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, 2021

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, 2021. 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 2021 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, PRC
August 27, 2021

As at the date of this announcement, the Board of the Bank comprises Mr. Zhang Jinliang as Chairman and Non-executive Director; Mr. Liu Jianjun, Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors; Mr. Han Wenbo, Mr. Chen Donghao, Mr. Wei Qiang, 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.*

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 2021 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 27, 2021. There were 14 Directors of the Bank eligible for attending the meeting, among which 14 Directors attended the meeting in person. The attendance was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association.

With the approval at the 2020 Annual General Meeting held on June 29, 2021, the Bank distributed cash dividends of RMB2.085 (tax included) per ten shares, totaling approximately RMB19,262 million (tax included), for the period from January 1, 2020 to December 31, 2020 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 2021, 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 2021 interim financial report prepared by the Bank in accordance with PRC GAAP and IFRSs was reviewed by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with Chinese and international review standards respectively.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
August 27, 2021

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 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 any discrepancy between the two versions, the Chinese version shall prevail.

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Definitions

"Articles of Association"	The Articles of Association of Postal Savings Bank of China Co., Ltd., as amended, supplemented or otherwise modified from time to time
"Bank/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"	The 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 micro, small, and medium enterprises under the Classification Standards of Small and Medium Enterprises
"CSRC"	China Securities Regulatory Commission
"Direct Bank/YOU+ BANK"	YOU+ BANK, a direct bank subsidiary which has been approved by regulators to be set up by the Bank
"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
"IFRSs"	International Financial Reporting Standards and the related amendments and interpretations issued by the International Accounting Standards Board
"loans to micro and small enterprises"	The loans to micro and small enterprises which comply with the classification standards of the CBIRC, including the loans to small-sized enterprises, loans to micro-sized enterprises, loans to individually-owned businesses 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 other related 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
"SMEs"	The enterprises classified as micro, small, and medium enterprises under the Classification Standards of Small and Medium Enterprises
"SSE"	Shanghai Stock Exchange
"Three Regions and Three Prefectures"	Tibet Autonomous Region, the Tibetan inhabited areas in four provinces (Qinghai, Sichuan, Yunnan and Gansu), four prefectures in southern Xinjiang Autonomous Region, Liangshan Prefecture of Sichuan Province, Nujiang Prefecture of Yunnan Province, and Linxia Prefecture of Gansu 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.

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 personal customers, the Bank leverages its advantage of unique model featuring directly-operated outlets and agency outlets to serve Sannong customers, urban and rural residents and SMEs. It has shown its superior asset quality and significant development potential, and is a leading retail bank in China.

The Bank is committed to serving the real economy, actively implementing the national development strategy and supporting the development of the modern economic system of China, and strives for sustainable development. The Bank adheres to the customer-centric philosophy and has established

Having approximately
40,000 outlets

Services covering over
600 million
personal customers

Ranked 15th in
The Banker's list of
"Top 1000 World Banks"
in terms of tier 1 capital

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. It 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 stays committed to its mission of "covering both urban and rural areas and delivering services to the broad public" by providing inclusive financial services; embraces the trend of residents' wealth growth and consumption upgrade and develops wealth finance; supports the country's industrial structural transformation and upgrade by developing industry finance; and implements major plans for peaking carbon dioxide emissions and achieving carbon neutrality to develop green finance. The Bank aims to empower high-quality development via financial technology and build a digital ecology bank serving the new urbanization and rural revitalization strategy.

After 14 years of dedicated efforts, the Bank has been playing an increasingly important role in the market with marked influence. It has been rated A+ and A1 by Fitch Ratings and Moody's Investors Service respectively, which are the same as China's sovereignty credit rating. It has been rated A, AAAspc and AAA with a stable outlook by S&P Global Ratings, S&P Global (China) Ratings and CCXI. In 2021, it ranked 15th in The Banker's list of "Top 1000 World Banks" in terms of tier 1 capital.

Faced with the period of strategic opportunities for China's economic and social development, the Bank will ground its efforts in the new stage of development, apply the new development philosophy, serve the new development pattern, comprehensively deepen reform and innovation, and make every effort to be a first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value.

Fitch Ratings	Moody's Investors Service	S&P Global Ratings	S&P Global (China) Ratings	CCXI
A+	A1	A	AAAspc	AAA
stable	stable	stable	stable	stable

Strategic Positioning and Corporate Culture

Mission

To deliver accessible financial services in both urban and rural areas

Strategic Vision

To build a first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value

Strategic Target

The Bank aims to empower high-quality development with financial technology, accelerate transformation of business model, build a smart risk control system and enhance value creation to establish a leading digital ecology bank serving the new urbanization and rural revitalization strategy.

Values

- Create value for customers
- Integrity is the foundation of development
- Prudence leads to sustainability
- Employees are our greatest asset
- Excellence comes through professionalism
- Embrace changes and always innovate

Company Spirit

Be responsible, resilient and caring

Brand Premise

Together we make it better

Company Philosophies

Management philosophy: Keep it simple and reduce administrative burden

Operation philosophy: Gain a first-mover advantage with market insights

Risk philosophy: Prudence and compliance lead to stability, and risk control is the key to sustainable development

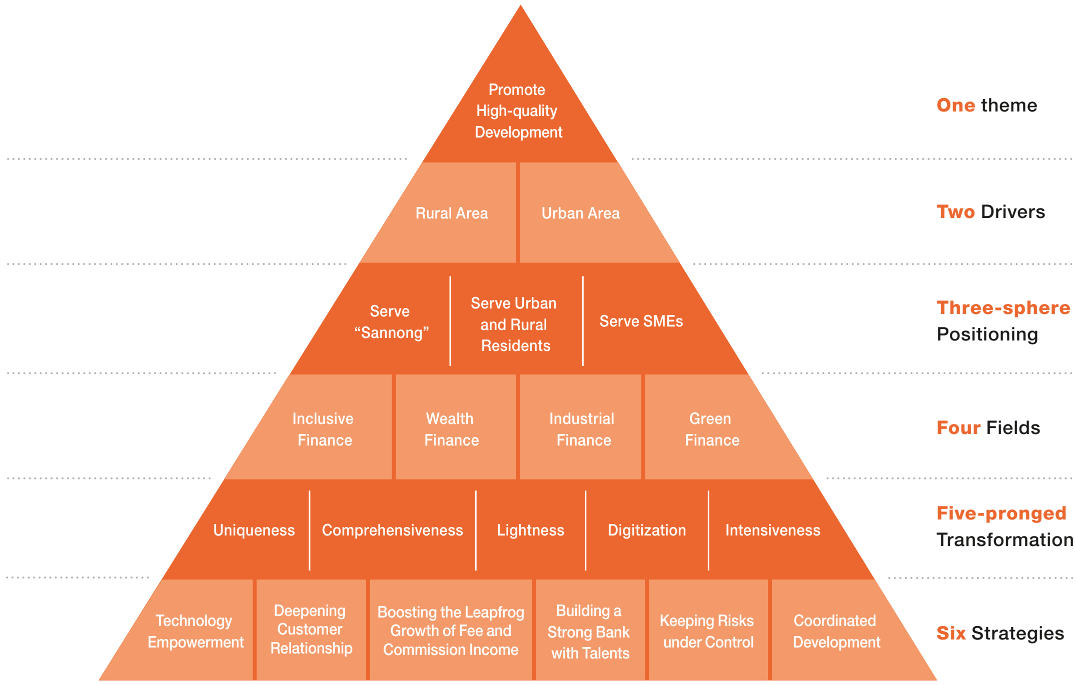
Service philosophy: Pour our heart and soul for customer satisfaction

Talent philosophy: Respect the value of employees, tap into their potential, and bring them closer to their dreams

Coordination philosophy: See the bigger picture, act with one mind, and make progress toward a shared future

PSBC's 14th Five-year Plan Outline

A first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value

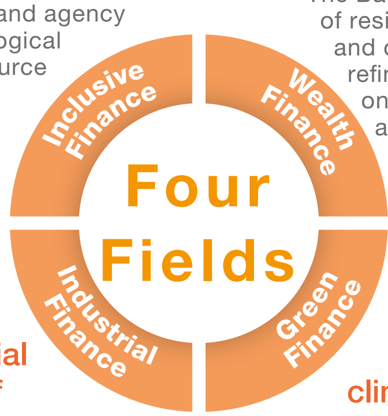


Play the roles of forerunner and practitioner of inclusive finance to the full

The Bank will tap into the potential of the unique model combining "directly-operated outlets and agency outlets" and inject technological strength to traditional resource endowment, so as to integrate online and offline businesses and iterate its service model constantly.

Build a new wealth finance model that encourages openness and embraces innovation

The Bank will follow the trends of residents' wealth growth and consumption upgrade, refine management based on customer segmentation, and improve customer experience on all fronts.



Support the transformation and upgrading of industrial structure by virtue of industrial finance

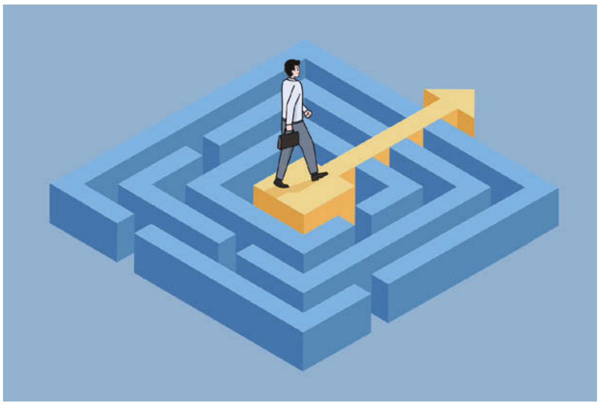
The Bank will combine direct and indirect financing products, and develop new ways to meet the needs of small, medium and large-sized enterprises dependent on core enterprises along the industrial chain and retail customer groups.

Vigorously develop sustainable finance, green finance and climate financing

The Bank will fully implement major decisions and plans of the CPC Central Committee and the State Council on reaching peak carbon emissions and achieving carbon neutrality, and make effort to build a first-tier green inclusive bank and a climate-friendly bank.

Consensus of PSBCers

Release concise documents, have meaningful meetings, and make straightforward communication.



Meetings and documents are meant to solve problems. Unproductive meetings and redundant documents are only energy drainers. Therefore, keep meetings and documents short and to-the-point, and communication frank and straightforward.

You are respected for your capacity to create value, not for your authority to dictate.

Title carries no privilege, but speaks about responsibility. The higher one's position is, the greater responsibility one shall take and the more impact one shall have on the organization. Create value that matches your title in order to earn respect from others.

Relationship shall facilitate cooperation, rather than being an excuse to break rules.

A harmonious and humane workplace can foster a loving team and encourage teamwork, but never forget to hold rules and principles in awe, and respect them with a clear-cut attitude without playing favoritism.

Be practical rather than superficial, be down-to-earth rather than perfunctory.

Work has to be practical and effective. It is only a waste of time and resources to go through the motions. Only by taking concrete actions can you truly realize your own value and improve your abilities at work.

• Scan to learn about PSBC's corporate culture

Consensus of PSBCers

Dive into the market and get close to customers.
It is all empty talk without field study.

People who are away from the market can never truly understand it. Only by getting off your high horse, going to the front line and finding out what customers really want can you make sound, informed decisions and practical plans, and turn them into effective actions.

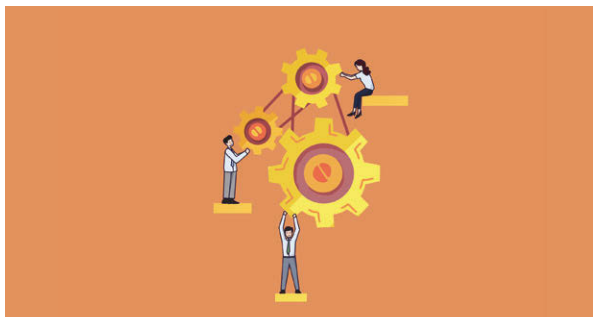
Discussion without a conclusion is a dereliction of duty.
The front-line business cannot wait for endless discussions behind.

Markets are fast-changing, and opportunities fleeting. Be brave to take the responsibility, and make sound and quick decisions.

An action is better than a dozen of plans.
Do it right away and get the job well-done.

A decision cannot make a real impact unless it is acted out. Therefore, we need to act with swiftness instead of overthinking about gains or losses, and focus more on “efficiency” and “quality”. Do it now and do it right.

Support each other and everyone has his or her stage.



The everyone-for-himself mindset will hold you back; only by working together can we make common progress. Work as a team and support each other. Only when the company prospers as a whole can we prosper as individuals.

Lessen ineffective orders and streamline front-line business.

Front-line workers run a tight schedule serving customers and fulfilling administrative orders from the higher level at the same time. Therefore, strengthened higher-level coordination is needed to reduce repeated instructions and deliver more targeted and effective ones, so as to empower and lighten the workload of front-line workers.

The professional pathway can also lead to great career success.

We need more specialized personnel while facing intense market competition. We have built up a staff banding matrix that enables “both vertical promotion and horizontal transfer”, encouraging employees to choose their own development pathways based on personal characteristics and expertise. Employees can also reach their career goals along the expertise-based promotion line.

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:	Liu Jianjun
Authorized representatives:	Yao Hong, Du Chunye
Secretary to the Board of Directors:	Du Chunye Address: No. 3 Financial Street, Xicheng District, Beijing Telephone: 86-10-68858158 Fax: 86-10-68858165 Email: 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, Dah Sing Financial Centre, 248 Queen's Road East, Wan Chai, Hong Kong
Investor contacts:	Postal code: 100808 Telephone: 86-10-68858158 Fax: 86-10-68858165 Email: 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 place, stock name, stock code and website for publication of reports:	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 188 Yanggao South Road, Pudong New Area, Shanghai Website of Shanghai Stock Exchange for publication of reports: www.sse.com.cn

H share listing place, 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 reports: www.hkexnews.hk
Preference share listing place, 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:	Deloitte Touche Tohmatsu Certified Public Accountants LLP Place of business: 30/F, 222 Yan An Road East, Huangpu District, Shanghai Signing accountants: Wu Weijun, Hu Xiaojun, Shen Xiaohong
International auditor:	Deloitte Touche Tohmatsu
Sponsors 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 sponsors: Zhou Shaolong, Li Yifan Period of continuous supervision and guidance: December 10, 2019 to December 31, 2022 China Post Securities Co., Ltd. Place of business: No. 17, Zhushikou East Street, Dongcheng District, Beijing Signing sponsors: Li Yong, Xie Min Period of continuous supervision and guidance: December 10, 2019 to January 5, 2021 CITIC Securities Co., Ltd. Place of business: 23rd Floor, CITIC Securities Building, No. 48, Liangmaqiao Road, Chaoyang District, Beijing Signing sponsors: Sun Yi, Ma Xiaolong Period of continuous supervision and guidance: January 6, 2021 to December 31, 2022

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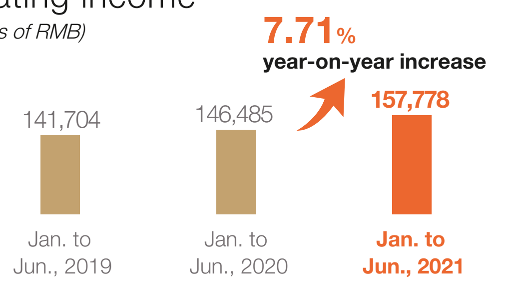
Financial Highlights

Financial data and indicators in this report have been prepared in accordance with the IFRSs. Unless otherwise specified, they are consolidated data of the Bank and its subsidiaries and denominated in RMB.

