC.

Note (4): Calculated by dividing net interest income by the average balance of interest-earning assets.

Note (5): Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

Note (6): Calculated by dividing operating expense (excluding taxes and surcharges) by operating income.

Note (7): Calculated by dividing total non-performing loans by the total loans to customers.

Note (8): Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans. Total allowance for impairment losses on loans to customers includes allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.

Note (9): Calculated by dividing total allowance for impairment losses on loans to customers by total loans to customers.

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

Note (11): Calculated by dividing tier 1 capital (net of tier 1 capital deductions) by risk-weighted assets.

Note (12): Calculated by dividing total capital (net of capital deductions) by risk-weighted assets.

Note (13): Calculated by dividing risk-weighted assets by total assets.

Other Major Indicators

Item		Regulatory criteria	**As at June 30, 2020**	As at December 31, 2019	As at December 31, 2018
Liquidity ratio (%)(1)	RMB and foreign currency	≥25	**72.35**	67.96	61.17
Percentage of loans to the largest single customer (%)(2)		≤10	**23.49**	27.19	29.78
Percentage of loans to the ten largest customers (%)			**34.89**	39.42	41.39
Loan migration ratio (%)	Normal		**0.49**	1.28	1.24
	Special mention		**41.23**	16.42	25.01
	Substandard		**51.89**	63.32	75.09
	Doubtful		**77.18**	81.80	83.55

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 June 30, 2020, 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 RMB182,089 million, accounting for 23.49% 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 billion which was approved by the CBIRC. As of June 30, 2020, the outstanding loan balance under such credit line approved by the CBIRC for China State Railway Group Co., Ltd. was RMB165 billion. After deduction of this RMB165 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.20% of the Bank's net capital.

Credit Rating

Rating Agency	As of June 30, 2020	2019	2018
Standard & Poor's	**A (stable)**	A (stable)	A (stable)
Moody's Investors Service	**A1 (stable)**	A1 (stable)	A1 (stable)
Fitch Ratings	**A+ (stable)**	A+ (stable)	A+ (stable)
S&P Global (China) Ratings	**AAAspc (stable)**	AAAspc (stable)	–
CCXI	**AAA (stable)**	AAA (stable)	AAA (stable)

Overview of Operations

In the first half of 2020, facing the tough and complicated COVID-19 situation and the economic and financial environments, the Bank adhered to Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and fully implemented all major policies and plans made by the CPC Central Committee and the State Council. The Bank strictly implemented financial regulatory requirements, adhered to the underlying principle of pursuing progress while ensuring stability, and dealt with the pandemic and socio-economic development in a coordinated manner. It focused on responding to the pandemic shock and supporting the real economy, effectively prevented and defused risks, strengthened the foundation of management in all ranges, and continuously stepped up the mechanism development. The Bank saw steady, better-structured operation with the general trend towards stable growth.

Making Steady Progress in Business Development

The Bank studied and analyzed the macro-economic and financial situation, actively responded to the changes in the financial market, and steadily pushed forward the construction of the LPR quotation system and the conversion of pricing benchmark of existing loans. The Bank adhered to the concept of high quality development. It transformed business in an in-depth manner, steadily promoted business development, strengthened refined management of assets and liabilities, stabilized interest margin, adjusted structure and controlled cost, thus achieving stable growth in business scale and development quality. As of the end of the reporting period, the total assets amounted to RMB10.97 trillion, and total loans to customers amounted to RMB5.48 trillion, representing an increase of 7.34% and 10.19% respectively compared with the prior year-end. The Bank's total liabilities amounted to RMB10.32 trillion, and total customer deposits amounted to RMB9.87 trillion, representing an increase of 6.75% and 5.93% respectively compared with the prior year-end.

Fully Serving the Real Economy

The Bank actively served national development strategies, improved the efficiency and effectiveness in serving the real economy, continued to strengthen financial support in the key areas of the national economy, and contributed to the pandemic prevention and control, the resumption of production of enterprises and the economic and social development. First, the Bank earnestly implemented the decisions of the CPC Central Committee on pandemic prevention and control, and made pandemic control its top priority and urgent task. The Bank actively implemented PBOC's special central bank lending policy for fighting the pandemic, granted special central bank lending to nearly 700 enterprises on the list of key enterprises on pandemic prevention and control, with loans worth more than RMB100 billion extended to various enterprises involved in pandemic control. Second, the Bank upheld its strategic positioning and adhered to serving Sannong customers, urban and rural residents as well as SMEs. In the first half of the year, the balance of the Bank's agriculture-related loans increased by RMB84,932 million. The balance of targeted poverty alleviation loans increased by RMB7,770 million. The balance of inclusive loans to small and micro enterprises amounted to RMB756,612 million, representing an increase of RMB103,427 million compared with the prior year-end. The number of households with loan balances increased by approximately 66,700 compared with the prior year-end, completing the "Two increases" requirements of the CBIRC for the current period. Third, the Bank continued to increase support for major national strategies. It actively supported the implementation of national strategies on the Belt and Road Initiative, Xiongan New Area, Yangtze River Economic Belt, the coordinated development of Beijing-Tianjin-Hebei Region, Guangdong-Hong Kong-Macau Greater Bay Area, and the integrated development of Yangtze River Delta, etc., focused on the construction of "new infrastructure, new urbanization initiatives and major projects", and assisted in industrial upgrade.

Continuously Strengthening Risk Prevention and Control

Focusing on the key task of forestalling and defusing material risks, the Bank firmly established the concept of comprehensive risk management, continuously improved the development of the "all aspects, whole process and entire staff" risk management system, in order to prevent risks, promote compliance, ensure quality and strictly safeguard the line of defense against risks. The Bank actively responded to the impacts of the pandemic, implemented differentiated credit policies and standards, carried out in-depth comprehensive risk investigation, and strengthened monitoring and diffusion of risks during the pandemic. It researched and assessed internal and external risk status in a more prudent manner, conducted forward-looking provision for asset impairment and strengthened the ability to resist risks. As of the end of the reporting period, the non-performing loan balance amounted to RMB48,531 million and the non-performing loans ratio was 0.89%, representing an increase of 0.03 percentage point compared with the prior year-end. The ratio of special mention loans and the overdue loan ratio decreased by 0.13 percentage point and 0.15 percentage point, respectively, compared with the prior year-end. Its allowance to NPLs ratio was 400.12%, representing an increase of 10.67 percentage points compared with the prior year-end, and its asset quality and risk resistance maintains at the leading level in the industry. The Bank continuously deepened the case prevention mechanism to make sure that employees and branches "dare not, can not and do not want to break the rules", improved operational risk prevention and control as well as operation management and safety precaution measures during the pandemic as well as put into practice the "three lines of defense" on internal control. The Bank actively cracked down on illegal practices by conducting follow-up examinations in accordance with the regulatory requirements, urged institutions at different levels to shoulder the responsibilities, and promoted compliant and sound operation.

Continuous In-depth Reform of Operational Mechanism

The Bank actively promoted the reform of operational mechanism and advanced development through reform. First was to strengthen top-level design and complete the reform of the organizational structure on all aspects. It stepped up the building of Headquarters Leadership by setting up the Budget and Expenditure Review Committee and the Data Governance Committee (a tier-two committee) under the senior management and optimizing the operation mechanisms of the Personal Banking Management Committee, the Sannong Financial Services Management Committee, the Corporate Banking Management Committee, and the Treasury and Asset Management Committee. The Bank advanced the transformation of the Credit Card Center to be a quasi-independent business unit. It continued to optimize the organizational setup for IT, digital operation and customer experience, etc. so as to reinforce organizational support. It adhered to principles such as being lean and efficient, being customer-oriented as well as separation of the front, middle and back offices, and constantly promoted the institutional reform of branches and sub-branches. Second was to strengthen collaboration and sharing and leverage the advantage of resources integration. The Bank strengthened collaborative management and business development, promoted joint marketing among different segments, different departments, and between the Head Office and branches, strengthened mechanisms on profit sharing, cost sharing and collaborative assessment, and enhanced the collaboration of key areas and businesses. It established and improved the mechanism of management of agency financial businesses and consolidated the foundation of coordinated development. Third was to strengthen human resources management and to explore establishment of market-oriented management system. The Bank formulated a three-year talent development plan and implementation plan for building a talent pool for the Pioneering Project to comprehensively promote the construction of talent teams. It also actively built up the talent pool of heads and deputies for tier-1 branches, ensuring people of younger age and professional qualifications were given priority consideration in the selection process. The Bank focused on recruiting people in areas such as information technology and intelligent risk control, launched the market-oriented recruitment process for the high-end and urgently-needed talents in order to boost leadership by the Head Office. It also explored the application of market-oriented salary distribution mechanism and continuously improved the incentive and restraint mechanism.

Discussion and Analysis

Environment and Prospect

In the first half of 2020, affected by the COVID-19 pandemic, the world saw global economy in deep recession with blocked industry chain and supply chain, shrinking investment in international trade and fluctuating financial market. As the central banks around the world adopted an easing monetary policy, level of interest rate continued to move downwards. The global banking industry was facing challenges such as slower business development, narrowed spreads, and increased credit risk.

In the face of the severe and complicated situation of the pandemic and the economy globally, China made full efforts to promote pandemic prevention and control alongside economic and social development, constantly innovated and improved macroeconomic control, ensured stability in six areas and “six priorities”. As a result, China has achieved outstanding results in pandemic prevention and control and the resumption of work and production, as well as the steady economic recovery. The economic growth in the second quarter was clearly better than expected, and the trend that the Chinese economy would continue to grow amid stability in the long run remained unchanged. The prudent monetary policy was more flexible and moderate, and the system of structured monetary policy instruments continuously improved. The efficiency of monetary policy transmission was improved, the lending interest rate reduced significantly, and the two-way floating of the exchange rate was more flexible, thus the financial risks were effectively prevented and controlled. The banking industry in China vigorously supported the pandemic prevention and control and the resumption of work and production, with stable operation on the whole, risks under control and continuous improvement in serving the real economy.

Looking forward to the second half of 2020, the international environment is becoming more and more complex with higher uncertainty and more risks of instability. Besides, the problem of uneven and inadequate domestic development will still be prominent, the pressure on employment will still be great, and risks will accumulate in areas such as finance, leading to the increase of risks and challenges faced by the banking industry in terms of operation and development. Under ongoing prevention and control of the pandemic, China will step up efforts to ensure stability in six areas and maintain “six priorities”, improve the cross-cycle design and adjustment of macroeconomic control, and accelerate the creation of a new development pattern whereby domestic and foreign markets can boost each other, with the domestic market as the mainstay, in a bid to achieve a long-term balance between steady growth and risk prevention. The banking industry will continue to support the pandemic prevention and control and the resumption of economic and social development and strengthen the support for the real economy, especially SMEs and private enterprises. Besides, it will make appropriate interest concessions to the real economy, strengthen the management and control of asset quality, and properly defuse all kinds of risks, helping to win the critical battle of forestalling and defusing financial risks.

In the second half of 2020, the Bank will fully implement the decisions and plans of the central government as well as requirements of regulatory authorities. It will adhere to the strategic positioning of retail banking, and focus on the strategic vision of building into a leading large retail commercial bank which is trustworthy, distinctive, prudent and safe, innovative, and with remarkable value. Amid the ongoing pandemic prevention and control, the Bank will make every effort in all aspects of operation and development, and accelerate and promote the transformation and development of “uniqueness, comprehensiveness, lightness, intelligence and intensiveness”. First, the Bank will support pandemic prevention and control and resumption of production, and earnestly shoulder the responsibilities as a state-owned large bank. Second, the Bank will continue to promote the “stable growth, structural adjustment and cost control” of the liability business, strive to achieve high quality growth of asset business, continuously expand the scale of fee-based business, and actively seize the market opportunities found in treasury and asset management business. Third, the Bank will continue to build a sound financial ecosystem, and comprehensively build up a retail, corporate and interbank financial ecosystem. Fourth, the Bank will strengthen the internal control of risks and compliance management, consolidate the asset quality despite the impact of the pandemic, and improve the level of refined risk management. Fifth, the Bank will continue to enhance information technology capability, improve the management of information technology and comprehensively deepen data governance and empowerment.

Analysis of Financial Statements

Analysis of Income Statement

In the first half of 2020, faced with the impact of COVID-19 as well as the complicated economic and financial environments, the Group strengthened its strategic position in retail banking, continued to deepen its reform, focused on the service for the real economy, made every effort to provide financial services for fighting against the pandemic, and proactively prevented and controlled financial risks. The Group achieved an operating income amounting to RMB146,485 million, representing an increase of RMB4,781 million, or 3.37% as compared with the same period of the prior year. Net profit was RMB33,673 million, representing a decrease of RMB3,749 million, or 10.02%, as compared with the same period of the prior year.

Changes of Principal Components in the Income Statement

In millions of RMB, except for percentages

	For the six months ended June 30		Increase/	
Item	2020	2019	(decrease)	Change (%)
Net interest income	**122,954**	119,082	3,872	3.25
Net fee and commission income	**9,728**	9,339	389	4.17
Net other non-interest income	**13,803**	13,283	520	3.91
Operating income	**146,485**	141,704	4,781	3.37
Less: Operating expense	**76,664**	73,222	3,442	4.70
Credit impairment losses	**33,590**	27,693	5,897	21.29
Impairment losses on other assets	**4**	3	1	33.33
Profit before income tax	**36,227**	40,786	(4,559)	(11.18)
Less: Income tax expense	**2,554**	3,364	(810)	(24.08)
Net profit	**33,673**	37,422	(3,749)	(10.02)
Attributable to shareholders of the Bank	**33,658**	37,381	(3,723)	(9.96)
Attributable to non-controlling interests	**15**	41	(26)	(63.41)
Other comprehensive income	**(163)**	(479)	316	–
Total comprehensive income	**33,510**	36,943	(3,433)	(9.29)

Net Interest Income

During the reporting period, the Group's net interest income amounted to RMB122,954 million, representing an increase of RMB3,872 million or 3.25% compared with the same period of the prior year. Net interest margin and net interest spread were 2.42% and 2.36%, respectively, representing a decrease of 13 basis points and 15 basis points respectively over the same period of the prior year.

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

In millions of RMB, except for percentages

	For the six months ended June 30					
	2020			2019		
Item	Average balance	Interest income/ expense	Average yield/ cost (%)[1]	Average balance	Interest income/ expense	Average yield/ cost (%)[1]
Assets						
Total loans to customers	5,215,849	122,333	4.72	4,501,629	108,014	4.84
Investments[2]	3,424,654	62,285	3.66	3,229,665	62,842	3.92
Deposits with central bank[3]	1,068,583	8,592	1.62	1,102,570	8,857	1.62
Deposits and placements with banks and other financial institutions[4]	510,380	8,112	3.20	584,350	10,584	3.65
Total interest-earning assets	10,219,466	201,322	3.96	9,418,214	190,297	4.07
Allowance for impairment losses	(196,958)	–	–	(153,898)	–	–
Non-interest earning assets[5]	661,534	–	–	508,729	–	–
Total assets	10,684,042	–	–	9,773,045	–	–
Liabilities						
Customer deposits	9,560,607	74,644	1.57	8,916,370	67,679	1.53
Deposits and placements from banks and other financial institutions[6]	210,139	1,811	1.73	185,009	1,995	2.17
Debt securities issued[7]	104,486	1,875	3.61	78,160	1,541	3.98
Borrowings from central bank	4,696	38	1.63	–	–	–
Total interest-bearing liabilities	9,879,928	78,368	1.60	9,179,539	71,215	1.56
Non-interest bearing liabilities[8]	197,109	–	–	137,581	–	–
Total liabilities	10,077,037	–	–	9,317,120	–	–
Net interest income	–	122,954	–	–	119,082	–
Net interest spread[9]	–	–	2.36	–	–	2.51
Net interest margin[10]	–	–	2.42	–	–	2.55

Note (1): On an annualized basis. The average yield/cost (%) is annualized based on the actual number of days in the year.

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

Note (3): Consists of statutory deposit reserves and surplus deposit reserves.

Note (4): Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.

Note (5): 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 (6): Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Note (7): Consists of qualified tier 2 capital instruments issued and interbank certificates of deposit.

Note (8): 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 (9): Calculated as the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

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

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

In millions of RMB

	For the six months ended June 30 2020 vs 2019 Increase/(decrease)		
Item	Volume[1]	Interest rate[2]	Total[3]
Assets			
Total loans to customers	16,751	(2,432)	14,319
Investments	3,546	(4,103)	(557)
Deposits with central bank	(273)	8	(265)
Deposits and placements with banks and other financial institutions	(1,176)	(1,296)	(2,472)
Total changes in interest income	18,848	(7,823)	11,025
Liabilities			
Customer deposits	5,030	1,935	6,965
Deposits and placements from banks and other financial institutions	217	(401)	(184)
Debt securities issued	472	(138)	334
Borrowings from central bank	38	–	38
Total changes in interest expense	5,757	1,396	7,153
Changes in net interest income	13,091	(9,219)	3,872

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 RMB201,322 million, representing an increase of RMB11,025 million, or 5.79% compared with the same period of the prior year. It was primarily due to the growth in the scale of interest-bearing assets and the higher proportion of high-yield interest earning assets such as loans to customers as a result of optimized asset structure.

Interest Income from Loans to Customers

During the reporting period, the Group's interest income from loans to customers amounted to RMB122,333 million, representing an increase of RMB14,319 million, or 13.26% compared with the same period of the prior year.

During the reporting period, the Group's interest income from corporate loans amounted to RMB38,404 million, representing an increase of RMB2,928 million, or 8.25% compared with the same period of the prior year. It was primarily because the Group contributed to the national strategies and economic structural transformation and upgrading, focused on supporting new infrastructure construction, new urbanization construction and major project construction such as transportation and water conservancy, and continuously increased the efforts on financial poverty alleviation. Therefore, the average balance of corporate loans grew rapidly.

During the reporting period, the Group's interest income from personal loans amounted to RMB77,214 million, representing an increase of RMB12,275 million, or 18.90% compared with the same period of the prior year. It was primarily because the Group actively served the real economy and accelerated digital transformation, resulting in an increase in the average balance of residential mortgage loans, micro loans, etc., and a steady increase in average yield of personal loans.

Analysis on Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

	For the six months ended June 30					
	2020			2019		
Item	Average balance	Interest income	Average yield (%)(1)	Average balance	Interest income	Average yield (%)(1)
Corporate loans	**1,846,711**	**38,404**	**4.18**	1,628,112	35,476	4.39
Discounted bills	**504,686**	**6,715**	**2.68**	444,992	7,599	3.44
Personal loans	**2,864,452**	**77,214**	**5.42**	2,428,525	64,939	5.39
Total loans to customers	**5,215,849**	**122,333**	**4.72**	4,501,629	108,014	4.84

Note (1): On an annualized basis.

Analysis on Average Yield of Loans to Customers by Maturity Structure

In millions of RMB, except for percentages

	For the six months ended June 30					
	2020			2019		
Item	Average balance	Interest income	Average yield (%)(1)	Average balance	Interest income	Average yield (%)(1)
Short-term loans	2,037,791	43,117	4.25	1,733,175	38,691	4.50
Medium- and long-term loans	3,178,058	79,216	5.01	2,768,454	69,323	5.05
Total loans to customers	5,215,849	122,333	4.72	4,501,629	108,014	4.84

Note (1): On an annualized basis.

Interest Income from Investment

During the reporting period, the Group's interest income from investment amounted to RMB62,285 million, representing a decrease of RMB557 million, or 0.89% compared with the same period of the prior year. It was primarily due to a decrease in the average yield of financial investments as the market interest rate went downward.

Interest Income from Deposits with Central Bank

During the reporting period, the Group's interest income from deposits with central bank amounted to RMB8,592 million, representing a decrease of RMB265 million, or 2.99% compared with the same period of the prior year, which was primarily due to a decrease in the average balance of deposits caused by the cut to the reserve requirement ratio by the central bank.

Interest Income from Deposits and Placements with Banks and Other Financial Institutions

During the reporting period, the Group's interest income from deposits and placements with banks and other financial institutions amounted to RMB8,112 million, representing a decrease of RMB2,472 million, or 23.36% compared with the same period of the prior year. It was primarily due to the decreased average yield caused by downward trend in market interest rates and the actively reduced low-yield assets as the Group optimized the asset structure.

Interest Expense

During the reporting period, the Group's interest expense amounted to RMB78,368 million, representing an increase of RMB7,153 million, or 10.04% compared with the same period of the prior year, primarily due to an increase in the interest expense of customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Group's interest expense on customer deposits amounted to RMB74,644 million, accounting for 95.25% of total interest expense and representing an increase of RMB6,965 million, or 10.29% compared with the same period of the prior year, primarily due to the growth of deposits volume and a slight increase in average cost.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

	For the six months ended June 30					
	2020			2019		
Item	Average balance	Interest expense	Average cost (%)[1]	Average balance	Interest expense	Average cost (%)[1]
Corporate deposits						
Time	**362,513**	**4,289**	**2.38**	384,476	4,233	2.22
Demand	**809,495**	**3,091**	**0.77**	794,415	2,738	0.70
Subtotal	**1,172,008**	**7,380**	**1.27**	1,178,891	6,971	1.19
Personal deposits						
Time	**5,726,061**	**63,171**	**2.22**	5,203,758	56,833	2.20
Demand	**2,662,538**	**4,093**	**0.31**	2,533,721	3,875	0.31
Subtotal	**8,388,599**	**67,264**	**1.61**	7,737,479	60,708	1.58
Total customer deposits	**9,560,607**	**74,644**	**1.57**	8,916,370	67,679	1.53

Note (1): On an annualized basis.

Interest Expense on Deposits and Placements from Banks and Other Financial Institutions

During the reporting period, the Group's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1,811 million, representing a decrease of RMB184 million, or 9.22% compared with the same period of the prior year, primarily due to the downward trend in market interest rates and a decrease in the average cost.

Interest Expense on Debt Securities Issued

During the reporting period, the Group's interest expense on debt securities issued amounted to RMB1,875 million, representing an increase of RMB334 million, or 21.67% compared with the same period of the prior year, primarily due to an increase in the volume of interbank certificates of deposit issued.

Net Fee and Commission Income

During the reporting period, net fee and commission income of the Group amounted to RMB9,728 million, representing an increase of RMB389 million, or 4.17% compared with the same period of the prior year. In particular, fee and commission income increased by RMB1,120 million, or 6.71% compared with the same period of the prior year; fee and commission expense increased by RMB731 million, or 9.93% compared with the same period of the prior year.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

	For the six months ended June 30		Increase/	
Item	2020	2019	(decrease)	Change (%)
Bank cards and POS	**6,954**	7,629	(675)	(8.85)
Agency service business	**4,392**	2,760	1,632	59.13
Settlement and clearing	**3,757**	3,546	211	5.95
Wealth management business	**1,902**	2,077	(175)	(8.43)
Custody business	**412**	377	35	9.28
Others	**403**	311	92	29.58
Fee and commission income	**17,820**	16,700	1,120	6.71
Less: Fee and commission expense	**8,092**	7,361	731	9.93
Net fee and commission income	**9,728**	9,339	389	4.17

During the reporting period, the Group's fee income from bank cards and POS amounted to RMB6,954 million, representing a decrease of RMB675 million, or 8.85% compared with the same period of the prior year, primarily due to the decrease in bank card transactions caused by the pandemic. Fee income from agency business amounted to RMB4,392 million, representing an increase of RMB1,632 million, or 59.13% compared with the same period of the prior year, primarily because the Group increased the sales of agency business such as bancassurance, agency fund products and agency precious metal business, vigorously promoted the bonds underwriting business, and achieved a rapid growth in the revenue of agency service business. Fee income from settlement and clearing amounted to RMB3,757 million, representing an increase of RMB211 million, or 5.95% compared with the same period of the prior year, primarily because the Group innovated the marketing model and achieved steady growth of income from electronic payment business. Fee income from wealth management business amounted to RMB1,902 million, representing a decrease of RMB175 million, or 8.43% compared with the same period of the prior year. Fee income from custody business amounted to RMB412 million, representing an increase of RMB35 million, or 9.28% compared with the same period of the prior year, primarily due to the Group's further optimization of the custody business structure, focus on key areas and the rapid growth of custody business scale. Fee and commission expense amounted to RMB8,092 million, representing an increase of RMB731 million, or 9.93% compared with the same period of the prior year, primarily due to an increase in the commission expense as China Post Group increased the scale of agency sales of financial assets.

Net Other Non-Interest Income

During the reporting period, the Group's net other non-interest income amounted to RMB13,803 million, representing an increase of RMB520 million, or 3.91% compared with the same period of the prior year.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	For the six months ended June 30 2020	2019	Increase/ (decrease)	Change (%)
Net trading gains	**1,771**	2,572	(801)	(31.14)
Net gains on investment securities	**10,107**	9,087	1,020	11.22
Net gains on derecognition of financial assets at amortized cost	**1**	28	(27)	(96.43)
Net other operating gains	**1,924**	1,596	328	20.55
Total	**13,803**	13,283	520	3.91

During the reporting period, the Group's net trading gains amounted to RMB1,771 million, representing a decrease of RMB801 million, or 31.14% compared with the same period of the prior year, primarily due to a decrease in the fair value for debt securities through profit or loss and a decrease in the volume of interbank certificates of deposit.

During the reporting period, net gains on investment securities amounted to RMB10,107 million, representing an increase of RMB1,020 million, or 11.22% compared with the same period of the prior year, which was mainly due to gains from changes in fair value caused by the increase in the recoverable amount of trust investment plans as the Group reinforced post-investment management of financial investments.

During the reporting period, the Group's other net operating gains amounted to RMB1,924 million, representing an increase of RMB328 million, or 20.55% compared with the same period of the prior year, primarily due to exchange rate fluctuation and an increase in the foreign exchange gains.

Operating Expenses

The Group continued to strengthen the refined management and control of costs and expenses. During the reporting period, the operating expenses amounted to RMB76,664 million, representing an increase of RMB3,442 million, or 4.70% compared with the same period of the prior year. Deposit agency fee costs and others amounted to RMB40,691 million, representing an increase of RMB2,869 million, or 7.59% compared with the same period of the prior year, primarily due to the increase in the scale of customer deposits taken through agency outlets. Staff costs amounted to RMB22,631 million, representing a decrease of RMB897 million, or 3.81% compared with the same period of the prior year. Depreciation and amortization amounted to RMB3,890 million, representing an increase of RMB535 million, or 15.95%, compared with the same period of the prior year, primarily due to an increase in right-of-use assets and changes in fixed asset structure. Other expenses amounted to RMB8,324 million, representing an increase of RMB835 million, or 11.15%, compared with the same period of the prior year, primarily due to the Group's increased investment in marketing and technology to enhance its development capability in the future.

Major Components of Operating Expenses

In millions of RMB, except for percentages

Item	For the six months ended June 30 2020	2019	Increase/ (decrease)	Change (%)
Deposit agency fee and others	**40,691**	37,822	2,869	7.59
Staff costs	**22,631**	23,528	(897)	(3.81)
Depreciation and amortization	**3,890**	3,355	535	15.95
Taxes and surcharges	**1,128**	1,028	100	9.73
Other expenses	**8,324**	7,489	835	11.15
Total operating expenses	**76,664**	73,222	3,442	4.70
Cost to income ratio (%)(1)	**51.57**	50.95	0.62	–

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

Credit Impairment Losses

During the reporting period, the Group's credit impairment losses amounted to RMB33,590 million, representing an increase of RMB5,897 million, or 21.29% compared with the same period of the prior year. Among them, impairment losses on loans to customers amounted to RMB33,760 million, representing an increase of RMB7,910 million, or 30.60%, compared with the same period of the prior year. It was primarily due to the Group's adherence to a prudent risk management policy, forward-looking provision for asset impairment in key areas and sectors affected by the pandemic in order to enhance its ability to resist risks in the future, as well as the increase in the loan scale.

Income Tax Expenses

During the reporting period, the income tax expenses of the Group amounted to RMB2,554 million, representing a decrease of RMB810 million, or 24.08% compared with the same period of the prior year, primarily due to a decrease in profit before income tax.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

	For the six months ended June 30			
	2020		2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	**96,576**	**65.93**	86,859	61.30
Corporate banking	**26,732**	**18.25**	28,622	20.20
Treasury business	**22,964**	**15.67**	26,052	18.38
Others	**213**	**0.15**	171	0.12
Total operating income	**146,485**	**100.00**	141,704	100.00

For further details of business scope of each segment, please refer to "Notes to the Financial Statements – 40.1 Business segment".

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	For the six months ended June 30 2020 Amount	2020 Percentage (%)	2019 Amount	2019 Percentage (%)
Head Office	**19,219**	**13.12**	26,698	18.84
Yangtze River Delta	**19,538**	**13.34**	16,870	11.91
Pearl River Delta	**16,889**	**11.53**	15,315	10.81
Bohai Rim	**19,034**	**12.99**	16,957	11.97
Central China	**36,493**	**24.91**	33,371	23.54
Western China	**26,509**	**18.10**	24,190	17.07
Northeastern China	**8,803**	**6.01**	8,303	5.86
Total operating income	**146,485**	**100.00**	141,704	100.00

For further details of business scope of each geographical region, please refer to "Notes to the Financial Statements – 40.2 Geographical segment".

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Group's total assets amounted to RMB10,966,186 million, representing an increase of RMB749,480 million, or 7.34% compared with the prior year-end. In particular, total loans to customers increased by RMB506,918 million, or 10.19% compared with the prior year-end; financial investments increased by RMB285,386 million, or 7.77% compared with the prior year-end; cash and deposits with central bank decreased by RMB24,998 million, or 2.16% compared with the prior year-end.

In terms of the structure, net loans to customers accounted for 48.22% of total assets, representing an increase of 1.16 percentage points compared with the prior year-end; financial investments accounted for 36.11% of the total assets, representing an increase of 0.14 percentage point compared with the prior year-end; cash and deposits with central bank accounted for 10.30% of total assets, representing a decrease of 1 percentage point compared with the prior year-end; deposits and placements with banks and other financial institutions accounted for 3.16% of total assets, representing an increase of 0.24 percentage point compared with the prior year-end.

Key Items of Assets

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage (%)	As at December 31, 2019 Amount	Percentage (%)
Total loans to customers	**5,481,104**	**–**	4,974,186	–
Less: Allowance for impairment losses on loans(1)	**193,610**	**–**	166,124	–
Loans to customers, net	**5,287,494**	**48.22**	4,808,062	47.06
Financial investments	**3,960,416**	**36.11**	3,675,030	35.97
Cash and deposits with central bank	**1,129,845**	**10.30**	1,154,843	11.30
Deposits with banks and other financial institutions	**35,699**	**0.33**	28,373	0.28
Placements with banks and other financial institutions	**310,334**	**2.83**	269,597	2.64
Financial assets held under resale agreements	**96,117**	**0.88**	147,394	1.44
Other assets(2)	**146,281**	**1.33**	133,407	1.31
Total Assets	**10,966,186**	**100.00**	10,216,706	100.00

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

Note (2): Other assets consist primarily of 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 Group's total loans to customers amounted to RMB5,481,104 million, representing an increase of RMB506,918 million, or 10.19% compared with the prior year-end.

Breakdown of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Corporate loans	**1,948,936**	**35.56**	1,740,564	34.99
Discounted bills	**493,747**	**9.01**	482,834	9.71
Personal loans	**3,038,421**	**55.43**	2,750,788	55.30
Total loans to customers	**5,481,104**	**100.00**	4,974,186	100.00

As of the end of the reporting period, the Group's corporate loans amounted to RMB1,948,936 million, representing an increase of RMB208,372 million, or 11.97% compared with the prior year-end. It was due to the Group's keen support for national and regional development strategies, focus on supporting the construction of new infrastructure, greater financial support for small and micro enterprises, increase in the support for financial poverty alleviation, and growth in the scale of corporate loans and small business loans.

As of the end of the reporting period, the Group's discounted bills amounted to RMB493,747 million, representing an increase of RMB10,913 million, or 2.26% compared with the prior year-end, primarily because the Group met its customers' short-term capital needs as an effort to support the development of the real economy.

As of the end of the reporting period, the Group's personal loans amounted to RMB3,038,421 million, representing an increase of RMB287,633 million, or 10.46% compared with the prior year-end, primarily due to the increase in residential mortgage loans and micro loans.

Breakdown of Loans to Customers by Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Short-term loans	**2,163,051**	**39.46**	1,904,278	38.28
Medium- and long-term loans	**3,318,053**	**60.54**	3,069,908	61.72
Total loans to customers	**5,481,104**	**100.00**	4,974,186	100.00

Breakdown of Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Head Office	**298,578**	**5.45**	294,229	5.91
Yangtze River Delta	**1,105,778**	**20.17**	979,711	19.69
Pearl River Delta	**636,790**	**11.62**	570,988	11.48
Bohai Rim	**843,067**	**15.38**	759,469	15.27
Central China	**1,351,149**	**24.65**	1,216,003	24.45
Western China	**932,791**	**17.02**	851,016	17.11
Northeastern China	**312,951**	**5.71**	302,770	6.09
Total loans to customers	**5,481,104**	**100.00**	4,974,186	100.00

Breakdown of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Transportation, storage and postal services	**568,112**	**29.14**	508,233	29.20
Manufacturing	**314,440**	**16.13**	273,074	15.69
Financial services	**217,771**	**11.17**	206,322	11.85
Production and supply of electricity, heating, gas and water	**192,855**	**9.90**	187,145	10.75
Construction	**119,197**	**6.12**	103,094	5.92
Wholesale and retail	**118,411**	**6.08**	104,441	6.00
Leasing and commercial services	**110,434**	**5.67**	99,571	5.72
Water conservancy, environmental and public facilities management	**86,001**	**4.41**	71,449	4.10
Real estate	**82,596**	**4.24**	70,158	4.03
Mining	**74,836**	**3.84**	58,479	3.36
Other industries(1)	**64,283**	**3.30**	58,598	3.38
Total corporate loans	**1,948,936**	**100.00**	1,740,564	100.00

Note (1): Other industries consist of the agriculture, forestry, animal husbandry, 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 construction. The top five industries accounted for 72.46% of the total corporate loans, representing a decrease of 1.03 percentage points compared with the prior year-end.

Breakdown of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	As at June 30, 2020		As at December 31, 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	**1,844,061**	**60.70**	1,700,049	61.80
Other consumer loans	**359,200**	**11.82**	317,350	11.54
Personal micro loans	**709,268**	**23.34**	610,201	22.18
Credit card overdrafts and others	**125,892**	**4.14**	123,188	4.48
Total personal loans	**3,038,421**	**100.00**	2,750,788	100.00

As of the end of the reporting period, the Group's personal loans amounted to RMB3,038,421 million, representing an increase of RMB287,633 million, or 10.46% compared with the prior year-end.

The Group strictly implemented the government's policies on real estate control, focused on supporting residents' demand for self-occupied housing, and achieved steady growth in its personal residential mortgage business. As of the end of the reporting period, the residential mortgage loans amounted to RMB1,844,061 million, representing an increase of RMB144,012 million, or 8.47% compared with the prior year-end.

The Group vigorously supported the production of various agricultural business entities. With technology empowerment, it accelerated the digital transformation of the complete process of micro loans and expanded the scope of service. As of the end of the reporting period, the personal micro loans amounted to RMB709,268 million, representing an increase of RMB99,067 million, or 16.24% compared with the prior year-end.

The Group actively explored a new model of acquiring customers through Internet, enhanced its efforts in online transformation and scenario building, and steadily increased the scale of credit card business. As of the end of the reporting period, the credit card overdrafts and others amounted to RMB125,892 million, representing an increase of RMB2,704 million, or 2.20% compared with the prior year-end.

Financial investments

As of the end of the reporting period, the Group's financial investments amounted to RMB3,960,416 million, representing an increase of RMB285,386 million, or 7.77% compared with the prior year-end, accounting for 36.11% of the total assets.

Investment Structure by Type of Investment Instruments

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Debt instruments	**3,954,250**	**99.84**	3,672,236	99.92
Equity instruments	**6,166**	**0.16**	2,794	0.08
Total	**3,960,416**	**100.00**	3,675,030	100.00

Breakdown of Financial Investments by Measurement Approach

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Financial assets at fair value through profit or loss	**423,148**	**10.68**	310,161	8.44
Financial assets at fair value through other comprehensive income	**322,870**	**8.15**	229,725	6.25
Financial assets at amortized cost	**3,214,398**	**81.17**	3,135,144	85.31
Total	**3,960,416**	**100.00**	3,675,030	100.00

As of the end of the reporting period, the Group's financial assets at fair value through profit or loss increased by RMB112,987 million, or 36.43% compared with the prior year-end. The financial assets at fair value through other comprehensive income increased by RMB93,145 million, or 40.55% compared with the prior year-end. Financial assets at amortized cost increased by RMB79,254 million, or 2.53% compared with the prior year-end. This was primarily due to an increase of investment in bonds and securities investment funds.

Breakdown of Investments by Product

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Debt securities	**3,342,517**	**84.41**	3,145,660	85.59
Government bonds	**1,146,090**	**28.94**	1,061,734	28.89
Bonds issued by public institutions and quasi-government bonds	**0**	**–**	176	0.00
Bonds issued by financial institutions	**1,976,271**	**49.91**	1,912,632	52.04
Corporate bonds	**220,156**	**5.56**	171,118	4.66
Interbank certificates of deposit	**219,960**	**5.55**	263,953	7.18
Financial institution wealth management products	**2,821**	**0.07**	0	–
Asset management plans	**59,946**	**1.51**	48,011	1.31
Trust investment plans	**126,217**	**3.19**	98,395	2.68
Securities investment funds	**199,675**	**5.04**	114,882	3.13
Others	**9,280**	**0.23**	4,129	0.11
Total	**3,960,416**	**100.00**	3,675,030	100.00

As at the end of the reporting period, the bond investments increased by RMB196,857 million, or 6.26% compared with the prior year-end. In particular, the investment in bonds issued by policy banks amounted to RMB1,743,767 million.

Breakdown of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Overdue	**13**	**0.00**	74	0.00
Within 3 months	**122,371**	**3.66**	83,938	2.67
3-12 months	**476,710**	**14.26**	308,896	9.82
1-5 years	**1,455,283**	**43.54**	1,482,174	47.12
Over 5 years	**1,288,140**	**38.54**	1,270,578	40.39
Total	**3,342,517**	**100.00**	3,145,660	100.00

As at the end of the reporting period, the Group's investments in debt securities due within 3 months increased by RMB38,433 million, or 45.79% compared with the prior year-end; the investments in debt securities due within 3 to 12 months increased by RMB167,814 million, or 54.33% compared with the prior year-end. It was primarily because the Group strengthened its market research and assessment, took precautions against interest rate risk and increased investment in short-term bonds.

Breakdown of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
RMB	**3,292,308**	**98.50**	3,113,237	98.97
Foreign currencies	**50,209**	**1.50**	32,423	1.03
Total	**3,342,517**	**100.00**	3,145,660	100.00

The Top Ten Financial Bonds in Terms of Par Value

In millions of RMB, except for percentages or otherwise stated

Debt Securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses(1)
2015 Policy Financial Bonds	83,326.83	3.71	2025/8/31	–
2012 Policy Financial Bonds	49,800.00	2.43	2022/6/6	–
2011 Policy Financial Bonds	46,200.00	2.45	2021/2/9	–
2015 Policy Financial Bonds	45,767.36	3.65	2035/9/28	–
2011 Policy Financial Bonds	40,000.00	3.85	2021/12/21	–
2016 Policy Financial Bonds	32,900.00	3.05	2026/8/25	–
2015 Policy Financial Bonds	32,034.91	3.59	2030/9/28	–
2017 Policy Financial Bonds	32,010.00	4.30	2024/8/21	–
2019 Policy Financial Bonds	30,510.00	3.28	2024/2/11	–
2015 Policy Financial Bonds	29,683.01	3.68	2035/10/15	–

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 RMB10,324,470 million, representing an increase of RMB652,643 million, or 6.75% compared with the prior year-end. Among the liabilities, customer deposits increased by RMB552,517 million, or 5.93% compared with the prior year-end; deposits and placements from banks and other financial institutions increased by RMB46,691 million, or 63.92% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)
Customer deposits	**9,866,583**	**95.57**	9,314,066	96.30
Deposits from banks and other financial institutions	**69,914**	**0.68**	47,252	0.49
Placements from banks and other financial institutions	**49,825**	**0.48**	25,796	0.27
Financial assets sold under repurchase agreements	**117,414**	**1.14**	98,658	1.02
Debt securities issued	**123,123**	**1.19**	96,979	1.00
Borrowings from central bank	**10,721**	**0.10**	–	–
Other liabilities(1)	**86,890**	**0.84**	89,076	0.92
Total liabilities	**10,324,470**	**100.00**	9,671,827	100.00

Note (1): Consist of dividend payable, provisions, derivative financial liabilities, 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 amounted to RMB9,866,583 million, representing an increase of RMB552,517 million, or 5.93% compared with the prior year-end.