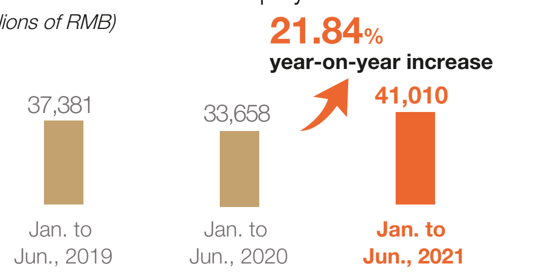
Operating income

(In millions of RMB)



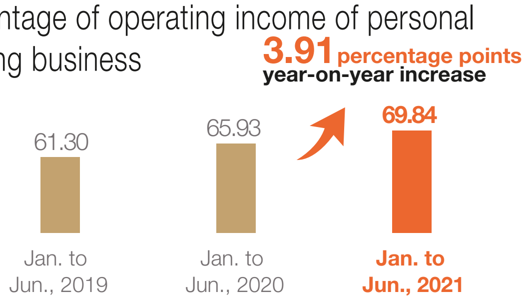
Net profit attributable to equity holders of the Bank

(In millions of RMB)



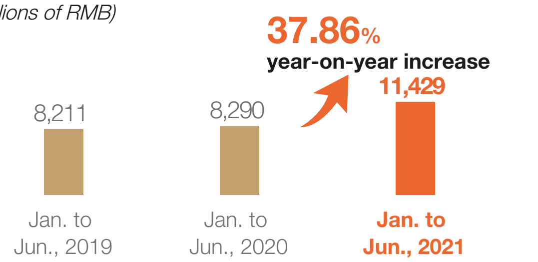
Percentage of operating income of personal banking business

(%)



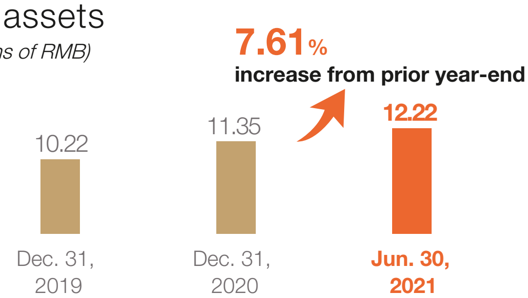
Net fee and commission income

(In millions of RMB)



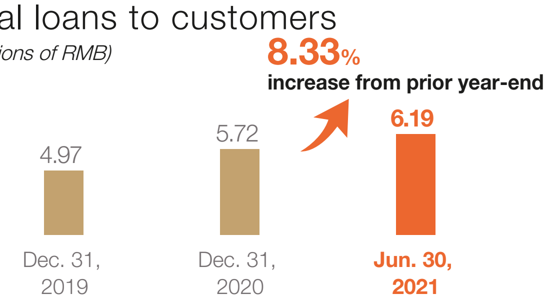
Total assets

(In trillions of RMB)



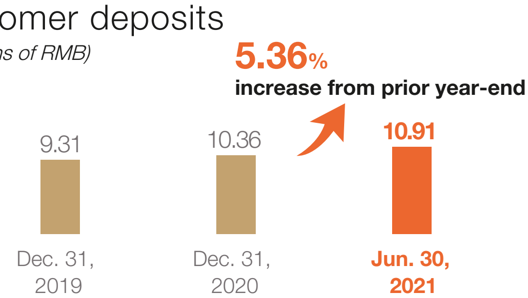
Total loans to customers

(In trillions of RMB)



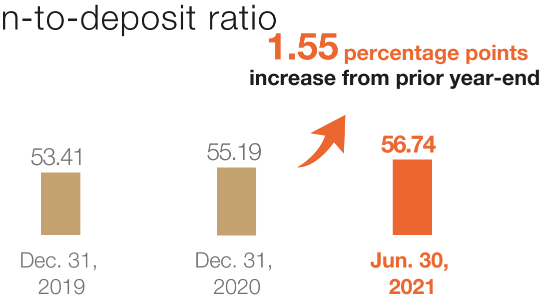
Customer deposits

(In trillions of RMB)



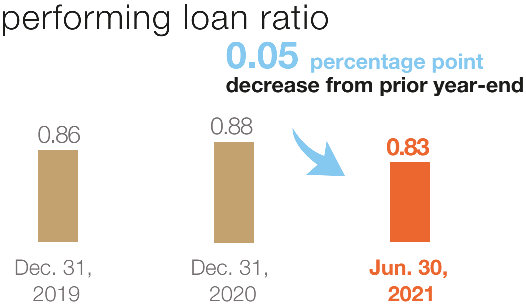
Loan-to-deposit ratio

(%)



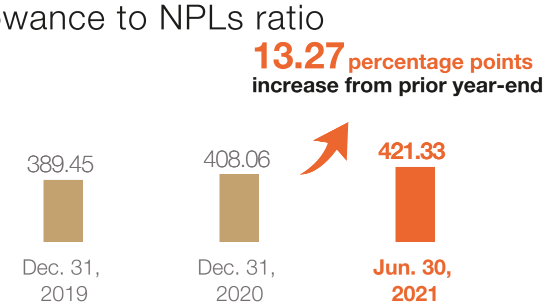
Non-performing loan ratio

(%)



Allowance to NPLs ratio

(%)



Key Financial Data

In millions of RMB, unless otherwise stated

Item	For the six months ended June 30, 2021	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Operating results			
Operating income	**157,778**	146,485	141,704
Net interest income[1]	**132,096**	124,392	120,210
Net fee and commission income[1]	**11,429**	8,290	8,211
Operating expenses	**82,565**	76,664	73,222
Credit impairment losses	**29,454**	33,590	27,693
Impairment losses on other assets	**8**	4	3
Profit before income tax	**45,751**	36,227	40,786
Net profit	**41,244**	33,673	37,422
Net profit attributable to equity holders of the Bank	**41,010**	33,658	37,381
Net cash flows from operating activities	**168,077**	(10,929)	113,271
Per share data (in RMB)			
Basic and diluted earnings per share[2]	**0.40**	0.36	0.43

Note (1): The installment fee income of credit card of each comparable period in this report was reclassified from fee and commission income to interest income.

Note (2): Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by the CSRC. There were no potential diluted ordinary shares of the Bank, so the diluted earnings per share was the same as the basic earnings per share.

Financial Highlights

In millions of RMB, unless otherwise stated

Item[4]	June 30, 2021	December 31, 2020	December 31, 2019
Data as at the end of the reporting period			
Total assets	**12,217,051**	11,353,263	10,216,706
Total loans to customers[1]	**6,192,400**	5,716,258	4,974,186
Allowance for impairment losses on loans to customers[2]	**214,431**	203,897	166,124
Loans to customers, net	**5,977,969**	5,512,361	4,808,062
Financial investments[3]	**4,082,168**	3,914,650	3,675,030
Cash and deposits with central bank	**1,249,615**	1,219,862	1,154,843
Total liabilities	**11,466,666**	10,680,333	9,671,827
Customer deposits[1]	**10,913,567**	10,358,029	9,314,066
Equity attributable to equity holders of the Bank	**749,055**	671,799	543,867
Net capital	**867,009**	784,579	671,834
Core tier 1 capital – net	**589,772**	542,347	492,212
Additional tier 1 capital – net	**157,956**	127,954	47,948
Risk-weighted assets	**6,053,964**	5,651,439	4,969,658
Per share data (in RMB)			
Net assets per share[5]	**6.40**	6.25	5.75

Note (1): For ease of reference, "loans to customers" refers to "loans and advances 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 interest on financial instruments from corresponding assets and liabilities should be included in the balance of carrying amounts of the financial instruments accordingly but should not be accounted for as separate items of "interest receivable" and "interest payable" since 2018. The balance of "interest receivable" or "interest payable" shown in "other assets" or "other liabilities" is only interest 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 ordinary shareholders of the Bank 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, 2021	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Profitability (%)			
Return on average total assets(1)(2)	**0.71**	0.64	0.77
Return on weighted average equity(1)(3)	**13.30**	12.65	16.38
Net interest margin(1)(4)	**2.37**	2.45	2.57
Net interest spread(1)(5)	**2.31**	2.39	2.54
Net fee and commission income to operating income ratio	**7.24**	5.66	5.79
Cost to income ratio(6)	**51.53**	51.57	50.95

Item	June 30, 2021	December 31, 2020	December 31, 2019
Asset quality (%)			
Non-performing loan ratio(7)	**0.83**	0.88	0.86
Allowance to NPLs ratio(8)	**421.33**	408.06	389.45
Allowance to loans ratio(9)	**3.49**	3.60	3.35
Capital adequacy ratio (%)			
Core tier 1 capital adequacy ratio(10)	**9.74**	9.60	9.90
Tier 1 capital adequacy ratio(11)	**12.35**	11.86	10.87
Capital adequacy ratio(12)	**14.32**	13.88	13.52
Risk-weighted assets to total assets ratio(13)	**49.55**	49.78	48.64
Total equity to total assets ratio	**6.14**	5.93	5.33

Note (1): On an annualized basis.

Note (2): Calculated by dividing net profit by the average balance of total assets at the beginning and at the end of the reporting 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 the CSRC.

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

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

Note (6): Calculated by dividing operating expenses (less taxes and surcharges) by operating income.

Note (7): Calculated by dividing the total NPLs by total loans to customers, and the total loans no longer include the accrued interest.

Note (8): Calculated by dividing total allowance for impairment losses on loans to customers by total NPLs. Total allowance for impairment losses on loans to customers includes allowance for impairment losses on loans to customers at amortized cost and allowance for impairment losses on loans to customers 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	June 30, 2021	December 31, 2020	December 31, 2019
Liquidity ratio (%)[1]	RMB and foreign currency	≥25	**75.26**	71.61	67.96
Percentage of loans to largest single borrower (%)[2]		≤10	**21.00**	23.21	27.19
Percentage of loans to the ten largest borrowers (%)			**31.59**	34.49	39.42
Loan migration ratio (%)	Normal		**0.45**	1.02	1.28
	Special mention		**22.01**	48.94	16.42
	Substandard		**48.85**	52.81	63.32
	Doubtful		**56.45**	86.23	81.80

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

Note (2): Percentage of loans to largest single borrower = balance of loans to the largest borrower/net capital x 100%. The largest borrower refers to the borrower with the highest balance of loans at the period end. As of the end of the reporting period, 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 21% of the Bank's net capital. The credit line the Bank granted to China State Railway Group Co., Ltd. includes the legacy credit line of RMB240 billion which was approved by relevant regulatory authorities. As of the end of the reporting period, the outstanding loan balance under such credit line 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 1.97% of the Bank's net capital.

Credit Rating

Rating Agency	As of June 30, 2021	2020	2019
S&P Global Ratings	**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)	AAAspc (stable)
CCXI	**AAA (stable)**	AAA (stable)	AAA (stable)

Overview of Operations

The year of 2021 marks the first year of the 14th Five-Year Plan period. Adhering to the strategic vision of "building a first-tier large retail bank", the Bank grounds its efforts in the new development stage, applies the new development philosophy, serves the new development pattern, and promotes reform, innovation and business transformation on all fronts. Focusing on the main task of high-quality development, the Bank strives to seize opportunities and improve the development quality and efficiency. In the first half of 2021, its main business indicators were generally sound, enabling the Bank to embark on a new journey of high-quality development in the 14th Five-Year Plan period.

Registering Sound Operating Results

The Bank achieved stable growth in business scale. As of the end of the reporting period, its total assets exceeded RMB12 trillion, representing an increase of 7.61% compared with the prior year-end; total loans to customers surpassed RMB6 trillion, representing an increase of 8.33% compared with the prior year-end; total liabilities reached RMB11.47 trillion, representing an increase of 7.36% compared with the prior year-end. In addition, the Bank's profitability continued to improve. In the first half of 2021, the net profit attributable to equity holders of the Bank was RMB41,010 million, representing a year-on-year increase of 21.84%; the operating income was RMB157,778 million, representing a year-on-year increase of 7.71%, of which the net interest income hit RMB132,096 million, representing a year-on-year increase of 6.19%; and the net fee and commission income reached RMB11,429 million, representing a year-on-year increase of 37.86%.

Continuously Improving the Development Quality and Efficiency

The Bank continued to optimize its asset-liability structure, and steadily improved its value creation capabilities. The loan-to-deposit ratio[1], the percentage of credit assets, the percentage of personal loans, and the percentage of medium and long-term loans continued to increase, up by 1.55 percentage points, 0.34 percentage point, 0.54 percentage point and 0.33 percentage point respectively over the prior year-end. The Bank endeavored to improve the liability structure by actively controlling long-term and high-cost deposits. The majority of new time deposits had a term of one year or below. Adhering to the value creation-oriented approach, the Bank's annualized return on average total assets and annualized return on weighted average equity were 0.71% and 13.30% respectively, representing an increase of 0.07 percentage point and 0.65 percentage point year on year respectively; the cost to income ratio was 51.53%, representing a decrease of 0.04 percentage point year on year; and the net interest margin was 2.37%, continuing to take the lead in the banking industry.

Achieving Remarkable Results in Serving the Real Economy

The Bank actively fulfilled its responsibilities as a major state-owned bank, and strengthened its capabilities in serving the real economy, which yielded good results. Seizing significant strategic opportunities arising from the rural revitalization strategy, which is highly aligned with its resource endowment, the Bank strengthened financial services for Sannong by installing more than 100,000 sets of self-service equipment and setting up nearly 40,000 financial service stands for agriculture at and below the county level. The balance of agro-related loans stood at RMB1.52 trillion, accounting for about one fourth of the Bank's total loans. The Bank served as an important provider of basic financial services for rural areas, a key financing channel for rural business entities, an important bridge for the flow of urban and rural factors, and an active contributor in the fight against poverty in rural areas. What's more, the Bank accelerated the digital transformation, improved the quality and efficiency of inclusive financial services, and effectively met the financing needs of small and micro-sized enterprises. The balance of inclusive loans to small and micro-sized enterprises amounted to RMB890,503 million, and the proportion of which

1 Calculated by dividing total customer loans by total customer deposits.

to total loans was more than 14%, which was one of the highest among major state-owned banks in China. Meanwhile, the Bank actively implemented the strategic plan for achieving carbon emissions peak and carbon neutrality, built a green inclusive bank and a climate-friendly bank with PSBC characteristics, and became the second major state-owned commercial bank that signed for the Principles for Responsible Banking. It also increased the green credit supply, with the balance of green loans standing at RMB317,104 million and the balance of green financing at RMB364,137 million, representing an increase of 12.87% and 13.88% respectively compared with the prior year-end.

Further Consolidating the Risk Prevention Capability

Amid the outbreak of the epidemic and the period of policy adjustment, the Bank, with the worst-case scenario in mind, accurately analyzed and assessed changes in the market, constantly improved the comprehensive risk management system and strengthened the proactive capital management to prevent and mitigate financial risks while serving the real economy, thus safeguarding the business development of the Bank. The Bank took the lead in the banking industry in terms of asset quality. As of the end of the reporting period, its NPL ratio was 0.83%, representing a decrease of 0.05 percentage point compared with the prior year-end; and it was in a stronger position to withstand risks with an allowance to NPLs ratio of 421.33%, representing an increase of 13.27 percentage points compared with the prior year-end. Furthermore, the Bank employed financial technology to create intelligent risk control tools covering the whole business process and deepen the application of the "Jinjing" (Golden Eye) and "Jindun" (Golden Shield) systems. It also improved the long-term capital management mechanism. It enhanced the capacity of endogenous growth of capital, and also applied capital instruments such as private offering of stocks and issuance of undated capital bonds to replenish capital from external sources. Hence its capital strength was further built up, with a capital adequacy ratio of 14.32%, representing an increase of 0.44 percentage point compared with the prior year-end.