Breakdown of Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage (%)	As at December 31, 2019 Amount	Percentage (%)
Corporate deposits	**1,258,374**	**12.75**	1,128,965	12.12
Time deposit	**389,688**	**3.95**	357,931	3.84
Demand deposit	**868,686**	**8.80**	771,034	8.28
Personal deposits	**8,605,064**	**87.22**	8,183,314	87.86
Time deposit	**5,982,586**	**60.64**	5,481,019	58.85
Demand deposit	**2,621,805**	**26.57**	2,701,369	29.00
Structured deposit	**673**	**0.01**	926	0.01
Other deposits(1)	**3,145**	**0.03**	1,787	0.02
Total customer deposits	**9,866,583**	**100.00**	9,314,066	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 RMB421,750 million, or 5.15% compared with the prior year-end, primarily due to the growth in deposits with maturities of one year and below. Corporate deposits increased by RMB129,409 million, or 11.46% compared with the prior year-end. It was primarily because the Group increased its efforts to expand the deposits of enterprises, government institutions and administrative institutions, and achieved rapid growth in the scale of the deposits.

Breakdown of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage (%)	As at December 31, 2019 Amount	Percentage (%)
Head Office	**3,664**	**0.04**	3,727	0.04
Yangtze River Delta	**1,496,249**	**15.16**	1,399,426	15.02
Pearl River Delta	**922,411**	**9.35**	873,846	9.38
Bohai Rim	**1,470,978**	**14.91**	1,379,710	14.81
Central China	**3,097,066**	**31.39**	2,910,315	31.25
Western China	**2,137,506**	**21.66**	2,037,980	21.88
Northeastern China	**738,709**	**7.49**	709,062	7.62
Total customer deposits	**9,866,583**	**100.00**	9,314,066	100.00

Breakdown of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage (%)	As at December 31, 2019 Amount	Percentage (%)
Repayable on demand	**3,558,343**	**36.06**	3,528,475	37.88
Within 3 months	**1,052,959**	**10.67**	2,002,931	21.50
3-12 months	**3,860,756**	**39.14**	2,457,929	26.39
1-5 years	**1,394,525**	**14.13**	1,324,731	14.23
Over 5 years	**0**	**–**	0	–
Total customer deposits	**9,866,583**	**100.00**	9,314,066	100.00

Shareholders' Equity

As of the end of the reporting period, the Group's total shareholders' equity amounted to RMB641,716 million, representing an increase of RMB96,837 million, or 17.77% compared with the prior year-end, primarily due to the issuance of perpetual bonds and the growth of retained earnings during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage (%)	As at December 31, 2019 Amount	Percentage (%)
Share capital	**86,979**	**13.55**	86,203	15.82
Other equity instruments – preference shares	**47,869**	**7.46**	47,869	8.79
Other equity instruments – perpetual bonds	**79,989**	**12.46**	–	–
Capital reserve	**100,906**	**15.72**	97,477	17.89
Other comprehensive income	**2,156**	**0.34**	2,319	0.42
Surplus reserve	**36,439**	**5.68**	36,439	6.69
General reserve	**116,129**	**18.10**	116,129	21.31
Retained earnings	**170,222**	**26.53**	157,431	28.89
Equity attributable to shareholders of the Bank	**640,689**	**99.84**	543,867	99.81
Non–controlling interests	**1,027**	**0.16**	1,012	0.19
Total shareholders' equity	**641,716**	**100.00**	544,879	100.00

Off-Balance Sheet Items

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

Derivative financial instruments 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 Financial Statements – 15 Derivative financial assets and liabilities".

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 Financial Statements – 38 Contingent liabilities and commitments".

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

Components of Credit Commitments

In millions of RMB, except for percentages

	As at June 30, 2020		As at December 31, 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	**367,480**	**49.61**	434,777	56.30
Bank acceptances	**34,544**	**4.66**	31,583	4.09
Guarantees and letters of guarantee	**28,190**	**3.81**	20,447	2.65
Letters of credit	**25,005**	**3.38**	17,846	2.31
Undrawn credit card limits	**285,425**	**38.54**	267,537	34.65
Total	**740,644**	**100.00**	772,190	100.00

Analysis of Cash Flow Statement

During the reporting period, the Group's operating activities generated a net cash outflow of RMB10,929 million, compared with a net cash inflow of RMB113,271 million for the same period of the prior year, primarily due to the increase in cash outflow resulting from increased extension of credit.

During the reporting period, the net cash outflow from the Group's investing activities amounted to RMB191,514 million, representing a decrease of RMB92,453 million compared with the same period of the prior year, primarily due to the increase in cash received from financial assets upon maturity such as interbank certificates of deposit invested.

During the reporting period, the Group's financing activities generated a net cash inflow of RMB92,402 million, representing an increase of RMB68,965 million compared with the same period of the prior year, primarily due to the increase in cash received from the issuance of perpetual bonds.

Other Financial Information

Explanation of Changes in Accounting Policies

During the reporting period, the Group had no change of significant accounting policies.

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

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

Relevant Information of Corporate Bonds

During the reporting period, the Bank did not issue corporate bonds that need to be disclosed in accordance with the "The Standards for Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No. 3 – Contents and Formats of Interim Reports (Revision 2017)" and "The Standards for the Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No. 39 – Contents and Formats of Interim Reports on Corporate Debt Securities".

Business Overview

Personal Banking

The Bank continued to promote the transformation and upgrading of its retail business by enhancing product and service innovation as well as integrated marketing, strengthening the application of big data, accelerating the construction of an intelligent ecosystem, and speeding up the development of institutions and teams, which led to rapid growth of the retail business. For personal liability business, the Bank focused on the development of low-cost deposits, with an emphasis on high-quality development. For retail credit business, the Bank promoted digital transformation and scenario-based customer acquisition to enrich products and build a retail credit service system which meets the customers' needs. For the credit card business, the Bank continued to improve customer acquisition channels and actively expanded online financial services, maintaining a reasonable growth in business scale and a steady improvement in business quality. For agency service business, the Bank promoted the transformation of bancassurance and focused on the enhancement of sales capability on agency funds and precious metals business so as to achieve breakthrough development. For the Internet banking business, the Bank actively promoted "contactless services", optimized online service channels, and strengthened the cooperation with external parties to establish an intelligent ecosystem of "finance + services". For wealth management, the Bank strove to build a system of "customer management as the core, supported by teams, products, services, investment researches and technology" and increase the number of VIP customers and the AUM of retail customers. The Bank continued to carry out the outlet transformation with sample outlets as the benchmark, and accelerated technology application and function expansion, so as to enhance customer experience and improve the performance of outlets.

As of the end of the reporting period, the Bank provided services covering 613 million individual customers; personal deposits amounted to RMB8,605,064 million, an increase of RMB421,750 million compared with the prior year-end; personal loans amounted to RMB3,038,421 million, an increase of RMB287,633 million compared with the prior year-end. During the reporting period, the operating income of personal banking business amounted to RMB96,576 million, representing a year-on-year increase of 11.19%, and accounted for 65.93% of the Bank's operating income, representing an increase of 4.63 percentage points as compared with the same period of the prior year.

Basic Retail Business

The Bank has fully leveraged its advantage in resources to accelerate the transformation and development of the personal banking business. It focused on key projects, deepened the interaction between corporate and retail segments, continuously advanced merchant acquiring and vigorously developed low-cost deposits, to realize high quality development of personal deposits. It enhanced the sales capability of agency business in all aspects, strengthened its online marketing and promotion of "contactless services" during the pandemic, and achieved new breakthroughs in agency sales. In addition, it launched the CRM platform and customer management data mart, established all-channel collaborative marketing process, carried out big data analysis and fully explored the value of existing customers. It strengthened the building of professional team of wealth managers, diversified wealth management products, and improved non-financial value-added services, so as to meet the investment needs of mid-to high-end customers. As of the end of the reporting period, the AUM of retail customers reached RMB10.78 trillion, an increase of nearly RMB700 billion over the prior year-end.

Personal Deposit Business

The Bank kept promoting the development of personal deposit business, placing an equal emphasis on both its quantity and quality. It actively maintained the relationship with migrant workers during the Chinese New Year and rapid growth in deposits was realized in the first quarter. During the pandemic, it guided customers to conduct deposit business through online channels, and introduced term-extension policies on certain time deposits products, thus realizing the growth of deposits on the premise that the pandemic prevention and control measures had been properly taken. Focusing on the summer grains purchase projects, it consolidated advantages of deposits in the county areas. The Bank also facilitated the development of key debit card projects, and broadened the source of funds for personal deposits. Moreover, it continuously promoted the merchant acquiring business, leading to the net increase of RMB11,473 million of merchant acquiring-related personal demand deposits. It deepened the interaction between corporate and retail segments on agency payment business. Approximately 13,600 corporations and institutions became the Bank's new customers, the total salary payment of which amounted to RMB9,145 million in the year. As of the end of the reporting period, personal deposits amounted to RMB8,605,064 million, representing an increase of RMB421,750 million compared with the prior year-end.

Debit Card Business

The Bank focused on Tencent co-branded cards, the third-generation financial social security cards, veteran service cards, Meituan co-branded cards and other key cards for the purpose of acquiring more customers. The Bank integrated the advantages of online and offline resources, promoted Tencent co-branded cards through new media, and continued to provide membership rewards as encouragement. It continuously deepened cooperation with government departments such as the Ministry of Human Resources and Social Security and the Ministry of Veteran Affairs, to promote the issuance of the third-generation financial social security card and launch the veteran service card. It also cooperated with Meituan to issue the pilot Meituan co-branded card, which offers exclusive discount benefits, to further enrich the debit card product system. In addition, the Bank carried out a series of "Happy Weekend" 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 12.680 million and the number of debit cards in circulation stood at 1,019 million, with the deposit of debit cards amounting to RMB3,158,510 million.

Personal Settlement Business

The Bank provides agency collection and payment services and various settlement services to personal customers. The agency collection and payment services primarily include payment of salary, benefits and allowances; collection of utility fees; and collection and payment of social security pension. As an important means to serve retail customers, agency collection and payment services have brought the Bank a large number of customers and fund. During the reporting period, the Bank actively expanded the agency collection and payment business, with the volume of agency collection reaching RMB343,393 million and that of agency payment reaching RMB844,772 million. In particular, social security pension collected by the Bank amounted to RMB27,294 million, and pension payment amounted to RMB458,205 million. Consumption via debit cards amounted to RMB3.88 trillion, representing a year-on-year increase of 6.37%. The Bank provided personal customers with various international settlement services such as cross-border telegraphic transfer (T/T) and Western Union remittance. The number of transactions for personal international remittance was approximately 320,900, with a transaction volume of USD458 million.

Wealth Management

The Bank continuously promoted the system building of wealth management business and improved the level of wealth management in an all-round way by strengthening the professional team building, diversifying product offerings and supply, and building a differentiated service mode based on customer segmentation. As of the end of the reporting period, the number of VIP customers was 33.543 million, an increase of 8.33% compared with the prior year-end. The AUM from VIP customers accounted for 67.05% of the total, representing an increase of 2.13 percentage points as compared with the prior year-end. The number of affluent customers was 2.845 million, representing an increase of 15.12% compared with the prior year-end, and the AUM from affluent customers accounted for 19.70% of the total, representing an increase of 1.34 percentage points as compared with the prior year-end.

In terms of team building, the Bank worked on setting up the staff structure in branches of wealth management by expanding the core marketing team of wealth management managers and creating a professional team with wealth advisors and internal trainers as the support. It also improved performance appraisal, designed standard workflow, and carried out frequent professional training to improve the professional service capability of the team. As of the end of the reporting period, the total number of wealth management managers was approximately 38,900, representing an increase of 3,461 as compared with the prior year-end. In terms of product improvement, the Bank continuously expanded the product range of agency collective asset management plan and agency trust plan, increased the supply of customers' exclusive products at different levels, improved the process of identification of qualified investors, and launched customization services to meet the investment needs of mid- to high-end customers. In terms of customer services, it continued to optimize its non-financial value-added benefits system, enriched customer-specific value-added services, and launched online medical consultation services during the outbreak of COVID-19 to improve customer experience.

Personal Wealth Management

The Bank proactively implemented regulatory requirements such as the new rules on asset management, collaborated with PSBC Wealth Management, focused on customers, and launched an array of customer-exclusive products and net value products of the subsidiary. The Bank enhanced the training of sales personnel, strengthened compliance of sales activities and improved sales capabilities of net value products. It launched the optimization of customer journey to enhance the customer buying experience. It implemented the eligibility management of investors, actively responded to the fluctuation of the bond market, continued to optimize customer service and investor education, and solidly promoted the transformation of wealth management business in an orderly manner. As of the end of the reporting period, the balance of personal wealth management was RMB847,617 million, representing an increase of 8.28% compared with the prior year-end; net value products of personal wealth management accounted for 38.74%, representing an increase of 6.57 percentage points compared with the prior year-end.

Distribution of Financial Products

Leveraging on a unique distribution network consisting of directly-operated outlets and agency outlets with the largest number of outlets and widest coverage, the Bank distributed various financial products of other companies, in order to meet the diversified financial needs of personal customers. During the reporting period, the Bank fostered the development of agency sales business. To meet customers' need on insurance, the Bank set up a multi-type product system on bancassurance. The premiums of new policies amounted to RMB257,538 million and new regular premiums amounted to RMB51,639 million, both ranking top in the banking industry. The premiums of new policies for protection-oriented products amounted to RMB49,467 million, representing a year-on-year increase of 53.87%. It also strengthened cooperation with high-performing fund management institutions, increased the sales of the fund product "fixed income+" with an absolute return strategy and improved the profitability for the customers. Its agency sales of fund products amounted to RMB86,071 million, representing a year-on-year increase of 180.21%, among which the non-monetary funds amounted to RMB73,405 million, representing a year-on-year increase of 742.98%. Besides, it continuously strengthened the coverage and exploration of mid- to high-end customers. The agency collective asset management plan and agency trust plan amounted to RMB21,564 million, representing a year-on-year increase of 45.14%. Taking advantage of the rising market price of gold, the Bank actively put more focus on online marketing, and the transactions of precious metal business amounted to RMB19,440 million, representing a year-on-year increase of 244.50%.

Retail Credit

The Bank actively served the real economy, sped up digital transformation and strengthened the customer acquisition through scenario operations. With consumer credit, personal micro loans and credit cards as pillars, it continued to enrich the products, and created a retail credit service system that met the needs of customers.

Consumer Credit Business

In line with the national policy of enhancing the fundamental role of consumption in economic development, the Bank continued to serve the real economy and develop its consumer credit business. The consumer loans at the end of the reporting period amounted to RMB2,203,261 million, representing an increase of RMB185,862 million, or 9.21%, compared with the prior year-end.

The Bank developed residential mortgage business in strict compliance with national policies and regulatory requirements and extended personal housing loans in a steady manner. It implemented differentiated residential mortgage policies to meet eligible rigid housing demand and demand for housing improvement. As of the end of the reporting period, the residential mortgage loans amounted to RMB1,844,061 million, representing an increase of RMB144,012 million compared with the prior year-end.

The Bank continued to promote the digital, intelligent and scenario-based transformation. It made full use of Internet to enhance the competitiveness of products, and provided service experience featuring "all-customer, real-time, fully-online". It built a "two-wheel driven" digital customer acquisition mode which increased exploration of existing customers internally and expanded channels and inflow entrances externally. The Bank embedded financial services in various scenarios, and expanded customer base through batch acquisition and scenario-based operations, so as to deliver services to more customers. The Bank enhanced the capability of digital services, fostered the optimization of the end-to-end customer journey, and quickly promoted the retail credit remote acceptance system, to form a "multi-channel access, online-and-offline integrated" business process to provide customers with fast and convenient service experiences. It continued to promote the model of retail credit factory and build an efficient digitalized operation system with intelligent decision-making function. Mobile Internet and big data analysis technologies were applied throughout the whole lending process, and a digitalized, automated and intelligent management system was applied across the loan life cycle.

Micro Loan Business

The Bank fully supported the production development of small and micro enterprises owners, 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 faced in accessing affordable financing. It promoted the transformation and upgrading of the micro loan development model through technology empowerment, and sped up the development of Internet micro loans and the digital transformation of the whole process of micro loan driven by mobile integrated terminal, so as to expand the scope of services, enhance processing efficiency and improve customer experience. It deepened cooperation with platforms such as governments, associations, enterprises, guarantee companies and insurance companies to reduce business risks and financing costs of the customers. As of the end of the reporting period, the personal micro loans amounted to RMB709,268 million, representing an increase of RMB99,067 million, or 16.24% compared with the prior year-end.

Credit Card Business

In order to actively respond to the impact of the pandemic on consumer finance, the Bank enhanced its efforts in online and scenario-based transformation, and steadily and reasonably increased the scale and quality of credit card business. In response to customers' needs during the pandemic, the Bank strengthened online financial services, actively guided customers to use cards online, and provided differentiated services and policy support such as extended repayment for customers who were affected by the pandemic. Also, it continued the building of business circles with the theme of "Joyous Family Day" and the marketing activities such as "buying food and medicine at home" during the pandemic, to increase the scale of online card usage. It increased the efforts to acquire customers through online channels, carried out online referral activities, continuously deepened cross-selling among customers of the Bank, and supported the sustained growth of customer scale. Moreover, it strengthened scenario-based marketing by using internal and external resources, and launched new products such as Huaruntong co-branded card to promote the diversified development of installment business. During the reporting period, the number of newly-issued credit cards was 3.273 million, the number of credit cards in circulation was 33.417 million, and the amount of consumption via credit cards was RMB460,256 million.

Internet Finance

The Bank has always been customer-centered and actively promoted its digital transformation. Relying on the empowerment of both the data and technology, it started from the digital products, scenarios and ecosystem, continuously deepened external cooperation and promoted the transformation of marketing system from outlet-based to scenario-based customer acquisition, so as to achieve a virtuous cycle of user migration, customer cultivation and value mining.

The Promotion of "Contactless Services"

The Bank proactively responded to the customers' needs for online transactions, and continued to improve its "contactless services" to help prevent and control the pandemic in China. During the pandemic, the Bank immediately raised the online transfer and quick payment limits, supported merchants' remote access and opened a donation channel to assist Hubei, guaranteeing customers' online service needs. It launched the online "PSBC Health" section, introduced video medical consultation and "real-time COVID-19 information tracking", carried out the campaign of "free registration for insurance covering COVID-19" to expand the influence of online channels. It introduced the non-physical account payroll function to provide financial service support and guarantee for enterprises to resume work and production. The Bank innovatively launched a model for customer services at home, and the number of cumulative calls responded accounted for 26.77% of the total number of manual calls, further strengthening online service capacity.

Relying on agile development and aiming at building a secure, open, and intelligent mobile banking with optimized operation and expanding scenarios, the Bank continuously enriched its mobile banking functions and accelerated product innovation. During the reporting period, it added functions like voice payment transfer and fuzzy search, and optimized interfaces like financial calendar and wealth summary, continuously enhancing its mobile banking service capabilities. At the same time, adhering to the "customer-centered" service philosophy, the Bank strengthened the customer experience team building and formed a regular closed-loop management mechanism to further enhance mobile banking customers' experiences.

The Bank actively responded to the challenge of the pandemic, and immediately developed the "Customer Manager Cloud Studio" by agile development, providing customer managers with a round-the-clock, contactless digital service channel for product introduction and online business handling, in a bid to explore a new customer relationship management and service model. As of the end of the reporting period, there were a total of approximately 117,000 managers on the Cloud Studio, attracting 6.885 million visitors and over 15.357 million visits.

The Bank accelerated the development of intelligent customer service at its remote banking center, continuously improved the functions of telephone banking such as voice intelligence and intelligent quality inspection, and enhanced the intelligence level and service capacity in terms of customer interaction patterns, service channels, quality management and data mining. During the reporting period, the ratio of customer inquiries processed through intelligent customer services to those by remote banking centers over all channels was 63.43%, and the Q&A accuracy rate was 95.56%.

External Internet Cooperation

Adhering to an open, sharing and win-win philosophy, the Bank deepened cooperation and exchanges with external Internet enterprises, created new business models, promoted user diversion, and accelerated the scenario-based transformation and digital upgrading of financial products and services.

As for online account opening, besides the continual cooperation with companies such as Tencent and China UnionPay, the Bank issued virtual Meituan Co-branded Card with Meituan and provided membership benefits for target customers.

As for e-payment, the Bank continued to strengthen cooperation with Tenpay, Alipay, JD.com and other Internet enterprises through card-binding and marketing activities, thus the scale of electronic payment transactions maintained steady growth. As of the end of the reporting period, there were 296 million card accounts binding to quick payment, representing an increase of 8.03% compared with the prior year-end.

As for Internet loans, in collaboration with Tencent, Meituan and other platforms, the Bank launched a series of online products like "Micro Auto Loan" and "PSBC Credit – Meituan Living Expenses" in order to expand the scenarios of retail credit business. Other than those, the scale of products such as "PSBC Credit – Ant Credit Pay", "PSBC Credit–Ant Cash Now", "PSBC Credit – MY Loan" and "PSBC Credit – UMoney" in cooperation with Ant Financial and Du Xiaoman Financial also grew rapidly.

As for technical exchange and cooperation, the Bank signed an anti-phishing threat intelligence monitoring service contract related to information security with Tencent to provide 24/7 service on threat intelligence monitoring and timely blocking on Internet, which further enhanced the Bank's capability in anti-phishing monitoring and handling. It enhanced the cooperation with Internet enterprises in the development of open-ended payment platform, and provided convenient online payment experience for the payment collection institutions and users. As of the end of the reporting period, 4,079 payment projects were opened in cooperation with WeChat, and the bill payment business in cooperation with Alipay was launched in June 2020.

Building an Ecosystem of Scenarios

The Bank accelerated the construction of digital scenario ecosystem, carried out cooperation with external platforms, showed more postal characteristics, gradually embedded financial services into daily life consumption scenarios, explored new concepts of online and offline user operation, and sped up the establishment of a "finance + life" intelligent ecosystem.

In terms of online scenarios, the Bank provided non-financial scenarios such as shopping, health, charity, travel and courier by its mobile banking, and was gradually forming characteristic ecological layout of "PSBC Canteen + postal service + life scenario". The Bank continued to enrich the scenarios with postal characteristics. It launched online "EMS Express Fresh Mall" to provide customers with seasonal fresh fruit, high-quality local products and help-the-farmers goods for online shopping as well as EMS delivery services. The Bank continued to develop new scenarios for "PSBC Canteen". It introduced the "U Star Association" live streaming platform, and promoted special zones including "credit card interest-free installment zone" and "U micro-store". By diversifying its financial products, expanding the number of platform merchants, connecting merchants with customers, and reinforcing users' benefits, the Bank was able to transform the traffic flow advantage into economic returns. As of the end of the reporting period, the number of real-name-verified users of "PSBC Canteen" was 36.743 million, representing an increase of 222.67% compared with the prior year-end.

In terms of offline scenarios, the Bank took merchant expansion and acquiring business as the basic and strategic business, and vigorously promoted the construction of micro business circles. Relying on the advantages of offline outlets and focusing on the characteristics of the county areas, the Bank created convenient payment scenarios in vegetable markets and commercial streets. It explored potential value of the business circles through the linkage between business and customers, and developed a secondary source of deposits. Besides, it explored merchants in eight key areas of retail, catering, transportation, hotel, medical care, education, administration and utilities bill payment, and cooperated with service providers in the vertical sector of industries based on the "market-first and win-win cooperation" principle to provide comprehensive solutions to merchants. The Bank developed and promoted "PSBC Pay" nationwide, an integrated payment and acquiring product, providing efficient settlement services for merchants and enhancing customers' online payment experience. As of the end of the reporting period, the number of merchants using QR code payment was 1.387 million, representing an increase of 90.52% compared with the prior year-end.

Corporate Banking

The Bank constantly promoted the institutional reform on corporate banking for branches and sub-branches 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 Corporate Banking Management Committee. The Bank focused on its "Fast Acquisition Plan" for institutional customers and strategic customers, and continued to strengthen marketing and build its basic capacity. The development in the corporate banking business was evident. It continued to improve the cash management services of transaction banking, explored the supply chain customer, deepened the automobile industry chain financing, actively supported the development of the Belt and Road Initiative and reinforced technology empowerment to enhance customer experience. In terms of investment banking, it made significant breakthroughs in the aspects of key business, and further played an important role in strengthening and deepening customer relationship, alleviating asset allocation pressure and increasing income from fee-based business. As of the end of the reporting period, the number of corporate customers was approximately 747,200, representing an increase of approximately 89,100 customers compared with the prior year-end; the corporate loans amounted to RMB1,948,936 million, representing an increase of RMB208,372 million, or 11.97% compared with the prior year-end; the corporate deposits amounted to RMB1,258,374 million, representing an increase of RMB129,409 million, or 11.46% compared with the prior year-end.

As for the customer pipeline, the Bank put more emphasis on institutional customers and strategic customers, and greatly expanded its corporate customer size through six initiatives, namely "increasing customers in campaigns, attracting customers on platforms, capturing customers online, exploring existing customers, expanding customer base through cooperation and retaining customers with services". It took special initiatives in institutional business to promote breakthroughs in key businesses. It carried out collaborative marketing activities for corporate business to give full play to the synergy between the Bank and the China Post Group. Besides, a mechanism to contact and serve key customers was established, with management team of various levels leading the customer marketing work. Marketing activities for strategic customers was also launched with continuously deepened cooperation and significant results achieved in strategic customer guiding.

As for basic capacity development, first, the Bank accelerated the institutional reform on corporate banking for branches and sub-branches as well as their allocation of human resources, continued to carry out training for customer managers and product managers, and improved performance appraisal system. Second, the Bank offered more corporate banking services and functions at outlets to expand corporate customer coverage and explore the potential of business development; as of the end of the reporting period, there were 4,418 outlets that could handle corporate business, representing an increase of 682 compared with the prior year-end. Third, the Bank continuously improved business procedures, streamlined the processes in relation to account opening and credit business, and improved the efficiency of customer service. Fourth, the Bank stepped up efforts in and promoted product innovation, introduced emergency loans, and strengthened the development of corporate wealth management business. Fifth, the Bank strengthened technology support, promoted the building of the corporate credit business platform according to the enterprise-level modeling standard, and completed the analysis on business function requirements; promoted the development of the customer management data mart, fully integrated the information of corporate customers, established a labeling system for corporate customers across the Bank, and provided data support for customer analysis, marketing management and so on. Sixth, the Bank improved the risk management structure, continuously raised the risk management level, established a long-term mechanism for supervision and inspection, and applied targeted tracking policy to cope with large-scale risk exposure and improve the capabilities of risk monitoring, elimination and resolution.

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 provided corporate loans for the country's regional strategies, key industries, key customer groups and key projects. First, the Bank mobilized prime resources to boost the implementation of national strategies such as the Belt and Road Initiative, Xiongan New Area, Yangtze River Economic Belt, the coordinated development of Beijing-Tianjin-Hebei region, Guangdong-Hong Kong-Macao Greater Bay Area and the integrated development of Yangtze River Delta as well as contributed to the transformation and upgrading of economic structure. Second, the Bank extended more credit to new infrastructure and new urbanization initiatives and major projects such as transportation and water conservancy projects; continued to improve its financial services to strategic emerging industries; focused on advanced manufacturing and transformation and upgrading of traditional industries, and increased medium-to-long term loans for manufacturing industries. Third, the Bank cultivated key customer groups and actively developed loan business targeting strategic customers. As of the end of the reporting period, the loans to strategic customers at the Head Office level amounted to RMB548,051 million, representing an increase of RMB65,509 million compared with the prior year-end. Fourth, the Bank actively supported key national projects, strengthened loan project reserves, and expanded key project portfolio. Fifth, the Bank continued to support private enterprises and enhanced service quality and efficiency to reduce overall financing costs of enterprises. Sixth, 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 pipeline network, and strengthened poverty alleviation in severely impoverished areas such as the "Three Regions and Three Prefectures". As of the end of the reporting period, the Bank's corporate loans amounted to RMB1,948,936 million, representing an increase of RMB208,372 million, or 11.97%, compared with the prior year-end.

The Bank was fully committed to providing anti-pandemic financial services, enabled rapid approval of loans for the pandemic prevention and control, provided financial support to anti-pandemic enterprises without delay, strengthened management of funds, made sure that funds were used for their specific purposes and ensured the targeted loan extension. As of the end of the reporting period, a total of RMB8,976 million of the central bank special lending was issued to 693 key enterprises on pandemic prevention and control.

Corporate Deposits

The Bank provides time and demand deposit services in Renminbi and other major foreign currencies to corporate customers. Leveraging on its advantages in offline outlets and online channels, the Bank continued to promote growth of deposits from enterprises, government authorities, administrative institutions and other institutions. The Bank made steady progress in promoting the initiatives of "consolidate the foundation and aim for a higher target" and "China Post Group and PSBC are family and exploit the blue oceans together", and placed the emphasis on institutional customers to boost the development of corporate deposit business. Paying close attention to key institutional clients such as finance, social security, insurance and military, the Bank accelerated the development of key branches, and seized the opportunities from key projects such as agriculture and rural areas, E-certificate for basic medical insurance, and trans-provincial fine collection for traffic violations. It strengthened the foundation of the business development regarding institutional customers, and applied multiple measures to achieve significant growth in the number of qualifications to be the agent of government fiscal services, the number of newly opened accounts and the scale of institutional deposits. As of the end of the reporting period, the corporate deposits amounted to RMB1,258,374 million, representing an increase of RMB129,409 million, or 11.46% compared with the prior year-end. Specifically, the institutional client deposits amounted to RMB842,994 million, accounting for 66.99% of the corporate deposits, representing an increase of RMB95,645 million, or 12.80% compared with the prior year-end.

Transaction Banking

In terms of settlement and cash management, the Bank fully leveraged its advantages in transaction settlement network. First, it continued to enrich corporate settlement products, and developed electronic and physical IC corporate settlement card products to provide customers with more convenient settlement services. Second, it designed an integrated cash management service solution to help customers achieve internal cash flow management and external cash flow control, to improve capital efficiency and to reduce financial risks. As of the end of the reporting period, the number of contracted accounts for cash management business was approximately 219,900, representing an increase of approximately 18,900 or 9.40% compared with the prior year-end.

In terms of trade finance, the Bank strongly supported the development of small and micro enterprises and served the real economy. First, the "1 + N" model was used to expand upstream and downstream customer base in batches through the online supply chain financial service platform to improve service efficiency. Second, centering on core enterprises in industries such as transportation, high-end manufacturing, and power and construction, the Bank provided financing and settlement services to more than 1,600 suppliers and distributors. During the reporting period, the newly issued amount of supply chain financing was RMB16,044 million. Third, the Bank launched a new generation of automobile supply chain finance business system to continuously promote the online handling of the automobile industry chain finance business, and provide customers with high-quality experience featuring "quicker application, quicker loan granting and quicker vehicle redemption". As of the end of the reporting period, it cooperated with 19 well-known enterprises in the automobile industry to carry out supply chain financial cooperation with its services covering hundreds of automobile dealers.

In terms of cross-border finance, the Bank continued to consolidate its cross-border financial service capacity and enhanced the level of financial support for the development of the Belt and Road Initiative. First, the Bank enhanced its cooperation with international multilateral financial institutions and major domestic banks to provide cross-border financing services to customers in industries such as agriculture, household appliances and shipping. As of the end of the reporting period, the balance of cross-border financing increased by 31.78% compared with the prior year-end. Second, the Bank opened a green channel for cross-border remittances for anti-pandemic corporate customers, provided efficient settlement services, and allowed exemption or reduction in exchange rate settlement fees to reduce the cost of enterprises. Third, it constantly optimized its systems' functions, improved the foreign exchange settlement function of online corporate banking, and joined the cross-border financial blockchain platform of the State Administration of Foreign Exchange on a pilot basis to enhance its ability in providing convenient cross-border trade services.

In terms of corporate Internet financial business, the Bank enhanced capabilities and customer experience of e-banking and platform banking by strengthening technology empowerment. First, the Bank launched and promoted new online corporate banking system 2.0 nationwide. Second, it continuously improved the standard API for the direct connection between banks and enterprises, and provided personalized and open banking services for the large and medium-sized and platform enterprises. Third, through the integration and openness of open-ended payment platform, the Bank connected and cooperated with such channels as WeChat, Alipay and UnionPay, enriched the personal payment scenarios and explored the corporate fee payment market. It also implemented the inclusive finance philosophy in areas such as public utilities, non-tax social insurance, education and training and property management in third-tier cities and below. The open-ended payment platform witnessed initial success in the areas of large-scale customer service upgrade and rapid expansion of SME customers. As of the end of the reporting period, the Bank explored 4,996 open-ended payment cooperative institutions based on its traditional bill payment business, representing an increase of 3,654 compared with the prior year-end, covering more than 50% of county-level administrative districts and attracting millions of users.

Investment Banking

The Bank continued to focus on the businesses of bond underwriting, M&A loan, syndicated financing, financial advisory, asset securitization and so on. It also intensified product innovation and promotion, designed a variety of anti-pandemic financing products and issued China's first innovative anti-pandemic debt financing plan and the first "poverty alleviation + pandemic prevention and control" asset-backed note to achieve breakthroughs in key businesses, providing customers with integrated service solutions including both direct financing and indirect financing.

In terms of direct financing business, the Bank put every effort to use the coordination advantages throughout the Bank, and vigorously promoted the businesses of financial institution bond underwriting and local government bonds underwriting. During the reporting period, the Bank underwrote a variety of bonds with a total amount of RMB190,407 million, and its underwriting fee income increased by 73.93% on a year-on-year basis.

In terms of indirect financing business, the Bank took the principle of "giving priorities to fee-based income and leading business, considering scale and integrating marketing" and took major steps to develop syndicated loan projects. It took the initiative to expand the M&A loan business in key industries and areas, and actively built up reserves of major projects for strategic customers. As of the end of the reporting period, the amount of syndicated loans increased by 29.65% compared with the same period of the previous year, and fee income increased by 187.19% on a year-on-year basis; the balance of M&A loans amounted to RMB9,441 million, and the new loans amounted to RMB1,025 million.

Treasury Business

The Bank actively responded to the adverse impact of the pandemic, accurately evaluated and judged the changes and trend of the financial market, adhered to the concept of steady operation and compliant development, and achieved steady and healthy development of the treasury and asset management business. These are reflected in "four breakthroughs": The first one was the breakthrough of product innovation in the financial market business. The Bank was among the first commercial banks to obtain the qualification of interbank RMB interest rate options trading. It also obtained the qualification for Bond Connect to explore spot transaction and placement transaction of overseas precious metal. The second was the breakthrough of structural adjustments in interbank business. The Bank actively advanced structural adjustments of interbank business, and focused on products with higher standards and relatively better income such as non-bank financing, asset securitization, securities investment funds and securities companies' credit products to achieve rapid business development. The third was the breakthrough of transformation development in asset management business. The Bank created a product system featuring "inclusion + wealth + pension", continuously diversifying its product strategies. The Bank steadily advanced NAV-based products, with their scale and speed of growth ranking high among others in the industry. The number of first-time wealth management products buyers increased significantly, and the number of long-tail customers and affluent customers increased rapidly. The fourth was the breakthrough of key areas in custody business. The Bank enhanced synergistic collaboration, innovated the marketing model, focused on the key areas, such as mutual funds and insurance funds and achieved rapid growth. As of the end of the reporting period, the Bank's interbank investment in trust investment plans, asset management plans, securities investment funds and financial institutions' wealth management products was RMB388,659 million, representing an increase of RMB127,371 million, or 48.75%, compared with the prior year-end. Assets under wealth management amounted to RMB979,511 million, representing an increase of

5.85% compared with the prior year-end, and the number of clients grew by 11.21%. Assets under custody amounted to RMB4.14 trillion, representing an increase of RMB159,975 million compared with the prior year-end. In particular, the total of public funds and insurance assets under custody grew by 35.07% and 12.60%, compared with the prior year-end.

In terms of supporting the pandemic control with financial services, the Bank actively responded to the call of the Party Central Committee and fulfilled its social responsibilities as a large state-owned bank. The Bank issued anti-pandemic interbank certificates of deposits, invested in special treasury bonds, special bonds for pandemic prevention and control, special asset securitization products and Hubei local bonds, and took custody of special asset management products for pandemic prevention and control, actively participating in financial anti-pandemic work, with a total amount of related business of RMB35,075 million.

Financial Market Business

The Bank has various licenses in China's interbank market and can participate in a wide range of market transactions with a variety of products, comprehensive business layout and extensive customer resources. During the reporting period, it actively expanded its counterparties, enriched the variety of transactions and continued to optimize the structure of interbank assets and liabilities.

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. 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. During the reporting period, amid the outbreak of the pandemic and the market with downward interest rates, the Bank continued to increase efforts in innovation and expand the business and scope of counterparties. It was among the first commercial banks to obtain the qualification of Renminbi interest rate option trading on China's interbank market, providing customers with new tools to hedge against and manage interest rate risk; it also officially obtained the qualification for "Bond Connect" to expand its counterparties from the interbank bond market to overseas institutions; it expanded the precious metal business and carried out its first spot transaction and placement transaction of overseas precious metal, and its domestic precious metal trading volume increased by 89.39% on a year-on-year basis. During the reporting period, Renminbi and foreign currency transactions totalled approximately 57,200 with the total volume of RMB22.87 trillion.

Investment Business

The Bank strictly followed the regulatory guidance on interbank investment business, put product compliance and risk control first, and promoted the optimization of and adjustments to the business structure. During the reporting period, the Bank focused on products with higher standards and relatively better income such as securities investment funds and securities companies' credit products. Key businesses saw rapid development. As of the end of the reporting period, the investment in trust investment plans, asset management plans, securities investment funds and financial institutions' wealth management products amounted to RMB388,659 million, representing an increase of RMB127,371 million, or 48.75% compared with the prior year-end.

In terms of bond investments, guided by the principle of “grasping opportunities, preventing risks, adjusting structure and improving returns”, the Bank strengthened market analysis and judgment and closely tracked interest rate trends to proactively captured market opportunities, reasonably adjust the pace of investment and flexibly and scientifically select investment categories and duration. On the basis of firmly holding the line of defence against credit risks and strengthening investments in major products such as the financial bonds issued by policy banks and local government bonds, the Bank constantly expanded investment in credit bonds of central government-owned enterprises and industry-leading enterprises and continued to improve portfolio returns. During the reporting period, the Bank actively fulfilled its social responsibilities by investing a total of RMB11,642 million in special treasury bonds, credit bonds for pandemic control and Hubei local bonds. As of the end of the reporting period, the bond investments amounted to RMB3,342,517 million, representing an increase of RMB196,857 million, or 6.26% compared with the prior year-end.

Interbank Financing Business

Interbank financing is the Bank’s traditional advantageous business. The Bank usually lends money to commercial banks and non-bank financial institutions. It carried out businesses such as interbank borrowings, deposits and placements in a timely manner by 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. During the reporting period, the Bank issued anti-pandemic interbank certificates of deposit (tranche 1) amounting to RMB600 million, and the funds were served as pandemic prevention loans. As of the end of the reporting period, the deposits and placements with banks and other financial institutions amounted to RMB346,033 million.

Asset Management Business

Despite the external environmental impact, the Bank, with the fundamental goal of smooth and orderly transition to NAV-based wealth management products, attached equal emphasis on transformation and development of its wealth management business, achieving steady development and firmly promoting the NAV-based transformation. The increased scale of product and speed of growth of the Bank’s wealth management business were at the forefront of the industry. PSBC Wealth Management is committed to developing into a customer-focused and first-tier banking asset management company with a high level of prudence, professionalism, openness, innovation and value. It has expedited development of new “fixed income+” multi-strategy products such as elderly wealth, active equity-based and passive index-based products. It also promoted the “contactless” off-counter online transaction campaigns, actively acquired clients online by leveraging the advantages of off-counter risk assessment, set up QDII and RQDII and other overseas investment channels, as well as increased its allocation of equity assets. In terms of product transformation, in line with the idea of “introducing new products while transforming and compressing old products”, the Bank accelerated the transformation of its products and created an “inclusion + wealth + pension” product system. On the asset side, the Bank further promoted investment research and value exploration, and attached great importance to general asset allocation strategy. It increased allocation of equity assets significantly and continued to enrich diversified asset strategies. It utilized multi-asset allocation to cancel out the high volatility of equity assets and stabilize the yield. The number of first-time wealth management products buyers increased significantly, and the number of long-tail customers and affluent customers increased rapidly. As of the end of the reporting period, assets under wealth management amounted to RMB979,511 million, representing an increase of 5.85% compared with the prior year-end, and the number of customers increased by 11.21%.

Custody Business

The Bank endeavored to overcome the adverse effects brought by the pandemic, seized opportunities from enhanced collaboration and cooperation, innovated the marketing model, focused on key areas and promoted the rapid growth of custody business. As of the end of the reporting period, the assets under custody were RMB4.14 trillion, representing an increase of RMB159,975 million compared with the prior year-end. The scale of key businesses, such as mutual funds and insurance funds, achieved rapid growth. In particular, the assets of mutual funds under custody amounted to RMB246,262 million, representing an increase of 35.07% compared with the prior year-end. The insurance funds under custody amounted to RMB530,189 million, representing an increase of 12.60% compared with the prior year-end. During the period of the pandemic, by setting up an emergency liaison mechanism for services and optimizing the emergency plan, the Bank ensured the smooth operation of the custody business.

Inclusive Finance

The Bank solidly and neatly performed the work on the "stability in six areas" and comprehensively implemented the tasks of the "six priorities", accelerated the process of digital transformation of inclusive finance, and improved support to key areas of Inclusive Finance, such as Sannong and small and micro enterprises. It focused on areas affected by extreme poverty and spared no effort to carry out the work for poverty alleviation. 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 increased by RMB103,427 million compared with the prior year-end, and the loans extended in the first half of the year increased by 48.32% compared with the same period of the prior year. 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) increased by RMB7,770 million compared with the prior year-end. During the pandemic, the Bank met the reasonable financing demand of enterprises producing medical and living resources in an active manner, increased the support for small and micro enterprises by delaying principal and interest repayment, supported enterprises to resume work and production, and fully supported the endeavour to keep employment stable and ensure operations of market entities.

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".

Financial Poverty Alleviation

Targeted Poverty Alleviation Plan

The Bank formulated documents such as Work Plan of Postal Savings Bank of China on Further Increasing the Effort in Financial Poverty Alleviation in the Three Regions and Three Prefectures of Extreme Poverty and the Opinions of the Postal Savings Bank of China on Working on the Key Focuses of Sannong to Facilitate the Completion of Building a Moderately Prosperous Society in All Respects as Scheduled, and clearly clarified the priorities and objectives of poverty alleviation via financial services. It increased credit support to impoverished areas, especially areas of extreme poverty such as “Three Regions and Three Prefectures”, gave further policy priorities and resource guarantee to such areas, and established branches in the areas of “Three Regions and Three Prefectures”, to improve the basic financial services in poverty-stricken areas and made all efforts to contribute to the fight against poverty.

Overview of Targeted Poverty Alleviation

According to the goal that “rural poor people are free from worries over food and clothing and have access to compulsory education, basic medical services and safe housing” and the basic policy of “targeted poverty alleviation and poverty elimination”, the Bank took poor households as the service target and developed micro loans business for poverty alleviation, which featured “RMB50,000 in loan amount, three years in term, no guarantee or collateral required, at benchmark rate”, in order to support registered poor households, those already out of poverty but still enjoy preferential policies and the marginalized to involve in production. As of the end of the reporting period, a total of RMB14,354 million of micro loans for poverty alleviation were granted. With the aid of a professional credit team, it innovatively launched featured products in impoverished areas to support the development of industries with distinct local characteristics. It placed emphasis on the support for family farms, specialized farmers’ cooperatives, small and micro enterprises and other entities which could exert a positive effect on local poverty alleviation. Besides, it encouraged all kinds of entities to employ the poor families and enter into transaction agreements with them, and promoted joint production. The Bank fully supported the construction of projects in poverty-stricken areas, served the impoverished areas in line with their development planning, and stepped up its effort to support infrastructure construction and people’s livelihood projects in such areas, in order to improve and remove the development bottlenecks. As of the end of the reporting period, the balance of the Bank’s targeted poverty alleviation loans reached RMB90,226 million, representing an increase of RMB7,770 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	9,022,602.75
Including: Personal targeted poverty alleviation loans	5,225,095.38
Including: Loans to registered poor households	1,107,697.81
Other personal targeted poverty alleviation loans	378,059.97
Loans to those already out of poverty	3,285,190.70
Other personal loans to those contributing to poverty alleviation efforts	454,146.90
Industry-based targeted poverty alleviation	2,961,052.73
Project-based targeted poverty alleviation	836,454.65

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 strengthened and fulfilled its responsibility of financial poverty alleviation, focused on the regions of poverty, especially the "Three Regions and Three Prefectures" of extreme poverty and counties yet to be lifted out of poverty, and continuously increased the financial support for targeted poverty alleviation. First, focusing on the construction of infrastructure in the medical, wind power, hydropower, power grid, water conservancy and transportation fields, as well as agricultural and water conservancy projects, the Bank made solid progress in building its project pipeline and developed project-based targeted poverty alleviation loans. Second, taking into consideration the characteristics of the industry, it actively supported the development of poverty alleviation industries by focusing on the enterprises which could play a pioneering role on local poverty alleviation. Third, the Bank made good use of the policy regarding the micro loans for poverty alleviation to continue expanding its support to poor households, marginalized population and those already out of poverty but still enjoy preferential policies. Fourth, it carried out risk monitoring and strengthened risk management to ensure that the risk of financial poverty alleviation is under control. Fifth, it summed up experiences from typical financial poverty alleviation cases, and strengthened interaction, promotion and public recognition.

Financial Services to Small and Micro Enterprises

The Bank introduced a wide range of external data, continued to diversify online product offerings, expanded external customer acquisition scenarios, and enabled digital transformation to enhance both the quality and performance 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 RMB756,612 million, representing an increase of RMB103,427 million compared with the prior year-end. During the reporting period, loans extended in the first half of the year increased by 48.32% compared with the same period of the prior year and the number of accounts with loan balances increased by approximately 66,700 compared with the prior year-end. The average interest rate for new loans was 5.64%, and the non-performing loans ratio was 2.09%. The quality of assets was stable and improving.

Continued Development of Online Loans

The Bank strengthened the use of technology and product innovation, promoted key products like "Easy Small and Micro Loan" and "Speedy Micro Loan", and further enriched the operational mode of "Easy Small and Micro Loan", to meet the diversified financing needs of small and micro enterprises. On the basis of tax, invoice and comprehensive contribution models, an online mortgage model was launched. Based on the national comprehensive credit service platform for financing of SMEs, it launched the new online product "Credit Easy Loan for Projects" for small and micro engineering enterprises, which has been promoted to 29 provinces. As of the end of the reporting period, the balance of the online micro loans to small and micro enterprises was RMB360,730 million, representing an increase of RMB155,712 million, or 75.95% compared with the prior year-end.

Technology-empowered Transformation and Upgrading of Business Model

In terms of marketing, the Bank continued to expand three types of data connection with government services, industrial chains and channel diversion. It achieved direct connection with taxation authorities of 32 provinces (autonomous regions, municipalities) and connected with the PBOC's CRC accounts receivable financing service platform to further expand the customer acquisition channels with big data. In terms of operation, taking the improvement of customer journey as a key driver and focusing on the features of "standard and fast" of the loans to small and micro enterprises, the Bank comprehensively reviewed the process including due diligence, risk identification and post-lending management, and optimized the process, further improving customer experience. In terms of risk control, relying on data such as administration for industry and commerce, judiciary, credit reporting, taxation and invoice, it optimized automatic pre-lending evaluation model, and enhanced automatic risk early warning as well as the triggering function for post-lending inspection to further enhance its risk alert capability.

Continuously Strengthened Institutions and Mechanisms

The Bank increased policy support, formulated special credit plans for inclusive small and micro enterprises, and introduced more discount on internal funds transfer pricing. It set up specific incentive fees, fully incorporated indicators such as increment, growth rate, number of accounts and interest rate into the performance appraisal of inclusive loans to small and micro enterprises, and effectively implemented the due diligence requirement, to fully motivate branches to serve small and micro enterprises.

Sannong Finance

With the help of advanced technologies, such as big data, Internet and mobile communications, 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. It established an internal and external synergy mechanism to create a coordinated agriculture support ecosystem. Internally, the entire Bank collaborated and integrated products and services to meet the diversified financial needs of Sannong customers. Externally, it strengthened cooperation with external entities such as the government, enterprises, associations, insurance companies and guarantee companies to actively create an integrated Sannong services ecosystem through inter-system connectivity, customer data sharing and multi-scenario embedding. As of the end of the reporting period, the balance of the Bank's agriculture-related loans was RMB1.35 trillion.

Promoting Business Transformation and Upgrading via Technologies

The Bank actively promoted the integration of traditional operation models with advanced technologies. It vigorously facilitated digital integrated marketing with "online targeted pop-up messages + QR code" as the key driver, greatly enhancing the efficiency and precision of marketing among customers in rural areas. It vigorously promoted the digital transformation of the whole process of micro loans based on mobile integrated terminal, and adopted the technologies of face recognition, big data analysis and mobile positioning to realize the digitalization of the application, approval, lending, post-lending and file management of micro loans. Thanks to the transformation from "counter service" to "door-to-door service", the majority of rural customers could enjoy financial services "without leaving home", and the Bank managed to improve the business management efficiency and customer experiences. As of the end of the reporting period, micro loans extended online accounted for 90.76% of the total, and the net increase of online lending in the current period recorded a year-on-year increase of 120.47%.

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, with focus 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 promoted in-depth cooperation with the national agricultural credit guarantee system. As of the end of the reporting period, a total of RMB67,122 million of loans were granted through such cooperation, with a balance of RMB34,863 million. 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 loans including "PSBC Merchant Loan", "PSBC Enterprise Link" and "Breeding Industry Loan", leading to a more mature service 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.

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 approximately 98,500 sets of self-service equipment and approximately 64,700 financial service outlets for agriculture at and below the county level. During the reporting period, the Bank acted as the collection agency for 2.605 million NREI transactions with a volume of RMB854 million; as the payment agency for 100 million NREI transactions with a volume of RMB16,328 million; as the payment agency for approximately 301,100 NRCMS reimbursement and allowance payment transactions with a volume of RMB279 million.

Measures Taken to Respond to the Pandemic and Help Enterprises Resume Work and Production

Since the outbreak of COVID-19, the Bank has responded quickly. It actively reached out to enterprises which produce medical materials and daily supplies and Sannong customers, established its own list of key enterprises, and implemented differentiated credit policies. It also set up green channels, proactively provided preferential interest rate, and vigorously promoted online products like "Easy Small and Micro Loan" and micro loan product "Speedy Micro Loan" as well as online drawdown function to help win the battle against the pandemic. During the reporting period, more than RMB10 billion of special loans for the pandemic prevention and control were provided to over 2,000 small and micro enterprises. For small and micro enterprises and Sannong customers who were affected by the pandemic with temporary difficulties in repayment, the Bank would not blindly demand early repayment or delay in or cut off loans, but adopted targeted policy, and took reasonable risk mitigation measures such as loan extension and suspension of repayment to help the affected enterprises overcome the difficulties.

Green Finance

The Bank further put into practice the ideas of green development and sustainable development, promoted the development of green banking, and improved the credit policy guidelines for green finance and the fight against pollution. It also improved the incentive and restraint mechanism, strengthened the performance assessment of green development, and ensured the green development requirements were implemented properly. It strengthened environmental and social risk management, revised the rating model and system for legal entity customers by incorporating environmental, social and governance criteria. Besides, it revised key industry survey and review report templates, and improved the key points of environmental and social risk analysis. It optimized internal fund transfer pricing scheme and provided support for green loans and green bonds business by cutting demanded yield rates, as well as continued to increase support for green industries and climate financing fields such as energy conservation and environmental protection, clean production, clean energy, ecological environment, green infrastructure upgrade and green services. As of the end of the reporting period, the Bank's total balance of green loans amounted to RMB250,469 million, representing an increase of RMB34,691 million, or 16.08% compared with the prior year-end.

The Bank actively advocated environmental protection and promoted green office, green procurement and low-carbon operation in the course of business. The Bank also organized and participated in charity events such as tree planting, with a total of 103,950 trees planted and 5,196 person-times devoted. The Bank was awarded the title of "2019 Advanced Institution of Green Bank" in a green bank evaluation event hosted by China Banking Association.

Information Technology

The Bank considered information technology as the core driver of business development, and continued to deepen IT governance and promote the optimization of IT architecture by focusing on digital transformation. It also accelerated the development of the new generation personal business core system, and built a technology infrastructure platform; it enhanced its independence and controllability and promoted the deep integration of business and technology; it deepened the application of big data, enhanced the capability of financial technology innovation, and strove to enhance its core competitiveness in terms of information technology. The Bank emphasized the leading role of technologies, and continued to increase the investment in information technology. During the reporting period, the Bank invested RMB5,164 million in information technology, accounting for 3.53% of its operating income.

The Bank sped up the IT team building. It formulated a 2020 cultivation plan for the IT personnel and carried out regular recruitment, thus the number of IT personnel at the Head Office increased by 20.35% compared with the prior year-end. In accordance with the general principle of “attracting, retaining and making good use of IT personnel”, the Bank further optimized and improved the system and mechanism for the training of IT talents, and formulated differentiated performance assessment methods and exclusive reward distribution plans, so as to arouse their enthusiasm and creativity. It improved the general banding structure for IT staff and formed seven sub-classes, namely architecture, requirements, research and development, technical testing, operation and maintenance, data analysis, and technological risks, thus laying a foundation for the future career development of IT personnel. The Bank also strengthened team training, strove to improve their capabilities, strengthened the building of leading talents and innovative teams, and made great efforts to build a professional IT team with excellent working style.

The Bank optimized its IT architecture. It adopted the strategy of “active advancement, summary of pilot experience and gradual promotion” to actively promote the transformation to a distributed architecture of IT system. First, it built a new generation of distributed technology platform which was self-controllable, scalable and loosely coupled with high performance and high reliability, concurrently supporting the processing of billions of paralleled transactions, and effectively satisfying the requirements of business systems for rapid development, unit expansion, agile iteration and stable operation. Second, the Bank optimized the system architecture and launched the optimization and transformation of the existing application systems, such as bancassurance and Internet loans, to the distributed architecture based on cloud platform and micro-service. Third, the Bank actively promoted the expansion and reconstruction of the existing personal business core system and introduced the X86 server on the basis of the cluster architecture of minicomputers to ensure the stable operation of the core system.

The Bank made progress on two fronts. On the one hand, it spared no effort to promote the implementation of the “13th Five-Year” IT planning. During the reporting period, the Bank planned 263 IT projects and carried out 295. It mainly pushed forward 10 major projects in personal finance, credit cards, online banking, corporate banking, treasury and asset management, operation management, risk management, big data, and technological innovation. As of the end of the reporting period, the Bank’s overall progress of the “13th Five-Year” IT planning had exceeded 90%, of which 16 planned platforms such as combination transactions platform and two enterprise bus systems had been put into use. On the other hand, the Bank accelerated the development of the new generation personal business core system. First, adhering to the principle of “sticking to the plan, being solid and efficient”, the Bank steadily pushed forward various tasks of the building of new generation personal business core system through effective project organization and management. Second, the Bank reasonably carried out application analysis and design, in order to ensure the design results can be incorporated seamlessly to the business model. As of the end of the reporting period, the first round of iteration of demand analysis was completed, and the demand analysis of counter, self-service and electronic channels was completed up to 35.01%. Third, the Bank made every effort to develop the technology platform, and completed the first round of development and testing of functions of the technology platform, including 18 application-based service designs, such as account checking, settlement, day-to-day accounting and hotspot account.

The Bank enhanced its independence and controllability. It created a “1 + 4 + N” independent R&D system by establishing Xi’an software R&D sub-center so as to improve the organizational system, and set up a sub-department test center to enhance the professional testing ability. The Bank stepped up its independent R&D on key systems with new capabilities such as the independent development of unified credit extension and operational risk system, to continue to enhance the independent controllable capability of financial technology. It sped up technological transformation, comprehensively promoted independent development platforms, unified the software framework of the Bank at its entirety, and improved the efficiency of product iteration and innovation. Also, it continued to deepen the integration of business and technology, and carried out agile development in online banking, retail credit, credit cards and other projects, transforming technological capability into business value. A whole-process customer journey was optimized to significantly enhance the customer experience. The Bank improved its R&D process and introduced agile task management tools to enhance its technological ability for supporting business development. It also continued to build the DevOps system, which enabled the entire process to be automatically constructed and delivered. The automated functional test covered 16 mobile products, and the automatable product coverage rate reached 84.21%, further improving the quality of the products to be delivered. During the pandemic, the Bank immediately set up a remote collaborative development platform, expanded system four times, provided remote development testing environment for more than 6,000 staff involved in project development, and served more than 150 on-going application systems, minimizing the impact of the pandemic on the Bank’s IT development.

The Bank deepened the application of big data. Under the guidance of the new round of Five-Year Big Data Development Plan (2020-2024), with the integration of both internal and external multi-dimensional data in the big data platform, the data volume was up to 8.13PB. The main warehouse architecture was optimized, and the computing capacity was increased with a total space to 1.55PB. It 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. The Bank strengthened its data empowerment by comprehensively promoting the implementation of scenario-based analysis and incorporating analysis topics in nine major application areas including customer analysis and risk monitoring. It adopted an iterative research and development method to rapidly advance the data application of the analysis results, and created multi-dimensional data products covering the front, middle and back offices, which could support the five-level application from the Head Office to outlets. The Bank established a multi-tiered data governance system, published data governance and master data systems, and improved data responsibility recognition and data asset management with master data; optimized the basic data standards and promoted the implementation of data standards based on the enterprise-level dictionary and the development of new generation core systems, aiming to take the new generation of personal business core system building as an opportunity to promote the overall implementation of data standards; conducted the exclusive quality control of data such as regulatory filing, customer information, manual reports and big data platform, and promoted the steady improvement of data quality; facilitated the unified management of external data to realize unified demand, procurement, access and sharing of external data throughout the Bank.

The Bank strengthened its capability of financial technology innovation. It improved the development of the technological innovation system, organized the "Technological Innovation Award" throughout the Bank and gave full play to the technological innovation fund as the guiding role to promote the application of innovative achievements; actively participated in the pilot work of the application of financial technology, extensively carried out exchanges and cooperation with enterprises, universities, and research institutes, and strengthened the support for technological innovation in key regions such as Xiongan New Area and the Guangdong-Hong Kong-Macao Greater Bay Area and Xiongan New Area. It was committed to promoting the development of its "PSBC Brain" to provide the Bank with a machine learning platform, and promoted the application of AI technology in payment collection from customers, customer marketing and service support assistant to accelerate business empowerment. The Bank built a blockchain service platform to unify the underlying technology architecture, enhanced efficiency of product launch, supported scenario expansion and cross-chain connection, and achieved the data migration on chain of the U-chain forfaiting business system and blockchain custody. In January 2020, the first cross-chain forfaiting transaction in the industry was completed. As of the end of the reporting period, the U-chain forfaiting business system provided access to more than ten industry partners with a transaction size of over RMB25.0 billion. The cloud platform of the Bank effectively supported 74 systems, such as mobile banking, online banking, third party payment, Internet finance platform, channel management platform and open bank platform, with an average daily transaction volume of 401 million, accounting for 81.38% of the total transaction volume of the Bank.

During the reporting period, the Bank's IT systems were in stable operation, and no material security incident was found.

Distribution Channels

Business Outlets

The Bank accelerated the systematic transformation of outlets, and highlighted the transformation direction of intelligence, lightness and integration based on the core objectives of improving customer experience and enhancing outlet efficiency. By strengthening the refined management of outlets, the Bank promoted the marketing capacity, full service capacity, specialized operation, and omni-channel service capabilities with online and offline integration, and continued to transform outlets to marketing service centers and customer experience centers that maintain customer relationships, provide wealth management services, and meet customers' comprehensive financial needs.

The Bank attached great importance to the systematic transformation of outlets, strengthened the organizational leadership and management, and comprehensively deepened and coordinated the systematic transformation of outlets, in order to further enhance the core competitiveness of outlets. It continuously enhanced the outlet value via application of technologies. It launched 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 synergy between lines of business and integrated marketing. The Bank continuously optimized online transaction channels and established business circle platforms with customer life scenarios, so as to build the interactive ecosystem covering the Bank, merchants and customers. It continuously deepened customer stratification management, where it actively established the wealth management system while serving and maintaining the relationship with the mass market, thus promoting the value contribution of mid- to high-end customers.

In order to reduce costs and increase efficiency, the Bank set up the functional zoning and functional modules at the outlets according to the principles of maximizing space utilization rate of business halls, weighting more towards marketing and designing optimal line of motion. 99 outlets with tenancy expired during the reporting period were refurbished through measures such as site area reduction and relocation. As of the end of the reporting period, the Bank had a total of 39,632 outlets, including 7,882 directly-operated outlets, accounting for 19.89% of all outlets, and 31,750 agency outlets, accounting for 80.11% of all outlets. In terms of geographical distribution, the Bank had 12,095, 8,662 and 18,875 outlets in cities, counties and rural areas respectively.

Electronic Banking

The Bank actively promoted the management of and support to services on the electronic banking channels such as mobile banking, online banking, telephone banking and WeChat banking, accelerated the iterative innovation of products, promoted the integration of online and offline channels, and provided convenient services to customers at anytime and anywhere. During the reporting period, the customer base and transaction scale of electronic banking grew rapidly, and customer activities witnessed significant growth.

As of the end of the reporting period, the Bank had 336 million electronic banking customers, including 236 million personal online banking customers and 279 million mobile banking customers. During the reporting period, the transaction amount of electronic banking was RMB13.18 trillion, representing a year-on-year increase of 23.29%. Specifically, the transaction amount of mobile banking stood at RMB5.41 trillion, representing a year-on-year increase of 74.52%. The e-channel transaction ratio was 94.06%, representing an increase of 1.62 percentage points compared with the prior year-end. The number of monthly active users of mobile banking increased by 42.82% year on year.

Self-service Equipment

The Bank adhered to its philosophy regarding the intelligent service of self-service equipment, aiming to provide customers with better financial services. During the reporting period, the Bank continued to diversify its self-service equipment services, with a focus on expanding self-service for corporate customers. The number of service provided by the Intelligent Teller Machine (ITM) reached 212. It further promoted the R&D and application of “face scanning” and “code scanning” transactions on self-service equipment to provide more intelligent and convenient services to customers. It also launched research and development of “smart counter” to explore the complete replacement of the traditional counter service. As of the end of the reporting period, the Bank had approximately 148,000 sets of self-service equipment.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent recruitment, the Bank adhered to an open and inclusive attitude and recruited talents from the society. It placed emphasis on IT professionals, continued to select and recruit high-end management personnel and professionals to constantly enrich and optimize the Bank's team of talents. The Bank shouldered its responsibilities as a large bank for "stablizing employment", took the initiative to overcome the adverse impact of the pandemic, increased its recruitment efforts, optimized the form of recruitment, and steadily promoted the recruitment of college graduates in 2020 through various means such as air lectures and online written examinations, so as to strengthen the build-up of professional talents.

In terms of remuneration and benefits management, centering on the development strategies and the focuses of business development, the Bank further optimized the salary distribution mechanism oriented by performance and value creation, and improved the efficiency of labor cost allocation. The Bank improved its performance appraisal system, standardized the grade and distribution of performance appraisal results, and strengthened the incentive and constraints. It also improved the staff banding system, broadened the career development channels for employees, and established a normalization mechanism for staff promotion and appointment.

In terms of talent training, the Bank continued recruiting and cultivating talents at greater depth, and stepped up team building efforts in all aspects. During the reporting period, it closely followed the trends of business management and development, coped with the adverse effects brought by the pandemic, rolled out innovative forms of talent training and made full use of online training platforms. Primarily relying on remote training techniques, various types of training courses were delivered at all levels. The Bank consolidated the foundation of training by increasing the reserve of internal lecturers and developing a variety of training resources, as well as continuously upgrading and optimizing its online training platforms. The Bank also established a professional personnel training and evaluation system with job qualification certification as its core so as to build a team of high-caliber professional talents.

Employees

As of the end of the reporting period, the Bank had a total of 189,131 employees. Among which, 172,978 were contract employees (including 1,104 at majority-owned subsidiaries), and 130,165 with bachelor's degree or above, accounting for 75.25% of the total; 16,153 were dispatched employees. The number of retired employees of the Bank was 17,391.

The Bank's Employees[1] by Function Lines

Item	Number of employees	Percentage (%)
Management	5,859	3.39
Personal banking	70,409	40.70
Corporate banking	13,502	7.81
Treasury	1,472	0.85
Finance and accounting	14,864	8.59
Risk management and internal control	23,262	13.45
Others[2]	43,610	25.21
Total	172,978	100.00

Note (1): The Bank's employees refer to the contract employees of the Bank (including its majority-owned subsidiaries).

Note (2): Others include administration, information technology and other supporting positions.

The Bank's Employees by Age

Item	Number of employees	Percentage (%)
Under 30 (inclusive)	31,877	18.43
31-40	84,759	49.00
41-50	42,974	24.84
Over 51 (inclusive)	13,368	7.73
Total	172,978	100.00

The Bank's Employees by Education Background

Item	Number of employees	Percentage (%)
Master's degree and above	11,775	6.81
Bachelor's degree	118,390	68.44
Associate degree	37,104	21.45
Others	5,709	3.30
Total	172,978	100.00

Institution Management

The 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. During the reporting period, the Bank continued to optimize the allocation of resources across the Bank, reasonably adjusted the setup of branches and sub-branches, and improved the setup of internal institutions at all levels of the Bank. The organizational structure of the Bank continued to be improved and the operational efficiency was effectively improved.

As of the end of the reporting period, the Bank had 8,190 institutions, including the Head Office, 36 tier-1 branches, 323 tier-2 branches, 2,059 tier-1 sub-branches, 5,769 tier-2 sub-branches and others, as well as two majority-owned subsidiaries.

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

In millions of RMB, except for percentages or otherwise stated

Item	Asset Size	Percentage[1] (%)	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Head Office	4,325,988	28.61	1	0.01	3,843	2.22
Yangtze River Delta	1,619,728	10.71	942	11.50	18,558	10.73
Pearl River Delta	1,068,941	7.07	796	9.72	18,898	10.92
Bohai Rim	1,754,693	11.60	1,130	13.80	26,389	15.26
Central China	3,284,055	21.72	2,418	29.53	44,590	25.78
Western China	2,282,865	15.10	2,123	25.92	40,086	23.17
Northeastern China	784,396	5.19	780	9.52	20,614	11.92
Offsetting and deferred income tax assets	(4,154,480)	–	–	–	–	–
Total	10,966,186	100.00	8,190	100.00	172,978	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 is: granting personal consumer loans; accepting deposits from shareholder's domestic subsidiaries and domestic shareholders; borrowing from domestic financial institutions; issuing financial bonds with relevant approval; domestic interbank funding; providing advisory and agency services in consumer financing; agency sales of consumer loan-related insurance products; investing in fixed income securities.

As at the end of the reporting period, PSBC Consumer Finance had total assets of RMB28,672 million, net assets of RMB3,483 million and recorded a net profit of RMB49 million for the first half of 2020.

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 is: issuing wealth management products nonexclusively to the general public, and carrying out investment and management of entrusted assets; issuing wealth management products privately to eligible investors, and carrying out investment and management of entrusted assets; providing financial advisory and consulting services; other businesses approved by the CBIRC.

As at the end of the reporting period, PSBC Wealth Management had total assets of RMB8,439 million, net assets of RMB8,309 million and recorded a net profit of RMB309 million for the first half of 2020.

Risk Management

Comprehensive Risk Management

The Bank earnestly implemented the central government's decisions and financial regulatory requirements, always held the worst-scenarios in mind, and spared no effort to keep up the work in the final year of the three-year plan on preventing and defusing major risks. It continuously improved the development of the comprehensive risk management system featuring "all aspects, whole process and entire staff", consolidated the foundation of risk management system, improved professional tools and approaches of risk management, and accelerated the development of IT system for risk management. It implemented the three-year plan on quality and efficiency improvement of internal control and compliance management, actively carried out the follow-up rectification of disorders in the market, strengthened the internal control system, and fortified the line of defence against all compliance risks.

The Bank proactively promoted the development and implementation of advanced approaches of capital management. Pursuant to the latest requirements of the CBIRC and practices of leading banks, the Bank prepared and completed the construction and implementation plan of advanced approaches in optimizing development of aspects covering risk governance system, policies and processes, model development, evaluation management, internal evaluation application and data and information system. Supported by administrative measures that had been issued and distributed, it standardized management on projects and orderly facilitated the construction and implementation of advanced approaches to comprehensively enhance the capacity and level of the Banks' refined risk management.

Risk monitoring and mitigation

The Bank actively responded to the impact caused by the pandemic, implemented differentiated credit policies and standards, streamlined credit processes, increased the extension of credit to key enterprises on pandemic prevention and control, and properly implemented deferment arrangements. The Bank carried out in-depth comprehensive risk assessment to grasp the real risk status in a timely manner, deployed risk mitigation measures in advance, and strengthened prevention and diffusion of risks in key areas. During the pandemic, the Bank continued to improve operational risk prevention and control, operational management, and safety precaution measures, and actively put the "three lines of defense" into practice to promote compliant and sound operation. It researched and assessed both internal and external risk status in a more prudent manner, conducted forward-looking impairment provisions and strengthened its risk-taking ability.

Risk management tools

The Bank has basically established an internal rating system for risk management of corporate and retail credit business, and applied results of the model to credit approval, supervision and early-warning, impairment provision and other fields, so as to realize the risk assessment, analysis and monitoring across the loan life cycle of credit business.

The Bank continued to promote the construction of the intelligent risk control system, continuously improved the level of risk quantification, and stimulated the digital transformation of risk management. The Bank dynamically monitored the performance of rules, models and strategies, optimized the micro loan model, and improved the ability to identify the credit risk of customers. The Bank actively responded to the trend of online transformation of retail business, used cutting-edge algorithms, strengthened the development of models, rules and strategies for online loan products, and strictly controlled credit approval standards and risks occurred during post-lending management. The Bank optimized the internal rating platform system, integrated and deployed rules, models and strategies of credit business, and promoted the establishment of a platform on model development that was unified across the Bank. The Bank vigorously introduced professional risk control talents and promoted the setup of intelligent risk control teams.

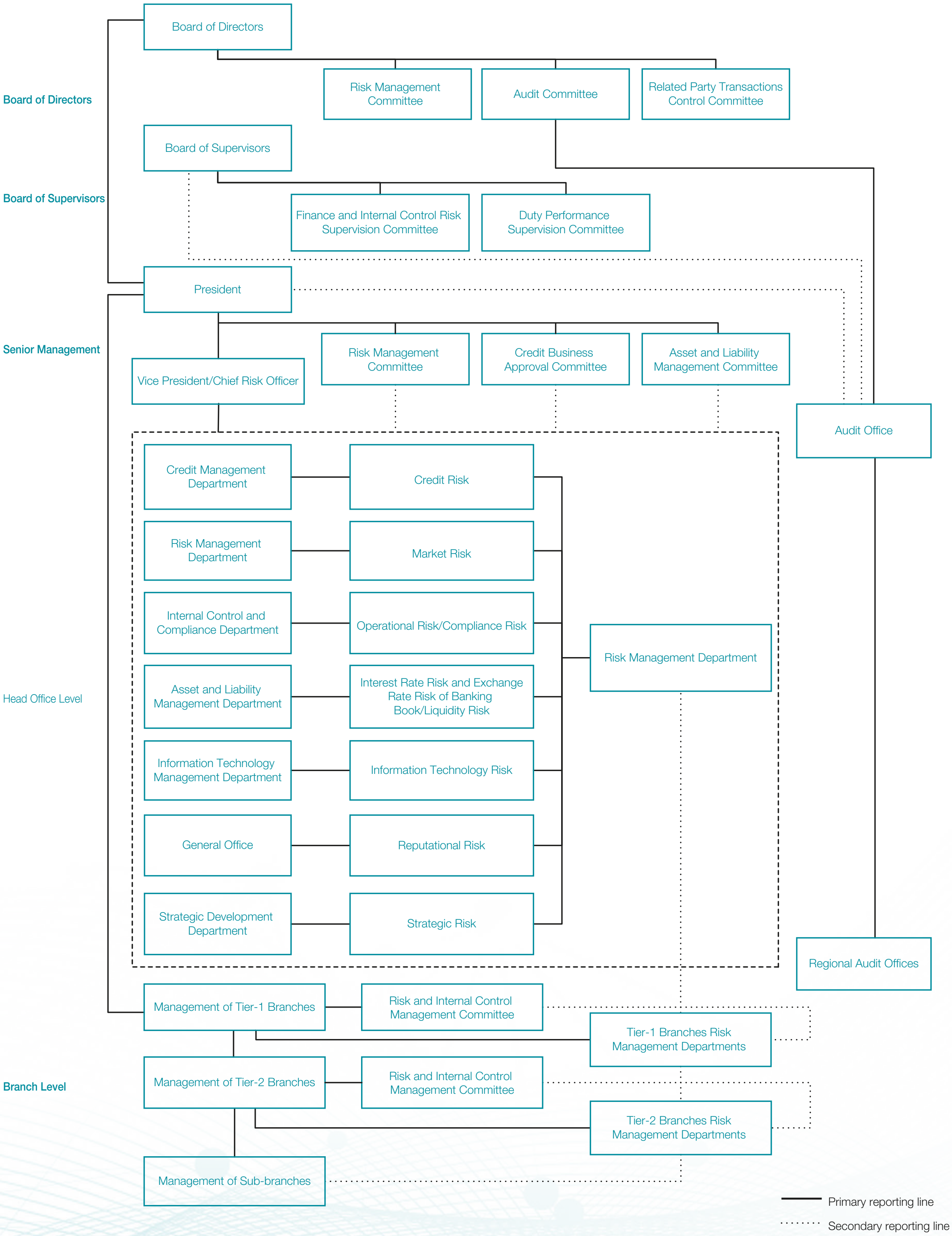
Organizational Structure of Risk Management

The Board of Directors assumes ultimate responsibilities for the comprehensive risk management. It determines general management policies, risk management and internal control policies of the Bank and supervises the implementation of such policies; deliberates on and approves the internal audit rules of the Bank; listens to the risk management report presented by the senior management and evaluates the effectiveness of risk management in the Bank in order to improve the Bank's risk management.

The Board of Supervisors assumes the supervisory responsibilities for 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 and strengthens prevention and diffusion of risks during the pandemic. 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 credit risk management, the Board of Supervisors undertaking the supervisory responsibilities for credit risk management, while the senior management undertaking the responsibilities for implementation of credit risk management, and being responsible for the implementation of resolutions approved by the Board of Directors on credit risk; both under the senior management, the Risk Management Committee is responsible for credit risk management and the Credit Business Approval Committee for approving credit lines within the scope of authorization respectively; each business department shall bear the primary responsibility for credit risk prevention and control, and implement policies, standards and requirements of credit risk management in its field of business in accordance with the division of functions; departments of credit management, risk management, credit approval, internal control and compliance, legal affairs and others are responsible for the overall planning, supervision and review of credit risk prevention and control, of which the Credit Management Department is the leading department of credit risk management, and the Internal Audit Department supervises the performance of duties in credit risk management independently and objectively.

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. Actively following national strategic deployment and industrial policies, the Bank guided and optimized the allocation of credit resources, increased financial support to enterprises on pandemic prevention and control and dynamically optimized the credit structure to effectively serve the real economy and promote high quality development. During the COVID-19 outbreak, the Bank implemented differentiated credit policies, defined supporting measures and standardization requirements such as extended repayment periods, emergency credit lines process, remote services and customer credit reporting protection, and actively supported prevention and control of the pandemic. It established measures on credit risk management to further improve the credit risk management system; implemented the accountability mechanism on the person in charge for credit extension business and strengthened the whole-process management of credit extension; further strengthened the management and control over unified credit extension, as well as control of concentration risk and prevented regional and systematic risks. It optimized the internal rating and risk limit management system for financial institutions, general enterprises and SMEs customers, and improved the development of the internal rating platform for retail credit 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 deepened a list-based management mechanism for large-scale corporate credit risk. It implemented classification of risk assets, comprehensively improved the quality of credit assets, paid equal attention to the existing non-performing loans and the increase of non-performing loans as well as NPLs and NPL ratio control, and enhanced the risk compensation capacity. In addition, it further intensified efforts of asset preservation, actively expanded the disposal channels, strengthened write-off of non-performing assets, and improved the effectiveness of risk disposal. It also accelerated the development and building of credit risk management system and modules, and strengthened the application of technologies.

Credit Risk Management of Corporate Loans

The Bank continued to strengthen the management and control of credit risks 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 “Three Inspections” of loans, tightened customer access standards, executed limit management in high-risk areas, and enhanced credit limit management and control in key industries. It actively granted anti-pandemic loans in support of the government’s efforts, strengthened the whole-process management of credit granting, and ensured the PBOC’s special central bank lending was used in compliance of laws and regulations and for the specific purpose. It enhanced post-lending management and risk monitoring and early warning, actively established a list-based management mechanism for large-scale corporate credit risk, implemented tailored policies for different enterprises customer to customer and transaction to transaction depending on the level of risks, and defused risks in advance, to strictly control large-value risk exposure. It used big data analysis to improve the risk control efficiency and accuracy in SME financial business. Based on industrial and commercial, judiciary, credit reporting, tax and invoice data, it optimized post-lending inspection and risk monitoring mode, and improved the accuracy and timeliness of risk early warning. It built an online supply chain financing platform, to link financing services with real industry scenarios by the application of financial technology, timely obtain upstream and downstream transaction information of core enterprises, and achieve a closed-loop operation of “information, capital and logistics flows”.

Credit Risk Management of Personal Loans

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 skip-level early-warning mechanism for risks of consumer loans and improved the timeliness and effectiveness of risk management. It established an online risk control model for micro loans, 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.

Credit Risk Management of Credit Card Business

The Bank actively responded to the impacts of the pandemic to strengthen the risk management of credit card business. It improved the comprehensive risk management mechanism and tightened risk supervision; it improved strategies according to changes in risk in a timely manner, strengthened the prevention of key risks (such as from mutual debt customers), formulated differentiated risk management and control strategies for key areas and customer groups, and improved management and control of existing customers tagged as early-warning; it also enhanced quantitative risk management capabilities, promoted risk scoring models and strategy improvement, and improved its response efficiency in decision-making on risks, so as to reduce the impact of the pandemic on asset quality and ensure the healthy development of its business.

Credit Risk Management of Treasury Business

The Bank continued to strengthen the credit risk management of the treasury business. In strict compliance with the regulatory requirements and policy guidance, it served the real economy as well as medium, small and micro-sized enterprises, conducted unified credit extension, and enhanced credit risk management of the entire process. The Bank strengthened pre-investment investigation, investment review and approval and post-investment monitoring, managed the risks of the industry and major entities, and strictly controlled the funds granted to high-risk areas. It continuously carried out risk investigation in key areas and customers, and properly optimized product structure in terms of product type, maturity structure, and industry distribution. It improved its customer risk tracking and position holding risk monitoring mechanism, and performed strict control on the concentration of investment in a single product. Taking the update and iteration of treasury business information system as an opportunity, it continued to improve the automation and standardization of business processes, strengthened the automatic management and control of limits of authorization, credit extension and exposure within the system. In accordance with the principle of "penetrating" management and substance over form, it fully accessed the credit risk profile of basic assets, strictly implemented the asset risk classification policy, and provided allowance for impairment of assets based on the principle of prudence. It continued to promote the integration of investment and research, conducted in-depth macro research and market research and judgment, and took the initiative to prevent adverse effects of the pandemic. In addition, it improved the decision-making mechanism before investment and standardized the management of credit bond pool and project review and approval. It accelerated the development of post-investment monitoring system, and continued to enhance application of intelligent technology. It also actively promoted the reduction of risk assets, made efforts in risk mitigation in an orderly manner and continuously enhanced its ability in preventing and defusing risks.