Comprehensively Advancing Reform, Innovation and Business Transformation

The Bank actively promoted institutional reform. For example, it successfully established YOU+ BANK, opened the Credit Card Center as a specialized institution, and set up the Digital Currency Department as a tier-1 department of the Head Office. The Bank implemented the national e-CNY strategy, improved the output capacity of e-CNY services, and established an open, shared and diversified e-CNY ecosystem. It also diversified consumption and business scenarios, worked to make the online ecological layout of "PSBC Canteen + postal service + life scenario" more sophisticated, and steadily advanced the building of the offline ecosystem of "outlets plus business circles". In addition, the Bank sped up IT application and increased resource input. In the first half of 2021, the Bank invested RMB5,202 million in R&D, accounting for 3.30% of its operating income. The technological platform for the new-generation distributed core processing system and the function module on AI application service management based on PSBC Brain, the machine learning platform, were successfully rolled out, and a total of 119 projects including the credit business platform (corporate) were also successfully launched. What's more, the Bank promoted the transformation of business models, growth patterns and profit-making models, vigorously developed businesses such as retail banking, investment banking, custody service and wealth management that consumed less capital, relied less on interest margin and had higher flexibility in response to economic cycles, and strictly controlled costs to advance the transformation towards a bank with "light capital consumption", "light assets" and "low costs".

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Discussion and Analysis

Environment and Prospect

The first half of 2021 witnessed the continued recovery of global economy, coupled with an increasingly uneven growth and rising inflation expectations. Major developed economies maintained accommodative monetary policies and kept interest rates low. The global banking industry expanded steadily with solid improvements in performance, yet the net interest margin was still under stress and the downside risks to asset quality still existed.

Thanks to the continuous efforts in consolidating the results of COVID-19 containment and economic and social development, China's economy remained in a steady recovery with new achievements in high-quality development. The proactive fiscal policy was more effective and sustainable. The prudent monetary policy maintained its continuity, stability and sustainability, keeping the money supply and aggregate financing growing basically in line with nominal economic growth. As the loan prime rate (LPR) reform continued to yield benefits and the monetary policy was transmitted more efficiently, the real economy saw the overall financing cost dropping stably. In addition, the RMB exchange rate showed stronger flexibility in two-way movements amid stable expectations, and financial risks were forestalled and controlled effectively. China's banking industry kept stable operation. The credit supply expanded reasonably in size and improved continuously in structure. The deferred repayment of principal and interest was implemented for inclusive loans to small and micro-sized enterprises. On the whole, China's banking industry enhanced its quality and efficiency of serving the real economy, and made positive progress in forestalling and defusing risks in key fields.

Looking into the second half of 2021, China's economy will keep gathering momentum. However, domestic economic recovery remains unstable and unbalanced amid the global pandemic and an increasingly tough and complex external environment. China will step up its efforts to foster a new development pattern and pursue high-quality development by staying committed to deepening the supply-side structural reform and upholding the strategy of boosting domestic demand. Cross-cyclical adjustments of macro policies will be put in place. The proactive fiscal policy will be more effective. The prudent monetary policy will remain flexible, targeted and at a reasonable and appropriate level, and attach greater importance to serving the real economy. The monetary supply control mechanism will be improved and the macro leverage ratio be kept basically stable to properly address the relationship between economic growth and risk prevention. The banking industry will provide financial services to effectively serve the real economy, strengthen the support for key fields including technological innovation, micro and small enterprises, rural revitalization, green development and manufacturing, deepen transformation and development, replenish capital through various channels, boost the risk compensation ability, and remain steadfast in fighting a protracted war of forestalling and defusing financial risks.

The year 2021 marks the 100th anniversary of the founding of the Communist Party of China, and the first year of the 14th Five-Year Plan period. It is also a pivotal year for PSBC to pursue high-quality development and build "a first-tier large retail bank". In the second half of 2021, the Bank will remain guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, exert every effort to execute the "123456" Strategy and speed up the "light bank" and "digital ecology bank" development. Firstly, the Bank will cement its position in county areas, expand the effective link between poverty alleviation results and rural revitalization, accelerate the digital transformation of financial services for Sannong, empower rural revitalization with FinTech, develop multi-dimensional county-area financial service scenarios and enhance the ability to serve customers in county areas. Secondly, the Bank will stick to a business pattern dominated by retail banking and supported by wholesale banking, upgrade "new retail" for better quality, steadily expand the capital-efficient corporate banking business and develop transactional and capital-light treasury and asset management business. Thirdly, the internal growth drivers will be further fostered. The Bank will remain customer-centric and endeavor to improve customer experience by transforming and upgrading outlets, upgrading the wealth management system, expanding the market share of its e-CNY business and commencing the direct banking business. Fourthly, business will be increasingly empowered by technology. The Bank will develop systems and mechanisms that commensurate with digital transformation, pursue in-depth integration of business and technology, endeavor to boost the core competitiveness of information technology and strengthen technology as an enabler of high-quality development. Fifthly, risk management will be transformed into a driver of business development. The Bank will adhere to a risk-based approach focused on five key words, namely monitoring, guidance, constraints, accountability and back-review. By effectively transmitting risk appetite, improving the ability to forecast risks and providing good customer experience via smart risk control, the Bank will turn risk management into one of its core competencies and defend the bottom line to eliminate systemic risks.

Analysis of Financial Statements

In the first half of 2021, staying committed to its positioning as a large retail bank, the Bank pursued high-quality development, focused on serving the real economy, actively and steadily developed various businesses, and thereby achieved steady improvement in scale, quality and efficiency, which were mainly manifested in:

The Bank continuously improved its profitability. During the reporting period, the Bank recorded a net profit of RMB41,244 million, representing a year-on-year increase of 22.48%. The operating income amounted to RMB157,778 million, representing a year-on-year increase of 7.71%, among which: the net interest income was RMB132,096 million, representing a year-on-year increase of 6.19%; and the net fee and commission income was RMB11,429 million, representing a year-on-year increase of 37.86%. Annualized return on average total assets and annualized return on weighted average equity were 0.71% and 13.30% respectively, up 0.07 percentage point and 0.65 percentage point compared with the same period of last year.

The Bank achieved stable growth in the scale of assets and liabilities. As of the end of the reporting period, the Bank's total assets amounted to RMB12,217,051 million, representing an increase of 7.61% compared with the prior year-end, of which total loans to customers amounted to RMB6,192,400 million, representing an increase of 8.33% compared with the prior year-end; total liabilities amounted to RMB11,466,666 million, representing an increase of 7.36% compared with the prior year-end, of which total customer deposits amounted to RMB10,913,567 million, representing an increase of 5.36% compared with the prior year-end.

The Bank maintained sound and stable asset quality. As of the end of the reporting period, the Bank recorded a non-performing loan ratio of 0.83%, representing a decrease of 0.05 percentage point compared with the prior year-end; an allowance to NPLs ratio of 421.33%, representing an increase of 13.27 percentage points compared with the prior year-end.

Analysis of Income Statement

During the reporting period, the Bank's net profit amounted to RMB41,244 million, representing an increase of RMB7,571 million, or 22.48% compared with the same period of the prior year.

Changes of Principal Components in the Income Statement

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021	For the six months ended June 30, 2020	Increase/ (decrease)	Change (%)
Net interest income	**132,096**	124,392	7,704	6.19
Net fee and commission income	**11,429**	8,290	3,139	37.86
Net other non-interest income	**14,253**	13,803	450	3.26
Operating income	**157,778**	146,485	11,293	7.71
Less: Operating expenses	**82,565**	76,664	5,901	7.70
Credit impairment losses	**29,454**	33,590	(4,136)	(12.31)
Impairment losses on other assets	**8**	4	4	100.00
Profit before income tax	**45,751**	36,227	9,524	26.29
Less: Income tax expenses	**4,507**	2,554	1,953	76.47
Net profit	**41,244**	33,673	7,571	22.48
Attributable to equity holders of the Bank	**41,010**	33,658	7,352	21.84
Attributable to non-controlling interests	**234**	15	219	1,460.00
Other comprehensive income	**802**	(163)	965	–
Total comprehensive income	**42,046**	33,510	8,536	25.47

Net Interest Income

During the reporting period, the Bank maintained steady growth in assets and liabilities. It took the initiative to optimize the asset-liability structure, increase the proportion of high-yield assets, and strengthen the management and control of long-term deposits with high cost. By these efforts, the Bank realized a net interest income of RMB132,096 million, representing an increase of RMB7,704 million, or 6.19% compared with the same period of the prior year, of which an increase in net interest income of RMB13,952 million was driven by the scale expansion, and a decrease in net interest income of RMB6,248 million was brought by the changes in interest rates. Net interest margin and net interest spread were 2.37% and 2.31%, respectively.

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

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021 Average balance	Interest income/ expense	Average yield/cost (%)[1]	For the six months ended June 30, 2020 Average balance	Interest income/ expense	Average yield/cost (%)[1]
Assets						
Total loans to customers	5,959,596	139,479	4.72	5,215,849	123,771	4.77
Investments[2]	3,545,449	63,343	3.60	3,424,654	62,285	3.66
Deposits with central bank[3]	1,169,831	9,456	1.62	1,068,583	8,592	1.62
Deposits and placements with banks and other financial institutions[4]	586,549	8,649	2.97	510,380	8,112	3.20
Total interest-earning assets	11,261,425	220,927	3.96	10,219,466	202,760	3.99
Allowance for impairment losses on assets	(229,304)	–	–	(196,958)	–	–
Non-interest-earning assets[5]	823,655	–	–	661,534	–	–
Total assets	11,855,776	–	–	10,684,042	–	–
Liabilities						
Customer deposits	10,561,655	85,636	1.64	9,560,607	74,644	1.57
Deposits and placements from banks and other financial institutions[6]	224,550	1,983	1.78	210,139	1,811	1.73
Debt securities issued[7]	55,911	996	3.59	104,486	1,875	3.61
Borrowings from central bank	24,873	216	1.75	4,696	38	1.63
Total interest-bearing liabilities	10,866,989	88,831	1.65	9,879,928	78,368	1.60
Non-interest-bearing liabilities[8]	241,243	–	–	197,109	–	–
Total liabilities	11,108,232	–	–	10,077,037	–	–
Net interest income	–	132,096	–	–	124,392	–
Net interest spread[9]	–	–	2.31	–	–	2.39
Net interest margin[10]	–	–	2.37	–	–	2.45

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, placements with banks and other financial institutions and financial assets held under resale agreements.

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, placements from banks and other financial institutions and financial assets sold under repurchase agreements.

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, corporate income 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 2021 vs 2020 Increase/(decrease)		
Item	**Volume[(1)]**	**Interest rate[(2)]**	**Total[(3)]**
Assets			
Total loans to customers	17,407	(1,699)	15,708
Investments	2,158	(1,100)	1,058
Deposits with central bank	818	46	864
Deposits and placements with banks and other financial institutions	1,123	(586)	537
Total changes in interest income	21,506	(3,339)	18,167
Liabilities			
Customer deposits	8,117	2,875	10,992
Deposits and placements from banks and other financial institutions	127	45	172
Debt securities issued	(865)	(14)	(879)
Borrowings from central bank	175	3	178
Total changes in interest expense	7,554	2,909	10,463
Changes in net interest income	13,952	(6,248)	7,704

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 Bank's interest income amounted to RMB220,927 million, representing an increase of RMB18,167 million, or 8.96% compared with the same period of the prior year, primarily due to the growth in the scale of interest-earning assets and the increase in the proportion of high-yield interest-earning assets.

Interest Income from Loans to Customers

During the reporting period, the Bank's interest income from loans to customers amounted to RMB139,479 million, representing an increase of RMB15,708 million, or 12.69% compared with the same period of the prior year.

Specifically, the Bank's interest income from corporate loans amounted to RMB41,573 million, representing an increase of RMB3,169 million, or 8.25% compared with the same period of the prior year, primarily because the Bank stepped up support for important strategic regions and key industries of the country, conducted in-depth cooperation with strategic customers, and granted more medium and long-term loans. As a result, the average balance of corporate loans realized quite rapid growth.

Interest income from personal loans amounted to RMB91,758 million, representing an increase of RMB13,106 million, or 16.66% compared with the same period of the prior year, primarily because the Bank seized the opportunities arising from the transformation and development of new retail banking, vigorously promoted the transformation and development of personal loan business backed by technology, and continuously improved customer experience by expanding customer acquisition channels, accelerating the integrated development of online and offline channels and building an intelligent and efficient digital operation model. As a result, the scale of personal loans such as consumer loans and micro loans increased rapidly.

Interest income from discounted bills registered RMB6,148 million, representing a decrease of RMB567 million or 8.44% compared with the same period of the prior year, mainly because the Bank optimized the asset structure and reduced the scale of bill businesses with lower yield.

Analysis on Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021			For the six months ended June 30, 2020		
	Average balance	Interest income	Average yield (%)(1)	Average balance	Interest income	Average yield (%)(1)
Corporate loans	2,088,050	41,573	4.01	1,846,711	38,404	4.18
Discounted bills	454,378	6,148	2.73	504,686	6,715	2.68
Personal loans	3,417,168	91,758	5.41	2,864,452	78,652	5.52
Total loans to customers	5,959,596	139,479	4.72	5,215,849	123,771	4.77

Note (1): On an annualized basis.

Analysis on Average Yield of Loans to Customers by Maturity Structure

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021			For the six months ended June 30, 2020		
	Average balance	Interest income	Average yield (%)(1)	Average balance	Interest income	Average yield (%)(1)
Short-term loans	2,223,382	49,804	4.52	2,037,791	44,555	4.40
Medium- and long-term loans	3,736,214	89,675	4.84	3,178,058	79,216	5.01
Total loans to customers	5,959,596	139,479	4.72	5,215,849	123,771	4.77

Note (1): On an annualized basis.

Interest Income from Investments

During the reporting period, the Bank's interest income from investments amounted to RMB63,343 million, representing an increase of RMB1,058 million, or 1.70% compared with the same period of the prior year, primarily due to the growth of financial investments.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB9,456 million, representing an increase of RMB864 million, or 10.06% compared with the same period of the prior year, primarily due to an increase in the average balance of deposits with central bank driven by deposits growth.

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

During the reporting period, the Bank's interest income from deposits and placements with banks and other financial institutions amounted to RMB8,649 million, representing an increase of RMB537 million, or 6.62% compared with the same period of the prior year. It was primarily due to the increase in the allocation of financial assets held under resale agreements at an appropriate level.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB88,831 million, representing an increase of RMB10,463 million, or 13.35% year on year, primarily due to the increase of interest expense on customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Bank's interest expense on customer deposits amounted to RMB85,636 million, representing an increase of RMB10,992 million, or 14.73% year on year, primarily due to the growth in the scale of deposits and an increase in average cost.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021			For the six months ended June 30, 2020		
	Average balance	Interest expense	Average cost (%)(1)	Average balance	Interest expense	Average cost (%)(1)
Corporate deposits						
Time	392,604	4,565	2.34	362,513	4,289	2.38
Demand	903,655	3,238	0.72	809,495	3,091	0.77
Subtotal	1,296,259	7,803	1.21	1,172,008	7,380	1.27
Personal deposits						
Time	6,499,420	73,588	2.28	5,726,061	63,171	2.22
Demand	2,765,976	4,245	0.31	2,662,538	4,093	0.31
Subtotal	9,265,396	77,833	1.69	8,388,599	67,264	1.61
Total customer deposits	10,561,655	85,636	1.64	9,560,607	74,644	1.57

Note (1): On an annualized basis.

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

During the reporting period, the Bank's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1,983 million, representing an increase of RMB172 million, or 9.50% compared with the same period of the prior year, mainly due to an increase in the scale of interbank liabilities.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued amounted to RMB996 million, representing a decrease of RMB879 million, or 46.88% compared with the same period of the prior year, primarily due to the partial redemption of tier 2 capital bonds in September 2020 and a decrease in the issuance scale and average cost of interbank certificates of deposit.