Management of Large-scale Risk Exposure

The Bank, strictly following Measures for the Management of Large-scale Risk Exposure of Commercial Banks proposed by CBIRC, established and improved an all-rounded management mechanism of large-scale risk exposure, streamlined the management structure, and strengthened the management and control of large-scale risk exposure. It continued to optimize relevant information system of large-scale risk exposure management to promote large-scale risk exposure refined management of the Bank at different areas such as risk and credit granting policies, risk limits and measurement, as well as system support.

Credit Risk Analysis

Maximum Credit Risk Exposures before Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	As at June 30, 2020	As at December 31, 2019
Credit risk exposures relevant to on-balance sheet asset items		
Deposits with central bank	**1,081,827**	1,110,921
Deposits with banks and other financial institutions	**35,699**	28,373
Placements with banks and other financial institutions	**310,334**	269,597
Derivative financial assets	**3,772**	5,009
Financial assets held under resale agreements	**96,117**	147,394
Loans and advances to customers	**5,287,494**	4,808,062
Financial Investments		
Financial assets at fair value through profit or loss-debt instruments	**421,898**	308,420
Debt instruments at fair value through other comprehensive	**317,954**	228,672
Financial assets at amortized cost	**3,214,398**	3,135,144
Other financial assets	**24,880**	15,396
Subtotal	**10,794,373**	10,056,988
Credit risk exposures relevant to off-balance sheet asset items		
Credit commitments	**740,644**	772,190
Total	**11,535,017**	10,829,178

Non-performing Loans Structure by Collateral

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	As at June 30, 2020 Percentage (%)[1]	As at December 31, 2019 Amount	As at December 31, 2019 Percentage (%)[1]
Unsecured loans	**8,892**	**18.32**	9,702	22.64
Guaranteed loans[2]	**9,158**	**18.87**	7,621	17.79
Loans secured by mortgages[2][4]	**24,051**	**49.56**	24,557	57.32
Loans secured by pledges[2][3]	**6,420**	**13.23**	954	2.23
Discounted bills	**10**	**0.02**	10	0.02
Total	**48,531**	**100.00**	42,844	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 balance of non-performing unsecured loans amounted to RMB8,892 million, representing a decrease of RMB810 million compared with the prior year-end. The balance of non-performing guaranteed loans amounted to RMB9,158 million, representing an increase of RMB1,537 million compared with the prior year-end. The Bank's balance of non-performing loans secured by mortgages was RMB24,051 million, representing a decrease of RMB506 million compared with the prior year-end. The balance of non-performing loans secured by pledges amounted to RMB6,420 million, representing an increase of RMB5,466 million compared with the prior year-end.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	As at June 30, 2020 Amount	Percentage of total loans (%)	As at December 31, 2019 Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	**15,117**	**0.28**	22,046	0.44
Overdue for 91 days to 1 year	**15,552**	**0.28**	12,360	0.25
Overdue for 1 to 3 years	**12,579**	**0.23**	12,986	0.27
Overdue for over 3 years	**4,718**	**0.09**	3,691	0.07
Total	**47,966**	**0.88**	51,083	1.03

As of the end of the reporting period, the balance of overdue loans of the Group was RMB47,966 million, representing a decrease of RMB3,117 million compared with the prior year-end. Specifically, the balance of loans overdue for 1 to 90 days was RMB15,117 million; the balance of loans overdue for 91 days to 1 year was RMB15,552 million; the balance of loans overdue for 1 to 3 years was RMB12,579 million; the balance of loans overdue for more than 3 years was RMB4,718 million. It recorded an overdue loan rate of 0.88%, representing a decrease of 0.15 percentage point as compared with the prior year-end.

Overdue Loans and Advances to Customers by Geographical Region

In millions of RMB, except for percentages

	As at June 30, 2020	As at December 31, 2019
Head Office	**3,475**	2,759
Yangtze River Delta	**7,088**	4,913
Pearl River Delta	**4,370**	3,702
Bohai Rim	**5,184**	9,083
Central China	**10,980**	9,867
Western China	**11,862**	16,140
Northeastern China	**5,007**	4,619
Total	**47,966**	51,083

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	182,089	3.32	23.49
Borrower B	Transportation, storage and postal services	14,743	0.27	1.90
Borrower C	Transportation, storage and postal services	12,900	0.24	1.66
Borrower D	Leasing and business services	11,452	0.21	1.48
Borrower E	Transportation, storage and postal services	10,000	0.18	1.29
Borrower F	Mining	9,500	0.17	1.23
Borrower G	Transportation, storage and postal services	8,099	0.15	1.04
Borrower H	Transportation, storage and postal services	7,993	0.15	1.03
Borrower I	Transportation, storage and postal services	6,915	0.13	0.89
Borrower J	Leasing and business services	6,798	0.12	0.88

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 June 30, 2020, 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 RMB182,089 million, accounting for 23.49% 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 billion which was approved by CBIRC. As of June 30, 2020, the outstanding loan balance under such credit line approved by CBIRC for China State Railway Group Co., Ltd. was RMB165 billion. After deduction of this RMB165 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.20% of the Bank's net capital.

Breakdown of Loans by Five-category Classification

In millions of RMB, except for percentages

Item	As at June 30, 2020		As at December 31, 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	5,403,293	98.58	4,898,633	98.48
Special mention	29,280	0.53	32,709	0.66
Non-performing loans	48,531	0.89	42,844	0.86
Substandard	19,736	0.36	14,972	0.30
Doubtful	8,243	0.15	6,375	0.13
Loss	20,552	0.38	21,497	0.43
Total	5,481,104	100.00	4,974,186	100.00

As of the end of the reporting period, the balance of the Bank's non-performing loans amounted to RMB48,531 million, representing an increase of RMB5,687 million compared with the prior year-end. The non-performing loans ratio was 0.89%, representing an increase of 0.03 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB29,280 million, representing a decrease of RMB3,429 million compared with the prior year-end. Special mention loan ratio was 0.53%, representing a decrease of 0.13 percentage point compared with the prior year-end. The ratio of non-performing loans to loans overdue for over 90 days was 147.74%, representing an increase of 0.19 percentage point compared with the prior year-end.

Breakdown of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	As at June 30, 2020 Non-performing loan balance	As at June 30, 2020 Percentage (%)	As at June 30, 2020 Non-performing loan ratio (%)(1)	As at December 31, 2019 Non-performing loan balance	As at December 31, 2019 Percentage (%)	As at December 31, 2019 Non-performing loan ratio (%)(1)
Corporate loans						
Working capital loans	16,473	33.94	2.09	11,477	26.79	1.73
Fixed asset loans	406	0.84	0.05	2,189	5.11	0.27
Trade finance loans	268	0.55	0.11	313	0.73	0.13
Others(2)	1,416	2.92	6.50	1,523	3.55	7.85
Subtotal	18,563	38.25	0.95	15,502	36.18	0.89
Discounted bills	10	0.02	0.00	10	0.02	0.00
Personal loans						
Consumer loans						
Residential mortgage loans	8,013	16.51	0.43	6,489	15.15	0.38
Other consumer loans	4,943	10.19	1.38	3,919	9.15	1.23
Personal micro loans	14,498	29.87	2.04	14,782	34.50	2.42
Credit card overdraft and others	2,504	5.16	1.99	2,142	5.00	1.74
Subtotal	29,958	61.73	0.99	27,332	63.80	0.99
Total	48,531	100.00	0.89	42,844	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, advance on acceptance bills and advance on bills.

As of the end of the reporting period, the balance of the Bank's non-performing corporate loans amounted to RMB18,563 million, representing an increase of RMB3,061 million compared with the prior year-end. The NPL ratio of corporate loans was 0.95%, representing an increase of 0.06 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB29,958 million, representing an increase of RMB2,626 million compared with the prior year-end. The NPL ratio of personal loans was 0.99%, which remained the same compared with the prior year-end.

Breakdown of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

	As at June 30, 2020		As at December 31, 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**2,506**	**5.16**	2,142	5.00
Yangtze River Delta	**6,478**	**13.35**	5,803	13.54
Pearl River Delta	**3,526**	**7.27**	3,180	7.42
Bohai Rim	**6,175**	**12.72**	4,226	9.86
Central China	**14,051**	**28.96**	7,496	17.50
Western China	**11,043**	**22.75**	15,683	36.61
Northeastern China	**4,752**	**9.79**	4,314	10.07
Total	**48,531**	**100.00**	42,844	100.00

As of the end of the reporting period, the Bank's balance of non-performing loans originated in Central China was RMB14,051 million, the highest among all regions. The increases in the balance of non-performing loans originated in Central China and Bohai Rim were RMB6,555 million and RMB1,949 million respectively, compared with the prior year-end, higher than that of other regions.

Breakdown of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	As at June 30, 2020		As at December 31, 2019	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Transportation, storage and postal services	**7,133**	**38.43**	118	0.76
Manufacturing	**6,174**	**33.26**	9,686	62.49
Production and supply of electricity, heating, gas and water	**93**	**0.50**	107	0.69
Financial services	**–**	**–**	–	–
Wholesale and retail	**3,609**	**19.44**	3,983	25.69
Construction	**104**	**0.56**	162	1.05
Real estate	**7**	**0.04**	12	0.08
Mining	**52**	**0.28**	57	0.37
Water conservancy, environmental and public facilities management	**32**	**0.17**	31	0.20
Leasing and business services	**442**	**2.38**	445	2.87
Agriculture, forestry, animal husbandry and fishery	**489**	**2.63**	451	2.91
Information transmission, computer services and software	**75**	**0.40**	84	0.54
Hotels and catering	**163**	**0.88**	174	1.12
Residential services and other services	**59**	**0.32**	72	0.46
Culture, sports and entertainment	**18**	**0.10**	19	0.12
Others(1)	**113**	**0.61**	101	0.65
Total	**18,563**	**100.00**	15,502	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 transportation, storage and postal services. As of the end of the reporting period, the balance of non-performing corporate loans from transportation, storage and postal services was RMB7,133 million, representing an increase of RMB7,015 million compared with the prior year-end, which is mainly due to the big impact brought by the pandemic on some customers in the transportation industry.

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

Item	As at June 30, 2020 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	114,698	13,101	38,325	166,124
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	863	(724)	(139)	–
Transfer to stage 2	(1,701)	1,910	(209)	–
Transfer to stage 3	(2,905)	(5,207)	8,112	–
Changes of ECL arising from transfer of stages	(811)	2,566	7,607	9,362
Financial assets derecognized or settled during the period	(13,813)	(1,574)	(6,567)	(21,954)
New financial assets originated or purchased	34,891	–	–	34,891
Remeasurement	11,134	(205)	358	11,287
Write-offs	–	–	(6,100)	(6,100)
Loss allowance as at June 30, 2020	142,356	9,867	41,387	193,610

As of the end of the reporting period, the balance of allowance for impairment losses on loans and advances to customers measured at amortized cost amounted to RMB193,610 million, representing an increase of RMB27,486 million as compared with the prior year-end, indicating sufficient provision for impairment.

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

In millions of RMB

Item	As at June 30, 2020 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	646	44	40	730
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(438)	(43)	(38)	(519)
New financial assets originated or purchased	359	–	–	359
Remeasurement	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at June 30, 2020	567	1	2	570

Market Risk

Market risk refers to the risk of losses in on- and off-balance sheet positions arising from movements 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 challenges brought about by the change in market environment, continuously improved the policy system of market risk management, strengthened the identification, measurement, monitoring and control, sped up system development, consolidated the foundation of market risk management, and proactively carried out stress testing. As a result, the Bank kept the market risk within the 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 the reasonable range. During the reporting period, the Bank continued to strengthen its market risk management of the trading book, actively responded to the fluctuations of the financial market, optimized the limit system and reasonably controlled the risk exposures in the trading book. It closely monitored new regulatory trends of market risk supervision at home and abroad, and carried out new methods of quantitative measurement of market risk capital.

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, mainly including gap risk, basis risk and option risk.

The Bank uses a variety of tools such as limit management, repricing term structure management, and internal and external pricing management, as well as enhances the level of measurement and management capability to effectively control interest rate risk. It actively implements regulatory requirements, continuously optimizes its mechanism for interest rate risk management for banking book, and promotes a reasonable balance between risk and return.

The Bank closely monitored the change of market rate, paid more efforts on research on interest rate liberalization and changes in external interest rate environment, actively responded to the adverse impacts of the LPR reform and the pandemic on the net interest income, raised standard of interest rate risk management, improved the refinement and differentiation of pricing management, optimized the repricing term structure of assets and liabilities, established forward-looking interest margin management mechanism, and slowed down the narrowing of interest rate spreads. During the reporting period, the overall interest rate risk of the Bank's banking book remained stable.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

Item	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest earning/ bearing
June 30, 2020	**(2,166,862)**	**643,068**	**1,056,110**	**(2,353)**	**801,958**	**231,413**
December 31, 2019	280,121	(273,971)	(436,676)	210,087	560,845	136,502

Interest Rate Sensitivity Analysis

In millions of RMB

Movements in yield rate basis points	As at June 30, 2020 Movements in net interest income	As at December 31, 2019 Movements in net interest income
Increased by 100 basis points	**(11,612)**	(1,262)
Decreased by 100 basis points	**11,612**	1,262

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 Bank's exchange rate risk mainly arises from the mismatch between its USD assets and liabilities. Since the beginning of the year, many countries around the world have been affected by the pandemic, and major economies have implemented low interest rates and quantitative easing policies, which increased the risk of cross-border capital flow and foreign exchange market risk for China, and thus caused great fluctuations in financial market price and the foreign exchange rate. 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 and provided guidance for foreign currency business. During the reporting period, the overall exchange rate risk exposures of the Bank 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 Financial Statements – 41.5 Market risk".

Currency Concentration

In millions of RMB

Item	As at June 30, 2020 USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	76,259	712	6,160	83,131
Spot liabilities	(46,223)	3,145	(1,188)	(44,266)
Forward purchases	319,250	826	266	320,342
Forward sales	(317,952)	(830)	(5,706)	(324,488)
Option position	(98)	0	0	(98)
Net long/(short) position	31,236	3,853	(468)	34,621

Item	As at December 31, 2019 USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in 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	0	995	285,798
Forward sales	(287,854)	(2)	(5,964)	(293,820)
Net long/(short) position	31,500	3,773	(433)	34,840

Liquidity Risk

Liquidity Risk Management

Liquidity risk refers to the risk of failure to obtain sufficient funds by commercial banks 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 and steady liquidity risk management strategy, and coordinates the changes of trend for internal and external funds to strike a balance between fund sources and utilization in terms of their amount, structure and maturities. 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, intraday 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.

The Bank actively monitored and responded to the impact of the pandemic on liquidity risk, followed national monetary policies, closely monitored market liquidity conditions and strictly carried out the policy on risk limits, to effectively maintain 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, the Bank's overall liquidity position was sufficient, safe and under control. As at the end of the reporting period, the liquidity ratio was 72.35%, the liquidity coverage ratio was 197.45% and the net stable funding ratio was 164.24%, all meeting the regulatory requirements.

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
June 30, 2020	**11,765**	**(3,343,698)**	**(90,018)**	**(109,375)**	**(1,312,913)**	**1,067,168**	**3,259,879**	**1,080,526**	**563,334**
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

Operational Risk

Operational risk refers to risks resulting from inadequate or problematic internal procedures, employee misconduct and IT system failures, 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 system failures; as well as execution, delivery and process management.

Following the relevant regulatory requirements including the Guidance on the Operational Risk Management of Commercial Banks issued by the CBIRC, 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 also strengthened operational risk monitoring and paid attention to operational risks of key business areas and operational steps. Each line of business actively carried out training related to operational risk so as to cultivate operational risk management culture and awareness, and kept the Bank's operational risk and operational risk loss ratio 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.

The Bank continued to improve the legal risk management system and enhanced the capacity for legal risk management, prevention and control. The Bank 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; strengthened the professional legal support and made legal reviews in a more professional manner; enhanced the standardized operation and management of the Bank by standardizing contract texts; actively involved in the Bank's major decision-making and planning, providing support on LPR reform, wealth management business transformation, and pandemic prevention and control. It improved management of legal proceedings and optimized information and statistical analysis to prevent and control litigation risks; improved management standards on authorization, and optimized annual authorization to enhance operation and management; formulated measures for the administration of intellectual property rights, developed full process intellectual property rights management, and set up a patent reward mechanism to promote innovation on technology. It sped up the establishment of a lawyers' pool to regulate the management of contract lawyers and corporate lawyers; and enhanced the effectiveness of legal affairs system by developing a full process closed-loop legal affairs management system.

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. The Bank continued to improve the compliance management mechanisms and earnestly carried out compliance review of new systems, new products and new businesses, ensuring full support to business development. It strengthened compliance risk monitoring, issued risk warnings and briefings about new rules in a timely manner, interpreted the internal and external new rules in an in-depth manner, communicated the latest compliance requirements, prevented and controlled compliance risks and carried out pandemic prevention and control. It comprehensively strengthened the management and control of regulations and process, formulated procedures for regulation approval, improved the efficiency of regulation decision-making and regulation management level, optimized regulation system. It continued to carry out the regulation review and planning work, established a pool of rules and policies of the Bank and improved the IT-based management. The Bank continued to improve the quality and efficiency of inspection, promoted the transformation of compliance inspection during the pandemic, optimized the functions of the compliance management system, established a professional monitoring and early warning team to conduct remote verification of system risk information, organized and carried out the innovation contest of compliance inspection risk model, and improved off-site monitoring and analysis capabilities. It continued to identify the management responsibility for non-performing loans and non-performing assets, intensified accountability system and severely punished those who violated rules and regulations. It also improved the internal control and compliance reporting mechanism, prepared internal control and compliance management reports on a regular basis to comprehensively, timely and objectively reflect the Bank's compliance management status, required the signing of the compliance commitment of the Bank's employees, and improved the compliant fulfillment of duties.

Anti-Money Laundering

The Bank strictly implemented the regulatory requirements on anti-money laundering, counter-terrorist financing and anti-tax evasion, etc. 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 improved the anti-money laundering mechanism and money laundering risk management system. It strengthened sanction compliance management and actively promoted the rectification of anti-money laundering issues. It continuously promoted the development of anti-money laundering system and suspicious transaction monitoring model and improved the system functions, enhancing the effectiveness of monitoring and analysis. It further promoted the management of customer information quality and conducted investigation on money laundering risk of corporate accounts. It also organized the "Anti-money Laundering Training Month" to carry out multi-level anti-money laundering training to raise the compliance awareness and ability of the employees.

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. Based on a comprehensive risk management framework, the Bank's information technology risk management is to build an information technology risk management system that covers all aspects of information technology and take on the responsibility of information technology risk management. The Bank continued to improve the management and control ability of technological risks through various means such as optimizing organizational governance, reinforcing security system construction, as well as on-site and off-site assessment and review. The operation of the information system was stable, and various monitoring indicators of information technology risks remained normal.

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. The Bank actively responded to the adverse impacts from the pandemic, continued to improve reputational risk management system, enhanced its reputational risk prevention awareness and identification capabilities, strengthened reputational risk investigation and rectification, and addressed both the symptoms and root causes of reputational risk. The Bank explored and carried out research on the measurement of reputational risk capital, utilized information technology to improve the quality and efficiency of reputational risk management, and organized a series of influential events to enhance the Bank's brand image.

Strategic Risk

Strategic risk refers to the risk of adverse impact on the bank's profitability, capital, reputation or market status, etc., arising from improper business and management strategy, implementation deviation or failure to respond to changes in external environment in a timely manner. The Bank continued to refine its strategic risk management mechanism to improve management level of strategic risk. 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. During the reporting period, the Bank assessed the implementation of the strategy in 2019, and analyzed the achievement of strategic planning targets and the implementation of major strategic measures to plan future works. It formulated sub-plans such as big data, digital transformation of business operation system and talent development, and improved the strategic planning system. At the same time, the Bank enhanced comprehensive strategic researches on forward-looking and major issues including the impact of the pandemic on the macro-economy, the status of the economy and the financial sector, and the development trend of the banking industry to provide support for the Bank's decision-making in important areas. The Bank continuously promoted strategic management, effectively improving the scientific basis and standardization of strategic management.

Country Risk

Country risk refers to the risk of the inability or refusal of the debtors of a country or region to repay their debts owed to the bank, or business loss suffered by the bank in that country or region due to changes and incidents occurred in its economy, politics and society. Facing the complicated, ever-changing international pandemic and global economic situation this year, the Bank has always paid close attention to the quality of assets related to country risks, strengthened the management of access and approval of country risk-related businesses, as well as conducted country risk ratings and limits setting on a regular basis. During the reporting period, the country risk exposure was insignificant and the risk was controllable.

Risk Consolidated Management

Risk consolidated management refers to the continuous improvement and optimization of comprehensive risk management framework of the bank group, including its subsidiaries, and effectively identifying, measuring, monitoring and controlling the overall risk of the bank group. According to the Guidelines on Consolidated Management and Supervision of Commercial Banks issued by CBIRC, the Bank has two affiliates, namely PSBC Consumer Finance Co., Ltd. and PSBC Wealth Management Co., Ltd., which have been incorporated into the Bank's risk consolidated management framework.

The Bank strictly followed national policies and regulatory requirements and continuously improved the mechanism for risk consolidated management under the principles of comprehensiveness, applicability and effectiveness. With reference to the overall development strategy of the bank group and the development direction of its affiliates, the Bank formulated relevant regulations for risk consolidated management, streamlined the structure of risk consolidated management, supervised and guided its affiliates to improve their risk governance structures, and established comprehensive risk management system and systems for the management of all major risks. The Bank also included its affiliates in the risk appetite of the bank group, defined the core risk indicators, and set the limit requirements. The Bank continued to strengthen its risk isolation management, and strictly and prudently controlled and isolated risks in links such as cross-appointment, rights of management and decision-making, process control, connected transactions and internal financing among different institutions within the bank group to effectively prevent financial risks from spreading among the internal organizations.

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, communicate 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 stabilize the supplementation capacity of endogenous capital and proactively expand channels for external capital replenishment.

The Group further improved the capital management system, deepened the reform of capital management, and effectively implemented the management mechanism of capital planning, allocation, monitoring and assessment through capital quota control and regular monitoring, which further improved the capital strength of the Bank and constantly enhanced its ability to serve the real economy. On the basis of stable growth of endogenous capital, the Group actively promoted external capital replenishment and continued to explore innovative capital replenishment tools. As of the end of the reporting period, the Group's capital indicators stayed within the reasonable range, and the capital adequacy ratios and leverage ratio continued to meet regulatory requirements and remained 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, the Group measured credit risk by weighted approach, market risk by standardized approach, and operational risk by basic indicator approach. As of the end of the reporting period, the Group's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.17%, 11.47% and 13.97% respectively, details of which are as follows:

Capital Adequacy

In millions of RMB, except for percentages

	As at June 30, 2020		As at December 31, 2019	
Item	The Group	The Bank	The Group	The Bank
Core tier 1 capital – net	**508,652**	**496,738**	492,212	481,244
Tier 1 capital – net	**636,586**	**624,596**	540,160	529,113
Net capital	**775,284**	**762,964**	671,834	660,443
Risk-weighted assets	**5,549,344**	**5,530,836**	4,969,658	4,950,560
Credit risk-weighted assets	**5,151,457**	**5,136,986**	4,582,338	4,567,277
Market risk-weighted assets	**63,222**	**63,222**	52,655	52,655
Operational risk-weighted assets	**334,665**	**330,628**	334,665	330,628
Core tier 1 capital adequacy ratio (%)	**9.17**	**8.98**	9.90	9.72
Tier 1 capital adequacy ratio (%)	**11.47**	**11.29**	10.87	10.69
Capital adequacy ratio (%)	**13.97**	**13.79**	13.52	13.34

Market Risk Capital Requirements

In millions of RMB

Item	As at June 30, 2020	As at December 31, 2019
Interest rate risk	**2,801**	1,832
Exchange rate risk	**2,256**	2,380

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 5.57%, 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 business in the future, 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. The joint underwriters exercised the over-allotment option in full on January 8, 2020. 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 billion of write-down undated capital bonds in the national interbank bond market. After deducting issuance expenses, the proceeds will be used to replenish its additional tier 1 capital in accordance with applicable laws and the approval of regulatory authorities.

The Bank convened the Fourth Meeting of the Board of Directors in 2020 on April 28, 2020, and reviewed and approved the Proposal on the Issuance of Write-down Undated Capital Bonds by Postal Savings Bank of China. Upon review and approval by the Board of Directors, the Proposal was submitted to the Shareholders' General Meeting for the Year 2019 on May 28, 2020 for further deliberation and approval. The Bank proposed to issue write-down undated capital bonds with a total amount of no more than RMB60 billion (inclusive) or equivalent in foreign currency. All proceeds raised will be used to replenish the Bank's additional tier 1 capital in accordance with the applicable laws and for the purposes approved by the regulatory authorities. For details, please refer to the announcements of the Bank published on the websites of SSE and Hong Kong Stock Exchange.

Economic Capital Management

The Group continuously improved the economic capital management system and earnestly enhanced the ability on active economic capital management. It strengthened the coordination between economic capital and business plans, optimized economic capital allocation, and enhanced capital constraint and the return on capital. It fully incorporated the concept of "returns covering risks" into its operation, further heightened the awareness of saving economic capital across the entire Bank, and continuously optimized the asset structure.

Focuses of the Capital Market

Response to the Impact of the Pandemic

Affected by the pandemic in the first half of 2020, China's economy faced increased downward pressure and the banking industry encountered many challenges. First, there is insufficient demand for business development as enterprises' production and operation and household consumption were curbed under the impact of the pandemic. Second, there is a tightening pressure on the net interest margin as the market interest rate stayed low and the overall return on assets in the banking industry was trending downward. Third, the asset quality was under pressure as the pandemic put certain downward pressure on the quality of banks' assets.

Since the outbreak of the pandemic, the Bank has earnestly implemented the decisions and arrangements of the Party Central Committee and the State Council and the requirements of the regulatory authorities. While making every effort to provide anti-pandemic financial services, the Bank researched and assessed the changes in the macroeconomic and financial situation, carried out in-depth business transformation, steadily promoted business development, and focused on the following aspects. First, the Bank adhered to the strategy of retail banking and vigorously promoted the "new retail transformation". During the pandemic, the Bank launched Customer Manager Cloud Studio and online home-based customer services, raised the limit of online transactions and enabled remote access by merchants. The Bank also launched "PSBC Health" – a new business segment offering customer benefits, all of which aimed at providing "contactless" online financial services. Focusing on the main line of "serving customers, creating scenarios and enriching products", the Bank provided a spectrum of full-cycle integrated financial services to our customers, built a "retail moat" with PSBC characteristics, and continued to promote the online transformation of the retail business, meeting customers' needs for contactless services during the pandemic. Second, the Bank adjusted the structure of assets and liabilities, and eased the downward pressure on the spreads. It took measures to increase the proportion of credit assets, especially medium and long-term credit assets, among the total assets. It also improved the proportion of medium and high-yield non-credit assets and stabilized the proportion of retail credit. As of the end of the reporting period, the proportion of credit assets of the Bank was 49.98%, representing an increase of 1.29 percentage points, compared with the prior year-end; the loan-to-deposit ratio was 55.55%, representing an increase of 2.14 percentage points, compared with the prior year-end. The Bank encouraged customers to make demand deposits and short-term time deposits, optimized the structure of deposits, strictly controlled long-term deposits with high interest rates, and fully utilized the structural opportunities for interbank liabilities under the low interest rate environment. Third, the Bank continued to defuse risks and increased the disposal of non-performing loans. It strengthened the asset quality management in key areas, made forward-looking impairment provisions on financial assets, and improved its ability to offset risks in the future. As of the end of the reporting period, the Bank's credit impairment losses amounted to RMB33,590 million, representing a year-on-year increase of RMB5,897 million; the allowance coverage ratio was 400.12%, representing an increase of 10.67 percentage points compared with the prior year-end, indicating sufficient risk-offsetting ability.

Net Interest Margin

In the first half of 2020, the Bank's net interest margin was 2.42%, down 8 basis points from the previous year, due to factors such as downward market interest rates, declining loan yields and rigidity of deposit costs.

In the second half of the year, it will remain the main theme of the policy to encourage financial institutions to reduce burden on market entities. The central bank will continuously push the loan rate lower. The benchmark deposit interest rate will relatively be stable, and it is difficult for funding cost to fall significantly in the short term. It is expected that the net interest margin is very likely to continue to narrow. Yet as monetary policy returns to the normal state in the second half of the year, the interest rate will not fall too low and the overall decline of the net interest margin will be limited.

In order to mitigate the downward pressure on the net interest margin, the Bank will continue to follow the changes in macro-policy and market environment and actively optimize the asset-liability structure. In terms of asset allocation, it was committed to "three increases and one stabilize", namely increasing the proportion of credit assets, increasing the proportion of medium and long-term credit assets, increasing the proportion of high-yield non-credit assets and stabilizing the proportion of retail credit so as to enhance the overall rate of return on assets. In terms of liabilities, the Bank will continue to adhere to the prudent deposit growth strategy through internal funds transfer pricing, interest rate-related performance assessment, limits on high-cost deposits and so on. While maintaining steady growth, it will pay more attention to structural optimization, strictly control the growth of long-term high-interest-rate deposits, prudently develop innovative deposits such as structured deposits, make full use of structural opportunities such as inter-bank liabilities in a low-rate environment, and effectively control the cost of interest-bearing liabilities.

Cost to Income Ratio

During the reporting period, the Bank's cost to income ratio was 51.57%, representing an increase of 0.62 percentage point year-on-year. The major reasons are as follows: first, the growth rate of income slowed down due to factors such as pandemic situation, market interest rate and the downward trend of LPR; second, the average daily balance of savings deposits at agency outlets increased by 8.87% year-on-year, resulting in a year-on-year increase of 7.59% in deposit agency fee costs and others; third, in order to enhance our future development capability, the support for business development and technology investment was increased, and the operating costs increased slightly, with a year-on-year increase of 1.60%.

In the second half of the year, the Bank's cost-to-income ratio will still be under pressure, and the main countermeasures include: on the income side, the first is to optimize the asset-liability structure. The Bank will improve the overall rate of return on assets by increasing the proportion of credit assets, that of medium and long-term credit assets and that of high-yield non-credit assets and stabilizing the proportion of retail credit. It will continue to adjust the deposit structure and effectively control the growth of interest-bearing costs. The second is to speed up the development of intermediary business with a focus on credit card, electronic payment, agency business, investment banking, custody and wealth management, etc, achieving steady growth in income from the intermediary business. On the cost side, the first is to push forward the development of physical outlets towards intelligent, light and integrated outlets through outlet transformation, and keep the operation cost at a reasonable level. The second is to improve the cost benchmarking system, promote the construction of management accounting system, and enhance the rationality and effectiveness of cost allocation. The third is to optimize the operation process and personnel allocation by technology and improve returns generated by cost utilization.

Net Non-interest Income

During the reporting period, the Bank's net non-interest income amounted to RMB23,531 million, representing a year-on-year increase of 4.02%, and accounting for 16.06% of its operating income. The growth primarily came from two aspects. First, it actively developed intermediary businesses and maintained growth in net fee and commission income. Second, it continued to strengthen the post-investment management of financial instruments, and increased the recoverable amount of trust investment plans, resulting in an increase in gains from changes in fair value.

During the reporting period, the net fee and commission income amounted to RMB9,728 million, representing an increase of RMB389 million, or 4.17% compared with the same period of the prior year. It accounted for 6.64% of the operating income, representing an increase of 0.05 percentage point compared with the same period of the prior year. Among which, fee income from agency businesses amounted to RMB4,392 million, representing a year-on-year increase of 59.13%. It was primarily due to the Bank's efforts in developing sales of bancassurance, agency funds and agency precious metal business, which achieved a rapid growth in the revenue of agency businesses. Fee income from settlement and clearing amounted to RMB3,757 million, representing a year-on-year increase of 5.95%, which was primarily due to the Bank's innovative marketing mode and because the Bank innovated the marketing mode and the fee income from electronic payment business increased by 7.68% year on year. Fee income from custody business amounted to RMB412 million, representing a year-on-year increase of 9.28%. It was primarily due to the Bank's further optimization of the custody business structure, focus on the development of key businesses, thus achieving rapid growth of the business scale.

In the second half of 2020, the Bank will continue to step up our efforts in business transformation to further stimulate the vitality of business development and promote the stable development of non-interest-bearing businesses. First, it will vigorously develop the intermediary business. The Bank will continue to improve the quality and efficiency of the development of credit card business, build upon the leading status of electronic payment, speed up the transformation to a wealth management system, expand the scale of investment banking and custody business, and enhance the innovation of wealth management products to enhance the market competitiveness of intermediary business. The second is to steadily increase other non-interest income. The Bank would continuously strengthen market research and assessment, keep track of the trend of interest rates, actively grasp market opportunities, select investment products reasonably, and flexibly adjust the pace of investment and hold strategy. It will reasonably adjust the asset scale of the trading book, enhance innovation, and build a diversified financial investment system.

Asset Quality in Key Areas

During the reporting period, the Bank earnestly implemented the requirements of the Party Central Committee, the State Council and regulatory authorities on preventing and defusing financial risks, prepared for the worst-case scenarios, and kept up its efforts in the monitoring, early warning, assessment of and response to credit risks against the backdrop of ongoing prevention and control. The Bank strengthened its efforts to prevent and control risks in key areas and maintained steady development. Due to the pandemic, as of the end of the reporting period, the Bank's non-performing loan ratio was 0.89%, representing an increase of 0.03 percentage point compared with the prior year-end; but the proportion of special mention loans was 0.53%, representing a decrease of 0.13 percentage point compared with the prior year-end; the proportion of overdue loans was 0.88%, representing a decrease of 0.15 percentage point compared with the prior year-end; the allowance coverage ratio was 400.12%, representing an increase of 10.67 percentage points compared with the prior year-end. The risks were generally under control.

In terms of corporate loans, as of the end of the reporting period, the Bank's balance of non-performing corporate loans amounted to RMB18,563 million, representing an increase of RMB3,061 million, compared with the prior year-end, with a non-performing loans ratio of 0.95%. The increase in the balance of non-performing loans mainly came from transportation, storage and postal services. As of the end of the reporting period, the balance of non-performing corporate loans in transportation, storage and postal services industries amounted to RMB7,133 million, representing an increase of RMB7,015 million compared with the prior year-end, mainly because some customers in the transportation industry has been badly hit by the pandemic.

In terms of personal loans, as of the end of the reporting period, the balance of non-performing personal loans of the Bank amounted to RMB29,958 million, representing an increase of RMB2,626 million compared with the prior year-end. Asset quality showed a steady trend after a short-term decline. After the outbreak of the pandemic, the Bank's consumer loans and credit card business were adversely influenced in terms of non-performing and overdue loans. Yet, as the pandemic condition got stabilized and the work and production resumed in an orderly manner, the Bank continued to strengthen its efforts in overdue collections and write-offs of non-performing loans, and the situation gradually improved. As of the end of the reporting period, the Bank's NPL ratio for retail loans was 0.99%, which remained the same compared with the prior year-end. More specifically, both the NPL volume and ratio of personal micro loans dropped, and the NPL ratio was 2.04%, representing a decrease of 0.38 percentage point compared with the prior year-end. The NPL ratio for consumer loans was 0.59%, representing an increase of 0.07 percentage point compared with the prior year-end, which was slightly slower than the increase in the first quarter. The NPL ratio for credit card business increased by 0.25 percentage point compared with the prior year-end, which was significantly lower than the first quarter.

In the second half of 2020, the internal and external situation under the impact of the pandemic will still be relatively complicated, and our asset quality control will still be facing challenges. The Bank will strengthen industry and customer research, dynamically optimize credit policies, enhance investigation, know well our true risk profile, manage and control risks in key areas, accelerate the defusing of risks, effectively dispose of the non-performing ones, and strive to maintain stable asset quality.

Deposits

As of the end of the reporting period, the total of the Bank's personal deposits was RMB8,605,064 million, representing an increase of RMB421,750 million, or 5.15% compared with the prior year-end. The total of corporate deposits amounted to RMB1,258,374 million, representing an increase of RMB129,409 million, or 11.46% compared with the prior year-end. Currently, the banking industry is under the pressure of tightening margins, and the costs of liabilities are relatively rigid. The Bank continued to execute the strategy of steady deposit growth. In terms of personal deposits, on the basis of steady growth in scale, the Bank put more efforts in growing low-cost deposits while strictly controlling the growth of high-cost deposits. During the reporting period, the management and control on long-term and high-cost personal deposits showed marked results, and the deposit structure saw much improvement. The funding cost of personal deposits was 1.61%, which was the same as that of 2019, and remained a good position in the industry. In terms of corporate deposits, with institutional customers as the core of business, the Bank centered around increasing the number and type of customers, relied on the marketing and development by key branches, made breakthroughs regarding key institutional customers, and took multiple measures to promote the development of corporate business. As of the end of the reporting period, the institutional client deposits was RMB842,994 million, accounting for 66.99% of the corporate deposits, representing an increase of RMB95,645 million, or 12.80% compared with the prior year-end.

In the second half of 2020, the Bank will continue to follow the main goal on steady growth and cost control and push up the volume and enhance quality of the deposit business. For personal deposits, the first is to focus on key debit cards. The Bank will focus on the marketing promotion of key cards such as co-branded cards, social security cards and veteran service cards, for the purpose of expanding customer base and driving capital growth. The second is to focus on agency payment. The Bank will strengthen its interaction with both the corporate and individual customers, promote the development of salary payment business, and broaden the sources of funding. It will proactively retain elderly customers, build up the elderly customer service brand "Golden Sunlight", and improve the retention rate of pension funds paid by the Bank. The third is to focus on acquiring payment for merchants. Through marketing activities and cross-selling, the Bank will enhance its merchant service and drive the growth of merchants' settlement fund. The fourth is to focus on the circulation of wealth management funds and demand deposits. The Bank will continuously strengthen the team building of wealth management managers to further enhance the sales capability of our agency business, and form a virtuous cycle between investment and wealth management products and demand deposits. In terms of corporate deposits, the first is to focus on customer marketing. The Bank will place emphasis on key branches, focus on key industries and customers, vigorously expand customer base, and increase the scale of corporate deposits. The second is to strengthen our technological capability, establish and improve service scenario for public settlement, and seize the opportunities of policies on smart government, smart healthcare, smart transportation and so on. It will also accelerate the application of scenarios including open payment platform, PSBC Canteen, salary payment, acquiring for merchants, corporate settlement cards and business cards, in order to enhance the abilities to obtain, activate and retain customers as well as promote the flowing transformation of corporate deposits. The third is to speed up the innovation of corporate deposit products, accelerate the incremental innovation based on fundamental deposit products and diversify corporate wealth management products. The fourth is to strengthen the construction of the all-channel system, open as many outlets as possible for corporate business, expand the service scopes, enhance service capacities, improve the effectiveness of the corporate business outlets, and accelerate the construction of online service channels and technological support.

Asset Management Business

The Bank overcame the negative impact of the external environment, took proactive actions and achieved the steady development of asset management business, with both the increased scale of products and speed of growth leading the industry performance. It steadily promoted the transition to NAV-based wealth management products, completed a comprehensive product system. With diversified product strategies, increased investment in equity assets and enriched multiple asset strategies, the Bank saw the number of customers rapidly growing.

On the side of products, the Bank created three lines of products centering on financial inclusion, wealth management and pension, forming 11 sub-brands under 7 product series, namely currency, fixed income, equity, mixed products, commodities and financial derivatives, passive investment and private placement. For product innovation, the Bank actively promoted new multi-strategic products "fixed income+" such as elderly wealth, active equity and passive index, and had launched 284 new products in total. For asset allocation and investment strategies, the Bank kept optimizing its investment structure, increased equity investments, actively explored diversified capital market instruments and adopted the strategy of selected industry funds and high dividend. It also developed diversified asset strategies such as the Sci-Tech innovation board, A share broad-based index, Chinese offshore USD Bonds and multi-asset with low volatility, etc. The overseas investment channels, such as QDII and RQDII have been basically set up to achieve global diversified asset allocation, with an absolute yield of over 10.00% in the FOF portfolio. The Bank successfully obtained the qualification as a main underwriter of debt financing instrument of Beijing Financial Assets Exchange. It cooperated with ChinaBond Financial Pricing Center to establish "ChinaBond – PSBC Wealth Management Beijing-Tianjin-Hebei Region Bond Select Index". In terms of promotion and training, the Bank enhanced the campaign efforts on contactless online transactions, focused on the promotion of elderly wealth management brands, conducted regular training and held investment strategy sessions for affluent customers on a quarterly basis. The number of wealth management customers increased by approximately 426,800 compared with the prior year-end, representing an increase of 11.21%. The number of first-time wealth management customers increased significantly, and the number of long-tail customers and affluent customers increased steadily. The number of customers with managed funds between RMB0 and RMB50,000 increased from approximately 285,900 at the prior year-end to approximately 455,100, while the number of wealth management customers of platinum level (RMB500,000) or above increased by approximately 87,500.

The transformation of wealth management products and the transformation and development of asset management business are a long-term process. New regulations and supporting systems on asset management have shown the direction for product transformation and the development of the industry. The Bank will adhere to the positioning of maintaining and growing the value of our customers' wealth and serving the real economy, accelerate the transformation of net worth products and continue to enhance the development capabilities of asset management business. The Bank is aiming to build PSBC Wealth Management as a customer-focused, first-tier asset management company affiliated to a bank, featuring a high level of prudence, professionalism, openness, innovation and outstanding values. According to customer stratification, the Bank will implement differentiated product strategy. Relying on the "Inclusion" product series, it will expand the customer base by making full use of the advantage of its wealth management subsidiary, i.e., low threshold for purchase. Relying on the "Wealth" product series, it will provide personalized, customized, exclusive wealth management services for affluent customers, qualified investors and high net worth customers. Relying on the "Pension" product series, it will build an elderly care ecosystem together with elderly care and well-being institutions, and provide integrated services of "wealth management and well-being" to introduce long-term capital. For asset allocation, the Bank will reinforce the advantage of fixed income investment, get deeply involved in capital market investment, strengthen refined analysis of varied industries, and focus on the primary market, market between distribution and circulation and secondary market. It will also strengthen portfolio selection, enriched index investment strategies, expand overseas investment channels to obtain returns on global asset allocation. It will develop artificial intelligence investment advisors to achieve application of financial technologies in the whole process of investment, product, marketing, risk and operation.

Outlet Transformation

With the deep integration of mobile Internet and financial services, online channels are suitable for small-amount, high-frequency, low-risk businesses, while offline outlets, especially in a vast of county areas, have their advantages in establishing customer trust, handling complex transactions and high-risk businesses as well as providing services with a human touch. In order to respond to the development trend and satisfy customers' needs, the Bank launched a project of systematic outlet transformation in early 2019 to accelerate the transformation of outlets towards the "marketing and service center" and "customer experience center" so as to maintain customer relationship, provide wealth management and satisfy customers' comprehensive financial needs.

In the first half of 2020, the Bank focused on the following four aspects in terms of deepening the outlet transformation: the first was the nationwide roll-out of outlet transformation. As of the end of the reporting period, a total of 134 example outlets were established nationwide, based on which another 6,101 outlets were completely converted, representing 15.39% of the total number of outlets. Second, it promoted outlet transformation with the aid of technologies. It promoted the CRM platform and a management system of integrated marketing performance. It launched the customer data mart, continued to build and enrich the customer labeling system, accurately identified customers and effectively supported the development of precision marketing and integrated marketing. Third, the Bank continued to promote the construction of wealth management system. The Bank enhanced its professionalism in wealth management through building the team of professionals, diversifying product offerings and supply, and building a hierarchical and differentiated customer service mode. As of the end of the reporting period, the total number of wealth management managers was approximately 38,900, representing an increase of 3,461 compared with the prior year-end; the number of VIP customers was 33.543 million, representing an increase of 8.33% compared with the prior year-end; and that of affluent customers was 2.845 million, an increase of 15.12% compared with the prior year-end. Fourth, the Bank enhanced the all-service capabilities across outlets. In terms of corporate business development, the Bank expanded service coverage and explored the potential of business development. 4,418 outlets could handle corporate business, representing an increase of 682 compared with the prior year-end. In terms of the improvement of retail credit capability, with credit managers dispatched to outlets and a centralized operation mode put in place, the coverage rate of retail credit service in outlets was improved. By increasing referrals of customers, customer resources were better shared among outlets. By promoting online loan products such as "Easy Small and Micro Loan", small-amount "Speedy Micro Loan" and "You Xiang Loan", the efficiency of retail credit service of outlets was improved.

In the second half of the year, the Bank will continue to promote the outlet transformation and increase the productivity of outlets. The first is to enhance our customer marketing capabilities. The Bank will roll out the CRM platform, the integrated marketing performance management system and other systems in all outlets to strengthen our personnel assessment management. The second is to enhance the capabilities of serving affluent customers. The Bank will deepen the construction of the wealth management system, launch family trust and other services, establish a team of full-time wealth consultants, promote the construction of wealth centers, and expand the base of affluent customers. The third is to speed up the transformation of outlets. The Bank will continue to supervise the progress of transformation roll-out, strengthen the training support, ensure the effect of transformation and achieve the target that no less than 50% of the outlets will complete their transformation by the end of 2020. The fourth is to continuously enhance the full-service capabilities of outlets. The Bank will continue to expand the corporate business in self-operated outlets, enhance retail credit services and competency, enrich the types of businesses in agency outlets, and release the potential for development.

Loan Prime Rate (LPR)

Since the commencement of the LPR reform in August 2019, the Bank has made quick responses, careful deployment and made positive progress. It has set up a steering group and working group on interest rate liberalization to make researches and formulate plans and programs in this regard. With efficient cooperation and collaboration, the Bank has quickly completed the basic work regarding the application of new benchmarks on mechanism, contract, authorization, process and system. It has achieved initial success in applying LPR in the newly issued loans and converting the pricing benchmark of existing floating-rate loans. LPR has become the primary benchmark for the pricing of our loan interest rates and has been internalized into our internal funds transfer pricing (FTP). In the first half of 2020, most of the interest rates for newly-issued loans were linked to LPR. Since the Bank officially started to convert the pricing benchmark of existing floating-rate loans on March 1, 2020, it has been carried out in an orderly manner in accordance with the market-based and law-based principles. With more and more loans linked to LPR, the transmission of market interest rates to loan rates was smoother, and the yields of both newly issued loans and existing floating-rate loans followed the change of LPR.

Advanced Approaches of Capital Management

The Bank carried out capital measurement in accordance with the Administrative Measures for the Capital Management of Commercial Banks (Provisional). At present, the weighted approach is adopted for measuring credit risk capital, the standardized approach for measuring market risk capital, and the basic indicator approach for measuring operational risk capital.

During the reporting period, the Bank fully initiated the development and implementation of advanced approaches of capital management. After the careful deliberation by the Board of Directors and senior management, the implementation plan of the advanced approaches of capital management was published. The Bank promoted the construction and implementation of advanced capital management methods in an orderly manner, improved the risk management system, optimized the risk measurement model, sped up the construction of information system and increased the application of risk measurement results. In terms of credit risk, the Bank's internal rating model covered financial institutions, companies, retail and other major risk exposure categories. The internal rating systems, such as risk mitigation and model verification, were further improved; the key IT construction projects, such as the internal rating platform, proceeded smoothly; and the systematic rating of corporate customers and debts and the systematic rating of retail business were realized, continuing to promote the application of internal rating results in the entire process of capital management and credit business. In terms of market risk and operational risk, each optimization task progressed smoothly, and progressive progress was made in risk measurement and system construction.

Next, the Bank will strictly comply with the regulatory requirements specified by Administrative Measures for the Capital of Commercial Banks (Provisional). Under the leadership of the Board of Directors, it will continue to actively promote the construction of advanced approaches of capital management, strengthen the use of risk management tools, and form a virtuous circle of "construction-application-optimization". It will step up the follow-up research on regulatory policies, take the initiative to carry out benchmarking with advanced practices in the banking industry, steadily promote the transformation of risk management, and comprehensively improve the capability and level of risk management.

Achievements in Financial Technology

The Bank deepened the application of big data. The Bank launched the optimization of customer journey, focused on the most direct and truthful feedback from customers on our service, and used text mining technology to analyze customers' data and information in terms of business process and experience, so as to improve customer experience in a targeted way. It enriched the customer labeling system to create 360-degree customer portrait and provided customers with customized products and services to cater for individual needs. During the pandemic, data mining technology was used to identify potential high-quality small enterprise customers with credit needs, helping those enterprises in need to meet their capital cap and overcome the difficulties.

The Bank carried out the application of artificial intelligence. The Bank pushed forward its intelligent and efficient financial services by promoting the applications of "Face Scan Payment" and smart note identification. After the remote authorized robot went online, the average processing time per transaction reduced from 30 seconds to 3 seconds. It significantly shortened the business verification time and waiting time for customers at counters, and met the customers' requirements for safety, speed and convenience, improving customers' satisfaction. During the reporting period, the ratio of customer inquiries processed through intelligent customer services to those by remote banking centers over all channels was 63.43%, and the Q&A accuracy rate was 95.56%. The Bank launched an innovative model for remote customer services accessible by customers at home, with calls responded accounting for 26.77% of the total number of manual calls.

The Bank enhanced its online channel service capabilities. It relied on agile development, continued to enrich mobile banking functions and accelerated product innovation. It added functions like voice payment transfer and fuzzy search, as well as optimized the interfaces like financial calendar and wealth snapshot, continuously enhancing the mobile banking service capabilities. During the reporting period, the Bank's transaction amount of mobile banking was RMB5.41 trillion, representing a year-on-year increase of 74.52%. The number of monthly active customers of mobile banking increased by 42.82% year on year. It developed "Customer Manager Cloud Studio" to provide a 7/24, "contactless" digital service channel for product introduction and online business operation, as well as explored new customer relationship management and service models.

The Bank constructed the ecology of Internet finance. The Bank continued to enrich the innovative scenarios for "PSBC Canteen", launched "PSBC Health" online, introduced the live broadcast platform "U Star Party", and promoted special offerings including "Credit card interest-free installment" and "U Store". The Bank was committed to providing multi-dimension, multi-level and multi-scenario services to our customers by add-on financial products, expansion of platform merchants, connecting business and individual customers, enrichment of customer benefits, and the expansion of interactive and exclusive special scenarios. As of the end of the reporting period, the total number of real-name-verified users of "PSBC Canteen" was 36.743 million, representing an increase of 222.67% compared with the prior year-end.

The Bank enriched online loan products. It vigorously promoted the leading big data product like "Easy Small and Micro Loan" to further diversify the business mode and to meet the diversified financing needs of small and micro enterprises. It developed and promoted an all-online micro loan product "Speedy Micro Loan", and introduced the operational procedures of "Speedy Micro Loan" through the Bank's WeChat account, encouraging customers to first use the mobile banking in applying for loans by themselves. "Credit Easy Loan for Projects", which is based on the national comprehensive credit service platform for small and medium-sized enterprises financing, realized its implementation at 29 branches and met the financing needs of small and micro engineering enterprises in a targeted way.

The Bank enhanced outlet services with the aid of technologies. It carried out a special programme on improving efficiency of accounting opening for corporate clients, popularized the second phase of the universal counter management platform, realized the paperless application for all counter businesses and personal businesses, built an intelligent queuing system at outlets, and continued to promote the development of ITM functions. It focused on expanding corporate service functions, carried out pilots of smart counters and mobile authorization for business managers.

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 86,978,562,200, including 67,122,395,200 A shares and 19,856,167,000 H shares, accounting for 77.17% and 22.83% of all shares respectively.

Details of Changes in Share Capital

Unit: share

	As at December 31, 2019		Increase/decrease (+,-) during the reporting period					As at June 30, 2020	
	Number of shares	Percentage (%)	Issuance of new shares	Issuance of bonus shares	Transferred from surplus reserve	Circulating shares subject to restrictions on sales	Subtotal	Number of shares	Percentage (%)
I. Shares subject to restrictions on sales	63,372,578,903	73.52	+775,824,000	–	–	-905,130,903	-129,306,903	63,243,272,000	72.71
1. Shareholdings of the State	–	–	–	–	–	–	–	–	–
2. Shareholdings of state-owned legal person	60,431,175,000	70.11	–	–	–	–	–	60,431,175,000	69.48
3. Other domestic shareholdings	2,941,403,903	3.41	+775,824,000	–	–	-905,130,903	-129,306,903	2,812,097,000	3.23
Including: Shareholdings of domestic non-state-owned legal person	2,941,403,903	3.41	+775,824,000	–	–	-905,130,903	-129,306,903	2,812,097,000	3.23
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	22,830,159,297	26.48	–	–	–	+905,130,903	+905,130,903	23,735,290,200	27.29
1. RMB ordinary shares	2,973,992,297	3.45	–	–	–	+905,130,903	+905,130,903	3,879,123,200	4.46
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	19,856,167,000	23.03	–	–	–	–	–	19,856,167,000	22.83
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares of ordinary shares	86,202,738,200	100.00	+775,824,000	–	–	–	+775,824,000	86,978,562,200	100.00

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 shares 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 issue 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.

After the initial issuance, the total number of shares of the Bank increased from 81,030,574,000 shares to 86,202,738,200 shares. After exercising the over-allotment option, the total number of shares of the Bank increased from 86,202,738,200 shares to 86,978,562,200 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

During the reporting period, the over-allotment option mechanism has been introduced for the issuance and listing of the A shares of the Bank. After the initial issuance, the total number of shares of the Bank increased from 81,030,574,000 shares to 86,202,738,200 shares. After exercising the over-allotment option, the total number of shares of the Bank increased from 86,202,738,200 shares to 86,978,562,200 shares. After the over-allotment option was exercised in full, the Bank increased its share capital by RMB775,824,000.00, and capital reserve by RMB3,429,604,303.30.

In RMB

Item	For the six months ended June 30, 2020	Same criteria for the six months ended June 30, 2020(1)
Basic earnings per share	0.36	0.36
Diluted earnings per share	0.36	0.36
Net assets per share attributable to ordinary shareholders of the listed company	5.90	5.90

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 for the six months ended June 30, 2020 are calculated with the assumption that no shares will be issued in 2020.

There was no change in ordinary shares of the Bank from June 30, 2020 to the date on which this report is disclosed.

Changes in Shares Subject to Restrictions on Sales

Unit: share

Name of shareholder	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 end of the reporting period	Reason for restrictions on sales	Date of release from restrictions on sales
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	110,022,000	–	314,815,000	424,837,000	Restrictions on sales for A share listing	December 10, 2020
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	–	461,009,000	461,009,000	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	1,015,152,903	905,130,903	775,824,000	885,846,000	/	/

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 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.

Shareholdings of the Top 10 Ordinary Shareholders

As of the end of the reporting period, the Bank had a total number of 290,925 ordinary shareholders (including 288,117 holders of A shares and 2,808 holders of H shares) and no holders of preference shares with voting rights restored.

The top 10 ordinary shareholders as of the end of the reporting period 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	56,696,928,873	65.18	55,847,933,782	–	State-owned legal person	RMB ordinary shares, Overseas listed foreign shares
HKSCC Nominees Limited	19,843,184,630	22.81	–	Unknown	Foreign legal person	Overseas listed foreign shares
China Life Insurance Company Ltd.	3,341,900,000	3.84	3,341,900,000	–	State-owned legal person	RMB ordinary shares
China Telecommunications Corporation	1,117,223,218	1.28	1,117,223,218	–	State-owned legal person	RMB ordinary shares
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	738,820,000	0.85	738,820,000	–	Domestic non-state-owned legal person	RMB ordinary shares
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	461,009,000	0.53	461,009,000	–	Domestic non-state-owned legal person	RMB ordinary shares
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	424,837,000	0.49	424,837,000	–	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	0.31	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	0.24	212,773,000	–	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 the end of the reporting period, which includes the 15,495,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee.

Note (2): 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	Number
HKSCC Nominees Limited	19,843,184,630	Overseas listed foreign shares	19,843,184,630
China Post Group Corporation Limited	848,995,091	RMB ordinary shares	833,500,091
		Overseas listed foreign shares	15,495,000
Shanghai International Port (Group) Co., Ltd.	112,539,226	RMB ordinary shares	112,539,226
Huaxia Life Insurance Co., Ltd. – Self-owned Fund	112,084,836	RMB ordinary shares	112,084,836
Dajia Life Insurance Co., Ltd. – Universal Products	100,786,856	RMB ordinary shares	100,786,856
Foresea Life Insurance Co., Ltd. – Self-owned Fund	99,999,997	RMB ordinary shares	99,999,997
Sinatay Life Insurance Co., Ltd. – Traditional Products	80,171,700	RMB ordinary shares	80,171,700
Hong Kong Securities Clearing Company Limited	68,736,226	RMB ordinary shares	68,736,226
National Social Security Fund – Portfolio 103	49,996,578	RMB ordinary shares	49,996,578
National Social Security Fund – Portfolio 114	40,721,431	RMB ordinary shares	40,721,431

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 at the end of the reporting period, which includes the 15,495,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee

Note (2): The number of shares held by Hong Kong Securities Clearing Company Limited refers to the A shares (Shanghai-Hong Kong Stock Connect) held by Hong Kong and overseas investors through HKSCC Nominees Limited as the nominee.

Note (3): 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		Restrictions on sales
		Date on which listing and trading may commence	Number of new shares allowed to be listed and traded	
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
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	461,009,000	December 10, 2020	–	12 months since the date of A share offering and listing of the Bank
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	424,837,000	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

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
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	December 10, 2019	–
Bank of China Limited – China Merchants 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 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	–

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	PSBC 17USDPREF	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. 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

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.

During the reporting period, according to the resolution and authorization of the Shareholders' General Meeting, upon the review and approval at the 5th meeting of the Board of Directors of the Bank in 2020, the Bank was approved to distribute dividends on the offshore preference shares for the period from September 27, 2019 (inclusive) to September 27, 2020 (exclusive) on September 27, 2020, totaling USD362.5 million (before tax), of which USD326.25 million (after tax) were paid to the holders of offshore preference shares. For details, please refer to the Announcement on Distribution of Dividends for Offshore Preference Shares of the Bank dated May 28, 2020.

During the reporting period, the issued offshore preference shares were not yet due for dividend distribution, and there was no dividend payment in respect of the offshore preference shares.

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. According to the Announcement Regarding the Proposal on Stabilizing the Share Price of Postal Savings Bank of China Co., Ltd. published on April 24, 2020 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 RMB50,000,000, as and when appropriate, during the 6-month period from April 24, 2020. According to the Announcement Regarding the Implementation Progress of the Proposal on Stabilizing the Share Price of Postal Savings Bank of China Co., Ltd. published on July 24, 2020 by the Bank, as of July 24, 2020, China Post Group held 56,685,433,873 A shares of the Bank.

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 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 the mainland of 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 1.86% of the total share capital of the Bank, and there was no share pledge by other substantial shareholders of the Bank.

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 ordinary connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or filing.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at 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 total issued shares (%)
China Post Group(2)	Beneficial owner and interest of controlled corporations	A shares	56,693,308,023	Long position	84.46	65.18
	Beneficial owner	H shares	15,495,000	Long position	0.08	0.02
China Post Securities Co., Ltd.(2)	Beneficial owner	A shares	11,874,150	Long position	0.02	0.01
CSIC Investment One Limited(3)	Beneficial owner	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding Capital Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding & Offshore International (H.K.) Co., Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding & Offshore International Co., Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding Industry Corporation(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
Shanghai International Port Group (HK) Co., Limited(4)	Beneficial owner and interest of controlled corporations	H shares	3,370,091,000	Long position	16.97	3.87
Shanghai Port Group (BVI) Holding Co., Limited(4)	Beneficial owner	H shares	1,184,508,000	Long position	5.97	1.36
Shanghai International Port (Group) Co., Ltd.(4)	Beneficial owner and interest of controlled corporations	H shares	3,479,691,000	Long position	17.52	4.00
	Beneficial owner	A shares	112,539,226	Long position	0.17	0.13
Li Ka-Shing(5)	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.61
Li Tzar Kuoi, Victor(5)	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.61
Li Ka Shing (Canada) Foundation(5)	Beneficial owner	H shares	1,108,228,000	Long position	5.58	1.27
China National Tobacco Corporation	Beneficial owner	H shares	1,296,000,000	Long position	6.53	1.49
JPMorgan Chase & Co.(6)	Interest of controlled corporations, investment manager, security interest and approved lending agent	H shares	998,397,072	Long position	5.03	1.15
	Interest of controlled corporations	H shares	34,336,070	Short position	0.17	0.04
	Approved lending agent	H shares	211,916,185	Lending pool	1.07	0.24

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 56,681,433,873 A shares of the Bank, representing approximately 65.17% 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): 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 holds a total of 3,776,297,000 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 3,776,297,000 H shares held by CSIC Investment One Limited under the SFO.

Note (4): 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) Co., Ltd. is interested in a total of 3,479,691,000 H shares (long position), of which 109,600,000 H shares are beneficially owned, 100% equity of the 2,185,583,000 H shares are held by Shanghai International Port Group (HK) Co., Limited, and 1,184,508,000 H shares are held by Shanghai Port Group (BVI) Holding Co., Limited (which is 100% directly owned by Shanghai International Port Group (HK) Co., Limited).

Note (5): 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.

Note (6): According to the disclosure of interests form submitted by JPMorgan Chase & Co., JPMorgan Chase & Co. is interested in a total of 998,397,072 H shares (long position), 34,336,070 H shares (short position) and 211,916,185 H shares (lending pool), including the 114,981,034 H shares (long position) and the 34,336,070 H shares (short position) held as a controlled corporation, 658,479,321 H shares (long position) held as an investment manager, 13,020,532 H shares (long position) held as a security interest holder of shares, and 211,916,185 H shares (lending pool) held as an approved lending agent. The interests include derivative interests, of which 505,000 H shares (short position) are derived from listed and physically settled derivatives; 359,000 H shares (short position) derived from listed and cash settled derivatives; 9,000 H shares (long position) and 3,479,783 H shares (short position) derived from unlisted and physically settled derivatives; 5,052,000 H shares (long position) and 18,738,590 H shares (short position) derived from unlisted and cash settled derivatives; 127,397,782 H shares (long position) and 5,111,695 H shares (short position) derived from listed derivatives (convertible instruments).

Saved as disclosed above, as at the end of the reporting period, there were no other persons (other than the Directors, Supervisors and Chief executives 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	January 8, 2020	5.50	775,824,000	January 8, 2020	775,824,000	–

For details of implementing the over-allotment option for the A share issuance 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 Financial Statements – 29 Debt securities issued" and "Notes to the Financial Statements – 31.2 Other equity instruments".

Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management

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

The Board of Directors consisted of 13 directors in total, including Mr. Zhang Jinliang, the Chairman; 3 Executive Directors, namely Mr. Guo Xinshuang, Mr. Zhang Xuewen and Ms. Yao Hong; 5 Non-executive Directors, namely Mr. Zhang Jinliang, Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue and Mr. Ding Xiangming; 5 Independent Non-executive Directors, namely Mr. Fu Tingmei, Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang and Ms. Pan Yingli.

The Board of Supervisors consisted of 9 supervisors, including Mr. Chen Yuejun, the Chairman; 3 Shareholder Representative Supervisors, namely Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang; 3 External Supervisors, namely Mr. Wu Yu, Mr. Bai Jianjun and Mr. Chen Shimin; 3 Employee Supervisors, namely Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng.

The Bank had a total of 9 senior management members, namely Mr. Guo Xinshuang, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Qu Jiawen, Mr. Xu Xueming, Mr. Shao Zhibao, Mr. Du Chunye, Mr. Liang Shidong and Mr. Niu Xinzhuang.

Changes in Directors, Supervisors and Senior Management

Changes in 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 the Strategic Planning Committee of the Board of Directors, Chairman and member of the Related Party Transactions Control Committee of the Board of Directors, or member of the Audit Committee of the Board of Directors. Mr. Fu Tingmei started to serve as the Chairman of the Related Party 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, Chairwoman 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 of the Bank 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 the Risk Management Committee of the Board of Directors and the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors due to age reason.

On April 23, 2020, the appointment of Mr. Guo Xinshuang was approved by CBIRC and he started to serve as the Executive Director of the Bank, Chairman and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors. Immediately after the commencement of the term of office of Mr. Guo Xinshuang, Ms. Yao Hong no longer performed the duties on behalf of the Chairwoman of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors.

Changes in Supervisors

On May 7, 2020, the Fourth Session of the First Employee Representative Assembly re-elected Mr. Bu Dongsheng as Employee Supervisor of the Bank. The term of Mr. Bu Dongsheng came into effect since May 7, 2020.

Changes in Senior Management

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Guo Xinshuang as President of the Bank. On February 14, 2020, the CBIRC approved the appointment of Mr. Guo Xinshuang as President of the Bank.

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Liang Shidong as Chief Risk Officer of the Bank. On February 19, 2020, the CBIRC approved the appointment of Mr. Liang Shidong as Chief Risk Officer of the Bank.

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Niu Xinzhuang as Chief Information Officer of the Bank. On July 3, 2020, the CBIRC approved the appointment of Mr. Niu Xinzhuang as Chief Information Officer of the Bank.

On March 25, 2020, the Board of Directors of the Bank appointed Mr. Du Chunye as Vice President of the Bank. On July 3, 2020, the CBIRC approved the appointment of Mr. Du Chunye as Vice President of the Bank.

Changes in Biographies of Directors, Supervisors and Senior Management

Changes in Biographies of Directors

In March 2020, Mr. Hu Xiang started to serve as Independent Director of New China Fund Management Co. Ltd.

In April 2020, Mr. Hu Xiang no longer served as Director of Shanghai Zhitong Construction Development Co., Ltd.

In June 2020, Mr. Chung Shui Ming Timpson no longer served as Independent Non-executive Director of Jinmao China Hotel Investments and Management Ltd.

Changes in Biographies of Supervisors

In January 2020, Mr. Wu Yu started to serve as Chief Strategy Officer of Beijing Honghui Dongtai Investment Management Co., Ltd.

In February 2020, Mr. Wu Yu started to serve as Vice Chairman of Timber Importer and Exporter Committee of China Timber & Wood Products Distribution Association.

In April 2020, Mr. Bu Dongsheng started to serve as President of Anhui Branch of the Bank, and no longer served as President of Hubei Branch of the Bank.

In May 2020, Mr. Zhao Yongxiang started to serve as director-general-level Inspector of the General Office of the Inspection Work Leadership Group of the Party Committee of China Post Group, and no longer served as Director General of the Audit Bureau of China Post Group.

In May 2020, Mr. Chen Shimin started to serve as Independent Director of China Fortune Land Development Co., Ltd.

In August 2020, Mr. Bai Jianjun retired from Peking University.

Changes in Biographies of Senior Management

In June 2020, Mr. Shao Zhibao started to serve as standing member of the First Council of National Internet Finance Association of China.

Corporate Governance

The Bank strictly follows the Company Law of the People's Republic of China, the Law of the People's Republic of China on Commercial Banks and relevant laws and regulations, as well as the requirements of the regulatory authorities and listing rules of the places where our shares are listed. In line with its corporate governance practices, the Bank continues to optimize our corporate governance and improve the system of corporate governance.

During the reporting period, the Board of Directors of the Bank reviewed and approved the proposals on the budget plan of fixed assets investment for 2020; the risk management strategies and risk appetite schemes of 2020; the appointment of President, Vice President, Chief Risk Officer and Chief Information Officer; revising the measures for internal control evaluation; donation to Hubei Charity Federation; revising the administrative measures for the assessment of money laundering and terrorist financing risks; revising the administrative measures for the protection of consumer rights and interests; formulating the planning on establishing and implementing advanced approaches of capital management as well as administrative measures for the implementation projects of the advanced approaches of capital management; and formulating the overall plans for optimizing the staff banding system, etc.

During the reporting period, there was no material difference between the actual status of the Bank's corporate governance and the regulations on corporate governance of listed companies promulgated by the CSRC. The Bank has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules of Hong Kong. The Bank has also complied with most of the recommended best practices therein.

On March 6, 2020, the Bank held the First Extraordinary General Meeting of 2020 in Beijing, and reviewed and approved four proposals, including the election of Mr. Guo Xinshuang as Executive Director of the Bank, 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.

On May 28, 2020, the Bank held the Annual General Meeting for the Year 2019 in Beijing, reviewed and approved 11 proposals, including final accounts and plans for profit distribution for 2019, the budget plan of fixed asset investment for 2020, the engagement of accounting firm for 2020, the proposed issuance of write-down undated capital bonds, and heard 3 reports including the special report on connected transactions in 2019.

The aforementioned Shareholders' General Meetings were convened and held in strict accordance with relevant laws and regulations and the listing rules of the Chinese mainland and Hong Kong. Directors, Supervisors and senior management members of the Bank attended the meetings and exchanged views with shareholders on their concerns. The Bank issued announcements on the resolutions of the above-mentioned Shareholders' General Meetings and legal opinions in a timely manner in accordance with the regulatory requirements. The resolution announcements were published on the websites of SSE, Hong Kong Stock Exchange and the Bank as well as on the media designated by the Bank for information disclosure on March 6, 2020 and May 28, 2020 respectively.

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.

The Board of Directors is responsible for ensuring that the Bank establishes and implements an adequate and effective internal control system, 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 comprehensive risk management, internal control and compliance management. 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 organizational structure, 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 departments of the Head Office 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 steadily advanced the construction of the internal control system, launched a three-year plan on improving the quality and efficiency of internal control and compliance management, and enhanced the quality of internal control management. It effectively improved the management of internal control at the primary level by actively pushing forward the transformation of managerial philosophy, optimizing the organizational structure of institutions at the primary level and strengthening the management of employees and outlets. The Bank improved the mechanism for rectifying issues circulated by regulatory authorities, and strengthened communication with regulatory authorities. It promoted the construction of internal control and compliance culture, deepened the concept of proactive compliance and the idea that compliance creates value throughout the Bank, so as to establish a managerial culture of internal control and compliance where the senior management set the example and everyone performs his duty.

Internal Audit

The Bank implements an internal audit system and adopts an independent and relatively vertical three-tier audit structure consisting of the Audit Office at the Head Office, regional audit offices and audit departments at tier-1 branches 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 notifies 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 organizes and carries out audit activities in accordance with the Guidelines on Internal Audit of Commercial Banks and the audit charter 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, internal audit concentrated on aspects such as perfecting corporate governance, improving operation management, enhancing internal control and risk management, upheld to be problem-oriented and risk-oriented and focused on the key business lines and key risk areas. It conducted audit evaluation and provided suggestions for improvements in areas such as implementation of major policies, risk management, internal control, information technology, protection of consumer rights and interests, anti-money laundering and the economic responsibilities of relevant personnel, and continued to follow up and supervise the rectification of issues, 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.

Protection of Consumer Rights and Interests

The Bank attaches great importance to the protection of consumers' rights and interests and adheres to the people-centered development philosophy and the customer-centered development concept. The Bank integrates the philosophy of protecting consumers' rights and interests into all aspects of corporate governance and incorporates it into the construction of corporate culture, business development strategy and comprehensive risk management system. The Bank continues to raise the awareness of protecting consumers' rights and interests throughout the Bank, constantly improves our products and services, and systematically enhances the full-range customer experience of the Bank.

During the reporting period, the Bank further improved the working mechanism for the protection of consumers' rights and interests, and revamped the working framework on decision-making and the supervision of implementation, the review of consumers' rights and interests protection, the internal assessment of consumers' rights and interests protection, and information disclosure. The Bank consistently made its operations and services more procedure-based, carefully implemented the "prevention-first" working principle, strengthened customer complaint management, and enhanced the disclosure of product and service information. The Bank also solidly carried out various work for protection of consumer rights and interests during the pandemic. With these efforts, the Bank effectively protected the legitimate rights and interests of consumers. In order to effectively fulfill its social responsibilities, the Bank continued to carry out promotion and education of financial knowledge, and made full use of its strengths based on the large number of outlets with wide coverage, alongside its online and offline accesses. It continued to expand the audience base and influence through a number of promotional campaigns, such as carrying out the "3.15 Consumer Rights Protection Education and Publicity Week", "Protecting Your Pockets with Financial Knowledge" and "Journey for Financial Knowledge". The purposes were to help improve consumers' awareness of risk prevention and rights protection according to the law, and to promote a harmonious and stable financial consumption environment.

Profit and Dividends Distribution

The Bank reviewed and approved the profit distribution plan for 2019 at the 2019 Annual General Meeting held on May 28, 2020. On the basis of 86,978,562,200 ordinary shares of the Bank, the Bank distributed cash dividends of RMB2.102 (tax included) per ten shares, totaling approximately RMB18,283 million (tax included), to all the ordinary shareholders whose names appeared on the share register on the record date. The profit distribution scheme has been implemented completely.

The Bank did not declare or distribute interim dividends of 2020, nor did it convert any capital reserve to share capital.

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

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 RMB5.50 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 issue price of initial public offering 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, 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.

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 at the end of the reporting period, the Bank was the defendant or arbitration respondent in certain pending and material legal proceedings or arbitrations each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB6.501 billion. 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 needed to be disclosed except for the financial guarantee services within the business scope as approved by PBOC and CBIRC.

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

During the reporting period, there were 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.

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 fulfillment	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
		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 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

Accounting Firm's Engagement

As reviewed and approved at the 2019 Annual General Meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and the international accounting firms of the Bank for 2020, respectively.

Connected Transactions

During the reporting period, the Bank followed laws, regulations and regulatory requirements and established a sound management system for connected transactions. It improved the operating mechanism for connected transactions 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.

On March 25, 2020, the Bank held the Third Meeting of the Board of Directors in 2020 to review and approve the Proposal on the Caps of Related Party Transactions Forecast of Postal Savings Bank of China for 2020-2021, and published the Announcement on Ordinary Connected Transactions of Postal Savings Bank of China Co., Ltd. and Announcement on Continuing Connected Transactions and Amendments to the Annual Caps of 2020-2021 on the websites of SSE and the Hong Kong Stock Exchange. As of the end of the reporting period, ordinary connected transactions did not exceed the annual caps.

Connected Transactions with China Post Group and its Related Parties

Credit Type Connected Transactions

In 2020, the caps of ordinary credit type connected transactions between the Bank and China Post Group and its related parties shall be "no more than RMB18,000 million subject to the applicable regulatory requirements of the Bank". As of the end of the reporting period, the balance of credit to China Post Group and its related parties by the Bank is RMB4,271 million.

Non-credit Type Connected Transactions

As of the end of the reporting period, the implementation of the caps of ordinary non-credit type connected transactions between the Bank and China Post Group and its related parties is shown in the following table:

Type of Connected Transactions	Caps Forecast in 2020 (100 million RMB)	Implementation of the Caps of Connected Transactions as at June 30, 2020 (100 million RMB)
Agency sales of insurance products provided by the Bank to China Post Group and/or its associates	4	Amount of Connected Transactions is 2.47
Provision of agency sales of precious metal business by the Bank to China Post Group and/or its associates	5	Amount of Connected Transactions is 0.10
Leasing of certain properties and ancillary equipment of China Post Group and/or its associates by the Bank	13.72	Amount of Connected Transactions is 5.01
Sales of philatelic items and provision of mailing services by China Post Group and/or its associates to the Bank	4.87	Amount of Connected Transactions is 0.57
Sale of goods other than philatelic items by China Post Group and/or its associates to the Bank	10	Amount of Connected Transactions is 1.78
The provision of marketing for deposits and other businesses by China Post Group and/or its associates to the Bank	15	Amount of Connected Transactions is 1.96
The provision of labour services by China Post Group and/or its associates to the Bank	13	Amount of Connected Transactions is 3.67

Connected Transactions with China Shipbuilding Industry Corporation and its Related Parties

In 2020, the caps of ordinary credit type connected transactions between the Bank and China State Shipbuilding Corporation Limited[1] and its related parties shall be "no more than RMB20,000 million subject to the applicable regulatory requirements of the Bank". As of the end of the reporting period, the balance of credit to China State Shipbuilding Corporation Limited and its related parties by the Bank is RMB137 million.

Connected Transactions with China UnionPay Co., Ltd.

As of the end of the reporting period, the implementation of the caps of ordinary connected transactions between the Bank and China UnionPay Co., Ltd. is shown in the following table:

Type of Connected Transactions	Caps Forecast in 2020 (100 million RMB)	Implementation of the Caps of Connected Transactions as at June 30, 2020 (100 million RMB)
The clearing services between the Bank and China UnionPay Co., Ltd.- Fund paid by the Bank	35	Amount of Connected Transactions is 4.73
The clearing services between the Bank and China UnionPay Co., Ltd.- Fund received by the Bank	75	Amount of Connected Transactions is 19.24

For the related party transactions defined under domestic and overseas laws and regulations, and accounting standards, please refer to "Notes to the Financial Statements — 36 Relationship and Transactions with Related Parties".

Pledge of Assets

For details relating to the pledge of assets of the Bank, please refer to "Notes to the Financial Statements – 38.4 Collateral".

[1] Due to the implementation of joint restructuring between China Shipbuilding Industry Co., Ltd. and China Shipbuilding Industry Corporation alongside the new establishment of China State Shipbuilding Corporation Limited, China Shipbuilding Industry Co., Ltd. and China Shipbuilding Industry Corporation were jointly incorporated into China State Shipbuilding Corporation Limited. By taking into consideration of the above restructuring arrangement as well as the requirements regarding related parties and connected transactions management among commercial banks according to the Interim Measures on Equity Management of Commercial Banks, the Board of Directors of the Bank approved the caps of connected transactions for credit line for 2020-2021 (line of credit), including China State Shipbuilding Corporation Limited and its related parties.

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

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

Implementation of Share Incentive Plan and Employee Stock Ownership Scheme

During the reporting period, the Bank did not implement any share incentive plan or employee stock ownership scheme.

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct for securities transactions by Directors and Supervisors 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 and Supervisors of the Bank have confirmed that they have complied with such code of conduct during the reporting period.

Directors', Supervisors' and Chief Executives' Rights to Acquire Shares or Debentures

During the reporting period, none of the Directors, Supervisors or Chief Executives or their respective spouses or minor children were granted with rights or had exercised any such rights to acquire benefits by means of acquisition of shares or debentures of the Bank. Neither the Bank nor any of its subsidiaries was a party to any arrangement to enable the Directors, Supervisors and Chief Executives or their respective spouses or minor children to acquire such rights from any other body corporate.

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

As of the end of the reporting period, none of the Directors, Supervisors or Chief Executives of the Bank held any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which 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 (including interests and short positions which they were deemed to have, under provisions 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.

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

During the reporting period, neither the Bank nor any of its Directors, Supervisors, senior management members or controlling shareholders was investigated by competent authorities, subject to coercive measures imposed by judicial authorities or disciplinary authorities, transferred to judicial authorities for prosecution or held criminally liable, investigated, suffered administrative punishment, barred from the market or disqualified by the CSRC, subject to material administrative punishments imposed by the administrations of environmental protection, taxation, work safety or other administrative authorities, or publicly denounced 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

On December 10, 2019, the Bank completed the initial public offering of RMB ordinary shares on the main board of SSE. The joint underwriters exercised the over-allotment option in full on January 8, 2020. 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 billion of write-down undated capital bonds in the national interbank bond market. After deducting issuance expenses, the proceeds will be used to replenish the additional tier 1 capital in accordance with applicable laws and the approval of regulatory departments. In May 2020, the Bank reviewed and approved the Proposal Regarding the Issuance of Write-down Undated Capital Bonds by Postal Savings Bank of China in the 2019 Annual General Meeting, and proposed to issue write-down undated capital bonds with a total amount of no more than RMB60 billion (inclusive) or equivalent foreign currencies. For details of undated capital bond, please refer to "Discussion and Analysis – Capital Management".

For details of the above-mentioned matters, please refer to the announcements of the Bank published on the websites of SSE and Hong Kong Stock Exchange.

Warnings on Any Potential Loss in Net Profit From the Beginning of the Year to the End of the Next Reporting Period or Any Material Change as Compared with that in the Same Period of the Prior Year and the Reasons

Not applicable.

Interim Review

The 2020 interim financial report prepared by the Bank in accordance with the Chinese Accounting Standards and IFRSs was reviewed by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with the PRC and International Standards on Review Engagements, respectively.