Net Fee and Commission Income

During the reporting period, the net fee and commission income of the Bank amounted to RMB11,429 million, representing an increase of RMB3,139 million, or 37.86% compared with the same period of the prior year. In particular, fee and commission income amounted to RMB24,035 million, representing an increase of RMB7,653 million, or 46.72% compared with the same period of the prior year. Fee and commission expense amounted to RMB12,606 million, representing an increase of RMB4,514 million, or 55.78% compared with the same period of the prior year.

Specifically, agency business fee income amounted to RMB9,949 million, representing an increase of RMB5,557 million, or 126.53% compared with the same period of the prior year. It was mainly because the Bank advanced the building of a wealth management system to meet the increasingly diversified asset allocation needs of customers, contributing to the rapid growth in the income of agency sales businesses such as bancassurance, agency fund products and agency sales of asset management and trust products. Bank cards business fee income amounted to RMB5,782 million, representing an increase of RMB266 million, or 4.82% compared with the same period of the prior year, mainly because of the increase in fee income from credit card business driven by the steady growth of newly issued credit cards and consumption transactions. Settlement and clearing fee income amounted to RMB4,620 million, representing an increase of RMB863 million, or 22.97% compared with the same period of the prior year, primarily because that the Bank deepened cooperation with payment institutions, and realized the growth in the number of cards linked to fast payment and the income from electronic payment business. Wealth management fee income amounted to RMB2,122 million, representing an increase of RMB220 million or 11.57% compared with the same period of the prior year, primarily due to the enhancement in marketing capabilities, further enrichment of product categories, and progress in the net worth transformation of wealth management business, resulting in a steady growth in the wealth management business income. Custody business fee income amounted to RMB515 million, representing an increase of RMB103 million, or 25.00% compared with the same period of the prior year. It was mainly because the Bank kept improving its custody business structure and spent a great deal of efforts on key custody businesses including mutual funds, resulting in a significant growth in the income from custody business. Fee and commission expense amounted to RMB12,606 million, representing an increase of RMB4,514 million, or 55.78% compared with the same period of the prior year, primarily due to an increase in the commission expense led by the increased scale of financial products sold by agency outlets.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021	For the six months ended June 30, 2020	Increase/ (decrease)	Change (%)
Agency business	**9,949**	4,392	5,557	126.53
Bank cards business	**5,782**	5,516	266	4.82
Settlement and clearing	**4,620**	3,757	863	22.97
Wealth management business	**2,122**	1,902	220	11.57
Custody business	**515**	412	103	25.00
Others	**1,047**	403	644	159.80
Fee and commission income	**24,035**	16,382	7,653	46.72
Less: Fee and commission expense	**12,606**	8,092	4,514	55.78
Net fee and commission income	**11,429**	8,290	3,139	37.86

Net Other Non-Interest Income

During the reporting period, the Bank's net other non-interest income amounted to RMB14,253 million, representing an increase of RMB450 million, or 3.26% compared with the same period of the prior year.

Net trading gains amounted to RMB1,705 million, representing a decrease of RMB66 million, or 3.73% compared with the same period of the prior year, primarily due to a decrease in the return on investments in trading debt securities.

Net gains on securities investment amounted to RMB12,580 million, representing an increase of RMB2,473 million, or 24.47% compared with the same period of the prior year. It was mainly because the Bank improved its investment structure by increasing the investment in securities investment funds with light-capital-consumption and tax benefits, driving an increase in dividend income.

Net other operating gains and losses amounted to RMB14 million, representing a decrease of RMB1,910 million, or 99.27% compared with the same period of the prior year, primarily due to the fluctuation in exchange rate of RMB against the US dollar.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021	For the six months ended June 30, 2020	Increase/ (decrease)	Change (%)
Net trading gains	**1,705**	1,771	(66)	(3.73)
Net gains on securities investment	**12,580**	10,107	2,473	24.47
Net gains and losses on derecognition of financial assets at amortized cost	**(46)**	1	(47)	(4,700.00)
Net other operating gains and losses	**14**	1,924	(1,910)	(99.27)
Total	**14,253**	13,803	450	3.26

Operating Expenses

During the reporting period, the Bank continued to strengthen the refined management of costs, optimized the cost structure and pursued cost efficiency to support business development. Operating expenses amounted to RMB82,565 million, representing an increase of RMB5,901 million, or 7.70% compared with the same period of the prior year. The cost to income ratio was 51.53%, down by 0.04 percentage point year on year. Among that, deposit agency fee and others amounted to RMB43,428 million, representing an increase of RMB2,737 million, or 6.73% compared with the same period of the prior year, primarily due to the increase in the scale of personal deposits taken through agency outlets. Staff costs amounted to RMB24,572 million, representing an increase of RMB1,941 million, or 8.58% compared with the same period of the prior year. It was mainly due to the expiration of the policy of social insurance premium reduction and exemption enjoyed during the same period of the prior year, and the Bank's increased investment in professionals in key fields in this period. Depreciation and amortization stood at RMB4,213 million, representing an increase of RMB323 million, or 8.30% compared with the same period of the prior year, mainly due to the increase in depreciation of fixed assets. Other costs stood at RMB9,095 million, representing an increase of RMB771 million, or 9.26% compared with the same period of the prior year, mainly because the Bank increased investment in business marketing and information technology in order to sharpen its core competitiveness.

Major Components of Operating Expenses

In millions of RMB, except for percentages and otherwise stated

Item	For the six months ended June 30, 2021	For the six months ended June 30, 2020	Increase/ (decrease)	Change (%)
Deposit agency fee and others	**43,428**	40,691	2,737	6.73
Staff costs	**24,572**	22,631	1,941	8.58
Depreciation and amortization	**4,213**	3,890	323	8.30
Taxes and surcharges	**1,257**	1,128	129	11.44
Others	**9,095**	8,324	771	9.26
Total operating expenses	**82,565**	76,664	5,901	7.70
Cost to income ratio (%)[1]	**51.53**	51.57	Down by 0.04 percentage point	

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

Credit Impairment Losses

During the reporting period, the Bank's credit impairment losses amounted to RMB29,454 million, representing a decrease of RMB4,136 million, or 12.31% compared with the same period of the prior year. The primary reason was that with the continuous and stable recovery of the economy, the Bank's credit asset quality remained stable on the whole, the NPL ratio declined steadily, and the allowance for impairment losses on loans to customers set aside in the first half of this year declined compared with the same period of the prior year.

Income Tax Expenses

During the reporting period, the Bank's income tax expenses amounted to RMB4,507 million, representing an increase of RMB1,953 million, or 76.47% compared with the same period of the prior year, primarily due to the growth in the profit before income tax and the decline in the proportion of tax relief business.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021		For the six months ended June 30, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	**110,199**	**69.84**	96,576	65.93
Corporate banking	**25,959**	**16.45**	26,732	18.25
Treasury business	**21,428**	**13.58**	22,964	15.67
Others	**192**	**0.13**	213	0.15
Total operating income	**157,778**	**100.00**	146,485	100.00

For further details of business scope of each segment, please refer to "Notes to the Condensed Consolidated Financial Statements – 39.1 Business segment".

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	For the six months ended June 30, 2021 Amount	For the six months ended June 30, 2021 Percentage (%)	For the six months ended June 30, 2020 Amount	For the six months ended June 30, 2020 Percentage (%)
Head Office	**14,337**	**9.09**	19,219	13.12
Yangtze River Delta	**23,477**	**14.88**	19,538	13.34
Pearl River Delta	**18,638**	**11.81**	16,889	11.53
Bohai Rim	**21,949**	**13.91**	19,034	12.99
Central China	**40,465**	**25.65**	36,493	24.91
Western China	**29,477**	**18.68**	26,509	18.10
Northeastern China	**9,435**	**5.98**	8,803	6.01
Total operating income	**157,778**	**100.00**	146,485	100.00

For further details of business scope of each geographical region, please refer to "Notes to the Condensed Consolidated Financial Statements – 39.2 Geographical segment".

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Bank's total assets amounted to RMB12,217,051 million, representing an increase of RMB863,788 million, or 7.61% compared with the prior year-end. In particular, total loans to customers increased by RMB476,142 million, or 8.33% compared with the prior year-end; financial investments increased by RMB167,518 million, or 4.28% compared with the prior year-end; cash and deposits with central bank increased by RMB29,753 million, or 2.44% compared with the prior year-end. In terms of the structure, net loans to customers accounted for 48.93% of total assets, representing an increase of 0.38 percentage point compared with the prior year-end; financial investments accounted for 33.41% of total assets, representing a decrease of 1.07 percentage points compared with the prior year-end; cash and deposits with central bank accounted for 10.23% of total assets, representing a decrease of 0.51 percentage point compared with the prior year-end; and total deposits and placements with banks and other financial institutions and financial assets held under resale agreements accounted for 6.02% of total assets, representing an increase of 1.16 percentage points compared with the prior year-end.

Key Items of Assets

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Total loans to customers	**6,192,400**	–	5,716,258	–
Less: Allowance for impairment losses on loans[1]	**214,431**	–	203,897	–
Loans to customers, net	**5,977,969**	**48.93**	5,512,361	48.55
Financial investments	**4,082,168**	**33.41**	3,914,650	34.48
Cash and deposits with central bank	**1,249,615**	**10.23**	1,219,862	10.74
Deposits with banks and other financial institutions	**49,901**	**0.41**	43,682	0.38
Placements with banks and other financial institutions	**264,362**	**2.16**	248,396	2.19
Financial assets held under resale agreements	**420,891**	**3.45**	259,956	2.29
Other assets[2]	**172,145**	**1.41**	154,356	1.37
Total assets	**12,217,051**	**100.00**	11,353,263	100.00

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

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

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB6,192,400 million, representing an increase of RMB476,142 million, or 8.33% compared with the prior year-end. Specifically, personal loans accounted for 57.46% of total loans to customers, representing an increase of 0.54 percentage point compared with the prior year-end.

Corporate loans amounted to RMB2,159,596 million, representing an increase of RMB181,811 million, or 9.19% compared with the prior year-end, primarily because the Bank fully supported the national and regional strategic blueprint, intensified efforts to support key areas such as manufacturing, new infrastructure and new urbanization initiatives, major projects, rural revitalization, green credit and private enterprises. As a result, corporate loans and small business loans registered a steady growth.

Personal loans amounted to RMB3,557,946 million, representing an increase of RMB304,053 million, or 9.34% compared with the prior year-end, primarily due to the steady increase in consumer loans and micro loans.

Discounted bills amounted to RMB474,858 million, representing a decrease of RMB9,722 million, or 2.01% compared with the prior year-end, mainly because the Bank optimized its asset structure and reduced the scale of low-yield assets.

Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	**2,159,596**	**34.87**	1,977,785	34.60
Discounted bills	**474,858**	**7.67**	484,580	8.48
Personal loans	**3,557,946**	**57.46**	3,253,893	56.92
Total loans to customers	**6,192,400**	**100.00**	5,716,258	100.00

Loans to Customers by Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term loans	**2,330,536**	**37.64**	2,170,286	37.97
Medium and long-term loans	**3,861,864**	**62.36**	3,545,972	62.03
Total loans to customers	**6,192,400**	**100.00**	5,716,258	100.00

Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**336,941**	**5.44**	318,627	5.57
Yangtze River Delta	**1,276,456**	**20.61**	1,157,455	20.25
Pearl River Delta	**718,847**	**11.61**	668,372	11.69
Bohai Rim	**932,867**	**15.06**	869,133	15.20
Central China	**1,531,750**	**24.74**	1,406,061	24.60
Western China	**1,064,449**	**17.19**	979,625	17.14
Northeastern China	**331,090**	**5.35**	316,985	5.55
Total loans to customers	**6,192,400**	**100.00**	5,716,258	100.00

Corporate Loans

As of the end of the reporting period, the top five industries to which the Bank granted corporate loans were transportation, storage and postal services; manufacturing; financial services; production and supply of electricity, heating, gas and water; and wholesale and retail. The balance of loans extended to the top five industries in aggregate accounted for 71.88% of total corporate loans, representing a decrease of 0.96 percentage point compared with the prior year-end.

Corporate Loans by Industry

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Transportation, storage and postal services	**663,019**	**30.70**	611,929	30.94
Manufacturing	**322,860**	**14.95**	312,480	15.80
Financial services	**230,132**	**10.66**	193,861	9.80
Production and supply of electricity, heating, gas and water	**205,492**	**9.52**	204,923	10.36
Wholesale and retail	**130,602**	**6.05**	117,424	5.94
Real estate	**130,415**	**6.04**	93,607	4.73
Leasing and commercial services	**123,992**	**5.74**	110,249	5.57
Construction	**123,657**	**5.73**	110,440	5.58
Water conservancy, environmental and public facilities management	**114,045**	**5.28**	96,018	4.86
Mining	**58,905**	**2.72**	69,268	3.50
Other industries(1)	**56,477**	**2.61**	57,586	2.92
Total corporate loans	**2,159,596**	**100.00**	1,977,785	100.00

Note (1): Other industries consist of the agriculture, forestry, animal husbandry, fishery; information transmission; computer services and the software industry, etc.

Personal Loans

As of the end of the reporting period, the Bank's total personal loans amounted to RMB3,557,946 million, representing an increase of RMB304,053 million, or 9.34% compared with the prior year-end.

Personal consumer loans amounted to RMB2,522,968 million, representing an increase of RMB159,968 million, or 6.77% compared with the prior year-end, mainly because the Bank strictly implemented the national requirements for real estate concentration management, focused on supporting residents' reasonable consumption demands for owner-occupied and upgraded houses, and continuously satisfied customers' individualized consumption needs through diversified product types. Through these efforts, the business of personal consumer loans developed steadily.

Personal micro loans amounted to RMB879,578 million, representing an increase of RMB133,326 million, or 17.87% compared with the prior year-end, mainly due to the Bank's implementation of the national rural revitalization strategy, and the strong support for the production and development of owners of micro and small enterprises, individual business owners, new rural business entities and traditional small farmers, contributing to the rapid growth of micro loans.

Credit card overdrafts and others amounted to RMB155,400 million, representing an increase of RMB10,759 million, or 7.44% compared with the prior year-end, primarily because the Bank deepened the reform of credit card system and mechanism, enhanced the capacity building of marketing teams, strengthened scenario-based marketing, and enriched customer acquisition channels. As a result, the credit card business achieved steady growth in scale.

Personal Loans by Product Type

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Consumer loans	**2,522,968**	**70.91**	2,363,000	72.62
Residential mortgage loans	**2,040,828**	**57.36**	1,921,055	59.04
Other consumer loans	**482,140**	**13.55**	441,945	13.58
Personal micro loans	**879,578**	**24.72**	746,252	22.93
Credit card overdrafts and others	**155,400**	**4.37**	144,641	4.45
Total personal loans	**3,557,946**	**100.00**	3,253,893	100.00

Financial Investments

Financial investments are the major components of the Bank's assets. In the first half of 2021, the Bank continued to serve the development of the real economy as the main task, grasped market opportunities, dynamically improved its asset allocation, and steadily increased its asset size. As of the end of the reporting period, the Bank's financial investments amounted to RMB4,082,168 million, representing an increase of RMB167,518 million, or 4.28% compared with the prior year-end, primarily due to increased investments in government bonds and interbank certificates of deposit with tax benefits and less capital consumption.