This report of the Bank has been reviewed and approved by the Board of Directors of the Bank and its Audit Committee.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Postal Savings Bank of China Co., Ltd.
(a joint stock company incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim financial information set out on pages 143 to 313, which comprises the condensed consolidated interim statement of financial position of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at June 30, 2020 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

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

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, China
August 28, 2020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30 2020 (unaudited)	2019 (unaudited)
Interest income	3	**201,322**	190,297
Interest expense	3	**(78,368)**	(71,215)
Net interest income	3	**122,954**	119,082
Fee and commission income	4	**17,820**	16,700
Fee and commission expense	4	**(8,092)**	(7,361)
Net fee and commission income	4	**9,728**	9,339
Net trading gains	5	**1,771**	2,572
Net gains on investment securities	6	**10,107**	9,087
Net gains on derecognition of financial assets at amortized cost		**1**	28
Net other operating gains	7	**1,924**	1,596
Operating income		**146,485**	141,704
Operating expenses	8	**(76,664)**	(73,222)
Credit impairment losses	9	**(33,590)**	(27,693)
Impairment losses on other assets		**(4)**	(3)
Profit before income tax		**36,227**	40,786
Income tax expense	10	**(2,554)**	(3,364)
Net profit		**33,673**	37,422
Net profit attributable to:			
Shareholders of the Bank		**33,658**	37,381
Non-controlling interests		**15**	41

For the six-month period ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30	
		2020	2019
		(unaudited)	(unaudited)
Net profit		**33,673**	37,422
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in fair value of equity instrument investment measured at fair value through other comprehensive income		**314**	-
Subtotal		**314**	-
Items that may be reclassified subsequently to profit or loss			
Net losses on investments in financial assets at fair value through other comprehensive income		**(477)**	(479)
Subtotal		**(163)**	(479)
Total comprehensive income for the period		**33,510**	36,943
Total comprehensive income attributable to:			
Shareholders of the Bank		**33,495**	36,902
Non-controlling interests		**15**	41
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	11	**0.36**	0.43

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	**As at June 30, 2020 (unaudited)**	As at December 31, 2019 (audited)
Assets			
Cash and deposits with central bank	12	**1,129,845**	1,154,843
Deposits with banks and other financial institutions	13	**35,699**	28,373
Placements with banks and other financial institutions	14	**310,334**	269,597
Derivative financial assets	15	**3,772**	5,009
Financial assets held under resale agreements	16	**96,117**	147,394
Loans and advances to customers	17	**5,287,494**	4,808,062
Financial investments			
Financial assets at fair value through profit or loss	18.1	**423,148**	310,161
Financial assets at fair value through other comprehensive income-debt instruments	18.2	**317,954**	228,672
Financial assets at fair value through other comprehensive income-equity instruments	18.3	**4,916**	1,053
Financial assets at amortized cost	18.4	**3,214,398**	3,135,144
Property and equipment	20	**45,787**	46,490
Deferred tax assets	21	**51,566**	47,237
Other assets	22	**45,156**	34,671
Total assets		**10,966,186**	10,216,706
Liabilities			
Borrowings from central bank	24	**10,721**	-
Deposits from banks and other financial institutions	25	**69,914**	47,252
Placements from banks and other financial institutions	26	**49,825**	25,796
Derivative financial liabilities	15	**3,173**	5,065
Financial assets sold under repurchase agreements	27	**117,414**	98,658
Customer deposits	28	**9,866,583**	9,314,066
Debt securities issued	29	**123,123**	96,979
Other liabilities	30	**83,717**	84,011
Total liabilities		**10,324,470**	9,671,827

As at June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	As at June 30, 2020 (unaudited)	As at December 31, 2019 (audited)
Equity			
Share capital	31.1	**86,979**	86,203
Other equity instruments	31.2		
Preference shares		**47,869**	47,869
Perpetual bonds		**79,989**	-
Capital reserve	32	**100,906**	97,477
Other reserves	33	**154,724**	154,887
Retained earnings		**170,222**	157,431
Equity attributable to shareholders of the Bank		**640,689**	543,867
Non-controlling interests		**1,027**	1,012
Total equity		**641,716**	544,879
Total equity and liabilities		**10,966,186**	10,216,706

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

Approved and authorized for issue by the Board of Directors on August 28, 2020.

Zhang Jinliang	**Zhang Xuewen**
(On behalf of Board of Directors)	(On behalf of Board of Directors)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank										
			Other equity instruments			Other reserves						
	Note	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2020 (audited)		86,203	47,869	-	97,477	36,439	116,129	2,319	157,431	543,867	1,012	544,879
Profit for the period		-	-	-	-	-	-	-	33,658	33,658	15	33,673
Other comprehensive income	33.3	-	-	-	-	-	-	(163)	-	(163)	-	(163)
Total comprehensive income for the period		-	-	-	-	-	-	(163)	33,658	33,495	15	33,510
Capital contribution from shareholders	31.1	776	-	-	3,429	-	-	-	-	4,205	-	4,205
Issuance of perpetual bond	31.2	-	-	79,989	-	-	-	-	-	79,989	-	79,989
Dividends paid to ordinary shareholders	34	-	-	-	-	-	-	-	(18,283)	(18,283)	-	(18,283)
Dividends paid to preference shareholders	34	-	-	-	-	-	-	-	(2,584)	(2,584)	-	(2,584)
As at June 30, 2020 (unaudited)		86,979	47,869	79,989	100,906	36,439	116,129	2,156	170,222	640,689	1,027	641,716

For the six months ended June 30, 2020 (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 (audited)		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313
Profit for the period		–	–	–	–	–	–	37,381	37,381	41	37,422
Other comprehensive income	33.3	–	–	–	–	–	(479)	–	(479)	–	(479)
Total comprehensive income for the period		–	–	–	–	–	(479)	37,381	36,902	41	36,943
Dividends paid to ordinary shareholders	34	–	–	–	–	–	–	(15,696)	(15,696)	–	(15,696)
Dividends paid to preference shareholders	34	–	–	–	–	–	–	(2,501)	(2,501)	–	(2,501)
As at June 30, 2019 (unaudited)		81,031	47,869	74,648	30,371	103,959	3,114	152,117	493,109	950	494,059

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020 (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 (audited)		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	33.3	–	–	–	–	–	(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	31.1	5,172	–	22,829	–	–	–	–	28,001	–	28,001
Appropriation to surplus reserve	33.1	–	–	–	6,068	–	–	(6,068)	–	–	–
Appropriation to general reserve	33.2	–	–	–	–	12,170	–	(12,170)	–	–	–
Dividends paid to ordinary shareholders	34	–	–	–	–	–	–	(15,696)	(15,696)	–	(15,696)
Dividends paid to preference shareholders	34	–	–	–	–	–	–	(2,501)	(2,501)	–	(2,501)
As at December 31, 2019 (audited)		86,203	47,869	97,477	36,439	116,129	2,319	157,431	543,867	1,012	544,879

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Six-month period ended June 30	
	2020	2019
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**36,227**	40,786
Adjustments for:		
Amortization of intangible assets and other assets	**348**	356
Depreciation of property and equipment, investment properties and right-of-use assets	**3,542**	2,999
Impairment losses on assets	**33,594**	27,696
Interest income arising from financial investments	**(62,285)**	(62,842)
Interest expense arising from debt securities issued	**1,875**	1,541
Net gains on investment securities	**(10,108)**	(9,115)
Unrealized exchange gains	**(1,613)**	(511)
Net losses from disposal of property and equipment and other assets	**10**	–
Subtotal	**1,590**	910
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	**(10,436)**	28,651
Deposits with banks and other financial institutions	**(9,094)**	87,589
Placements with banks and other financial institutions	**(54,266)**	(8,654)
Financial assets at fair value through profit or loss	**(29,995)**	(16,222)
Financial assets held under resale agreements	**3,630**	(19,185)
Loans and advances to customers	**(513,709)**	(426,496)
Other operating assets	**(9,687)**	(11,172)
Subtotal	**(623,557)**	(365,489)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Six-month period ended June 30	
	2020	2019
	(unaudited)	(unaudited)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Borrowings from central bank	**10,721**	–
Deposits from banks and other financial institutions	**22,557**	(2,071)
Placements from banks and other financial institutions	**23,808**	(6,194)
Financial liabilities at fair value through profit or loss	**–**	(2,360)
Financial assets sold under repurchase agreements	**18,712**	37,331
Customer deposits	**551,915**	475,981
Other operating liabilities	**(3,988)**	(5,487)
Subtotal	**623,725**	497,200
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	**1,758**	132,621
Income tax paid	**(12,687)**	(19,350)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**(10,929)**	113,271
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**141,834**	125,868
Interest paid	**(75,525)**	(71,948)

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30 2020 (unaudited)	2019 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of financial investments		**405,978**	252,574
Cash received from income arising from financial investments		**68,870**	68,043
Cash paid for purchase of financial investments		**(664,420)**	(602,811)
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		**(2,038)**	(1,787)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		**96**	14
NET CASH USED IN INVESTING ACTIVITIES		**(191,514)**	(283,967)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from ordinary shareholders		**4,203**	–
Dividends paid		**(14,109)**	–
Interests paid on debt securities issued		**(1,275)**	(917)
Cash received from issuance of perpetual bonds		**80,000**	–
Cash received from issuance of debt securities		**27,185**	31,938
Cash paid for issuance of perpetual bonds		**(7)**	–
Cash paid for issuance of stocks		**(1)**	–
Cash paid for repayment of debt securities		**(1,641)**	(6,436)
Cash paid to repay principal and interest of lease liabilities		**(1,953)**	(1,148)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**92,402**	23,437
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,255**	150
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(108,786)**	(147,109)
Balance of cash and cash equivalents at the beginning of period		**280,348**	402,420
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	35	**171,562**	255,311

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020 (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 Co., Ltd. (“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 Regulatory Commission (“CBRC”), renamed as China Banking and Insurance Regulatory Commission (“CBIRC”) since 2018, 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 was 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 the Bank 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 of China, the CBRC agreed the Bank’s non-public offering of no more than 11,604 million shares to UBS, China Life Insurance, China Telecom, Canada Pension Fund Investment Corporation, Zhejiang Ant Small and Micro Financial Services Group, JPMorgan Bank China Investment Second Investment, Futun Management, International Finance Corporation, DBS Bank and Shenzhen Tencent Domain Calculator Network (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 in Note 31.

As at June 30, 2020, the Bank had 86,979 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.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

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 June 30, 2020, the Bank had a total of 36 tier-one branches and 322 tier-two branches across China.

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 28, 2020.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

This unaudited condensed consolidated interim financial statements for the six-month period ended June 30, 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting", and all applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2.2 Significant accounting policies

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

Except for those described below, the accounting policies and methods of computation used in preparing the condensed consolidated financial statements for the six-month period ended June 30, 2020 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2019. The condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

New and amended IFRSs effective by January 1, 2020 adopted by the Group

		Effective date
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

2 Basis of preparation and significant accounting policies (continued)

2.2 Significant accounting policies (continued)

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

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	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 Group's consolidated financial statements.

2.3 Use of estimates and assumptions

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

In the preparation of the condensed consolidated interim financial statements, the key sources of uncertainty derived from significant judgements and estimation made by the management while applying the Group's accounting policies are the same as these applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2019.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

3 Net interest income

	Six-month period ended June 30	
	2020	2019
Interest income		
Deposits with central bank	**8,592**	8,857
Deposits with banks and other financial institutions	**427**	1,527
Placements with banks and other financial institutions	**6,251**	6,442
Financial assets held under resale agreements	**1,434**	2,615
Loans and advances to customers	**122,333**	108,014
Including: Corporate loans and advances	**45,119**	43,075
Personal loans and advances	**77,214**	64,939
Financial investments		
Financial assets at fair value through other comprehensive income-debt instruments	**4,652**	3,547
Financial assets at amortized cost	**57,633**	59,295
Subtotal	**201,322**	190,297
Interest expense		
Borrowings from central bank	**(38)**	–
Deposits from banks and other financial institutions	**(408)**	(446)
Placements from banks and other financial institutions	**(556)**	(685)
Financial assets sold under repurchase agreements	**(847)**	(864)
Customer deposits	**(74,644)**	(67,679)
Debt securities issued	**(1,875)**	(1,541)
Subtotal	**(78,368)**	(71,215)
Net interest income	**122,954**	119,082
Included in interest income		
Interest income from listed investments	**46,322**	42,767
Interest income from unlisted investments	**15,963**	20,075

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

		Six-month period ended June 30	
	Note	**2020**	2019
Bank cards and POS		**6,954**	7,629
Agency service business	(1)	**4,392**	2,760
Settlement and clearing	(2)	**3,757**	3,546
Wealth management		**1,902**	2,077
Custody business		**412**	377
Others		**403**	311
Fee and commission income		**17,820**	16,700
Fee and commission expense	(3)	**(8,092)**	(7,361)
Net fee and commission income		**9,728**	9,339

(1) Fee income from agency service mainly refers to fee and commission income from various agency services, including bancassurance and distribution of fund products, government bonds underwriting, and collection and payment services.

(2) Fee income from settlement and clearing refers to income derived from settlement and clearing services provided to customers, including fee and commission derived from electronic payment services, corporate settlement services, and personal settlement services.

(3) Fee and commission expense is expense incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 36.3.1(1) for expenses paid by the Group to China Post Group.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

5 Net trading gains

	Six-month period ended June 30	
	2020	2019
Debt securities	**1,775**	2,640
Derivative financial instruments	**(4)**	(68)
Total	**1,771**	2,572

6 Net gains on investment securities

	Six-month period ended June 30	
	2020	2019
Net gains from financial assets at fair value through profit or loss	**9,513**	8,597
Net gains from financial assets at fair value through other comprehensive income	**594**	490
Total	**10,107**	9,087

7 Net other operating gains

	Six-month period ended June 30	
	2020	2019
Net gains on foreign exchanges	**1,394**	686
Government subsidies	**259**	374
Leasing income	**78**	78
Others	**193**	458
Total	**1,924**	1,596

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

8 Operating expenses

		Six-month period ended June 30	
	Note	**2020**	2019
Deposit agency fee and others	(1)	**40,691**	37,822
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	**22,631**	23,528
Depreciation and amortization		**3,890**	3,355
Taxes and surcharges	(3)	**1,128**	1,028
Other expenses	(4)	**8,324**	7,489
Total		**76,664**	73,222

(1) Deposit agency fee and others mainly are payments by the Group to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group (Note 36.3.1(1)).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

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

	Six-month period ended June 30	
	2020	2019
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	**16,524**	16,717
Housing funds	**1,683**	1,488
Social security contributions	**1,029**	1,159
Including: Medical insurance	**972**	1,053
Maternity insurance	**36**	76
Work injury insurance	**21**	30
Staff welfare	**739**	620
Labour union funds and employee education funds	**558**	597
Other	**11**	8
Subtotal	**20,544**	20,589
Defined contribution benefits		
Basic pensions	**1,327**	2,308
Annuity scheme	**748**	558
Unemployment insurance	**1**	64
Subtotal	**2,076**	2,930
Retirement benefits	**11**	9
Total	**22,631**	23,528

(3) Taxes and surcharges mainly include urban construction tax, educational surcharges, property tax, land use tax, vehicle and vessel use tax and stamp duty, etc.

(4) For the six-month period ended June 30, 2020, the rental expenses of short-term leases and low value asset leases of unrecognized right-of-use assets included in other expenses was RMB369 million (for the six-month period ended June 30, 2019: RMB743 million).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

9 Credit impairment losses

	Six-month period ended June 30	
	2020	2019
Deposits with banks and other financial institutions	**–**	(185)
Placements with banks and other financial institutions	**(95)**	134
Financial assets held under resale agreements	**(570)**	(439)
Loans and advances to customers	**33,760**	25,850
Financial investments		
Financial assets at fair value through other comprehensive income-debt instruments	**124**	97
Financial assets at amortized cost	**(945)**	521
Credit commitments	**998**	1,523
Other financial assets	**318**	192
Total	**33,590**	27,693

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Income tax expense

	Six-month period ended June 30	
	2020	2019
Current income tax	**6,829**	8,031
Deferred income tax (Note 21)	**(4,275)**	(4,667)
Total	**2,554**	3,364

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.

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

		Six-month period ended June 30	
	Note	**2020**	2019
Profit before income tax		**36,227**	40,786
Income tax expense calculated at the statutory tax rate of 25%		**9,063**	10,197
Tax effect of non-taxable income and tax reduction	(1)	**(6,627)**	(6,870)
Tax effect of items not deductible for tax purpose	(2)	**118**	37
Income tax expense		**2,554**	3,364

(1) The Group's interest income from central and local government bonds and income obtained by investors from the distribution of securities investment funds are exempted from corporate income tax in accordance with the tax law; and the interest income from Railway Bonds and micro loans to farmers enjoy reduction in corporate income tax. According to *the Notice of the Ministry of Finance and the State Administration of Taxation on corporate income tax policy of special bond interest income of Postal Savings Bank of China (CS [2015] No. 150)*, the interest income from special bonds issued by China Development Bank and Agricultural Development Bank of China can enjoy reduction in corporate income tax charge.

(2) Non-deductible expenses mainly include staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.

11 Basic and diluted earnings per share

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

	Six-month period ended June 30	
	2020	2019
Net profit attributable to shareholders of the Bank (in RMB millions)	**33,658**	37,381
Less: Net profit for the period attribute to preference shareholders of the Bank (in RMB millions)	**(2,584)**	(2,501)
Net profit attributable to ordinary shareholders of the Bank (in RMB millions)	**31,074**	34,880
Weighted average number of ordinary shares in issue (in millions)	**86,849**	81,031
Basic earnings per share (in RMB Yuan)	**0.36**	0.43

11.2 For the six-month period ended June 30, 2020 and June 30, 2019, as there were no potential dilutive ordinary shares, the diluted earnings per share were the same as the basic earnings per share.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

12 Cash and deposits with central bank

	Note	As at June 30, 2020	As at December 31, 2019
Cash on hand		**48,018**	43,922
Statutory reserve with central bank	(1)	**1,071,790**	1,059,215
Surplus reserve with central bank	(2)	**7,164**	46,589
Fiscal deposits with central bank		**2,873**	5,117
Total		**1,129,845**	1,154,843

(1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at June 30, 2020, the ratio for RMB deposits statutory reserve was 11.00% (December 31, 2019: 11.50%), whereas the ratio for foreign currency deposits was 5.00% (December 31, 2019: 5.00%).

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

13 Deposits with banks and other financial institutions

	As at June 30, 2020	As at December 31, 2019
Deposits with:		
Domestic banks	**32,436**	24,298
Other domestic financial institutions	**469**	171
Overseas banks	**2,843**	3,953
Gross amount	**35,748**	28,422
Allowance for impairment losses	**(49)**	(49)
Carrying amount	**35,699**	28,373

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

14 Placements with banks and other financial institutions

	As at June 30, 2020	As at December 31, 2019
Placements with:		
Domestic banks	**24,362**	22,478
Other domestic financial institutions	**287,536**	248,580
Overseas banks	**–**	198
Gross amount	**311,898**	271,256
Allowance for impairment losses	**(1,564)**	(1,659)
Carrying amount	**310,334**	269,597

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities

The Group primarily enters into derivative contracts of foreign exchange rate and interest rate, which are related to trading, asset and liability management, and customer driven transactions.

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as 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 June 30, 2020		
		Fair Value	
	Contractual/ Notional amounts	**Assets**	**Liabilities**
Exchange rate contracts	**623,058**	**2,463**	**(1,884)**
Interest rate contracts	**151,608**	**1,309**	**(1,289)**
Total	**774,666**	**3,772**	**(3,173)**

	As at December 31, 2019		
		Fair Value	
	Contractual/ Notional amounts	Assets	Liabilities
Exchange rate contracts	563,513	4,496	(4,598)
Interest rate contracts	155,917	513	(467)
Total	719,430	5,009	(5,065)

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities (continued)

Analyzed by credit risk-weighted amount for counterparty:

	As at June 30, 2020	As at December 31, 2019
Credit risk-weighted amount		
Exchange rate contracts	**4,500**	4,856
Interest rate contracts	**3**	5
Subtotal	**4,503**	4,861
Credit value adjustments	**2,972**	3,502
Total	**7,475**	8,363

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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

16 Financial assets held under resale agreements

	As at June 30, 2020	As at December 31, 2019
By collateral:		
Debt securities	**62,824**	117,981
Bills	**33,614**	30,304
Gross amount	**96,438**	148,285
Allowance for impairment losses	**(321)**	(891)
Carrying amount	**96,117**	147,394

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 38.4 Contingent liabilities and commitments – Collateral". As at June 30, 2020 and December 31, 2019, the Group did not have any netting arrangements or similar agreements with counterparties.

17 Loans and advances to customers

17.1 Loans and advances by types

	Notes	**As at June 30, 2020**	As at December 31, 2019
Loans and advances to customers			
– At amortized cost	(1)	**4,674,857**	4,320,547
– At fair value through other comprehensive income	(2)	**612,637**	487,515
Total		**5,287,494**	4,808,062

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.1 Loans and advances by types (continued)

(1) Loans and advances to customers at amortized cost

	As at June 30, 2020	As at December 31, 2019
Corporate loans and advances		
– Loans	**1,777,019**	1,562,622
– Discounted bills	**53,027**	173,261
Subtotal	**1,830,046**	1,735,883
Personal loans and advances		
Consumer loans	**2,203,261**	2,017,399
– Residential mortgage loans	**1,844,061**	1,700,049
– Other consumer loans	**359,200**	317,350
Personal micro loans	**709,268**	610,201
Credit cards overdrafts and others	**125,892**	123,188
Subtotal	**3,038,421**	2,750,788
Gross loans and advances to customers at amortized cost	**4,868,467**	4,486,671
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
– Stage 1	**(142,356)**	(114,698)
– Stage 2	**(9,867)**	(13,101)
– Stage 3	**(41,387)**	(38,325)
Net loans and advances to customers at amortized cost	**4,674,857**	4,320,547

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

17.1 Loans and advances by types (continued)

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

	As at June 30, 2020	As at December 31, 2019
Corporate loans and advances		
– Loans	**171,917**	177,942
– Discounted bills	**440,720**	309,573
Loans and advances to customers at fair value through other comprehensive income	**612,637**	487,515

17.2 Detailed information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation is set out in Note 41.3.4.

17.3 Loans and advances by allowance for impairment losses

	As at June 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers at amortized cost	**4,790,443**	**28,788**	**49,236**	**4,868,467**
Allowance for impairment losses of loans and advances to customers at amortized cost	**(142,356)**	**(9,867)**	**(41,387)**	**(193,610)**
Net loans and advances to customers at amortized cost	**4,648,087**	**18,921**	**7,849**	**4,674,857**
Gross loans and advances to customers at fair value through other comprehensive income	**612,573**	**54**	**10**	**612,637**
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	**(567)**	**(1)**	**(2)**	**(570)**

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

17 Loans and advances to customers (continued)

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

	As at December 31, 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments

18.1 Financial assets at fair value through profit or loss

	As at June 30, 2020	As at December 31, 2019
Financial assets at fair value through profit or loss		
Debt securities		
– Listed in Hong Kong	**428**	202
– Listed outside Hong Kong	**83,227**	63,281
Subtotal	**83,655**	63,483
Interbank certificates of deposits		
– Listed outside Hong Kong	**64,048**	60,991
– Unlisted	**17,375**	20,939
Subtotal	**81,423**	81,930
Asset-backed securities		
– Listed outside Hong Kong	**1,887**	4,937
Bond financing plans		
– Unlisted	**2,573**	–
Fund investments		
– Unlisted	**200,216**	115,783
Trust investment plans and asset management plans		
– Unlisted	**49,323**	42,287
Financial institution wealth management products		
– Unlisted	**2,821**	–
Equity instruments		
– Unlisted	**1,250**	1,741
Total	**423,148**	310,161

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

Analyzed by types of issuers:

	As at June 30, 2020	As at December 31, 2019
Financial assets at fair value through profit or loss		
Debt securities		
– Government	**2,321**	2,139
– Public institutions and quasi-government	**–**	176
– Financial institutions	**50,246**	43,583
– Corporates	**31,088**	17,585
Subtotal	**83,655**	63,483
Interbank certificates of deposits		
– Financial institutions	**81,423**	81,930
Asset-backed securities		
– Financial institutions	**1,887**	4,937
Bond financing plans		
– Corporates	**2,573**	–
Fund investments		
– Financial institutions	**200,216**	115,783
Trust investment plans and asset management plans		
– Financial institutions	**49,323**	42,287
Financial institution wealth management products		
– Financial institutions	**2,821**	–
Equity instruments		
– Financial institutions	**14**	14
– Corporates	**1,236**	1,727
Subtotal	**1,250**	1,741
Total	**423,148**	310,161

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

	As at June 30, 2020	As at December 31, 2019
Debt securities		
– Listed in Hong Kong	5,953	6,924
– Listed outside Hong Kong	303,851	221,527
– Unlisted	8,059	–
Subtotal	317,863	228,451
Asset-backed securities		
– Listed outside Hong Kong	91	221
Total	317,954	228,672

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

Analyzed by types of issuers:

	As at June 30, 2020	As at December 31, 2019
Debt securities		
– Government	65,233	60,711
– Financial institutions	186,471	128,614
– Corporates	66,159	39,126
Subtotal	317,863	228,451
Asset-backed securities		
– Financial institutions	91	221
Total	317,954	228,672

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

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

	As at June 30, 2020	As at December 31, 2019
Equity instruments		
– Unlisted	**4,916**	1,053
Total	**4,916**	1,053

Analyzed by types of issuers:

	As at June 30, 2020	As at December 31, 2019
Equity instruments		
– Financial institutions	**1,553**	1,053
– Corporates	**3,363**	–
Total	**4,916**	1,053

The Group designates part of non-trading equity investments as financial assets at fair value through other comprehensive income-equity instruments. During the six-month period ended June 30, 2020, the Group did not recognize dividend income for such equity investments (During the year 2019: RMB3.00 million). During the six-month period ended June 30, 2020 and the year 2019, the Group did not dispose any such equity investments.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets at amortized cost

	Note	As at June 30, 2020	As at December 31, 2019
Debt securities			
– Listed in Hong Kong		**37,277**	20,958
– Listed outside Hong Kong		**2,094,626**	2,063,667
– Unlisted	(1)	**810,602**	770,608
Subtotal		**2,942,505**	2,855,233
Interbank certificates of deposits			
– Listed outside Hong Kong		**140,125**	183,537
Asset-backed securities			
– Listed outside Hong Kong		**55,570**	43,869
– Unlisted		**22,043**	5,277
Subtotal		**77,613**	49,146
Other debt instruments			
– Unlisted	(2)	**78,233**	72,228
Gross amount		**3,238,476**	3,160,144
Allowance for impairment losses		**(24,078)**	(25,000)
Carrying amount		**3,214,398**	3,135,144

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial investments (continued)

18.4 Financial assets at amortized cost (continued)

(1) Unlisted 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. As at June 30, 2020, the carrying amount of these special financial bonds was RMB649,032 million (December 31, 2019: RMB666,425 million).

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

Analyzed by types of issuers:

	As at June 30, 2020	As at December 31, 2019
Debt securities		
– Government	**1,078,610**	998,949
– Financial institutions	**1,739,895**	1,740,770
– Corporates	**124,000**	115,514
Subtotal	**2,942,505**	2,855,233
Interbank certificates of deposits		
– Financial institutions	**140,125**	183,537
Asset-backed securities		
– Financial institutions	**77,613**	49,146
Other debt instruments		
– Financial institutions	**78,233**	70,819
– Corporates	**–**	1,409
Subtotal	**78,233**	72,228
Gross amount	**3,238,476**	3,160,144
Allowance for impairment losses	**(24,078)**	(25,000)
Carrying amount	**3,214,398**	3,135,144

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Investment in subsidiaries

The Bank

	As at June 30, 2020	As at December 31, 2019
Investment cost	**10,115**	10,115

Name of entities		Place of incorporation	Authorized/ paid-in capital	Nature of business	Percentage of equity interest	Proportion of voting rights	Year of incorporation
PSBC Consumer Finance Co., Ltd.	(1)	Guangzhou, Guangdong Province, PRC	RMB 3 billion	Consumer Finance	70.50%	70.50%	2015
PSBC Wealth Management Co., Ltd.	(2)	Beijing, PRC	RMB 8 billion	Wealth Management	100.00%	100.00%	2019

(1) 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 granting personal consumer loans; accepting 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 June 30, 2020, the Bank owns 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2019: 70.50%).

(2) On December 18, 2019, the Bank, according to the CBIRC's approval, established PSBC Wealth Management Co., Ltd. ("PSBC Wealth Management"), wholly-owned by the Bank. The business scope of the company are: providing unspecified general public with wealth management products, and carrying out investment and management of properties entrusted by investors; issuing non-public wealth management products to eligible investors, and carrying out investment and management of properties entrusted by investors; financial advising and consulting services; and other businesses as approved by CBIRC.

As at June 30, 2020, the Bank owns 100.00% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2019: 100.00%).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2020	48,191	10,493	1,243	4,597	11,765	76,289
Add: Additions	77	116	24	69	1,178	1,464
Transfer-in from construction in progress	1,062	18	–	13	(1,093)	–
Less: Deductions	–	(191)	(28)	(85)	(432)	(736)
As at June 30, 2020	49,330	10,436	1,239	4,594	11,418	77,017
Accumulated depreciation						
As at January 1, 2020	(16,393)	(8,914)	(1,112)	(3,380)	–	(29,799)
Add: Charge for the period	(1,215)	(333)	(14)	(150)	–	(1,712)
Less: Disposals	–	182	25	74	–	281
As at June 30, 2020	(17,608)	(9,065)	(1,101)	(3,456)	–	(31,230)
Carrying amount						
As at June 30, 2020	31,722	1,371	138	1,138	11,418	45,787
As at January 1, 2020	31,798	1,579	131	1,217	11,765	46,490

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 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

20 Property and equipment (continued)

Upon the Bank's establishment and restructuring, China Post Group injected certain property and equipment to the Bank as its capital contribution. Part of the properties were still in the process of renewing ownership certificates, with original book value amounted to RMB791 million as at June 30, 2020 (December 31, 2019: RMB1,032 million), with net book value amounted to RMB437 million as at June 30, 2020 (December 31, 2019: RMB468 million).

In addition, as at June 30, 2020, 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 RMB3,128 million (December 31, 2019: RMB3,560 million), with net book value of RMB2,738 million (December 31, 2019: RMB3,110 million).

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 June 30, 2020 and December 31, 2019, the Group has no property and equipment held under finance leases.

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

21 Deferred taxation

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

	As at June 30, 2020	As at December 31, 2019
Deferred tax assets	**51,566**	47,237

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

	Allowance for impairment losses	**Staff cost accrued but not paid**	**Fair value changes of financial assets**	**Provisions**	**Contract liabilities and others**	**Total**
January 1, 2020	**41,390**	**1,244**	**2,362**	**1,822**	**419**	**47,237**
Charge to profit or loss	**5,820**	**74**	**(1,593)**	**(91)**	**65**	**4,275**
Charge to other comprehensive income	**9**	**–**	**45**	**–**	**–**	**54**
June 30, 2020	**47,219**	**1,318**	**814**	**1,731**	**484**	**51,566**

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial assets	Provisions	Contract liabilities and others	Total
January 1, 2019	29,604	757	2,781	2,143	602	35,887
Charge 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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

21 Deferred taxation (continued)

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

	As at June 30, 2020		As at December 31, 2019	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/(liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/(liabilities)
Deferred tax assets				
Allowance for impairment losses	188,876	47,219	165,559	41,390
Provisions	6,924	1,731	7,288	1,822
Fair value changes of financial assets	5,536	1,384	11,824	2,956
Staff cost accrued but not paid	5,272	1,318	4,976	1,244
Contract liabilities and others	2,212	553	1,952	488
Total	208,820	52,205	191,599	47,900
Deferred tax liabilities				
Fair value changes of financial assets	(2,280)	(570)	(2,375)	(594)
Others	(276)	(69)	(276)	(69)
Total	(2,556)	(639)	(2,651)	(663)
Net	206,264	51,566	188,948	47,237

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

22 Other assets

	Note	**As at June 30, 2020**	As at December 31, 2019
Right-of-use assets	(1)	**11,746**	11,145
Accounts receivable and temporary payment		**8,414**	7,872
Other accounts receivable		**6,191**	2,595
Interest receivable		**4,002**	970
Receivable of fee and commission		**3,886**	1,980
Continuing involvement assets (Note 39.2)		**2,871**	2,372
Intangible assets	(2)	**2,200**	2,060
Prepaid expenses		**1,809**	1,619
Deferred expenses	(3)	**1,038**	1,205
Investment properties		**513**	544
Low-value consumables		**483**	565
Foreclosed assets		**253**	227
Others		**2,523**	2,180
Gross amount		**45,929**	35,334
Allowance for impairment losses		**(773)**	(663)
Net value		**45,156**	34,671

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

22 Other assets (continued)

(1) Right-of-use assets

	Properties	Land use rights	Total
Cost			
As at January 1, 2020	12,259	2,270	14,529
Additions	2,271	308	2,579
Deductions	(449)	–	(449)
As at June 30, 2020	14,081	2,578	16,659
Accumulated depreciation/amortization			
As at January 1, 2020	(2,799)	(585)	(3,384)
Additions	(1,768)	(30)	(1,798)
Deductions	269	–	269
As at June 30, 2020	(4,298)	(615)	(4,913)
Carrying value			
As at January 1, 2020	9,460	1,685	11,145
As at June 30, 2020	9,783	1,963	11,746

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

22 Other assets (continued)

(1) Right-of-use assets (continued)

	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
Additions	3,449	–	3,449
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)
Additions	(2,855)	(54)	(2,909)
Deductions	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.

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

23 Movements of allowance for impairment losses

23.1 The loss allowance recognized in the six-month period ended June 30, 2020 and the year 2019 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;

Changes in ECL due to transfer of financial assets between stages;

Allowance for new financial instruments recognized;

Remeasurement includes the impact of changes in model assumptions, updates of model parameters, changes in probability of default and loss given default; changes in ECL due to unwinding of discount over time; changes in foreign exchange translations for assets denominated in foreign currencies and other movements; and

The reversal of allowances caused by derecognized or settled financial assets and write-offs.

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23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

(a) Corporate loans and advances to customers at amortized cost

	Six-month period ended June 30, 2020			
Corporate loans and advances to customers at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	67,105	10,170	15,302	92,577
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	190	(190)	–	–
Transfer to stage 2	(839)	855	(16)	–
Transfer to stage 3	(2,053)	(3,885)	5,938	–
Changes of ECL arising from transfer of stages	(172)	218	2,148	2,194
Financial assets derecognized or settled during the period	(6,331)	(1,088)	(4,927)	(12,346)
New financial assets originated or purchased	17,123	–	–	17,123
Remeasurement	5,485	120	(203)	5,402
Write-offs	–	–	(1,106)	(1,106)
Loss allowance as at June 30, 2020	80,508	6,200	17,136	103,844

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

(a) Corporate loans and advances to customers at amortized cost (continued)

	Year ended December 31, 2019			
Corporate loans and advances to customers at amortized cost	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 stages	(127)	208	5,636	5,717
Financial assets derecognized or settled 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

(b) Personal loans and advances to customers at amortized cost

Personal loans and advances to customers at amortized cost	Six-month period ended June 30, 2020 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	47,593	2,931	23,023	73,547
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	673	(534)	(139)	–
Transfer to stage 2	(862)	1,055	(193)	–
Transfer to stage 3	(852)	(1,322)	2,174	–
Changes of ECL arising from transfer of stage	(639)	2,348	5,459	7,168
Financial assets derecognized or settled during the period	(7,482)	(486)	(1,640)	(9,608)
New financial assets originated or purchased	17,768	–	–	17,768
Remeasurement	5,649	(325)	561	5,885
Write-offs	–	–	(4,994)	(4,994)
Loss allowance as at June 30, 2020	61,848	3,667	24,251	89,766

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23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

(b) Personal loans and advances to customers at amortized cost (continued)

	Year ended December 31, 2019			
Personal loans and advances to customers at amortized cost	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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23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

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

Loans and advances to customers at fair value through other comprehensive income	Six-month period ended June 30, 2020 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	646	44	40	730
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	–	–	–
Financial assets derecognized or settled during the period	(438)	(43)	(38)	(519)
New financial assets originated or purchased	359	–	–	359
Remeasurement	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at June 30, 2020	567	1	2	570

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (1) The following tables explain the changes in the loss allowance of loans and advances to customers between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (2) The following tables explain the changes in the loss allowance of financial assets held under resale agreements between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial assets held under resale agreements. The reasons for the changes in the provision for impairment and the total book amount are new sources or purchases, remeasurement and derecognition or settlement.

	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
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	–	–	–	–
Unwinding of discount	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	451	440	–	891

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23 Movements of allowance for impairment losses (continued)

23.2 (3) The following tables explain the changes in the loss allowance of financial assets at amortized cost between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial investments at amortized cost. The reasons for the changes in the provision for impairment and the total book amount are new sources or purchases, remeasurement, derecognition or settlement and unwinding of discount.

	Year ended December 31, 2019			
Financial investments 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 or settled during the period	(1,001)	(906)	–	(1,907)
New financial assets originated or purchased	1,676	–	–	1,676
Remeasurement	(174)	(184)	755	397
Unwinding of discount	–	–	269	269
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	2,616	9,486	12,898	25,000

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.2 (4) The following tables explain the changes in the loss allowance of financial assets at fair value through other comprehensive income-debt instruments between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial investments at fair value through other comprehensive income-debt instruments. The reasons for the changes in the provision for impairment and the total book amount are new sources or purchases, remeasurement and derecognition or settlement.

	Year ended December 31, 2019			
Financial investments at fair value through other comprehensive income-debt instruments	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
Unwinding of discount	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	382	13	–	395

(5) As at June 30, 2020 and December 31, 2019, there was no transfer between stages for the Group's deposits and placements with banks and other financial institutions. The reasons for the changes in the provision for impairment and the total book amount are new sources or purchases, remeasurement and derecognition or settlement.

(6) As of June 30, 2020 and December 31, 2019, changes in the provision for impairment of other assets is not significant.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (1) The following tables illustrate the changes in the gross carrying amount of loans and advances to customers to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

(a) Corporate loans and advances to customers at amortized cost

	Six-month period ended June 30, 2020			
Corporate loans and advances to customers at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2020	1,691,515	27,824	16,544	1,735,883
Transfers:				
Transfer to stage 1	404	(404)	–	–
Transfer to stage 2	(5,792)	5,813	(21)	–
Transfer to stage 3	(2,997)	(6,714)	9,711	–
Financial assets derecognized or settled during the period	(566,363)	(9,183)	(5,965)	(581,511)
New financial assets originated or purchased	676,780	–	–	676,780
Write-offs	–	–	(1,106)	(1,106)
Gross carrying amount as at June 30, 2020	1,793,547	17,336	19,163	1,830,046

	Year ended December 31, 2019			
Corporate loans and advances to customers 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	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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (1) The following tables illustrate the changes in the gross carrying amount of loans and advances to customers to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

(b) Personal loans and advances to customers at amortized cost

	Six-month period ended June 30, 2020			
Personal loans and advances to customers at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2020	**2,713,869**	**9,587**	**27,332**	**2,750,788**
Transfers:				
Transfer to stage 1	**1,534**	**(1,405)**	**(129)**	**–**
Transfer to stage 2	**(8,541)**	**8,883**	**(342)**	**–**
Transfer to stage 3	**(8,391)**	**(3,122)**	**11,513**	**–**
Financial assets derecognized or settled during the period	**(502,197)**	**(2,491)**	**(3,307)**	**(507,995)**
New financial assets originated or purchased	**800,622**	**–**	**–**	**800,622**
Write-offs	**–**	**–**	**(4,994)**	**(4,994)**
Gross carrying amount as at June 30, 2020	**2,996,896**	**11,452**	**30,073**	**3,038,421**

	Year ended December 31, 2019			
Personal loans and advances to customers 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	2,286,422	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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23 Movements of allowance for impairment losses (continued)

23.3 (1) The following tables illustrate the changes in the gross carrying amount of loans and advances to customers to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019 (continued):

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

Loans and advances to customers at fair value through other comprehensive income	Six-month period ended June 30, 2020 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Gross carrying amount as at January 1, 2020	**483,981**	**3,336**	**198**	**487,515**
Transfers:				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(3)**	**3**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(349,380)**	**(3,285)**	**(188)**	**(352,853)**
New financial assets originated or purchased	**477,975**	**–**	**–**	**477,975**
Write-offs	**–**	**–**	**–**	**–**
Gross carrying amount as at June 30, 2020	**612,573**	**54**	**10**	**612,637**

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (2) The following tables illustrate the changes in the gross carrying amount of financial assets held under resale agreements to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial assets held under resale agreements. The reasons for the changes in the gross carrying amount are new sources or purchases and derecognition or settlement.

	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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23 Movements of allowance for impairment losses (continued)

23.3 (3) The following tables illustrate the changes in the gross carrying amount of financial assets at amortized cost to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial investments at amortized cost. The reasons for the changes in the gross carrying amount are new sources or purchases and derecognition or settlement.

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial investments at amortized cost	12-month ECL	Lifetime ECL	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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Movements of allowance for impairment losses (continued)

23.3 (4) The following tables illustrate the changes in the gross carrying amount of financial assets at fair value through other comprehensive income-debt instruments to explain the changes in the loss allowance between the beginning and the end of the six-month period ended June 30, 2020 and the year 2019:

As at June 30, 2020, there was no transfer between stages for the Group's financial investments at fair value through other comprehensive income-debt instruments. The reasons for the changes in the gross carrying amount are new sources or purchases and derecognition or settlement.

	Year ended December 31, 2019			
Financial investments at fair value through other comprehensive income-debt instruments	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

(5) As at June 30, 2020 and December 31, 2019, there was no transfer between stages for the Group's deposits and placements with banks and other financial institutions. The reasons for the changes in the gross carrying amount are new sources or purchases and derecognition or settlement.

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24 Borrowings from central bank

	As at June 30, 2020	As at December 31, 2019
Borrowings from central bank	**10,721**	–

As at June 30, 2020, borrowings from central bank include borrowings for poverty alleviation and Coronavirus epidemic prevention and control by the Bank from PBOC.

25 Deposits from banks and other financial institutions

	As at June 30, 2020	As at December 31, 2019
Deposits from:		
Domestic banks	**17,922**	20,137
Other domestic financial institutions	**51,992**	27,115
Total	**69,914**	47,252

26 Placements from banks and other financial institutions

	As at June 30, 2020	As at December 31, 2019
Placements from:		
Domestic banks	**41,080**	22,611
Overseas banks	**8,745**	3,185
Total	**49,825**	25,796

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27 Financial assets sold under repurchase agreements

	As at June 30, 2020	As at December 31, 2019
Analyzed by type of collateral:		
Debt securities	**89,766**	64,010
Bills	**27,648**	34,648
Total	**117,414**	98,658

The collateral pledged under repurchase agreement is disclosed in "Note 38.4 Contingent liabilities and commitments – Collateral".

28 Customer deposits

	As at June 30, 2020	As at December 31, 2019
Demand deposits		
Corporates	**868,686**	771,034
Personal	**2,621,805**	2,701,369
Subtotal	**3,490,491**	3,472,403
Time deposits		
Corporates	**389,688**	357,931
Personal	**5,982,586**	5,481,019
Subtotal	**6,372,274**	5,838,950
Structured deposits		
Personal	**673**	926
Other deposits	**3,145**	1,787
Total	**9,866,583**	9,314,066

As at June 30, 2020, customer deposits received by the Group included pledged deposits of RMB38,931 million (December 31, 2019: RMB34,908 million).

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29 Debt securities issued

	Note	As at June 30, 2020	As at December 31, 2019
Debt securities issued	(1)	**76,762**	76,158
Interbank certificates of deposits	(2)	**46,361**	20,821
Total		**123,123**	96,979

(1)

	Note	As at June 30, 2020	As at December 31, 2019
10-year tier-2 capital bonds at a fixed interest rate	(i)	**25,891**	25,330
10-year tier-2 capital bonds at a fixed interest rate	(ii)	**30,644**	30,151
10-year tier-2 capital bonds at a fixed interest rate	(iii)	**20,227**	20,677
Total		**76,762**	76,158

(i) In September 2015, upon the approval from CBRC 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 CBRC 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.

(iii) In March 2017, upon the approval from CBRC and PBOC, the Group issued RMB20 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 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 coupon rate would remain at 4.50% from March 2022 onward.

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

29 Debt securities issued (continued)

(2) During the six-month period ended June 30, 2020, the Group issued interbank certificates of deposit with the total carrying amount of RMB27.43 billion (2019: RMB53.37 billion) ranging from one month to one year, with interest rates ranging from 1.33% to 3.05% (2019: ranging from 2.40% to 3.05%). As at June 30, 2020, the unmatured interbank certificates of deposit amounted RMB46.61 billion (As at December 31, 2019: RMB21.21 billion).

30 Other liabilities

	Note	**As at June 30, 2020**	As at December 31, 2019
Employee benefits payable	(1)	**13,724**	14,046
Payables for agency services		**12,615**	17,594
Provisions	(2)	**10,292**	9,658
Lease liabilities	(3)	**8,701**	8,396
Dividends payable		**6,740**	–
Settlement and clearing payables		**6,701**	1,961
Tax payable		**6,529**	12,931
Continuing involved liabilities (Note 39.2)		**2,871**	2,372
Dormant deposit payables		**2,280**	2,150
Payables to China Post Group and other related parties (Note 36.3.1(9))		**1,801**	2,231
Contract liabilities		**1,723**	1,462
Payable for construction cost		**941**	1,079
Exchange transaction payables		**893**	915
Others		**7,906**	9,216
Total		**83,717**	84,011

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Employee benefits payable

	Note	As at June 30, 2020	As at December 31, 2019
Short-term employee benefits	(i)	**11,989**	12,107
Defined contribution benefits	(ii)	**1,111**	1,309
Supplementary retirement benefits and early retirement benefits	(iii)	**624**	630
Total		**13,724**	14,046

(i) Short-term employee benefits

	Six-month period ended June 30, 2020			
	Balance at the beginning of the period	**Increase in current period**	**Decrease in current period**	**Balance at the end of the period**
Wages and salaries, bonus, allowance and subsidies	**10,459**	**16,524**	**(16,937)**	**10,046**
Staff welfare	**–**	**739**	**(739)**	**–**
Social security contributions	**91**	**1,029**	**(943)**	**177**
Including: Medical insurance	**88**	**972**	**(889)**	**171**
Maternity insurance	**2**	**36**	**(35)**	**3**
Work injury insurance	**1**	**21**	**(19)**	**3**
Housing funds	**14**	**1,683**	**(1,657)**	**40**
Labour union funds and employee education funds	**1,543**	**558**	**(375)**	**1,726**
Others	**–**	**11**	**(11)**	**–**
Total	**12,107**	**20,544**	**(20,662)**	**11,989**

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	Year ended December 31, 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	35,140	(31,767)	10,459
Staff welfare	–	2,083	(2,083)	–
Social security contributions	68	2,612	(2,589)	91
Including: Medical insurance	65	2,396	(2,373)	88
Maternity insurance	2	155	(155)	2
Work injury insurance	1	61	(61)	1
Housing funds	15	3,183	(3,184)	14
Labour union funds and employee education funds	1,276	1,301	(1,034)	1,543
Others	–	28	(28)	–
Total	8,445	44,347	(40,685)	12,107

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(1) Employee benefits payable (continued)

(ii) Defined contribution benefits

	Six-month period ended June 30, 2020			
	Balance at the beginning of the period	Increase in current period	Decrease in current period	Balance at the end of the period
Basic pensions	**95**	**1,327**	**(1,169)**	**253**
Unemployment insurance	**4**	**36**	**(30)**	**10**
Annuity scheme	**1,210**	**748**	**(1,110)**	**848**
Total	**1,309**	**2,111**	**(2,309)**	**1,111**

	Year ended December 31, 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	4,441	(4,458)	95
Unemployment insurance	4	112	(112)	4
Annuity scheme	606	1,121	(517)	1,210
Total	722	5,674	(5,087)	1,309

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30 Other liabilities (continued)

(1) Employee benefits payable (continued)

(iii) Supplementary retirement benefits and early retirement benefits

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

	As at June 30, 2020	As at December 31, 2019
Balance at the beginning of period/year	**630**	531
Interest expenses	**11**	18
Gain or loss from actuarial calculation	**–**	110
– Charge to profit or losses	**–**	–
– Charge to other comprehensive income	**–**	110
Benefits paid	**(17)**	(29)
Balance at the end of period/year	**624**	630

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

	As at June 30, 2020	As at December 31, 2019
Discount rate-retirement benefit plan	**3.50%**	3.50%
Discount rate-early retirement benefit plan	**2.50%**	2.75%
Annual growth rate of average medical expenses	**8.00%**	8.00%
Annual growth rates of retiree expenses	**3% and 0%**	3% and 0%
Annual growth rates of early-retiree expenses	**6%, 3% and 0%**	6%, 3% and 0%
Normal retirement age		
– Male	**60**	60
– Female	**55, 50**	55, 50

As at June 30, 2020 and December 31, 2019, assumption for future mortality rate is based on the China Life Insurance Mortality Table (2010-2013), which is the statistical information publicly available in China.

As at June 30, 2020 and December 31, 2019, the Group has no default on the staff costs payable above.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Provisions

	Note	January 1, 2020	Net provisions	June 30, 2020
Guarantee and commitments	(i)	**2,260**	**998**	**3,258**
Litigation and others	(ii)	**7,398**	**(364)**	**7,034**
Total		**9,658**	**634**	**10,292**

	Note	January 1, 2019	Net provisions	December 31, 2019
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

(i) Guarantee and commitments

	Six-month period ended June 30, 2020			
Guarantee and commitments	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Provisions as at January 1, 2020	**2,254**	**6**	**–**	**2,260**
Movements with profit and loss ("P&L") impact				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**–**	**–**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Changes of ECL arising from transfer of stages	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(281)**	**(6)**	**–**	**(287)**
New financial assets originated or purchased	**765**	**–**	**–**	**765**
Remeasurement	**520**	**–**	**–**	**520**
Provisions as at June 30, 2020	**3,258**	**–**	**–**	**3,258**

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

30 Other liabilities (continued)

(2) Provisions (continued)

(i) Guarantee and commitments (continued)

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Guarantee and commitments	12-month ECL	Lifetime ECL	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

(ii) As at June 30, 2020 and December 31, 2019, the Group established accruals according to the best estimation for a variety of risk events and outflow of economic benefits.

(3) Lease liabilities

	As at June 30, 2020	As at December 31, 2019
Net present value of lease payments	**8,534**	8,060
Interest adjustments	**167**	336
Total	**8,701**	8,396

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments

31.1 Share capital

	As at June 30 2020	
	Quantity (million shares)	**Face value**
Domestically listed (A shares)	**67,123**	**67,123**
Listed overseas (H shares)	**19,856**	**19,856**
Total	**86,979**	**86,979**

	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
Total	86,203	86,203

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 CBIRC through *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 through *the 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.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.1 Share capital (continued)

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.

As at June 30, 2020, the total number of ordinary shares of the Bank was 86,979 million of which 63,244 million shares were restricted for sales and 23,735 million shares were unrestricted shares. The sales restriction periods will last for one or three years (As at December 31, 2019, the total number of restricted shares of the Bank was 63,373 million).

31.2 Other equity instruments

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

Outstanding financial instruments	Issue date	Classification	Initial dividend rate	Issue price	Total amount 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	No
Less: Issuance fee							(120)			
Carrying amount							47,869			

On September 27, 2017, the Group completed the issuance of USD7,250 million offshore preferred shares at par value, with an amount equivalent to RMB47,989 million. On June 30, 2020, the balance of preferred shares issued by the Group less the direct issuance expenses was RMB47,869 million (December 31, 2019: RMB47,869 million).

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

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

The key terms are as below:

(a) Dividend

Fixed rate is applied for a certain period after the issuance of the offshore preference shares. Dividend rate 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.

(b) Conditions to distribution of dividends

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

(c) 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.

(d) Mandatory conversion trigger events

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

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

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

(d) Mandatory conversion trigger events (continued)

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

(e) 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.

(f) 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 the 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 the USD Preference Shares is five years after the issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, offshore preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(2) Changes in preference shares outstanding

There was no changes in quantity and carrying amount for the preference shares for the six-month period ended June 30, 2020 (For the year ended 2019: nil).

(3) Perpetual bond outstanding as at the end of the period

Outstanding financial instruments	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Currency	Amount (million)	Maturity date	Redemption/ impairment
Undated Additional Tier 1 Capital Bonds	March 16, 2020	Equity instrument	3.69%	100	800	RMB	80,000	No Maturity Date	No
Less: distribution fee							(11)		
Carrying amount							79,989		

The key terms are as below:

(a) Conditional Redemption Rights

From the fifth anniversary since the Issuance of the Undated Additional Tier 1 Capital Bonds (or "the Bonds"), the Bank may redeem whole or part of the Bonds on each Distribution Payment Date (including the fifth Distribution Payment Date since the Issuance). If, after the Issuance, the Bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Bank may redeem the whole but not part of the Bonds.

The exercise of the Bank's Redemption Right shall be subject to the consent of the CBIRC and the satisfaction of the following preconditions: (1) the Bank shall use capital instruments of the same or better quality to replace the instruments to be redeemed, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (2) or the capital position of the Bank after the Redemption Right is exercised will remain well above the regulatory capital requirements stipulated by the CBIRC.

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(3) Perpetual bond outstanding as at the end of the period (continued)

(b) Subordination

The claims in respect of the Bonds, in the event of a winding-up of the Bank, will be subordinated to the claims of depositors, general creditors, and subordinated indebtedness that ranks senior to the Bonds; will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the Bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable in subordination, such relevant laws and regulations shall prevail.

(c) Write-down/write-off Clauses

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write down/write off in whole or in part, without the need for the consent of the holders of the Bonds, the principal amount of the Bonds. The amount of the write-down/write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate principal amount of all additional tier 1 capital instruments with the identical Trigger Event. A Non-Viability Trigger Event refers to the earlier of the following events: (1) the CBIRC having decided that the Bank would become non-viable without a write-down/write-off; (2) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable. The write-down/write-off will not be restored.

The Trigger Event Occurrence Date refers to the date on which the CBIRC or the relevant authority has decided a Trigger Event occurs, and has informed the Bank together with a public announcement of such Trigger Event. Within two business days since the Trigger Event Occurrence Date, the Bank shall make a public announcement and give notice to the holders of the Bonds on the amount, the calculation method thereof, together with the implementation date and procedures, of such write-down/write-off.

(d) Distribution Rate

The Distribution Rate of the Bonds will be adjusted at defined intervals, with a Distribution Rate Adjustment Period every 5 years since the Payment Settlement Date. In any Distribution Rate Adjusted Period, the Distribution Payments on the Bonds will be made at a prescribed fixed Distribution Rate. The Distribution Rate at the time of issuance will be determined by book running and centralized allocation. The distribution rate is determined by a benchmark rate plus a fixed spread.

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(3) Perpetual bond outstanding as at the end of the period (continued)

(e) Distribution Payment

The Bank shall have the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation shall not constitute an Event of Default. When exercising such right, the Bank will take into full consideration the interest of the holders of the Bonds. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds, no matter in whole or in part, will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shares. Any Cancellation of any distributions on the Bonds, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Bank shall give notice to the investors on such Cancellation in a timely manner.

In the case of cancelling any distributions on the Bonds, no matter in whole or in part, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the distribution payments in whole to the holders of the Bonds. The Dividend Stopper on ordinary shares will not compromise the Bank's discretion to cancel distributions, and will not impede the Bank from replenishing its capital.

Distributions on the Bonds may only be paid out of distributable items, and will not be affected by the rating of the Bank, nor will be reset based on any change to such rating. The distributions on the Bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the holders of the Bonds in the applicable period will not accumulate or compound to the subsequent distribution period thereafter. The Bonds do not have any step-up mechanism or any other incentive to redeem.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Share capital and other equity instruments (continued)

31.2 Other equity instruments (continued)

(4) Changes in perpetual bond outstanding

	January 1, 2020		Increase in current period		June 30, 2020	
Outstanding financial instruments	Quantity (million)	Carrying Amount (RMB million)	Quantity (million)	Carrying Amount (RMB million)	Quantity (million)	Carrying Amount (RMB million)
Undated Additional Tier 1 Capital Bonds	–	–	800	79,989	800	79,989

(5) Equity attributable to the holders of equity instruments

Items	As at June 30, 2020	As at December 31, 2019
1. Total equity attributable to equity holders of the Bank	**640,689**	543,867
(1) Equity attributable to ordinary equity holders of the Bank	**512,831**	495,998
(2) Equity attributable to other equity holders of the Bank	**127,858**	47,869
Including: Net profit	**2,584**	2,501
Dividends paid	**2,584**	2,501
2. Total equity attributable to non-controlling interests	**1,027**	1,012
(1) Equity attributable to non-controlling interests of ordinary shares	**1,027**	1,012
(2) Equity attributable to non-controlling interests of preference shares	**–**	–

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Capital reserve

	Note	As at June 30, 2020	As at December 31, 2019
Net asset revaluation appreciation from the Bank's joint stock restructuring		**3,448**	3,448
Share premium arising 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 equity interest in a subsidiary	(1)	**(11)**	(11)
Share premium arising from the Bank's initial public offering of A shares (net of listing expenses)	(2)	**26,258**	22,829
Total		**100,906**	97,477

(1) The Bank increased its share capital injection by RMB1.50 billion to PSBC Consumer Finance on January 18, 2018, after the capital injection, the Bank's ownership in it increased from 61.50% to 70.50%. Difference between the newly added long-term investment and net assets of the subsidiary calculated according to the newly increased shareholding ratio will offset the capital reserve by RMB11 million.

(2) 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. 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 final net proceeds raised from the initial public offering and the over-allotment were RMB32,206 million, of which the share capital was RMB5,948 million and the capital reserve was RMB26,258 million.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Other reserves

33.1 Surplus reserve

	Six-month period ended June 30, 2020	Year ended December 31, 2019
At the beginning of period/year	**36,439**	30,371
Appropriations in current period/year	**–**	6,068
At the end of period/year	**36,439**	36,439

In accordance with *the Company Law of the People's Republic of China* (中華人民共和國公司法), the Bank's Articles of Association and the resolutions of its Board of Directors, the Bank shall appropriate 10% of its net profit for the statutory financial report year to the statutory surplus reserve, and can cease appropriation when the statutory surplus reserve accumulates to more than 50% of the registered capital.

33.2 General risk reserve

	Six-month period ended June 30, 2020	Year ended December 31, 2019
At the beginning of period/year	**116,129**	103,959
Appropriations in current period/year	**–**	12,170
At the end of period/year	**116,129**	116,129

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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Other reserves (continued)

33.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
December 31, 2019	**3,177**	**(858)**	**2,319**
Fair value changes on equity instrument at fair value through other comprehensive income	**419**	**(105)**	**314**
Gains arising from changes in fair value of financial assets at fair value through other comprehensive income	**(600)**	**150**	**(450)**
Changes in impairment provision of financial assets at fair value through other comprehensive income	**(36)**	**9**	**(27)**
June 30, 2020	**2,960**	**(804)**	**2,156**

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Other reserves (continued)

33.3 Other comprehensive income (continued)

	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 financial assets 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

34 Dividends distribution

Upon the approval of the annual shareholders' meeting in May, 2020, the Bank distributed RMB18,283 million (tax included) of cash dividends for the year ended December 31, 2019 to all the ordinary shareholders whose names appeared on the register of members with RMB2.102 per ten shares (tax included). The Bank distributed the A shares cash dividends in June, 2020 and the H shares cash dividends in July 2020 respectively.

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

In the Board of Directors' Meeting held in May 2020, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first reset date which is determined in accordance with the terms and conditions of the offshore preference shares and equals to 4.50% (after tax), the dividends payments amounted to RMB2,584 million (including tax). The Bank will distribute the cash dividends in September 2020.

In the Board of Directors' Meeting held in May 2019, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first reset date which is determined in accordance with the terms and conditions of the offshore preference shares and equals to 4.50% (after tax), the dividends payments amounted to RMB2,501 million (including tax). The Bank distributed the cash dividends in September 2019.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

35 Cash and cash equivalents

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

	As at June 30, 2020	As at December 31, 2019
Cash	**48,018**	43,922
Surplus reserve with central bank	**7,163**	46,584
Deposits with banks and other financial institutions	**6,755**	8,526
Placements with banks and other financial institutions	**16,808**	30,458
Financial assets held under resale agreements	**92,818**	140,929
Short-term debt securities	**–**	9,929
Total	**171,562**	280,348

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties

36.1 Information of the parent company

(1) General information of the parent company

	Place of registration	Nature of business
China Post Group	Beijing, PRC	Domestic and international mail delivery business; postal remittance business; postal savings business; confidential communication business and volunteer communication business; stamp issuing business, etc.

China Post Group is controlled by the Ministry of Finance on behalf of the State Council.

(2) Parent company's registered capital and its changes

	As at December 31, 2019	Change in current period	As at June 30, 2020
China Post Group	137,600	–	**137,600**

(3) As at June 30, 2020, China Post Group directly held 65.18% of the equity shares and voting rights in the Bank (As at December 31, 2019: 64.95%). China Post Group held 0.01% of the equity shares and voting rights in the Bank through China Post Securities Co., Ltd. (As at December 31, 2019: 0.01%).

36 Relationship and transactions with related parties (continued)

36.2 Information of major related parties

Name of enterprise	Relationship with the Bank
Shanghai International Port (Group) Co., Ltd.	Substantial shareholder of the Bank
China Shipbuilding Industry Corporation	Substantial shareholder of the Bank
Provincial branches of China Post Group	Company under the common control of China Post Group
China Postal Express & Logistics Co., Ltd.	Company under the common control of China Post Group
China Post Life Insurance Co., Ltd.	Company under the common control of China Post Group
China Post Securities Co., Ltd.	Company under the common control of China Post Group
Zhejiang China Post Logistics Co., Ltd.	Company under the common control of China Post Group
Shenzhen Postal Express and Logistics Co., Ltd.	Company under the common control of China Post Group
Jiangsu Post and Telecommunication Printing Factory	Company under the common control of China Post Group
Shanghai Ule Network Technology Co., Ltd.	Company under the common control of China Post Group
China Post Technology Co., Ltd.	Company under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd.	An associate of China Post Group
CSIC (Tianjin) Offshore Wind Power Eng. & Tech. Co., Ltd.	Related party of the substantial shareholder of the Bank
CSIC Xi'an Dongyi Science Technology & Industry Group Co., Ltd.	Related party of the substantial shareholder of the Bank
CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.	Related party of the substantial 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
Zhejiang Ant Small and Micro Financial Service Group Co., Ltd.	Related party of the related natural persons of the Bank
Yunnan Lingyu Security Consulting Co., Ltd.	Related party of the related natural persons of the Bank
Anhui Ltech Information Technology Co., Ltd.	Related party of the related natural persons of the Bank

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 substantial shareholders of the Bank and other related legal persons triggered by related natural persons.

36 Relationship and transactions with related parties (continued)

36.3 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.

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises

(1) Agency banking services from China Post Group and its provincial branches

In addition to conducting commercial banking services at its owned business locations, the 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.

For RMB deposit-taking services, the basis is computed based on the principle of "Fixed Rate, Scaled Fees Based on Deposit Types (固定費率、分檔計費)", i.e. different deposit agency fee rates are applicable to savings deposits with different maturities. The formula of calculating the scaled fees is as follows:

Monthly deposit agency fee costs at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month multiplied by the number of days of deposit × the respective deposit agency fee rate of the relevant type of deposit/365) – aggregate cash (including that in transit) multiplied by the number of days at the relevant branch for the month× 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.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(1) Agency banking services from China Post Group and its provincial branches (continued)

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 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.

		Six-month period ended June 30	
	Note	**2020**	2019
Deposit agency fee and others	(i)	**40,691**	37,822
Fees for agency savings settlement		**4,039**	4,165
Fees for agency sales and other commissions		**3,047**	2,024
Total		**47,777**	44,011

(i) For the six-month period ended June 30, 2020, deposit agency fee cost amounted to RMB41.82 billion (For the six-month period ended June 30, 2019, RMB38.84 billion). The offsetting settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-1.13 billion (For the six-month period ended June 30, 2019, RMB-1.02 billion). According to the netting arrangement between the Bank and China Post Group, deposit agency fee costs and others are settled with an offsetting amount.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 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

(a) The Group and China Post Group and its related parties lease buildings, ancillary equipment and other properties from each other

As lessor

	Six-month period ended June 30	
	2020	2019
Buildings and others	**46**	38

As lessee

	Six-month period ended June 30	
	2020	2019
Buildings and others	**501**	456

(b) Right-of-use assets and lease liabilities recognized by accepting leases provided by China Post Group and its controlled enterprises

	As at June 30, 2020	As at December 31, 2019
Right-of-use assets	**734**	723
Lease liabilities	**726**	717

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(3) Other comprehensive services and transactions with China Post Group and its related parties

(a) Rendering other comprehensive services and selling general office materials to China Post Group and its related parties

	Note	Six-month period ended June 30 2020	2019
Agency sales of insurance products		**247**	126
General office materials sold		**30**	–
Custody business		**29**	18
Agency sales of fund products		**19**	13
Comprehensive services rendered	(i)	**11**	12
Total		**336**	169

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(3) Other comprehensive services and transactions with China Post Group and its related parties (continued)

(b) Receiving other comprehensive services and purchasing products from China Post Group and its related parties

	Note	Six-month period ended June 30 2020	 2019
Comprehensive services received	(i)	**377**	495
Marketing services received		**196**	181
Goods purchased		**195**	90
Supplementary employee medical insurance		**30**	15
Total		**798**	781

(i) Services received from China Post Group and its related parties include cash escort, equipment maintainence, advertisement, mailing and other services.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(4) Loans and letters of guarantee

	Note	**As at June 30, 2020**	As at December 31, 2019
Other related parties	(i)	**15**	11

(i) The Group granted loans and issued letters of guarantee are 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 June 30, 2020**	As at December 31, 2019
China Post Group and provincial branches		**15,873**	9,188
Other related parties	(i)	**4,047**	2,494
Total		**19,920**	11,682
Interest rates per annum		**0.30%-2.75%**	0.30%-2.94%

(i) Other related parties include China Postal Express & Logistics Co., Ltd. and its subsidiaries, Shanghai Ule Network Technology Co., Ltd. and China Post Technology Co., Ltd.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(6) Deposits from banks and other financial institutions

	Note	As at June 30, 2020	As at December 31, 2019
Other related parties	(i)	**1,186**	1,034

(i) Deposits from banks and other financial institutions are mainly taken from China Post Life Insurance Co., Ltd. and China Post Securities Co., Ltd.

(7) Financial investments

	As at June 30, 2020	As at December 31, 2019
Financial assets at fair value through profit or loss		
– China Post Group	**949**	–
– China Post & Capital Fund Management Co., Ltd.	**133**	250
Financial assets at amortized cost		
– China Post Group	**394**	399
Financial assets at fair value through other comprehensive income-debt instruments		
– China Post Group	**2,965**	1,727

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.1 Transactions with China Post Group, its controlled enterprises, joint ventures and associated enterprises (continued)

(8) *Other receivables*

	As at June 30, 2020	As at December 31, 2019
China Post Group and other related parties	**455**	371

(9) *Other payables*

	As at June 30, 2020	As at December 31, 2019
China Post Group and other related parties (Note 30)	**1,801**	2,231

(10) *Interest income, interest expense, fee and commission income, fee and commission expense and operating expenses*

	Six-month period ended June 30	
	2020	2019
Interest income	**64**	63
Fee and commission income	**19**	1
Interest expense	**104**	93
Fee and commission expense	**9**	–
Operating expenses	**2**	–

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.2 Transactions with substantial shareholders of the Bank and their related parties

Transactions	Note	As at June 30, 2020	As at December 31, 2019
Assets			
Loans and advances to customers	(1)	**100**	399
Financial assets at fair value through other comprehensive income-debt instruments	(2)	**50**	–
Right-of-use assets		**1**	–
Liabilities			
Customer deposits		**6**	123
Lease liabilities		**1**	–
Other liabilities		**1**	–

Transactions	Six-month period ended June 30 2020	2019
Interest income	**5**	12
Interest expense	**–**	1

(1) As at June 30, 2020, loans and advances to customers are mainly with CSIC Xi'an Dongyi Science Technology & Industry Group Co., Ltd. and CSIC (Tianjin) Offshore Wind Power Eng. & Tech. Co., Ltd. As at December 31, 2019, loans and advances to customers were mainly with CSIC Xi'an Dongyi Science Technology & Industry Group Co., Ltd. and CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.

(2) As at June 30, 2020, financial assets at fair value through other comprehensive income-debt instruments are mainly with China Shipbuilding Industry Corporation. As at December 31, 2019, there were no financial assets at fair value through other comprehensive income-debt instruments.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.3 Transactions with related legal persons triggered by the related natural persons of the Bank

Transactions	Note	As at June 30, 2020	As at December 31, 2019
Assets			
Loans and advances to customers	(1)	**2,364**	366
Financial assets at fair value through profit or loss	(2)	**499**	–
Financial assets at amortized cost	(2)	**506**	509
Financial assets at fair value through other comprehensive income-debt instruments	(2)	**1,392**	647
Financial assets at fair value through other comprehensive income-equity instruments	(3)	**53**	53
Right-of-use assets		**17**	19
Other assets		**8**	3
Liabilities			
Customer deposits		**3,935**	3,434
Lease liabilities		**17**	19
Other liabilities		**4**	5

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.3 Transactions with related legal persons triggered by the related natural persons of the Bank (continued)

		Six-month period ended June 30	
Transactions	Note	**2020**	2019
Interest income		**78**	1,079
Fee and commission income	(4)	**1,924**	2,140
Interest expense		**42**	37
Fee and commission expense	(4)	**473**	476
Operating expenses		**35**	35

(1) As at June 30, 2020, loans and advances to customers are mainly with Shenzhen Investment Holdings Co., Ltd., Yunnan Lingyu Security Consulting Co., Ltd. and Zhejiang Ant Small and Micro Financial Service Group Co., Ltd. As at December 31, 2019, loans and advances to customers were mainly with Shenzhen Investment Holdings Co., Ltd., Anhui Ltech Information Technology Co., Ltd. and Yunnan Lingyu Security Consulting Co., Ltd.

(2) As at June 30, 2020, 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 are mainly with Shenzhen Investment Holdings Co., Ltd. As at December 31, 2019, financial assets at amortized cost and financial assets at fair value through other comprehensive income-debt instruments were mainly with Shenzhen Investment Holdings Co., Ltd.

(3) As at June 30, 2020 and as at December 31, 2019, financial assets at fair value through other comprehensive income-equity instruments are mainly with China UnionPay Co., Ltd.

(4) The net fee and commission income is mainly settlement and clearing with China UnionPay Co., Ltd. during the six-month period ended June 30, 2020 and the six-month period ended June 30, 2019.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.4 Transactions with related natural persons of the Bank

Transactions	As at June 30, 2020	As at December 31, 2019
Assets		
Loans and advances to customers	**70**	72
Liabilities		
Customer deposits	**210**	228

Transactions	Six-month period ended June 30 2020	2019
Interest income	**2**	2
Interest expense	**1**	2

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

36 Relationship and transactions with related parties (continued)

36.3 Related party transactions (continued)

36.3.5 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.

36.4 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.

	Note	**Six-month period ended June 30, 2020**	Year ended December 31, 2019
Key management personnel compensation	(1)	**5**	7

(1) Part of the remuneration for key management personnel for the six-month period ended June 30, 2020 and the year ended December 31, 2019 is subject to strategic performance assessment after the reporting date and has not yet been paid.

37 Structured entities

37.1 Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP vehicles") formed to issue and distribute wealth management products ("non-principal guaranteed WMPs") which are not subject to any guarantee by the Group in respect the principal invested or yield to be paid. The WMP vehicles invest in a range of fixed-yield assets, including money market instruments, debt securities and loan assets. As the manager of the WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and distributes the yield to investors based on product operation. The variable return earned by the Group under the non-principal guaranteed WMPs is not significant, and therefore, the non-principal guaranteed WMPs are not consolidated by the Group.

As at June 30, 2020 and December 31, 2019, the outstanding non-principal guaranteed WMPs issued by WMP vehicles amounted to RMB904,776 million and RMB809,896 million, respectively. The Group earned fee and commission of RMB1,902 million and RMB2,077 million from these non-principal guaranteed WMPs for the six-month period ended June 30, 2020 and 2019, respectively.

As at June 30, 2020 and December 31, 2019, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. As at June 30, 2020 and December 31, 2019, the non-principal guaranteed WMP vehicles did not incur any losses, or experience any difficulties in financing their activities.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 Unconsolidated structured entities held by the Group

The Group invests in unconsolidated structured entities issued and managed by other institutions, and records trading gains or losses and interest income therefrom. These structured entities mainly comprise trust investment plans, fund investments, asset-backed securities, 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 June 30, 2020 and December 31, 2019, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2020			
	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	200,216	–	–	200,216
Trust investment plans and asset management plans	49,323	–	–	49,323
Financial institution wealth management products	2,821	–	–	2,821
Asset-backed securities	1,887	76,082	91	78,060
Other debt instruments	–	35,750	–	35,750
Total	254,247	111,832	91	366,170

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

37 Structured entities (continued)

37.2 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

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

For the six-month period ended June 30, 2020 and 2019, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six-month period ended June 30	
	2020	2019
Interest income	**2,853**	5,434
Net gain arising from investment securities	**8,635**	8,238
Other comprehensive income	**2**	9
Total	**11,490**	13,681

37.3 Consolidated structured entities held by the Group

The consolidated structured entities issued and managed by the Group consist of a special purpose trust founded by a third party trust company for conducting asset securitization business by the Group. For the six-month period ended June 30, 2020 and the year 2019, the Group did not provide any financial support to the special purpose trust.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments

38.1 Lawsuits and claims

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

38.2 Capital commitments

	Note	**As at June 30, 2020**	As at December 31, 2019
Contracts signed but not executed	(1)	**2,285**	2,340

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

38.3 Credit commitments

	As at June 30, 2020	As at December 31, 2019
Loan commitments		
– With an original maturity of less than 1 year	**5,588**	18,808
– With an original maturity of 1 year or above	**361,892**	415,969
Subtotal	**367,480**	434,777
Bank acceptances	**34,544**	31,583
Guarantees and letters of guarantee	**28,190**	20,447
Letters of credit	**25,005**	17,846
Unused credit card commitments	**285,425**	267,537
Total	**740,644**	772,190

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.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.4 Collateral

Assets pledged as collaterals

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

	As at June 30, 2020	As at December 31, 2019
Debt securities	**95,951**	72,835
Bills	**27,731**	34,797
Total	**123,682**	107,632

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at June 30, 2020, the carrying amount of debt securities pledged as collaterals amounted to RMB70,057 million (December 31, 2019: RMB72,285 million). 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. As at June 30, 2020, the Group's exposure to customer loans and advances with credit impairment covered by corresponding collateral was RMB27,889 million.

The Group obtains debt securities from counterparts which could be resold or re-pledged as collaterals during the operation of financial assets held under resale agreements from banks. As at June 30, 2020, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB1,607 million (December 31, 2019: RMB2,020 million).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Contingent liabilities and commitments (continued)

38.5 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 June 30, 2020, the nominal value of treasury bonds the Group was obligated to redeem was RMB118,526 million (December 31, 2019: RMB128,816 million). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

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

	As at June 30, 2020	As at December 31, 2019
Financial guarantees and credit commitments	**301,952**	320,873

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%.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

39 Transfer of financial assets

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

39.1 Outright repurchase agreements

The Group has entered into the following repurchase agreements, and the recourse rights of the counterparties are not limited to the transferred assets. The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements.

	As at June 30, 2020 Financial assets at amortized cost	As at December 31, 2019 Financial assets at amortized cost
Carrying amount of the collateral	**569**	796
Financial assets sold under repurchase agreements	**(595)**	(801)

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

39 Transfer of financial assets (continued)

39.2 Credit assets securitization transactions

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

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

As at June 30, 2020 and December 31, 2019, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at June 30, 2020	As at December 31, 2019
ABS issued-par value	**31,139**	26,120
Assets retained by the Group, gross	**2,871**	2,372
Assets retained by the Group, net	**2,559**	2,110

(2) As at June 30, 2020, the par value of the issued ABS that had been derecognized through holding the ABS at all levels of the special purpose trust was RMB3,817 million and the balance of related assets was RMB79 million (December 31, 2019: RMB87 million).

The Group acts as a credit service provider of the special purpose trust, manages the credit assets transferred to the special purpose trust, and collects the corresponding fee as the loan asset manager. For the six-month period ended June 30, 2020 and the year 2019, the Group did not provide any financial support to the special purpose trust.

40 Segment analysis

40.1 Business segment

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

Personal banking

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

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, etc.

Treasury

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

Others

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

	Six-month period ended June 30, 2020				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	79,828	44,259	77,235	–	201,322
Interest expense to external customers	(67,430)	(7,214)	(3,724)	–	(78,368)
Intersegment net interest income/(expense)	75,478	(11,018)	(64,460)	–	–
Net interest income	87,876	26,027	9,051	–	122,954
Net fee and commission income	8,200	560	968	–	9,728
Net trading gains	–	–	1,771	–	1,771
Net gains from investment securities	–	–	10,107	–	10,107
Net gains on derecognition of financial assets at amortized cost	–	–	1	–	1
Net other operating gains	500	145	1,066	213	1,924
Operating expenses	(61,578)	(6,876)	(8,432)	222	(76,664)
Credit impairment losses	(19,618)	(14,590)	618	–	(33,590)
Impairment losses on other assets	(4)	–	–	–	(4)
Profit before income tax	15,376	5,266	15,150	435	36,227
Supplementary information					
Depreciation and amortization	3,244	588	58	–	3,890
Capital expenditures	1,700	308	30	–	2,038

	As at June 30, 2020				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	3,399,876	2,613,187	4,901,557	–	10,914,620
Deferred tax assets					51,566
Total assets					10,966,186
Segment liabilities	(8,677,335)	(1,273,507)	(373,628)	–	(10,324,470)
Supplementary information					
Credit commitments	285,425	455,219	–	–	740,644

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.1 Business segment (continued)

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

	As at 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

40 Segment analysis (continued)

40.2 Geographical segment

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

– Head Office

– “Yangtze River Delta”: Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;

– “Pearl River Delta”: Fujian Province, Xiamen, Guangdong Province and Shenzhen;

– “Bohai Rim”: Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province and Qingdao;

– “Central China” region: Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province and Hainan Province;

– “Western China” region: Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region;

– “Northeastern China” region: Liaoning Province, Dalian, Jilin Province and Heilongjiang Province.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

	Six-month period ended June 30, 2020								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North–eastern China	Eliminations	Total
Interest income from external customers	85,927	22,632	16,530	17,596	30,507	21,317	6,813	–	201,322
Interest expense to external customers	(5,881)	(12,230)	(6,085)	(11,105)	(22,532)	(15,330)	(5,205)	–	(78,368)
Intersegment net interest (expense)/income	(72,272)	7,255	4,513	10,549	25,735	17,825	6,395	–	–
Net interest income	7,774	17,657	14,958	17,040	33,710	23,812	8,003	–	122,954
Net fee and commission income	(1,335)	1,608	1,838	1,875	2,630	2,372	740	–	9,728
Net trading gains/(losses)	1,773	(2)	–	2	(1)	(1)	–	–	1,771
Net gains from investment securities	9,656	185	33	70	74	47	42	–	10,107
Net gains on derecognition of financial assets at amortized cost	1	–	–	–	–	–	–	–	1
Net other operating gains	1,350	90	60	47	80	279	18	–	1,924
Operating expenses	(1,350)	(10,590)	(9,004)	(10,824)	(21,519)	(16,903)	(6,474)	–	(76,664)
Credit impairment losses	(1,761)	(6,260)	(5,149)	(5,228)	(9,389)	(4,151)	(1,652)	–	(33,590)
Impairment losses on other assets	–	–	–	(1)	–	(2)	(1)	–	(4)
Profit before income tax	16,108	2,688	2,736	2,981	5,585	5,453	676	–	36,227
Supplementary information									
Depreciation and amortization	334	601	445	623	739	856	292	–	3,890
Capital expenditures	697	232	102	227	497	119	164	–	2,038

	As at June 30, 2020								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	4,325,988	1,619,728	1,068,941	1,754,693	3,284,055	2,282,865	784,396	(4,206,046)	10,914,620
Deferred tax assets									51,566
Total assets									10,966,186
Segment liabilities	(3,785,281)	(1,613,536)	(1,060,795)	(1,740,255)	(3,273,270)	(2,273,864)	(783,001)	4,205,532	(10,324,470)
Supplementary information									
Credit commitments	285,425	70,553	93,766	100,658	84,301	84,518	21,423	–	740,644

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Segment analysis (continued)

40.2 Geographical segment (continued)

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

	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

41 Financial risk management

41.1 Overview

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

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

41.2 Framework of financial risk management

The Group manages its risks at four levels, i.e., Board of Directors, Board of Supervisors, senior management, 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.