Financial Investments by Product

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Debt securities	**3,227,608**	**79.08**	3,163,156	80.80
Interbank certificates of deposits	**294,931**	**7.22**	233,609	5.97
Wealth management products issued by financial institutions	**–**	**–**	493	0.01
Asset management plans	**53,797**	**1.32**	72,826	1.86
Trust investment plans	**210,435**	**5.15**	196,980	5.03
Securities investment funds	**279,377**	**6.84**	235,674	6.02
Other	**16,020**	**0.39**	11,912	0.31
Total financial investments	**4,082,168**	**100.00**	3,914,650	100.00

Financial Investment Structure by Type of Investment Instruments

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	Percentage (%)	As at December 31, 2020 Amount	Percentage (%)
Debt instruments	**4,074,596**	**99.81**	3,907,797	99.82
Equity instruments	**7,572**	**0.19**	6,853	0.18
Total financial investments	**4,082,168**	**100.00**	3,914,650	100.00

In terms of measurement approach, as of the end of the reporting period, the Bank's financial assets at fair value through profit or loss amounted to RMB495,476 million, representing an increase of RMB76,195 million, or 18.17% compared with the prior year-end, mainly due to the increase in the scale of interbank certificates of deposits and securities investment funds; financial assets at fair value through other comprehensive income amounted to RMB377,980 million, representing an increase of RMB56,254 million, or 17.49% compared with the prior year-end, mainly attributable to the increase in the scale of investments in debt securities; and financial assets at amortized costs stood at RMB3,208,712 million, representing an increase of RMB35,069 million or 1.11% over the prior year-end, primarily due to the increase in the scale of government bonds and interbank certificates of deposits.

Financial investments by Measurement Approach

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	Percentage (%)	As at December 31, 2020 Amount	Percentage (%)
Financial assets at fair value through profit or loss	**495,476**	**12.14**	419,281	10.71
Financial assets at fair value through other comprehensive income	**377,980**	**9.26**	321,726	8.22
Financial assets at amortized cost	**3,208,712**	**78.60**	3,173,643	81.07
Total financial investments	**4,082,168**	**100.00**	3,914,650	100.00

Investments in Debt Securities

As of the end of the reporting period, the Bank's investments in debt securities were RMB3,227,608 million, representing an increase of RMB64,452 million, or 2.04% compared with the the prior year-end, mainly due to the optimized structure of the bond portfolio, and the increased investment in government bonds with less capital consumption and tax benefits.

Investments in Debt Securities by Issuing Institution

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Government bonds	1,209,844	37.48	1,129,819	35.72
Bonds issued by financial institutions	1,815,490	56.25	1,835,596	58.03
Corporate bonds	202,274	6.27	197,741	6.25
Total investments in debt securities	3,227,608	100.00	3,163,156	100.00

Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Overdue	27	0.01	10	0.00
Within 3 months	116,308	3.60	197,996	6.26
3-12 months	338,331	10.48	274,088	8.67
1-5 years	1,664,249	51.56	1,647,233	52.07
Over 5 years	1,108,693	34.35	1,043,829	33.00
Total investments in debt securities	3,227,608	100.00	3,163,156	100.00

Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
RMB	3,175,860	98.40	3,110,535	98.34
Foreign currencies	51,748	1.60	52,621	1.66
Total investments in debt securities	3,227,608	100.00	3,163,156	100.00

Financial Bonds

As at the end of the reporting period, the Bank held RMB1,815,490 million financial bonds issued by financial institutions, of which, bonds issued by policy banks amounted to RMB1,627,340 million, representing 89.64% of the total.

Top Ten Financial Bonds in Terms of Par Value

In millions of RMB, except for percentages

Debt Securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses(1)
2015 Policy Financial Bonds	79,379.85	3.71	2025/08/31	–
2012 Policy Financial Bonds	49,800.00	2.43	2022/06/06	–
2015 Policy Financial Bonds	42,618.70	3.82	2035/09/28	–
2011 Policy Financial Bonds	40,000.00	3.85	2021/12/21	–
2016 Policy Financial Bonds	33,390.00	3.05	2026/08/25	–
2017 Policy Financial Bonds	32,160.00	4.30	2024/08/21	–
2019 Policy Financial Bonds	31,980.00	3.28	2024/02/11	–
2015 Policy Financial Bonds	30,044.44	3.72	2030/09/28	–
2018 Policy Financial Bonds	28,940.00	4.99	2023/01/24	–
2015 Policy Financial Bonds	28,722.57	3.85	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

In the first half of 2021, the Bank continued to maintain the core deposits advantages, strengthened the research and judgment of the market, and actively optimized the liability structure leveraging inter-bank funds with low-interest rates. As of the end of the reporting period, the Bank's total liabilities amounted to RMB11,466,666 million, representing an increase of RMB786,333 million, or 7.36% compared with the prior year-end. Among which, customer deposits amounted to RMB10,913,567 million, representing an increase of RMB555,538 million, or 5.36% compared with the prior year-end; deposits and placements from banks and other financial institutions amounted to a total of RMB247,985 million, representing an increase of RMB131,330 million, or 112.58% compared with the prior year-end; financial assets sold under repurchase agreements amounted to RMB114,593 million, representing an increase of RMB89,459 million, or 355.93% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	**10,913,567**	**95.18**	10,358,029	96.98
Deposits from banks and other financial institutions	**190,713**	**1.66**	85,912	0.80
Placements from banks and other financial institutions	**57,272**	**0.50**	30,743	0.29
Financial assets sold under repurchase agreements	**114,593**	**1.00**	25,134	0.24
Debt securities issued	**56,309**	**0.49**	57,974	0.54
Borrowings from central bank	**20,951**	**0.18**	25,288	0.24
Other liabilities(1)	**113,261**	**0.99**	97,253	0.91
Total liabilities	**11,466,666**	**100.00**	10,680,333	100.00

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

Customer Deposits

As of the end of the reporting period, the Bank's total customer deposits amounted to RMB10,913,567 million, representing an increase of RMB555,538 million, or 5.36% compared with the prior year-end.

The Bank's core liabilities grew steadily. In particular, personal deposits amounted to RMB9,555,587 million, representing an increase of RMB460,023 million, or 5.06% compared with the prior year-end. It was mainly because the Bank constantly expanded sources of personal deposits, and hence driving the growth of one-year or shorter-term deposits. Corporate deposits amounted to RMB1,353,860 million, representing an increase of RMB94,011 million, or 7.46% compared with the prior year-end. It was primarily because the Bank grasped opportunities arising from cooperation in key fields to step up efforts in customer acquisition, and thus realized rapid growth in the scale of corporate demand deposits.

Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	**1,353,860**	**12.41**	1,259,849	12.16
Time deposit	**402,583**	**3.69**	385,694	3.72
Demand deposit	**951,277**	**8.72**	874,155	8.44
Personal deposits	**9,555,587**	**87.56**	9,095,564	87.81
Time deposit	**6,788,049**	**62.20**	6,202,401	59.88
Demand deposit	**2,767,538**	**25.36**	2,893,163	27.93
Other deposits(1)	**4,120**	**0.03**	2,616	0.03
Total customer deposits	**10,913,567**	**100.00**	10,358,029	100.00

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

Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	As at June 30, 2021		As at December 31, 2020	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**3,773**	**0.03**	1,948	0.02
Yangtze River Delta	**1,680,334**	**15.40**	1,562,686	15.09
Pearl River Delta	**1,024,612**	**9.39**	970,623	9.37
Bohai Rim	**1,656,946**	**15.18**	1,639,051	15.82
Central China	**3,408,243**	**31.23**	3,177,977	30.69
Western China	**2,332,100**	**21.37**	2,220,159	21.43
Northeastern China	**807,559**	**7.40**	785,585	7.58
Total customer deposits	**10,913,567**	**100.00**	10,358,029	100.00

Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Repayable on demand	**3,776,147**	**34.60**	3,819,615	36.87
Within 3 months	**1,253,935**	**11.49**	2,105,517	20.33
3-12 months	**4,802,697**	**44.01**	3,112,622	30.05
1-5 years	**1,080,788**	**9.90**	1,320,275	12.75
Over 5 years	**–**	**–**	–	–
Total customer deposits	**10,913,567**	**100.00**	10,358,029	100.00

Equity

As of the end of the reporting period, the Bank's total equity amounted to RMB750,385 million, representing an increase of RMB77,455 million, or 11.51% compared with the prior year-end, mainly due to the issuance of undated capital bonds and non-public offering of A shares as well as the increase in retained earnings.

Composition of Equity

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Share capital	**92,384**	**12.31**	86,979	12.93
Other equity instruments – preference shares	**47,869**	**6.38**	47,869	7.11
Other equity instruments – perpetual bonds	**109,986**	**14.66**	79,989	11.89
Capital reserve	**125,486**	**16.72**	100,906	15.00
Other comprehensive income	**3,527**	**0.47**	2,725	0.40
Surplus reserve	**42,688**	**5.69**	42,688	6.34
General reserve	**130,108**	**17.34**	130,071	19.33
Retained earnings	**197,007**	**26.25**	180,572	26.83
Equity attributable to equity holders of the Bank	**749,055**	**99.82**	671,799	99.83
Non-controlling interests	**1,330**	**0.18**	1,131	0.17
Total equity	**750,385**	**100.00**	672,930	100.00

Off-Balance Sheet Items

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

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

The Bank's contingent liabilities and commitments mainly consist of lawsuits and claims, capital commitments, credit commitments, mortgage and pledged assets and redemption commitment for government bonds. For details of contingent liabilities and commitments, please refer to "Notes to the Condensed Consolidated Financial Statements – 37 Contingent liabilities and commitments". Credit commitments consist of loan commitments, bank acceptances, guarantees and letters of guarantee, letters of credit and unused credit card commitments.

Components of Credit Commitments

In millions of RMB, except for percentages

Item	As at June 30, 2021 Amount	As at June 30, 2021 Percentage (%)	As at December 31, 2020 Amount	As at December 31, 2020 Percentage (%)
Loan commitments	**210,814**	**31.17**	277,792	38.73
Bank acceptances	**32,639**	**4.83**	38,652	5.39
Guarantees and letters of guarantee	**41,476**	**6.13**	40,226	5.61
Letters of credit	**33,634**	**4.97**	30,383	4.24
Unused credit card commitments	**357,806**	**52.90**	330,260	46.03
Total credit commitments	**676,369**	**100.00**	717,313	100.00

Analysis of Cash Flow Statement

During the reporting period, net cash inflow from operating activities of the Bank was RMB168,077 million, and net cash outflow from operating activities of the Bank for the same period of the prior year was RMB10,929 million. It was primarily due to the increase in customer deposits, deposits from banks and other financial institutions, and financial assets sold under repurchase agreements.

During the reporting period, net cash outflow from investing activities of the Bank amounted to RMB75,343 million, representing a year-on-year decrease of RMB116,171 million, primarily due to the increase in cash received for the maturity of financial investments.

During the reporting period, net cash inflow from financing activities of the Bank amounted to RMB52,446 million, representing a year-on-year decrease of RMB39,956 million, primarily due to the decrease in the scale of perpetual bonds issued compared with the same period of the prior year.

Other Financial Information

Explanation of Changes in Accounting Policies

There were no significant changes in accounting policies of the Bank during the reporting period.

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

There was no difference between the net profit and the total equity in the consolidated financial statements prepared by the Bank under PRC GAAP and the corresponding figures prepared by the Bank under IFRSs.

Information on Corporate Bonds

During the reporting period, the Bank did not issue any corporate bonds that need to be disclosed in accordance with the Standards Concerning the Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No. 3 – Contents and Formats of Interim Reports (Revision 2021) and the Management Measures for the Information Disclosure of Corporate Credit Bonds.

Business Overview

Personal Banking

The Bank stuck to the strategic positioning as a large retail bank and focused on delivering financial services to personal customers. Standing at a new starting point in the first year of the 14th Five-Year Plan period, the Bank seized strategic opportunities arising from residents' wealth growth and continuous consumption upgrade, and built a three-in-one development model characterized by "attracting users, retaining customers, and delivering more value" by adopting an active, open and innovative high-quality retail business strategy, thereby steadily improving the profit contribution and consolidating the market position of its personal banking. During the reporting period, the operating income of personal banking business stood at RMB110,199 million, representing a year-on-year increase of 14.11%, and accounted for 69.84% of the Bank's operating income, a year-on-year increase of 3.91 percentage points. Personal deposits amounted to RMB9,555,587 million, representing an increase of RMB460,023 million compared with the prior year-end. Personal loans amounted to RMB3,557,946 million, representing an increase of RMB304,053 million compared with the prior year-end. The Bank provided services covering 630 million individuals, among which VIP customers exceeded 40 million, with assets under management (AUM) surpassing RMB12 trillion to reach RMB12.03 trillion, representing an increase of nearly RMB800 billion compared with the prior year-end.

Providing services to 630 million individuals, with over 40 million VIP customers and more than RMB12 trillion AUM.

Income from personal banking business increased by 14.11% year on year and accounted for 69.84% of the Bank's operating income.

Ranking 4th among peers in terms of personal deposits.

Ranking 5th among peers in terms of personal loans.

Pursuing "value creation for customers" as its core task, the Bank pressed ahead with stratified customer management to improve its professional service capacity and customer experience. Focusing on customers' demands for wealth increase, the Bank promoted the upgrading of its wealth management business, built a trustworthy professional team, and selected top-performing products across the market based on customers' demands for asset allocation, in a bid to create value for customers while improving its own profitability. Centering around customers' financing needs, the Bank built an efficient operational risk control model, and advanced the life-cycle management model for loan business. It also improved the credit card product system and stepped up efforts in developing the credit card installment business. In addition, the Bank continuously improved the operating capacity of outlets, optimized customer journey and upgraded customer experience. Focusing on "building ecosystem, integrating into scenarios and operating intelligently", the Bank integrated online and offline channels to enhance the scenario-based service capacity.

The Bank strengthened technology empowerment to improve operational efficiency. It refined the functions of the personal wealth management system and the customer relation management system (CRM platform). It enhanced its customer insight and precision marketing ability for general customers, supporting ability of middle and back-office wealth management, professional service ability of front-office wealth consultants and ability to provide asset allocation and product portfolio solutions for customers. Furthermore, the Bank rolled out the mobile app of the integrated marketing performance management system, and stimulated the vitality of its employees with efficient and convenient performance evaluation tools. By expanding external channels and tapping into the potential of existing internal customers, the Bank acquired customers in

[1] Our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively as consolidated assets). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers and customers with consolidated assets of RMB500,000 or more as our affluent customers.

batches, and improved operational efficiency supported by an operation system featuring centralized management, standard operation and intelligent decision-making.

Retail Banking Business

Leveraging its advantage in resources, the Bank provided integrated comprehensive financial services to 630 million customers through all channels. It improved multi-dimensional and comprehensive data capability, and customized differentiated product portfolio, thereby realizing targeted customer marketing. It developed scenario-based marketing tools to reach its customers through interconnected online and offline channels, and hence continuously enhanced its capability to retain and expand customers.

Personal Deposit Business

During the reporting period, the Bank continued to grow the personal deposit business with equal emphasis on both its quantity and quality. Responding to the country's requirement of staying put during the Spring Festival to contain the epidemic, the Bank actively maintained relationship with migrant workers to consolidate its traditional business advantages, realizing rapid growth of personal deposits during the peak season of the Spring Festival. It highly valued the purchase of summer grain, and provided one-stop fund settlement services for grain brokers, large-scale grain growers and farmers, with personal deposits at and below the county level accounting for nearly 70% of the Bank's personal deposits. What's more, the Bank promoted key debit card projects, and expanded the sources of personal deposits. It also carried out cross-selling between corporate and retail sectors in terms of the agency payroll business. As a result, approximately 17,800 corporations and institutions became the Bank's new clients, with a total of RMB26,268 million of salaries paid. As of the end of the reporting period, personal deposits amounted to RMB9,555,587 million, representing an increase of RMB460,023 million compared with the prior year-end.

Debit Card Business

During the reporting period, the Bank focused on the shining card, third-generation social security debit card, veteran service card, Meituan co-branded card and farmer harvest card to acquire and activate more customers. Upholding the concept of open and win-win cooperation, the Bank worked with internet enterprises to continuously extend online service ecosystem, and joined hands with China UnionPay and other institutions to enhance services in lower-tier markets by enriching agriculture-related non-financial value-added interests and benefits. It selected payment scenarios for the convenience of people such as large supermarket chains nationwide to carry out "Happy Weekend" marketing campaigns with the aim of continuously increasing the amount and frequency of debit card consumption. During the reporting period, the number of newly issued debit cards reached around 24,998,900, and the number of debit cards in circulation stood at 1,014 million. Consumption via debit cards amounted to RMB4.62 trillion, representing a year-on-year increase of 19.30%.

Personal Settlement Business

The Bank provides agency collection and payment services and various settlement services to customers. The agency collection and payment services primarily include payment of salary, benefits and allowances, collection of utility fees, and collection and payment of fiscal funds and social security pension, etc. During the reporting period, the Bank registered sound development in agency collection and payment business, with the volume of agency collection reaching RMB380,494 million and that of agency payment reaching RMB887,739 million. In particular, social security pension collected on an agency basis amounted to RMB30,214 million, and pension payment on an agency basis amounted to RMB462,336 million.

The Bank provided individual customers with various international settlement services such as cross-border telegraphic transfer (T/T) and Western Union money transfer. During the reporting period, the number of transactions for personal international remittance was around 346,100, with a total transaction volume of USD519 million.

Wealth Management

Capturing the opportunity of wealth growth among residents and focusing on the high-net-worth customers, the Bank improved the professional competence of its team, optimized asset allocation, launched differentiated products, diversified benefit services, consolidated investment research, and promoted the upgrading of its wealth management business. In light of the comprehensive financial needs of individual, family and enterprise customers, the Bank took retail banking as the mainstay and coordinated the resources and capabilities of corporate banking and asset management sectors to form a financial service ecosystem that met the comprehensive wealth management needs of a wider range of customers. As of the end of the reporting period, the number of VIP customers stood at around 41,828,400, representing an increase of 14.87% compared with the prior year-end. The number of affluent customers was around 3,456,600, representing an increase of 20.44% compared with the prior year-end.

Wealth Management System

The Bank further improved comprehensive customer services with an aim to serve the diversified wealth management needs of a wider range of customers.

In terms of customer management, the Bank built a digital-driven customer management model, tapped into the value of medium- and high-end customers by customer grouping and segmentation, launched multi-dimensional customer activities and carried out life-cycle customer management and service delivery, so as to continuously improve customer experience and create value for customers.

In terms of team building, the Bank was devoted to building a specialized and professional team of wealth advisors. It further expanded the team of VIP financial consultants, provided tiered professional competency training and support, and enhanced its ability to accurately identify demand and provide better comprehensive financial solutions. Besides, the Bank established personal studios for financial consultants to enhance their sense of honor. It also launched special social recruitment to bring in more wealth management professionals to the headquarters of the Bank.

In terms of products, the Bank moved faster to build an open product platform, selected top-performing products across the market, strengthened the product duration management, and created an exclusive product system for affluent customers. As of the end of the reporting period, the agency sales of privately offered asset management plans (including trust plans) amounted to RMB23,266 million, representing a year-on-year increase of 215.56%. It also successfully launched the first family trust plan, making breakthroughs in the risk isolation and wealth inheritance services for high-net-worth customers.

In terms of system, the Bank rolled out a personal wealth management system and the asset allocation service, and launched various functions such as wealth analysis serving the masses and automatic issuance of investment planning proposal to provide wealth management services to a wider range of customers.

Personal Wealth Management

The Bank proactively advanced the transformation and development of its wealth management business and followed regulatory requirements such as the new rules on asset management. It was dedicated to meeting customers' needs on liquidity and on preserving and increasing asset value, by increasing the issuance of short to medium-term products with redemption at regular intervals and products with minimum holding periods, and optimizing the term structure of products. It also issued more exclusive products considering the demands of key customer groups. The Bank implemented the regulatory requirements on investor suitability and continued to optimize whole-process customer services. As of the end of the reporting period, the balance of wealth management products (WMPs) for personal customers was RMB894,770 million, representing an increase of 7.51% compared with the prior year-end.

Agency Business

The Bank was dedicated to value creation for customers and developed the agency business while enhancing its asset allocation capability. During the reporting period, the Bank kept improving its bancassurance product system to meet customers' diversified needs on asset allocation, and promoted the long-term and value-oriented business transformation. The new regular premiums amounted to RMB51,635 million, and the regular premiums for products with a term of 10 years or longer posting RMB45,923 million, representing a year-on-year increase of 17.92%. It also selected top-performing fund products, promoted the concept of fund portfolio investment, and guided customers to diversify their investments and hold for a long term. Besides, the Bank introduced functions such as fund comparison and intelligent fund selection in mobile banking, and thereby improved customers' transaction experience. Its agency sales of funds amounted to RMB80,424 million, among which the non-monetary funds amounted to RMB70,930 million. Furthermore, the Bank became one of the first pilot banks selling savings bonds (electronic) through mobile banking, and sold RMB17,869 million savings bonds. It actively migrated the precious metals business online, enriched transaction channels, optimized customer experience, and traded RMB10,196 million worth of precious metals. It also constantly enhanced its product design and creation capability and selected quality products across the market to satisfy the increasingly diversified needs of mid to high-end customers on asset allocation. The agency sales of collective asset management plans (including trust plans) amounted to RMB38,819 million, representing a year-on-year increase of 80.02%.

Column

Promoting the Upgrading of Wealth Management Business

Along with the deepening modernization and growth of residents' wealth, the customers are demanding more diversified and sophisticated financial services. It has become an inevitable trend for commercial banks' retail banking business to be oriented towards wealth management as the wealth management business has emerged as a new strategic winning point.

Relying on its unique resource endowment such as profound individual customer base and extensive outlet network, the Bank strove to open up a new development space in the field of wealth management. During the reporting period, the Bank promoted the upgrading of its wealth management business with a view to meeting the comprehensive wealth management needs of a wider range of customers. It persisted to create value for customers, continuously deepened customer relationship, grew with customers, and made every effort to bring the Bank closer to customers by pressing ahead with work on all fronts from customer management, product service, team building, system to channels.

Deepening precise and differentiated management of mid to high-end customers

Based on data analysis, the Bank promoted life-cycle customer management and service delivery, launched targeted marketing activities, formed a closed loop of digital management, and tapped into the value of medium- and high-end customers by customer grouping and segmentation. It also carried out the "Hundred City Summit" activity to forge a brand of mid to high-end customer activities. It initiated the customer campaign of "PSBC Silk Road Tours" to continuously improve customer experience.

Continuously promoting team capability building with a focus on capacity enhancement

Relying on the investment research strength of the whole bank, the Bank came up with its own investment research opinions and transmitted them to the front line. It continuously organized differentiated special training for financial consultants, VIP financial consultants and wealth advisors to rapidly improve the professional competency of the team and customer service ability. Wealth management consulting programs were introduced to consolidate the "1 plus 1" service model for high-end customers. Furthermore, special wealth management social recruitment for headquarters was undertaken to bring in more professionals from all walks of life and further enlarge the team of wealth management professionals.

Selecting products on a market-wide basis to build a differentiated product system

The Bank sought outstanding management personnel from across the market, actively introduced top-performing products, continuously enriched the products, and precisely put in place exclusive products according to the stratified customer system, so as to meet customers' diversified demands for investment and wealth management.

Comprehensively improving personal wealth management system

Adhering to the technology-driven principle, the Bank continuously optimized its personal wealth management system, kept promoting the delivery of asset allocation services through the system, and launched various functions including fund portfolio allocation, wealth analysis, and one-click buy-in of portfolio in mobile banking, thereby delivering wealth management services to a wider public customer base by means of technology.

Accelerating the development of wealth management centers

To shape a new visual identity and visual image of the brand, the Bank built exclusive service channels, enhanced service soft power, and provided "one-stop" services at wealth management centers. It set up exclusive service venues for mid to high-end customers, provided precision services according to the customers' needs for wealth management planning, asset allocation and wealth inheritance, and was fully devoted to building a diversified communication platform for customers. As of the end of the reporting period, 22 wealth management centers were established.

Retail Credit

With consumer credit and personal micro loans as pillars, the Bank fully grasped the development trend of new retail transformation, took digital transformation as the driving force, and continuously improved its service capacity and customer experience by expanding customer acquisition channels, improving online and offline service capacity, and promoting intelligent and efficient operation.

Consumer Credit Business

Building on consumption upgrading and digital transformation, the Bank pressed ahead with the high-quality transformation and development of consumer credit business. As of the end of the reporting period, the balance of personal consumer loans amounted to RMB2.52 trillion.

The Bank paid great attention to national policies, met rigid housing demand and demand for housing improvement of residents pursuant to the policy on real estate market, and maintained steady development of its residential mortgage loan business. As of the end of the reporting period, the balance of the Bank's residential mortgage loans amounted to RMB2.04 trillion.

Upholding the customer-centric service concept and focusing on "building ecosystem, integrating into scenarios and operating intelligently", the Bank accelerated the transformation and development of the customer acquisition model, service model and operation model of consumer loan business, and consistently improved customer experience. By expanding external channels and tapping into the potential of existing internal customers, the Bank forged the "two-wheel drive" digital customer acquisition model and accurately identified customer demands through precise customer portraits and comprehensive customer insight. The online disbursement ratio of non-housing consumer loans reached 99%. The Bank integrated the advantages of its own channels in lower-tier markets and the experience of quick online services, reshaped the online and offline integrated service model around the end-to-end customer journey, expanded the breadth and depth of service delivery, and thus delivered 24/7 services to satisfy customer demands. Furthermore, the Bank built an intelligent and efficient digital operation model, applied big data and financial technologies in the entire lending process, continuously improved the centralized operation model of retail credit factory, and established an efficient operation system featuring intensive management, standard operation and intelligent decision-making, so as to provide support for customer acquisition and activation and enhance customer service efficiency. In addition, the Bank made comprehensive use of new technologies such as biometric identification and various internal and external data to create full-process digital risk control, and made great efforts to promote the application of automatic pre-lending approval and decision-making and post-lending risk early warning model strategies. It also promoted the management of the whole life-cycle of lending and established a digital risk control system featuring "big data + scorecard + new technologies".

The balance of personal consumer loans surpassed RMB2.5 trillion. Building a "two-wheel drive" digital customer acquisition model.

Continuously improving the centralized operation model of retail credit factory.

The online disbursement ratio of non-housing consumer loans reached 99%.

Micro Loan Business

The advancement of financial technology strongly bolstered the innovation of micro loan service models, better met customers' needs for efficient, convenient and precise financing, and continuously improved the availability and coverage of micro loans. During the reporting period, the Bank continuously promoted the transformation and upgrading of the development model of micro loans through technology, and sped up the development of internet micro loans and the digital transformation of the whole process of micro loans based on mobile business terminals, so as to expand the scope of services, enhance processing efficiency and improve customer experience. The Bank fully supported the development and production of micro and small business owners, individually-owned businesses, new types of entities in agriculture businesses and traditional small farmers, promoted the integrated development of primary, secondary and tertiary industries, and helped easing the problem of enterprises having difficulties in accessing affordable financing in a timely manner. It deepened cooperation with platforms such as governments, associations, enterprises, guarantee companies and insurance companies to reduce business risks and customers' financing costs. As of the end of the reporting period, the balance of personal micro loans amounted to RMB879,578 million, representing an increase of RMB133,326 million compared with the prior year-end.

Column

Technology Empowered Acceleration and Upgrading of Auto Consumption Financial Services

The Bank actively followed the trend of consumption expansion and upgrading, continued to streamline the procedures of online auto loan services and migrated the business handling fully online, further improving customer experience and achieving rapid development of the auto consumption financial business. As of the end of the reporting period, nearly 97.85% of auto loans were processed online, a significant increase of 67.85 percentage points compared with the same period of the prior year. The auto loans disbursed in the first half of 2021 reached 4 times that of the same period of last year.

Delivering auto loan services to tens of thousands of households in lower-tier markets

Relying on nearly 40,000 outlets throughout urban and rural areas and a comprehensive online customer service system, the Bank continued to strengthen business cooperation with auto manufacturers, launched a variety of low-interest and zero-interest "headquarters-to-headquarters" discount products. It also carried out preferential car purchase activities during auto sales in rural areas, expanded the auto consumption financial market in third and fourth-tier cities and counties, and provided auto loans in lower-tier markets, thus delivering benefits to tens of thousands of households. As of the end of the reporting period, the Bank has established partnership with more than 30 auto manufacturers, and provided customers with a wide range of financial products and services, thereby continuously enhancing the availability of its auto loan services. It has extended its online auto loan services to all provinces (autonomous regions and municipalities directly under the central government) across the country, and penetrated the markets in county areas.

Meanwhile, the Bank continued to improve the function of online auto loans, and cooperated with auto finance companies to integrate resources, leverage strengths of relevant parties, and launch exclusive auto loan products and services on the e-commerce platforms, increasing the efficiency of loan services and optimizing customer experience. In addition, the Bank provided diversified online products for customers, and met the needs of customers in lower-tier markets for auto loans on the basis of reasonable risk control.

Continuously improving customer experience with the help of technology

By virtue of financial technology, the Bank continuously improved customer experience by rolling out the online loan business, which featured significantly shortened auto loan processing time, remarkably streamlined business procedures, greatly improved processing efficiency, and increasingly diversified loan products.

Applying technologies such as biometric identification, intelligent risk control and big data and based on digital risk control, the Bank made a big push to expand the online auto loan business, created a service mode integrating online and offline services, and expanded the breadth and depth of auto consumption financial services with the help of technology.

Through WeChat banking or mobile banking APP, customers can apply for auto loans in the car dealer's shop or at home, and then the Bank can accept and approve it instantly. Generally, the automatic approval for qualified customers can be completed in an average of 5 minutes, the contract can be reached within 10 minutes, and the loan can be disbursed within as fast as one hour. The online process not only upgrades the customer experience, but also goes beyond the restrictions of time and space in terms of financial services, delivering more convenient and faster financial services to urban and rural residents.

Credit Card Business

During the reporting period, the Bank continued to deepen the institutional reform of the credit card business, advanced the high-quality and innovation-driven development of the business, strengthened the scenario-based marketing and refined management capabilities, maintaining the steady and sound growth of the credit card business with steadily improved development quality. During the reporting period, and the number of newly issued credit cards was around 4,669,700, the number of credit cards in circulation was approximately 39,859,100, representing an increase of 8.32% over the prior year-end. Consumption via credit cards amounted to RMB538,981 million, representing a year-on-year increase of 17.10%. The income from the credit card business reached RMB6,179 million, representing a year-on-year increase of 21.20%. As of the end of the reporting period, the credit card NPL ratio was 1.21%, representing a decrease of 0.62 percentage point compared with the prior year-end.

Establishing the Credit Card Center as a Specialized Institution

The Bank actively pushed forward the institutional reform of the Credit Card Center, and successfully completed all the preparations for the establishment of the Credit Card Center as a specialized institution. In May, the Credit Card Center was officially registered and established in Beijing. The Bank will improve the internal management mechanism as well as authorization and decision-making mechanism of the specialized institution, and move faster to bring up a talent team by actively introducing IT and other professionals. It will also improve the talent cultivation and incentive mechanism, and endeavor to build a more flexible and market-oriented business management system.

The Bank formally established the Credit Card Center as a specialized institution.

The number of credit cards in circulation was nearly 40 million.

Income from the credit card business reached RMB6,179 million, up 21.20% year on year.

Consumption via credit cards increased by 17.10% year on year.