41 Financial risk management (continued)

41.2 Framework of financial risk management (continued)

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.

41.3 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, treasury 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.).

In strict compliance with national policies and regulatory requirements and under the leadership of the Board of Directors and senior management, the Group 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 Group on credit risk management is as follows: the Board of Directors undertaking the ultimate responsibilities for credit risk management, the Board of Supervisors undertaking the supervisory responsibilities for credit risk management, while the senior management undertaking the responsibilities for implementation of credit risk management, and being responsible for the implementation of resolutions approved by the Board of Directors on credit risk; both under the senior management, the Risk Management Committee is responsible for credit risk management and the Credit Business Approval Committee for approving credit lines within the scope of authorization respectively; each business department shall bear the primary responsibility for credit risk prevention and control, and implement policies, standards and requirements of credit risk management in its field of business in accordance with the division of functions; departments of credit management, risk management, credit approval, internal control and compliance, legal affairs and others are responsible for the overall planning, supervision and review of credit risk prevention and control, of which the Credit Management Department is the leading department of credit risk management, and the Internal Audit Department supervises the performance of duties in credit risk management independently and objectively.

41 Financial risk management (continued)

41.3 Credit risk (continued)

(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 continued to adopt prudent and sound credit risk management policies, improved the credit risk management system and implemented special rectification requirements of regulatory authorities. Actively following national strategic deployment and industrial policies, the Group improved the credit extension policy, guided and optimized the allocation of credit resources, dynamically optimized the credit structure to effectively serve the real economy and promote high quality development. During the COVID-19 outbreak, the Group implemented differentiated credit policies, defined supporting measures and standardization requirements such as extended repayment periods, emergency credit lines process, remote services and customer credit reporting protection, and actively supported prevention and control of the pandemic. It established measures on credit risk management to improve the credit risk management system; implemented the accountability mechanism on the person in charge for credit extension business and strengthened the whole-process management of credit extension; strengthened the management and control over unified credit extension, as well as control of concentration risk and prevented regional and systematic risks. It optimized the internal rating and risk limit management system for financial institutions, general enterprises and SMEs customers, and improved the development of the internal rating platform for retail credit business, deepening the application of the internal rating-based approach. It improved credit risk monitoring and early-warning mechanism, paid equal attention to the existing non-performing loans and the increase of non-performing loans as well as NPLs and NPL ratio control, improved the quality of credit assets and enhanced the risk compensation capacity. In addition, it further intensified efforts of asset preservation, enriched the disposal means of non-performing loans, actively expanded the disposal channels, strengthened write-off of non-performing assets, and improved the effectiveness of risk disposal.

(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.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 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 41.3.1(2) for the criteria of a significant increase in credit risk.

Stage 3 includes financial assets that are credit-impaired. Please refer to note 41.3.1(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.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 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, solvency, 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 grade 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;

– 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;

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

(3) Definition of Default and Credit-Impaired (continued)

- 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.

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.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

(4) Description of Parameters, Assumptions, and Estimation Techniques (continued)

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.

(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.

(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.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.1 Expected credit loss measurement (continued)

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

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

(8) Write-off Policy

The Group writes off financial assets, in whole or in part, when it has taken necessary recovery efforts and is still not capable of reasonably expecting to recover partial or all the financial asssets. The Group may write-off financial assets that are still subject to enforcement activities. The outstanding amounts of such assets written off during the six-month period ended June 30, 2020 were RMB6,100 million (for the period ended June 30, 2019: RMB3,298 million).

41.3.2 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 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 June 30, 2020, and December 31, 2019. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

	As at June 30, 2020	As at December 31, 2019
Deposits with central bank	**1,081,827**	1,110,921
Deposits with banks and other financial institutions	**35,699**	28,373
Placements with banks and other financial institutions	**310,334**	269,597
Derivative financial assets	**3,772**	5,009
Financial assets held under resale agreements	**96,117**	147,394
Loans and advances to customers	**5,287,494**	4,808,062
Financial investments		
Financial assets at fair value through profit or loss-debt instruments	**421,898**	308,420
Financial assets at fair value through other comprehensive income-debt instruments	**317,954**	228,672
Financial assets at amortized cost	**3,214,398**	3,135,144
Other financial assets	**24,880**	15,396
Subtotal	**10,794,373**	10,056,988
Credit commitments	**740,644**	772,190
Total	**11,535,017**	10,829,178

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 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 amounts of financial assets below also represent the Group's maximum exposure to credit risk on these assets.

	As at June 30, 2020			
	ECL Staging			
Deposits and placements with banks and other financial institutions and financial assets held under resale agreements	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	396,430	–	–	396,430
Risk level 2	47,644	10	–	47,654
Risk level 3	–	–	–	–
Default	–	–	–	–
Gross Carrying amount	444,074	10	–	444,084
Loss allowance	(1,934)	–	–	(1,934)
Carrying amount	442,140	10	–	442,150

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 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 June 30, 2020 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit Grade				
Risk level 1	**1,790,631**	**1,902**	**–**	**1,792,533**
Risk level 2	**2,916**	**10,099**	**–**	**13,015**
Risk level 3	**–**	**5,335**	**–**	**5,335**
Default	**–**	**–**	**19,163**	**19,163**
Gross Carrying amount	**1,793,547**	**17,336**	**19,163**	**1,830,046**
Loss allowance	**(80,508)**	**(6,200)**	**(17,136)**	**(103,844)**
Carrying amount	**1,713,039**	**11,136**	**2,027**	**1,726,202**

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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at June 30, 2020			
	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	**2,991,828**	**–**	**–**	**2,991,828**
Risk level 2	**5,068**	**6,511**	**–**	**11,579**
Risk level 3	**–**	**4,941**	**–**	**4,941**
Default	**–**	**–**	**30,073**	**30,073**
Gross Carrying amount	**2,996,896**	**11,452**	**30,073**	**3,038,421**
Loss allowance	**(61,848)**	**(3,667)**	**(24,251)**	**(89,766)**
Carrying amount	**2,935,048**	**7,785**	**5,822**	**2,948,655**

	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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Financial investments – financial assets at fair value through other comprehensive income-debt instruments	As at June 30, 2020 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit Grade				
Risk level 1	316,834	–	–	316,834
Risk level 2	1,067	53	–	1,120
Risk level 3	–	–	–	–
Default	–	–	–	–
Carrying amount	317,901	53	–	317,954

Financial investments – 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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at June 30, 2020			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Financial investments – financial assets at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**3,160,480**	**–**	**–**	**3,160,480**
Risk level 2	**46,394**	**18,598**	**–**	**64,992**
Risk level 3	**–**	**–**	**–**	**–**
Default	**–**	**–**	**13,004**	**13,004**
Gross Carrying amount	**3,206,874**	**18,598**	**13,004**	**3,238,476**
Loss allowance	**(3,774)**	**(7,363)**	**(12,941)**	**(24,078)**
Carrying amount	**3,203,100**	**11,235**	**63**	**3,214,398**

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Financial investments – financial assets at amortized cost	12-month ECL	Lifetime ECL	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

The majority of loans and advances to customers at fair value through other comprehensive income and credit commitment are in Stage I with credit grade as "Risk level 1".

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers

(1) Loans and advances by geographical region:

	As at June 30, 2020		As at December 31, 2019	
	Amount	**Proportion**	Amount	Proportion
Head Office	**298,578**	**5%**	294,229	6%
Central China	**1,351,149**	**25%**	1,216,003	25%
Yangtze River Delta	**1,105,778**	**20%**	979,711	20%
Western China	**932,791**	**17%**	851,016	17%
Bohai Rim	**843,067**	**15%**	759,469	15%
Pearl River Delta	**636,790**	**12%**	570,988	11%
Northeastern China	**312,951**	**6%**	302,770	6%
Total	**5,481,104**	**100%**	4,974,186	100%

(2) Loans and advances by types:

	As at June 30, 2020		As at December 31, 2019	
	Amount	**Proportion**	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	**1,948,936**	**36%**	1,740,564	35%
Discounted bills	**493,747**	**9%**	482,834	10%
Personal loans and advances	**3,038,421**	**55%**	2,750,788	55%
Total	**5,481,104**	**100%**	4,974,186	100%

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers (continued)

(3) Loans and advances by industry:

	As at June 30, 2020		As at December 31, 2019	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services [i]	568,112	10%	508,233	11%
Manufacturing	314,440	6%	273,074	6%
Financial services	217,771	4%	206,322	4%
Production and supply of electricity, heating, gas and water	192,855	4%	187,145	4%
Construction	119,197	2%	103,094	2%
Wholesale and retail	118,411	2%	104,441	2%
Leasing and business services	110,434	2%	99,571	2%
Management of water conservancy, environmental and public facilities	86,001	2%	71,449	1%
Real estate	82,596	2%	70,158	1%
Mining	74,836	1%	58,479	1%
Other industries	64,283	1%	58,598	1%
Subtotal	1,948,936	36%	1,740,564	35%
Discounted bills	493,747	9%	482,834	10%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	1,844,061	34%	1,700,049	34%
– Other consumer loans	359,200	6%	317,350	6%
Personal micro loans	709,268	13%	610,201	13%
Credit card overdraft and others	125,892	2%	123,188	2%
Subtotal	3,038,421	55%	2,750,788	55%
Total	5,481,104	100%	4,974,186	100%

(i) As at June 30, 2020, the balance included loans to China State Railway Group Co., Ltd. (In June 2019, China Railway Corporation was restructured and renamed as China State Railway Group Co., Ltd.) of RMB182,089 million (December 31, 2019: RMB182,673 million).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 Loans and advances to customers (continued)

(4) Loans and advances by types of collateral:

	As at June 30, 2020		As at December 31, 2019	
	Amount	Proportion	Amount	Proportion
Unsecured loans	**1,448,545**	**26%**	1,255,903	25%
Guaranteed loans	**354,089**	**7%**	298,011	6%
Loans secured by mortgages	**2,679,597**	**49%**	2,476,942	50%
Loans secured by pledges	**505,126**	**9%**	460,496	9%
Discounted bills	**493,747**	**9%**	482,834	10%
Total	**5,481,104**	**100%**	4,974,186	100%

(5) Overdue loans and advances

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

	As at June 30, 2020				
	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	**4,088**	**4,592**	**2,351**	**278**	**11,309**
Guaranteed loans	**2,805**	**2,198**	**2,671**	**1,014**	**8,688**
Loans secured by mortgages	**8,183**	**7,817**	**7,012**	**3,183**	**26,195**
Loans secured by pledges	**41**	**935**	**545**	**243**	**1,764**
Discounted bills	**–**	**10**	**–**	**–**	**10**
Total	**15,117**	**15,552**	**12,579**	**4,718**	**47,966**

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.4 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, 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

(6) Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. As at June 30, 2020, rescheduled loans and advances of the Group were RMB429 million (December 31, 2019: RMB491 million).

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 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-debt instruments:

	As at June 30, 2020			
	Stage 1[(i)]	Stage 2	Stage 3	Total
Financial assets at amortized cost	**3,203,100**	**11,235**	**63**	**3,214,398**
Financial assets at fair value through other comprehensive income-debt instruments	**317,901**	**53**	**–**	**317,954**
Total	**3,521,001**	**11,288**	**63**	**3,532,352**

	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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1

The types of debt instruments	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
	As at June 30, 2020		
Debt securities-by types of issuers:			
Government	1,078,610	65,233	1,143,843
Financial institutions	1,739,895	186,471	1,926,366
Corporates	122,518	66,106	188,624
Interbank certificates of deposits	140,125	–	140,125
Asset-backed securities	76,957	91	77,048
Other debt instruments	48,769	–	48,769
Gross amount	3,206,874	317,901	3,524,775
Less: Allowance for impairment losses	(3,774)	–	(3,774)
Carrying amount of debt instruments at stage 1	3,203,100	317,901	3,521,001

The allowance for impairment losses of financial assets at fair value through other comprehensive income is RMB519 million, which is reflected in other comprehensive income.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1 (continued)

	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 financial assets at fair value through other comprehensive income is RMB395 million, which is reflected in other comprehensive income.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 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 June 30, 2020					
	Unrated(i)	AAA	AA	A	Below A	Total
Government bonds	670,034	476,130	–	–	–	1,146,164
Financial institution bonds	1,825,253	129,558	1,197	10,670	9,934	1,976,612
Corporate bonds	35,863	167,444	1,179	15,381	1,380	221,247
Interbank certificates of deposits	221,548	–	–	–	–	221,548
Asset-backed securities	27,220	51,761	610	–	–	79,591
Bond financing plans	2,573	–	–	–	–	2,573
Fund investments	200,216	–	–	–	–	200,216
Trust investment plans and asset management plans	49,323	–	–	–	–	49,323
Financial institution wealth management products	2,821	–	–	–	–	2,821
Other debt instruments	78,233	–	–	–	–	78,233
Total	3,113,084	824,893	2,986	26,051	11,314	3,978,328

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.5 Debt instruments (continued)

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

	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

(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, fund investments and other debt instruments such as trust investment plans, asset management plans and wealth management plans issued by financial institutions, the principal and income of which are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

41 Financial risk management (continued)

41.3 Credit risk (continued)

41.3.6 Concentration of credit risk

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

41.4 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, 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 adheres to prudent liquidity risk management strategy and effectively balances the rhythm and structure of capital source and utilization.

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 pressure scenario assumptions, the Group can pass the minimum life expectancy test.

The Group is mainly funded by personal deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 June 30, 2020								
	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	–	55,181	–	482	–	–	–	1,074,182	1,129,845
Deposits with banks and other financial institutions	–	6,756	–	1,019	27,924	–	–	–	35,699
Placements with banks and other financial institutions	–	–	44,706	53,305	189,012	23,311	–	–	310,334
Derivative financial assets	–	–	607	426	1,218	1,521	–	–	3,772
Financial assets held under resale agreements	–	–	86,445	7,537	2,135	–	–	–	96,117
Loans and advances to customers	9,770	–	270,493	392,166	1,688,633	958,981	1,967,451	–	5,287,494
Financial assets at fair value through profit or loss	10	200,575	8,888	32,270	73,227	23,769	83,159	1,250	423,148
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,145	34,596	68,194	191,776	15,243	–	317,954
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	4,916	4,916
Financial assets at amortized cost	63	–	21,636	85,108	571,286	1,267,524	1,268,781	–	3,214,398
Other financial assets	1,922	13,022	139	3,494	2,144	917	3,064	178	24,880
Total financial assets	11,765	275,534	441,059	610,403	2,623,773	2,467,799	3,337,698	1,080,526	10,848,557

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at June 30, 2020								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Borrowings from central bank	–	–	–	4	10,717	–	–	–	10,721
Deposits from banks and other financial institutions	–	42,630	23	39	23,251	3,971	–	–	69,914
Placements from banks and other financial institutions	–	–	26,795	6,641	16,389	–	–	–	49,825
Derivative financial liabilities	–	–	448	400	1,138	1,187	–	–	3,173
Financial assets sold under repurchase agreements	–	–	93,622	19,920	3,872	–	–	–	117,414
Customer deposits	–	3,558,343	386,183	666,776	3,860,756	1,394,525	–	–	9,866,583
Debt securities issued	–	–	5,841	21,949	20,385	–	74,948	–	123,123
Other financial liabilities	–	18,259	18,165	4,049	178	948	2,871	–	44,470
Total financial liabilities	–	3,619,232	531,077	719,778	3,936,686	1,400,631	77,819	–	10,285,223
Net liquidity	11,765	(3,343,698)	(90,018)	(109,375)	(1,312,913)	1,067,168	3,259,879	1,080,526	563,334

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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
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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 June 30, 2020								
	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	–	55,181	–	482	–	–	–	1,074,182	1,129,845
Deposits with banks and other financial institutions	–	6,756	–	1,211	28,195	–	–	–	36,162
Placements with banks and other financial institutions	–	–	44,762	55,616	191,725	23,607	–	–	315,710
Financial assets held under resale agreements	–	–	86,482	7,566	2,160	–	–	–	96,208
Loans and advances to customers	11,394	–	284,826	421,122	1,848,476	1,414,406	2,852,576	–	6,832,800
Financial assets at fair value through profit or loss	228	200,575	8,960	32,414	75,298	31,602	87,420	1,250	437,747
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,187	34,798	72,486	204,108	17,368	–	336,947
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	4,916	4,916
Financial assets at amortized cost	63	–	24,242	99,252	638,605	1,581,148	1,499,357	–	3,842,667
Other financial assets	–	13,022	139	3,494	2,144	917	3,064	178	22,958
Total non-derivative financial assets	11,685	275,534	457,598	655,955	2,859,089	3,255,788	4,459,785	1,080,526	13,055,960

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at June 30, 2020								
	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									
Borrowings from central bank	-	-	-	42	10,809	-	-	-	10,851
Deposits from banks and other financial institutions	-	42,630	23	40	23,523	4,375	-	-	70,591
Placements from banks and other financial institutions	-	-	26,801	6,713	16,571	-	-	-	50,085
Financial assets sold under repurchase agreements	-	-	93,661	19,974	3,898	-	-	-	117,533
Customer deposits	-	3,558,343	386,447	669,029	3,914,951	1,480,924	-	-	10,009,694
Debt securities issued	-	-	5,850	22,265	21,510	12,060	79,905	-	141,590
Other financial liabilities	-	18,259	18,165	4,049	178	948	2,871	-	44,470
Total non-derivative financial liabilities	-	3,619,232	530,947	722,112	3,991,440	1,498,307	82,776	-	10,444,814
Net liquidity	11,685	(3,343,698)	(73,349)	(66,157)	(1,132,351)	1,757,481	4,377,009	1,080,526	2,611,146

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 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

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41 Financial risk management (continued)

41.4 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 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 June 30, 2020					
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate derivative financial instruments	**6**	**(2)**	**(1)**	**19**	**–**	**22**

	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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Liquidity risk (continued)

Cash flow of derivative financial instruments (continued)

Derivative financial instruments settled on a gross basis

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

	As at June 30, 2020					
	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	**178,937**	**145,599**	**291,037**	**7,794**	**–**	**623,367**
– Cash outflow	**(178,783)**	**(145,508)**	**(290,757)**	**(7,508)**	**–**	**(622,556)**
Total	**154**	**91**	**280**	**286**	**–**	**811**

	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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.4 Liquidity risk (continued)

Cash flow of derivative financial instruments (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 June 30, 2020			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	**88,523**	**247,220**	**31,737**	**367,480**
Bank acceptance	**34,544**	**–**	**–**	**34,544**
Guarantee and letters of guarantee	**16,035**	**8,578**	**3,577**	**28,190**
Letters of credit	**25,005**	**–**	**–**	**25,005**
Unused credit card commitments	**285,425**	**–**	**–**	**285,425**
Total	**449,532**	**255,798**	**35,314**	**740,644**

	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 acceptance	31,583	–	–	31,583
Guarantee 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

41 Financial risk management (continued)

41.5 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 (inclusive of gold) in the course of business. In managing its market risks, the Group aims to control the market risk within an 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 etc.

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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 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 gap risk and the basis 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 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 June 30, 2020	As at December 31, 2019
Upward parallel shift of 100 bps for yield curves	**(11,612)**	(1,262)
Downward parallel shift of 100 bps for yield curves	**11,612**	1,262

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Market risk (continued)

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities at the end of the reporting period are stated at their carrying amounts based on the earlier of their repricing date or contractual maturity date.

	As at June 30, 2020						
	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	1,077,549	–	–	–	–	52,296	1,129,845
Deposits with banks and other financial institutions	6,756	996	27,906	–	–	41	35,699
Placements with banks and other financial institutions	44,661	53,002	188,916	23,311	–	444	310,334
Derivative financial assets	–	–	–	–	–	3,772	3,772
Financial assets held under resale agreements	86,400	7,528	2,122	–	–	67	96,117
Loans and advances to customers	541,634	498,901	4,094,443	102,259	32,181	18,076	5,287,494
Financial assets at fair value through profit or loss	8,784	31,636	70,038	22,094	34,953	255,643	423,148
Financial assets at fair value through other comprehensive income-debt instruments	8,318	36,164	66,697	186,194	15,243	5,338	317,954
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	4,916	4,916
Financial assets at amortized cost	154,406	718,119	492,621	1,014,653	794,529	40,070	3,214,398
Other financial assets	–	–	–	–	–	24,880	24,880
Total financial assets	1,928,508	1,346,346	4,942,743	1,348,511	876,906	405,543	10,848,557
Borrowings from central bank	–	4	10,717	–	–	–	10,721
Deposits from banks and other financial institutions	42,620	39	23,152	3,932	–	171	69,914
Placements from banks and other financial institutions	26,765	6,545	16,245	–	–	270	49,825
Derivative financial liabilities	–	–	–	–	–	3,173	3,173
Financial assets sold under repurchase agreements	93,251	19,861	3,865	–	–	437	117,414
Customer deposits	3,926,893	655,787	3,813,176	1,346,932	–	123,795	9,866,583
Debt securities issued	5,841	21,042	19,478	–	74,948	1,814	123,123
Other financial liabilities	–	–	–	–	–	44,470	44,470
Total financial liabilities	4,095,370	703,278	3,886,633	1,350,864	74,948	174,130	10,285,223
Interest rate risk gap	(2,166,862)	643,068	1,056,110	(2,353)	801,958	231,413	563,334

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 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
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
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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 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 June 30, 2020, and December 31, 2019. 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 (GBP), etc.

	As at June 30, 2020			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,128,764	1,013	68	1,129,845
Deposits with banks and other financial institutions	32,231	2,456	1,012	35,699
Placements with banks and other financial institutions	292,167	18,167	–	310,334
Derivative financial assets	1,312	2,460	–	3,772
Financial assets held under resale agreements	96,117	–	–	96,117
Loans and advances to customers	5,257,683	24,869	4,942	5,287,494
Financial assets at fair value through profit or loss	405,345	17,803	–	423,148
Financial assets at fair value through other comprehensive income-debt instruments	309,892	8,062	–	317,954
Financial assets at fair value through other comprehensive income-equity instruments	4,916	–	–	4,916
Financial assets at amortized cost	3,172,679	41,719	–	3,214,398
Other financial assets	18,415	6,465	–	24,880
Total financial assets	10,719,521	123,014	6,022	10,848,557
Borrowings from central bank	10,721	–	–	10,721
Deposits from banks and other financial institutions	69,914	–	–	69,914
Placements from banks and other financial institutions	21,926	27,899	–	49,825
Derivative financial liabilities	1,266	1,907	–	3,173
Financial assets sold under repurchase agreements	117,414	–	–	117,414
Customer deposits	9,823,514	42,713	356	9,866,583
Debt securities issued	123,123	–	–	123,123
Other financial liabilities	41,236	2,385	849	44,470
Total financial liabilities	10,209,114	74,904	1,205	10,285,223
Net on-balance sheet position	510,407	48,110	4,817	563,334
Net notional amount of derivative financial instruments	4,610	1,354	(5,335)	629
Credit commitments	726,367	6,816	7,461	740,644

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.5 Market risk (continued)

Foreign exchange rate risk (continued)

	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
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

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41 Financial risk management (continued)

41.5 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.

Exchange rate changes	**As at June 30, 2020**	As at December 31, 2019
5% of appreciation of USD against RMB	**690**	191
5% of depreciation of USD against RMB	**(690)**	(191)

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

41.6 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.

41 Financial risk management (continued)

41.7 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 six-month period ended June 30, 2020, and the year ended December 31, 2019, in the Group, there were no assets or liabilities which were 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.

During the six-month period ended June 30, 2020 and the year ended December 31, 2019, there was no significant change in the valuation technology and input value used in the fair value measurement of the Group's financial statements.

41 Financial risk management (continued)

41.7 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, borrowings from central bank, 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.

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41 Financial risk management (continued)

41.7 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 carrying amounts and the fair values of the financial assets measured at amortized cost and debt securities issued which are not set out in the statement of financial position.

	As at June 30, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	**3,214,398**	**3,304,159**	**42,884**	**2,346,079**	**915,196**
Financial liabilities					
Debt securities issued	**123,123**	**123,799**	**–**	**123,799**	**–**

	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	–

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

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41 Financial risk management (continued)

41.7 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 June 30, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– At fair value through other comprehensive income	–	171,917	440,720	612,637
Subtotal	–	171,917	440,720	612,637
Financial assets at fair value through profit or loss				
– Debt securities	428	83,227	–	83,655
– Interbank certificates of deposits	–	81,423	–	81,423
– Asset-backed securities	–	1,887	–	1,887
– Bond financing plans	–	–	2,573	2,573
– Fund investments	–	199,675	541	200,216
– Trust investment plans and asset management plans	–	–	49,323	49,323
– Financial institution wealth management products	–	2,821	–	2,821
– Equity instruments	–	–	1,250	1,250
Subtotal	428	369,033	53,687	423,148
Derivative financial assets				
– Exchange rate derivatives	–	2,463	–	2,463
– Interest rate derivatives	–	1,309	–	1,309
Subtotal	–	3,772	–	3,772
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	8,062	301,742	8,059	317,863
– Asset-backed securities	–	91	–	91
Subtotal	8,062	301,833	8,059	317,954
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	3,363	1,553	4,916
Subtotal	–	3,363	1,553	4,916
Total financial assets	8,490	849,918	504,019	1,362,427

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	As at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Customer deposits				
– Structured deposits	–	(673)	–	(673)
Subtotal	–	(673)	–	(673)
Derivative financial liabilities				
– Exchange rate derivatives	–	(1,884)	–	(1,884)
– Interest rate derivatives	–	(1,289)	–	(1,289)
Subtotal	–	(3,173)	–	(3,173)
Total financial liabilities	–	(3,846)	–	(3,846)

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 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				
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
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

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 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 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)

There were no significant movements among levels of the fair value hierarchy for the six-month period ended June 30, 2020, and the year ended December 31, 2019.

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.

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 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 are analyzed below:

	Six-month period ended June 30, 2020			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income-debt instruments	Financial assets at fair value through other comprehensive income-equity instruments	Loans and advances to customers
Balance at the beginning of the year	44,929	–	1,053	309,573
Increased	2,573	8,059	500	534,877
Settled	(74)	–	–	(403,330)
Total gains or losses recognized in				
– Profit or loss	6,259	–	–	–
– Other comprehensive income	–	–	–	(400)
Balance at the end of the period	53,687	8,059	1,553	440,720

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 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:

				Unobservable inputs		
June 30, 2020	Note	Fair Value	Valuation technique	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)	541	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	49,323	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,250	Net asset method	Net assets		Positive correlation
– Bond financing plans	(ii)	2,573	Discounted cash flow method	Discount rate	4.02%-5.50%	Negative correlation
Subtotal		53,687				
Financial assets at fair value through other comprehensive income-debt instruments	(ii)	8,059	Discounted cash flow method	Discount rate	2.07%	Negative correlation
Financial assets at fair value through other comprehensive income-equity instruments	(i)	1,553	Net asset method	Net assets		Positive correlation
Financial assets at fair value through other comprehensive income-loans and advances	(iii)	440,720	Discounted cash flow method	Discount rate	2.84%	Negative correlation
Total		504,019				

For the six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.7 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:

				Unobservable inputs		
December 31, 2019	Note	Fair Value	Valuation technique	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	(iii)	309,573	Discounted cash flow method	Discount rate	2.52%-4.15%	Negative correlation
Total		355,555				

41 Financial risk management (continued)

41.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

(i) The fair value of fund investments, trust investment plans and asset management plans, equity instruments of FVTPL, and the fair value of equity instruments of FVOCI are determined using net asset method, where the significant unobservable data are the net assets.

(ii) The fair value of bond financing plans of FVTPL and the fair value of debt instruments of FVOCI are 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.

(iii) 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.

41 Financial risk management (continued)

41.8 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 June 30, 2020, 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, 2019: 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 six months ended June 30, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Financial risk management (continued)

41.8 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 at June 30, 2020 and December 31, 2019 is as follows:

	Note	As at June 30, 2020	As at December 31, 2019
Core tier 1 capital adequacy ratio	(1)	**9.17%**	9.90%
Tier 1 capital adequacy ratio	(1)	**11.47%**	10.87%
Capital adequacy ratio	(1)	**13.97%**	13.52%
Core tier 1 capital		**511,243**	494,270
Deductions of core tier 1 capital	(2)	**(2,591)**	(2,058)
Core tier 1 capital - net		**508,652**	492,212
Other tier 1 capital		**127,934**	47,948
Tier 1 capital - net		**636,586**	540,160
Tier 2 capital			
Directly issued qualifying tier 2 instruments including related premium		**74,948**	74,944
Excess provision for loan loss		**63,598**	56,572
Non-controlling interest given recognition in tier 2 capital		**152**	158
Net capital	(3)	**775,284**	671,834
Risk-weighted assets	(4)	**5,549,344**	4,969,658

(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.

42 Events after the balance sheet date

Up to the date of the approval for the consolidated financial statements, there was no material event subsequent to the balance sheet date, except for Note 34.

43 Reclassification of comparative figures

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

LIQUIDITY COVERAGE RATIO

In millions of RMB, except for percentages

Item	As at June 30, 2020	As at December 31, 2019
High-quality liquid assets	**2,058,996**	2,087,050
Net cash outflow for the next 30 days	**1,042,768**	892,514
Liquidity coverage ratio (%)	**197.45**	233.84

Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	As at June 30, 2020	As at March 31, 2020	As at December 31, 2019
Total available stable funding	**9,260,631**	9,191,555	8,707,480
Total required stable funding	**5,638,577**	5,505,560	5,236,481
Net stable funding ratio (%)	**164.24**	166.95	166.28

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 Rules on Liquidity Risk Management of Commercial Banks, NSFR should be no less than 100% from July 1, 2018.

The formula for calculating the NSFR is:

Net stable funding ratio = available stable funding (ASF)/required stable funding (RSF) x 100%

Available stable funding refers to the sum of products of book value of a commercial bank's capital and liability items multiplied by their corresponding ASF coefficients. Required stable funding refers to the sum of products of book value of a commercial bank's asset items and off-balance sheet exposures multiplied by their corresponding RSF coefficients.

As of the end of the reporting period, the NSFR was 164.24%, meeting the regulatory requirement.

LEVERAGE RATIO

In millions of RMB, except for percentages

Item	**As at June 30, 2020**	As at March 31, 2020	As at December 31, 2019	As at September 30, 2019
Tier 1 capital – net	**636,586**	644,503	540,160	505,633
On- and off-balance sheet assets after adjustments	**11,423,194**	11,234,217	10,669,732	10,559,371
Leverage ratio (%)	**5.57**	5.74	5.06	4.79

No.	Item	**As at June 30, 2020**	As at December 31, 2019
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**10,866,297**	10,064,303
2	Less: Deduction from tier 1 capital	**2,591**	2,058
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	**10,863,706**	10,062,245
4	Replacement costs of various derivatives (excluding eligible margin)	**2,033**	4,094
5	Potential risk exposures of various derivatives	**11,735**	10,958
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	**13,768**	15,052
12	Accounting assets arising from securities financing transactions	**96,117**	147,394
13	Less: Deductible assets arising from securities financing transactions	**–**	–
14	Counter-party credit risk exposure arising from securities financing transactions	**12,208**	7,910
15	Assets arising from the agency services in connection with securities financing transactions	**–**	–
16	Securities financing transactions assets	**108,325**	155,304
17	Off-balance sheet assets	**1,548,194**	1,336,713
18	Less: Decrease in off-balance sheet items due to credit conversion	**1,110,799**	899,582
19	Off-balance sheet items after adjustments	**437,395**	437,131
20	Tier 1 capital – net	**636,586**	540,160
21	On- and off-balance sheet assets after adjustments	**11,423,194**	10,669,732
22	Leverage ratio (%)	**5.57**	5.06

International Claims

The Group regards all claims on third parties outside the mainland of China and claims denominated in foreign currencies on third parties inside the mainland of China as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits and placements with banks and other financial institutions, and investments in debt securities and others, etc..

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.

In millions of RMB

	As at June 30, 2020			
Item	**Official sector**	**Banks and other financial institutions**	**Non-bank private sectors**	**Total**
Asia Pacific	**3,517**	**69,771**	**36,754**	**110,042**
– of which attributed to Hong Kong	**–**	**424**	**6,347**	**6,771**
North and South America	**–**	**2,079**	**4,408**	**6,487**
Europe	**–**	**633**	**7,444**	**8,077**
Total	**3,517**	**72,483**	**48,606**	**124,606**

In millions of RMB

	As at December 31, 2019			
Item	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

Gross Amount of Overdue Loans and Advances to Customers

In millions of RMB, except for percentages

Item	As at June 30, 2020	As at December 31, 2019
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	**15,117**	22,046
Between 3 months and 6 months (inclusive)	**7,326**	5,411
Between 6 months and 12 months (inclusive)	**8,226**	6,949
Over 12 months	**17,297**	16,677
Total	**47,966**	51,083
As a percentage of gross loans and advances to customers (%)		
Within 3 months (inclusive)	**0.28**	0.44
Between 3 months and 6 months (inclusive)	**0.13**	0.11
Between 6 months and 12 months (inclusive)	**0.15**	0.14
Over 12 months	**0.32**	0.34
Total	**0.88**	1.03

In millions of RMB, except for percentages

		Amount
Core tier 1 capital:		
1	Paid-in capital	86,979
2	Retained earnings	322,790
2a	Surplus reserve	36,439
2b	General reserve	116,129
2c	Undistributed profits	170,222
3	Accumulated other comprehensive income and disclosed reserve	100,906
3a	Capital reserve	100,906
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	568
6	Core tier 1 capital before regulatory adjustments	511,243
Core tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	–
8	Goodwill (net of deferred tax liabilities)	0
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,954
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 measured at fair value	–
12	Shortfall of provision for loan impairment	0
13	Gain on sale related to asset securitization	–
14	Unrealized gains and losses resulted from changes in the fair value of liabilities due to changes in own credit risk	–
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–
16	Direct or indirect 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	Deductible amount in other deferred tax assets that rely on future profitability of banks	637
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 that rely on the bank's future profitability	0

		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 other net deferred tax assets that rely on the bank's future profitability	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	Other items 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	2,591
29	Core tier 1 capital	508,652
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	127,858
31	Including: Portion classified as equity	127,858
32	Including: Portion classified as liabilities	–
33	Invalid instruments to additional tier 1 capital after the transition period	–
34	Valid portion of minority interests	76
35	Including: Invalid portion to additional tier 1 capital after the transition period	–
36	Additional tier 1 capital before regulatory adjustments	127,934
Additional tier 1 capital: regulatory adjustments		
37	Direct or indirect investments in own additional tier 1 instruments	–
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	–
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
40	Significant minority investment 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	Other items 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	127,934
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	636,586

		Amount
Tier 2 capital:		
46	Tier 2 capital instruments and related premium	74,948
47	Invalid instruments to tier 2 capital after the transition period	–
48	Valid portion of minority interests	152
49	Including: Invalid portion to tier 2 capital after the transition period	–
50	Valid portion of surplus provision for loan impairment	63,598
51	Tier 2 capital before regulatory adjustments	138,698
Tier 2 capital: regulatory adjustments		
52	Direct or indirect 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 investment 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	Other items that should be deducted from tier 2 capital	0
57	Total regulatory adjustments to tier 2 capital	0
58	Tier 2 capital	138,698
59	Total capital (tier 1 capital + tier 2 capital)	775,284
60	Total risk-weighted assets	5,549,344
Requirements for capital adequacy ratio and reserve capital		
61	Core tier 1 capital adequacy ratio	9.17
62	Tier 1 capital adequacy ratio	11.47
63	Capital adequacy ratio	13.97
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	1.67
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

		Amount
Amounts below the thresholds for deduction		
72	Undeducted amount of non-significant minority investment in capital instruments issued by financial institutions that are not subject to consolidation	36,929
73	Undeducted amount of significant minority investment 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	Other net deferred tax assets that rely on the bank's future profitability (net of deferred tax liabilities)	50,929
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	194,180
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	63,598
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 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 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 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

	Balance sheet under regulatory scope of consolidation	Code
Goodwill	0	a
Intangible assets	1,954	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	86,979	e
Other equity instruments	127,858	f
Including: Preference shares	47,869	
Including: Perpetual bonds	79,989	
Capital reserve	100,906	g
Others	0	h
Surplus reserve	36,439	i
General reserve	116,129	j
Undistributed profits	170,222	k

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

In millions of RMB

		Amount	Code
Core tier 1 capital:			
1	Paid-in capital	86,979	e
2	Retained earnings	322,790	i+j+k
2a	Surplus reserve	36,439	i
2b	General reserve	116,129	j
2c	Undistributed profits	170,222	k
3	Accumulated other comprehensive income and disclosed reserve	100,906	g+h
3a	Capital reserve	100,906	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	568	
6	Core tier 1 capital before regulatory adjustments	511,243	
Core tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	0	a-c
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,954	b-d
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	Direct or indirect 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:			
21	Additional tier 1 capital instruments and related premium	127,858	f
22	Including: Portion classified as equity	127,858	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)	Undated capital bonds
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.	Postal Savings Bank of China Co., Ltd.
2	Identification code	601658.SH	1658.HK	1528007.IB	1628016.IB	1728005.IB	4612	2028006.IB
3	Applicable laws	PRC laws	PRC laws/ laws of Hong Kong, PRC	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	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	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	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	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	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	RMB24,984	RMB29,979	RMB19,985	RMB47,869	RMB79,989
9	Par value of instrument (in millions)	RMB67,122	RMB19,856	RMB25,000	RMB30,000	RMB20,000	USD7,250	RMB80,000
10	Accounting treatment	Share capital, capital reserve	Share capital, capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments	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	March 16, 2020
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	September 9, 2025	October 28, 2026	March 24, 2027	No maturity date	No maturity date
14	Issuer's redemption (subject to regulatory approval)	No	No	Yes	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	The first redemption date is March 18, 2025, full or part

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)	Undated capital bonds
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	March 18 in each year after the first redemption date
Dividend or interest payment							
17 Including: Fixed or floating interest payment or dividend	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	Floating: The coupon rate is fixed in a single coupon rate 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	The coupon rate in the first five years is 3.69%, and it is reset every five years based on the arithmetic average of the maturity yield of the 5-year product of the maturity yield curve of China Bonds published on ChinaBond.com (or other websites approved by China Central Depository & Clearing Co., Ltd.) (rounded to 0.01%) plus 125 basis points to reset the coupon rate 5 trading days (excluding the day) before the adjustment date of the benchmark interest rate.
19 Including: Existence of dividend brake mechanism	Not applicable	Not applicable	No	No	No	Yes	Yes
20 Including: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	No	No	No	Full discretion	Full discretion
21 Including: Existence of redemption incentive mechanism	No	No	No	No	No	No	No
22 Including: Cumulative or Non-cumulative	Non-cumulative	Non-cumulative	Not applicable	Not applicable	Not applicable	Non-cumulative	Non-cumulative
23 Conversion into shares	No	No	No	No	No	Yes	No

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)	Undated capital bonds
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	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)	Undated capital bonds
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	Not applicable
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 (March 24, 2017) of the Board resolution on the Offshore Preference Shares issuance	Not applicable
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	Not applicable
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	Not applicable
29	Including: Please specify the issuer of the instrument after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	The Bank	Not applicable
30	Write-down or not	No	No	Yes	Yes	Yes	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)	Undated capital bonds
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	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
32	Including: Please specify write-down in part or in full, if allowed	Not applicable	Not applicable	In full	In full	In full	Not applicable	part or full
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	Perpetual
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	Not applicable

APPENDIX II: COMPOSITION OF CAPITAL

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)	Undated capital bonds
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	The repayment order of the principal of the bond and the interest payment order after depositors and general creditors and before equity capital, other tier 1 capital instruments and hybrid 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	The repayment order of the principal of the bond and the interest payment order after depositors and general creditors and before equity capital, other tier 1 capital instruments and hybrid 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	The repayment order of the principal of the bond and the interest payment order after depositors and general creditors and before equity capital, other tier 1 capital instruments and hybrid 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	After depositor, general creditor, and subordinated debts that are higher than the current bond order, and before all types of shares held by the issuers and shareholders; Current bonds are in the same priority as other tier 1 capital instruments of the issuer and in the same repayment order as the current bonds.
36	Does the instrument contain temporary illegible attribute?	No	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	Not applicable