Enhancing the Quality and Efficiency of Business Development

During the reporting period, the Bank focused on cross-marketing among its existing customers, strengthened the capacity building of the marketing team, and built a market-oriented management system for the sales team. It enhanced scenario-based marketing, deepened customer acquisition through coordination with China Post Group, and explored new customer acquisition models through integrating multiple channels, thereby promoting the continuous expansion of customer scale. In addition, the Bank actively followed the trend of post-epidemic consumption recovery, and strengthened the building of business circles and brand marketing. It promoted the development of online and offline special offer business circles based on the theme brand of "Joyous Family Day", and continued to cooperate with well-known brand merchants to carry out marketing activities, so as to provide customers with more high-quality and convenient consumption experience. It also deepened the management of existing customers, built and implemented the customer labeling system and analysis model, and continued to carry out specialized life-cycle customer management, thus enhancing the customer management capability. What's more, the Bank quickened the pace of product innovation, and launched 6 new products for young customers, families and high-end customers, including Calabash Brothers Co-branded Card and Family-themed Card. During the reporting period, the number of newly issued cards stood at approximately 348,000, among which newly issued Calabash Brothers Co-branded Cards and Family-themed Cards reached around 195,600 and around 43,600 respectively. Furthermore, the Bank accelerated the expansion of scenario-based installment business, and continuously improved the scale of installment transactions.

• Chinese Zodiac Card (for the Year of Ox) (gold card)

• Family-themed Card (platinum card)

• Calabash Brothers Card (gold card)

• QR Code for Online Application of Credit Card

Corporate Banking Business

As an important support and foundation for the Bank's business development, the Bank continuously transformed its corporate banking business to a development path featuring low cost, light capital and unique characteristics. The Bank implemented the retail banking strategy, focused on rural revitalization, built a complete tiered service system and realized the full coverage of small, medium and large-sized customers. It proactively advanced digital transformation and vigorously developed green finance. It worked to create a comprehensive business model around the industrial chain clusters, and sped up to shape a three-dimensional development pattern with more potential in business expansion, stronger innovation drive, more prominent synergy effect, and solider basic capability. All these efforts contributed to a high-quality breakthrough in the development of the corporate banking business. As of the end of the reporting period, the Bank had about 1,022,900 corporate customers, representing an increase of around 158,200 compared with the prior year-end. Corporate loans amounted to RMB2,159,596 million, representing an increase of RMB181,811 million, or 9.19% compared with the prior year-end. Corporate deposits amounted to RMB1,353,860 million, representing an increase of RMB94,011 million, or 7.46% compared with the prior year-end.

Corporate Loans

The Bank provides corporate customers with working capital loan, fixed asset loan, trade finance, corporate loans for small-sized enterprises and other corporate loan products. Firstly, seizing opportunities arising from the country's major strategies and leveraging its advantage in resources, the Bank increased support for strategic regions such as Yangtze River Delta, Yangtze River Economic Belt, Beijing-Tianjin-Hebei Region, and Guangdong-Hong Kong-Macao Great Bay Area. Secondly, the Bank continued to increase financial support for key industries, effectively improved its quality and efficiency in serving the real economy based on market demands, and actively supported the manufacturing sector, new infrastructure and new urbanization initiatives and major projects, rural revitalization, green credit, private enterprises and other fields. As of the end of the reporting period, medium and long-term loans to the manufacturing sector grew by 27.80%, loans to agro-related enterprises increased by 11.23%, and the ratio of loans to private enterprises rose by 4.18 percentage points. In terms of rural revitalization, the Bank sped up the development of agro-related loans, improved the credit product system under corporate banking in support of rural revitalization, and formed the Work Program for the Building of Corporate Business Ecosystem (Rural Revitalization). As of the end of the reporting period, the balance of the Bank's agro-related loans stood at RMB335,298 million, representing an increase of RMB33,844 million compared with the prior year-end. The growth rate of the balance of agro-related corporate loans exceeded 20% for three consecutive years, indicating rapid increase in the scale of agro-related corporate loans. In terms of green finance, the Bank strictly controlled the amount of loans granted to businesses with high pollution and high energy consumption, actively developed green finance and increased support for green energy such as wind power, photovoltaics, hydropower and garbage power. It developed green energy products, improved the product system of clean energy loans, and contributed to achieving the strategic goals of carbon peak and carbon neutrality. In terms of urban construction, the Bank promoted the improvement and maturity of loans for industrial parks and economic zones and other loan products, and deepened research on advanced manufacturing and new strategic industries. In terms of traditional financing, the Bank flexibly applied loan commitment letter, project preliminary loan, fixed asset backed loan and other unique loan products, so as to provide corporate customers with life-cycle financial services. Thirdly, the Bank kept improving the ability of strategic customer management. It explored and granted more credit to high-quality member units, and supported major strategy-related enterprises by establishing in-depth cooperation with them. As of the end of the reporting period, the balance of loans to strategic customers at the Head Office level was RMB603,073 million, representing an increase of RMB33,181 million or 5.83% compared with the beginning of the year, with no non-performing loans. In addition, the balance of corporate loans hit RMB2,159,596 million, representing an increase of RMB181,811 million or 9.19% compared with the prior year-end. Asset quality was stable, with an NPL ratio of 0.89%, down by 0.06 percentage point from the end of the previous year.

The number of corporate customers exceeded 1 million.

Corporate loans surpassed RMB 2 trillion.

Corporate demand deposits accounted for over 70% of total corporate deposits.

Fee and commission income of corporate banking business increased by 55.36% year on year.

The growth rate of the balance of agro-related corporate loans was over 20% for three consecutive years.

Column

Strengthening Basic Capabilities to Develop Corporate Banking with Unique Characteristics

Adopting multiple customer acquisition channels to break the 1 million mark in terms of number of corporate customers

Firstly, the Bank actively promoted the batch acquisition and high-quality growth of corporate customers by adopting methods such as platform-based attraction, industrial chain acquisition, existing customer exploration and joint customer expansion. As of the end of the reporting period, the number of the Bank's corporate customers reached approximately 1,022,900, exceeding the 1 million mark. Secondly, the Bank proactively supported corporate establishment, cooperated with the State Administration for Market Regulation to follow up the reform of the business registration system and the digitalization of business registration, in an effort to meet the needs of enterprises from the source. Thirdly, the Bank made breakthroughs in key areas by keeping up with the institutional reform of rural collective property rights and policies of cooperative projects to benefit farmers, with the number of agricultural and rural accounts increasing by 18.30%. The Bank established the scenario-based financial service ecosystem of medical care, medical insurance and pharmaceutical industry. The number of customers in the medical care, medical insurance and pharmaceutical industry grew by 24.44%.

Strengthening product innovation and process optimization

Firstly, the Bank stepped up efforts in developing the deposit product system, improved the basic products such as certificates of deposit and negotiated deposits, etc., launched various products in online corporate banking, and realized the online migration of corporate financial products. It put in place online booking services of account opening for corporate customers in multiple channels such as the official website, WeChat banking and intelligent teller machine (ITM). Secondly, the Bank actively engaged in product innovation in corporate loan segment. During the reporting period, the Bank developed seven new corporate loan products, including urban renewal loan, project preliminary loan and data center loan; and formulated 23 optimization measures to significantly streamline the corporate loan process. Thirdly, the Bank expanded the product line of wealth management business, and improved corporate WMPs such as those with minimum holding period, Li Cai Bao and pooled private placement customization to meet corporate customers' demand for profitability, liquidity and convenience. Fourthly, the Bank developed new services around customer transaction scenarios, optimized settlement networks and channels, and explored fast-flow online supply chain business with multiple scenarios, industries and channels. Fifthly, the Bank accelerated the innovation of investment banking products, continuously optimized the product-service system of "direct financing plus indirect financing" and "debt plus equity", with a view to helping customers achieve flexible and efficient financing.

Financial technology empowered system building and connection of channels

Firstly, the Bank successfully launched the credit business platform (corporate) to comprehensively improve the quality and efficiency of credit services for corporate customers. Secondly, the Bank accelerated digital transformation, developed a business opportunity recommendation model, and launched the building of a new-generation core system for corporate business with the enterprise-level business architecture modeling as its standard. It also promoted the establishment of CRM platform and integrated marketing performance management system (corporate). Thirdly, relying on the operation qualification of e-CNY, the Bank enriched the application scenarios of e-CNY to corporate customers and extended the application of e-CNY in mobile banking channels and online corporate banking channels supported by the open payment platform. The Bank also vigorously promoted the marketing of corporate wallet function. Fourthly, the Bank continued to strengthen the integration and connection of online and offline channels, encouraged offline outlets to launch necessary corporate banking businesses as far as possible, and reinforced the capability of community-level outlets in offering basic services. The Bank enhanced the development of scenarios and platforms online. It deeply engaged in the development of a new-generation international settlement and blockchain forfeiting platform systems, promoted the upgrading of online corporate banking and cash management system, and stepped up efforts in the development and promotion of applications such as mobile business terminals and corporate mobile banking.

Strengthening team capacity building and talent cultivation

Firstly, by persistently concentrating on the team capacity building and the certification for corporate finance consultants, the Bank pushed up the number of certificated corporate financial consultants step by step, realizing the overall enhancement of its service capability. Secondly, the Bank improved the training system, organized training in areas such as product rules, industry policies, marketing programs, as well as risk prevention and control at regular intervals, and held targeted training to update the know-how of professionals in key areas. Thirdly, the Bank attached great importance to the leading role of talents. It strengthened the team building of leading corporate finance personnel, formulated management measures, and clarified the professional fields, selection criteria and working procedures of leading personnel in corporate banking.

Corporate Deposits

The Bank provides time and demand deposit services in Renminbi and other major foreign currencies to corporate customers. Firstly, the Bank focused on "Ten Initiatives" of corporate deposits, revolved around major customer groups of enterprises, government authorities and administrative institutions, and strengthened the collaboration with China Post Group and interconnection among business lines to enhance its comprehensive service capacity. Secondly, the Bank built a comprehensive interest rate management model to further promote the high-quality development of corporate deposits. The ratio of corporate demand deposits to total corporate deposits was 70.26%, an increase of 0.87 percentage point compared with the prior year-end; the cost of corporate liabilities was 1.21%, a decrease of 6 bps compared with the same period last year. Thirdly, the Bank continuously promoted the special campaign to consolidate the fundamentals and improve performance of institutional business. It paid close attention to key clients such as finance, social security, medical care, medical insurance and pharmaceutical industry, as well as military, and seized opportunities from key projects such as rural revitalization and medical insurance E-certificate, strengthening the foundation of institutional business. Through such multiple measures, the Bank has achieved significant growth in the number of institutional business licenses, the number of newly opened accounts and the amount of institutional deposits. As of the end of the reporting period, the corporate deposits amounted to RMB1,353,860 million, representing an increase of RMB94,011 million, or 7.46% compared with the prior year-end. Specifically, institutional deposits amounted to RMB810,071 million, representing an increase of RMB42,474 million, or 5.54% compared with the beginning of the year.

Corporate Wealth Management

Relying on a huge amount of funds and a wide range of outlets, the Bank built a specialized and comprehensive corporate wealth management system based on customer needs, and employed technology to achieve a chain of wealth management services in all respects, thereby enhancing its customer management capabilities. Firstly, the Bank created a new ecosystem for corporate wealth management. It vigorously developed the three drivers for corporate wealth management business, i.e., agency business and agency sales, financing and introduction of intellectual support, and account settlement. Seizing the preemptive opportunities in marketing, the Bank also fully explored the potential markets for corporate wealth management and corporate insurance, ensured the smooth matching between funds and assets, and built a smart settlement service system. During the reporting period, the net fee and commission income of corporate banking business increased by 55.36% year on year. Secondly, the Bank expanded product channels, paid close attention to the timing of market reshuffle, and realized professional corporate WMP management. It designed product settlement or service packages aligned with customer needs, diversified products arising from capital market, M&A and restructuring as well as portfolio financing, and provided customers with a package of wealth management services with the aim of maintaining and increasing the value of customers' wealth, thus making the corporate wealth management business more systematic and targeted. Thirdly, the Bank established a more specialized team and brought the account manager team to a more professional level. It continued to carry out training on special products, strengthened the practice of corporate customer wealth management service plan, and thereby created a result-oriented wealth management team getting prepared for both promotion and demotion. Fourthly, the Bank built a complete system for corporate wealth management platforms. To be specific, business at the front end, it fully understood the features and risks of the businesses of corporate clients, and timely kept pace with new trends in the needs of customers on wealth management; at the medium end, it created intelligent data application scenarios, and achieved the alignment with third-party products through intelligent decision-making; and at the back end, it continued to improve the efficiency of internal operations, strengthened the management of matching between assets and funds, and significantly enhanced the professional, digital and automated service capabilities of corporate wealth management.

Column

"Plus Plan" Initiative – Boosting Customer Development with Top-tier Services

In order to lay a solid customer foundation and improve the customer management system, the Bank carried out the "Plus Plan" Initiative • Season 1 for corporate customers with the theme of "Sincere Services for You, PSBC Stands Behind You", providing customer benefits and optimize service experience. The Bank enhanced comprehensive customer services through financial services "Plus Product", strengthened customer recommendation and marketing through business expansion plan "Plus Customer", and deepened customer relationship through bank-enterprise direct connection "Plus Scenario".

During the Initiative, the Bank formed a full range of customer group management system including customer management, customer value and business development, and gradually set up a corporate customer benefit system to provide sincere and comprehensive customer services, which achieved remarkable results. Firstly, the Bank attached great importance to medium, small and micro-sized customers, and strengthened the long-tail customer group service management. In community-level outlets, the Bank adopted the model of personnel reuse to build a team for managing no-loan customers, so as to treat each customer with personal attention. Customer management rate basically reached 100%, which showed that the Bank took every customer into consideration and achieved refined management of customers. Secondly, the Bank implemented tiered and classified customer management, aiming to grow together with its customers and jointly enhance customer value. As of the end of the reporting period, the number of the Bank's core corporate customers and active corporate customers increased by 30.96% and 37.74% respectively compared to that before the start of the Initiative, helping customers leap to the higher level and enhancing customer value. Thirdly, the Bank strengthened comprehensive services, whose coverage rate increased by 2.54 percentage points. Fourthly, the Bank provided its customers with top-tier services. It provided eligible corporate customers with diversified exclusive financial services such as service discounts and door-to-door services, and also provided its employees with quality credit card value-added services, preferential loan discounts, etc. In addition, the Bank provided financial, legal, website, information, logistics, administrative services and other non-financial services for enterprises, thus gradually building a market brand of "Plus Plan" special marketing campaign and achieving the goal of "bringing benefits to PSBC customers".

Transaction Banking

In terms of transaction banking, the Bank focuses on the transformation towards online and intelligent operation, and provides customers with comprehensive financial services such as account, payment and settlement, liquidity management, investment and financing services. Firstly, in terms of settlement and cash management, the Bank continued to optimize and enrich payment and settlement channels, and focused on promoting the issuance and functional improvement of corporate debit cards, thus striving to enhance customer experience. As of the end of the reporting period, the number of newly issued corporate debit cards reached approximately 19,000, with a transaction amount of RMB1,071 million; the number of cash management accounts reached around 356,500, representing an increase of around 79,200 or 28.56% compared with the prior year-end. Secondly, in terms of supply chain finance, the Bank innovated product models, boosted the growth of new drivers of the industrial chain, and thereby achieved rapid growth in the scale. The Bank planned for and built a core system for supply chain finance as per high standards by using digital technologies and building scenarios and the ecosystem, and explored multi-scenario, multi-industry, multi-channel and fast-process online supply chain business. It focused on improving product flexibility and business processing efficiency, and vigorously promoted the development of supply chain financial services centered around the construction, automobile, leasing, engineering machinery, rail transit and other industries. During the reporting period, the scale of supply chain financial business increased by RMB26,140 million, representing an increase of 57.25% compared with the prior year-end. Thirdly, in terms of domestic trade finance, the Bank further enriched its product system, and improved online services of commercial bills, letters of credit and letters of guarantee. It accelerated the innovative research and development of online trade finance products, optimized self-service settlement functions, built special channels such as electronic letter of guarantee, and enhanced the service capabilities of its comprehensive ecosystem. In addition, the Bank continued to diversify business models, strengthened the interconnection of product portfolios, and opened up domestic and foreign capital channels, providing customers with integrated comprehensive financial services. Fourthly, in terms of cross-border finance, the Bank strengthened scientific and technological support, promoted trade facilitation, and supported the Belt and Road Initiative. Direct link with the cross-border financial blockchain platform of the State Administration of Foreign Exchange was launched, and breakthroughs were achieved in the online remittance via the single window of the customs, providing strong support for the implementation of cross-border trade finance facilitation. As of the end of the reporting period, the amount of on- and off-balance sheet cross-border financing increased by 11.57% compared with the prior year-end, the foreign currency deposits increased by 2.69% compared with the prior year-end, and the amount of cross-border settlement business increased by 61.77% compared with the same period of last year.

Focusing on core enterprises in the industrial chain such as the construction, transportation, and high-end manufacturing enterprises, the Bank provided financing and settlement services to more than 3,000 upstream and downstream suppliers and distributors, and granted supply chain financing of RMB48.6 billion, which surpassed the total amount granted in 2020. Relying on its online supply chain platform, the Bank achieved fully online business processing by means of aligning bank-enterprise direct connection, corporate online banking, online lending platforms and other channels with the information systems of core enterprises and third-party platforms. The disbursement time of online factoring was shortened to “T+2 Hours” at the soonest from “T+2 Days”, which effectively improved the business processing efficiency and customer experience. The Bank completed the planning of a next-generation blockchain-based core system for supply chain, and introduced functional modules such as big data risk control, customer portraits, automatic transaction background verification, electronic contracting and artificial intelligence recognition, supporting online migration of the entire supply chain business, and realizing rapid alignment with third-party systems. The version 1.0 of the system is intended to be launched within this year.

Column

Leveraging Financial Technology to Expand and Enhance Open Payment Business

The year 2021 is the second year for the Bank to fully promote its open payment platform. Based on the good start of last year, the Bank upheld the strategy of PSBC in collaboration with China Post Group, worked on lower-tiered markets to create differentiated advantages, and expanded and enhanced open payment business, thus contributing to the Bank's service transformation. In terms of technology empowerment, the Bank continued to iterate the platform by improving capabilities in six areas, namely, basic platform, open content, small-amount transactions, large-amount transactions, open payment and interconnected operation. In addition, the Bank adopted a "standardization + customization" model, which means acquiring small and micro-sized customers in batches and providing large and medium-sized customers with bespoke services. As of the end of the reporting period, the number of valid payment units was 9,098, covering 52 sub-categories under 9 categories. In terms of ecosystem-level cooperation, focusing on the difficulty in the integration of water or gas meters in counties, difficulty in copying readings from mechanical meters, and difficulty in recharging by IC card, the Bank integrated the SaaS products in the banking industry and cooperated with meter partners to solve the problems and difficulties in payment related to people's livelihood. Meanwhile, the Bank continued to introduce payment modes such as merging payment, direct payment of electricity bills and one code for one household, and adapted capability output to application in scenarios, so as to meet the needs of diverse scenarios. In terms of market expansion, the Bank endeavored to expand the corporate payment market, successively launched nearly 300 payment items such as electricity, water utilities, non-tax, etc., cultivated online payment habits of enterprises, and accumulated transaction information data. As of the end of the reporting period, the number of valid payment units surpassed 9,000, while the annual transaction amount exceeded RMB30 billion, representing an increase of 1,343.85% year on year.

• QR Code for easy online payment

Investment Banking

During the reporting period, the Bank continued to focus on the investment banking businesses of bond underwriting, syndicated loans, M&A finance, financial advisory, asset securitization and so on, and played an active role in improving the comprehensive financial service capabilities of corporate banking, increasing intermediary business income, and supporting the reform and transformation of the Bank. Firstly, in terms of bond underwriting, the Bank fully leveraged the coordination advantages throughout the Bank, and vigorously promoted the underwriting of various bonds. During the reporting period, the Bank underwrote a variety of bonds with a total amount of RMB231,871 million, representing an increase of 21.78% year on year. The Bank actively promoted green finance, and successfully launched the first ultra-short-term carbon neutrality bond in the market. It effectively promoted the start of the non-performing asset securitization business, and introduced the Bank's first credit card non-performing-asset-backed securities. In addition, the Bank deepened its efforts to serve the rural revitalization strategy and reserved a number of underwriting projects such as rural revitalization bonds. Secondly, in terms of syndicated loan, the Bank actively served the real economy, continued business innovation, and increased the contribution of syndicated loans to the fee income. During the reporting period, the amount of syndicated loans increased by 32.59% year on year; the fee income increased by 151.44% year on year; the lead rate of syndicated projects reached 37.65%, representing an increase of 21.95 percentage points compared with the the same period of last year.

Column

Promoted Green Development Concept and Underwrote the First Ultra-short-term Carbon Neutrality Bond in the Market

On March 24, 2021, the Bank successfully underwrote the first ultra-short-term carbon neutrality bond in the market – 2021 Tranche 2 Ultra-short-term Green Bond of China Three Gorges Group Co., Ltd. The size of the issuance was RMB4 billion, with a maturity of 270 days and a coupon rate of 2.75%. This bond was the first ultra-short-term carbon neutrality bond in the market. According to the green bond evaluation report, corresponding green projects of this bond were expected to reduce carbon dioxide emissions by 55,338,100 tons per year, indicating obvious effect of carbon emission reduction. What's more, the Bank actively upheld the concept of green development, and paid visits to financing entities of carbon neutrality bonds and other green credit. It actively channelled funds to green and energy-saving projects, reduced financing costs of green projects, and thereby gave into play the function of finance in supporting green development.

Treasury and Asset Management Business

For the treasury and asset management business, the Bank emphasised a customer-centric approach, held building an ecosystem among financial institutions as the key, and focused on supply-side financial reform and the Bank's strategic development objectives. While maintaining sound business development, the Bank promoted in-depth business transformation and further enhanced its comprehensive service capacity and market influence. Major achievements were made as follows. Firstly, the Bank ranked 1st in terms of the total trading volume of bill repurchase, 2nd in terms of the volume of bond settlement in the interbank market and 5th in terms of the scale of bond lending, significantly enhancing its trading capability. Secondly, the Bank made new breakthroughs in product innovation by launching the new product "PSBC E Discounting" of the online billing business, obtaining the license of gold bilateral transaction, and successfully bringing the first CSI STAR&CHINEXT 50 Index ETF product under custody. Thirdly, the Bank strengthened the tiered and classified development and refined management of interbank customers, continued to promote the building of an interbank ecosystem with the themes of "Together we progress", "Together we envision" and "Together we thrive", so as to explore common features and serve individualized needs. With 1,136 customers covered, the building of the financial interbank ecosystem yielded notable results. Fourthly, the Bank successively launched the new-generation treasury business platform and the custody business system, sped up the promotion of online bill discounting services, and constantly reinforced technology empowerment. As of the end of the reporting period, the Bank's financial investments amounted to RMB4,082,168 million, representing an increase of 4.28% over the prior year-end. The AUM of wealth management amounted to RMB936,080 million, representing an increase of RMB70,761 million over the prior year-end. Assets under custody were RMB4.21 trillion, among which the assets of mutual funds under custody exceeded RMB400 billion, representing an increase of 13.82% over the prior year-end.

The money market transactions in RMB and foreign currencies totalled RMB29.61 trillion, and the volume of bond settlement ranked 2nd in the interbank market.

The trading volume of bill repurchase totalled RMB1.28 trillion, ranking 1st in the market.

The yield of asset portfolios of the interbank business rose by 14 bps compared with the prior year-end.

The interbank ecosystem covered 1,136 customers.

The new-generation treasury business platform and the custody business system were successfully launched.

Interbank Business

As an important fund provider in the interbank market, the Bank adhered to a customer-centric concept and an investment & research-driven approach, constantly enriched its product varieties, steadily enhanced its comprehensive service capacity and promoted the tranformation of value contribution of the interbank business from interest spread to comprehensive income. During the reporting period, the Bank effectively responded to the complex market environment and continued to deepen cooperation with interbank customers, further boosting its funds advantages and operating efficiency.

Interbank Investment and Financing Business

During the reporting period, the market interest rate fluctuated and trended downwards. The Bank actively deployed its interbank investment and financing business at an earlier stage, seized the window period and allocated interbank lending with high yield as well as publicly offered ABS products with low capital consumption, therefore steadily improving the portfolio yield. As of the end of the reporting period, the portfolio yield of the interbank investment and financing business increased by 14 bps over the prior year-end. At the same time, the Bank actively advanced the coordinated development between investment and trust and enlarged their contributions to the overall business development. During the reporting period, the interbank financing business amounted to RMB254.3 billion, and the interbank investment business amounted to RMB149,113 million, among which investment in the publicly offered ABS assets amounted to RMB42,416 million and the weighted yield grew by over 80 bps on a year-on-year basis.

Billing Business

During the reporting period, the Bank continuously promoted the online "PSBC E Discounting" product to raise service efficiency, improve customer experience and expand service coverage. The Bank continued to deepen the integrated and coordinated development mechanism of the billing business and increased the bill asset turnover and non-interest income. During the reporting period, the resale of discounted bills amounted to RMB153 billion, representing an increase of 139% on a year-on-year basis. The outright sale of bills outside the Bank amounted to RMB119 billion, representing an increase of 163% on a year-on-year basis. The Bank leveraged the actively-traded rediscount and repurchase businesses and persistently enhanced loyalty of interbank customers, especially those of small and medium-sized banks, securities firms and finance companies. During the reporting period, the Bank's trading volume of the bill repurchase business amounted to RMB1.28 trillion, representing an increase of 220.80% over the same period of the prior year and ranking 1st across the market.

Column

Promoting "PSBC E Discounting" Business and Providing Online Whole-process Discounting Service

The "PSBC E Discounting" business provides online whole-process discounting service. Without the need to go to outlets, customers can submit discounting applications online through e-banking channels of the Bank or other banks and receive funds upon quick review and approval by the Bank.

The "PSBC E Discounting" business has core advantages of wide coverage, flexible processing channels, online processing throughout the process, quick review and approval, and prompt disbursement, effectively removes restraint of physical world, expands the service coverage and further strengthens comprehensive service capabilities and efficiency, thus greatly improving customer experience.

Since its inception, the "PSBC E Discounting" business has registered rapid development. As of the end of the reporting period, the number of customers contracted with the "PSBC E Discounting" business reached 5,767, of which 2,608 were new customers. The number of sub-branches providing the "PSBC E Discounting" business was 137, accounting for 74% of the total sub-branches. During the reporting period, cumulative transaction volume of the business amounted to RMB134.1 billion, accounting for 46% of the total transaction volume of the Bank's bill discounting business during the same period.

Treasury Depository Business

During the reporting period, the Bank constantly strengthened cooperation with peer institutions to actively meet partner institutions' diversified needs for depository and settlement of funds. As of the end of the reporting period, the cumulative number of accounts contracted with the depository business for the fund of securities reached 6,168,800, representing an increase of 566,800 over the prior year-end. The balance of the settlement business for the fund of securities of settlement bank amounted to RMB3,701 million, representing an increase of RMB3,053 million over the prior year-end; average daily balance was RMB2,870 million, representing an increase of RMB1,537 million over the same period of the prior year.

Financial Market Business

During the reporting period, the Bank closely tracked developments in domestic and overseas markets, actively seized market opportunities, dynamically optimized asset layout, and continuously strengthened risk management. As a result, its operating efficiency, transaction capacity and core competitiveness were steadily improved.

Trading Business

During the reporting period, the Bank closely monitored changes in the monetary policy, actively engaged in open market operations, and improved the efficiency of fund use. Its money market business maintained market leadership. During the reporting period, the money market transactions in RMB and foreign currencies totalled RMB29.61 trillion, and the volume of interbank bond settlement recorded by China Central Depository & Clearing Co., Ltd ranked 2nd in the market.

The Bank gave active play to its role of market-maker and actively conducted bond market making and trading business. It constantly enhanced its system support capability and re-built core competitiveness, steadily increased market-making strength, effectively promoted market activity and pricing efficiency, and made the Bank's ranking jump to the forefront of the market.

Facing the increasingly fierce competition amongst peers, the Bank made a major push to develop the bond lending business and enlarged its contribution to operating income. The scale of lending and financing exceeded RMB200 billion for the first time, rising to the 5th position in the interbank market. Non-interest income went up by 118% year on year. The Bank also continued to expand the precious metal business with greater endeavor and successfully obtained the license of gold bilateral transaction. The trading volume of domestic precious metals grew by 128.86% over the same period of the prior year. Accurately grasping fluctuations in the global foreign exchange market, the Bank laid equal emphasis on agency transactions and market-making quotation services to fully meet customers' needs for foreign exchange trading and risk hedging. Relevant businesses maintained steady development, and no substantial risks were generated in businesses serving customers.

Bond Investment Business

During the reporting period, the Bank adhered to the operating principle of "Strategy First and Scientific Allocation", continuously strengthened market analysis and assessment, closely tracked interest rate trends, and refined strategic management. It adjusted the position and portfolio duration of bond investments in a flexible manner, explored credit bonds with relatively high valuation while increasing the allocation of interest rate bonds with low economic capital occupancy, and boosted overall portfolio returns with spread yield generated from band operations. During the reporting period, the yield of new business of the self-operated bond investments basically remained the same as that of the matured assets. As of the end of the reporting period, the bond investments of the Bank amounted to RMB3,227,608 million, representing an increase of RMB64,452 million or 2.04% compared with the prior year-end.

Asset Management Business

During the reporting period, the Bank adhered to the operation and management objectives of facilitating transformation, stabilizing growth, controlling risks, promoting marketing, and enhancing capabilities. With diversified products and professional asset allocation, the Bank provided all-round value-added asset services to the investors and boosted the stable transformation of wealth management business. As of the end of the reporting period, the assets under wealth management of the Bank amounted to RMB982,539 million. The wealth management products amounted to RMB936,080 million, representing an increase of RMB70,761 million as compared with the prior year-end, of which, the balance of public-offered wealth management products amounted to RMB915,184 million, up by RMB62,667 million over the prior year-end and accounting for 97.77% of the total. The balance of private wealth management products amounted to RMB20,896 million, up by RMB8,094 million over the prior year-end and accounting for 2.23% of the total. The net-value products amounted to RMB500,681 million, representing an increase of RMB22,111 million as compared with the prior year-end.

Custody Business

During the reporting period, the Bank accelerated the development of key custody businesses including mutual funds and strengthened coordination between custody and other business lines including retail and interbank businesses with notable results. As of the end of the reporting period, the assets scale under the Bank's custody amounted to RMB4.21 trillion, among which the assets of mutual funds under custody exceeded RMB400 billion for the first time and reached RMB435,233 million, hitting a record high; and the banks' WMPs under custody exceeded RMB1 trillion and reached RMB1,020,748 million. Driven by the continuous optimization of the structure of assets under custody, revenue generated from the custody business rose by 25.00% year on year to RMB515 million in the first half of the year.

Column

Interbank Ecosystem Building Progressed Smoothly

During the reporting period, the Bank promoted the building of an interbank ecosystem and constantly deepened interbank cooperation.

Firstly, the Bank built a "circle of friends" and consolidated customer base. During the reporting period, the Bank expanded the interbank ecosystem to cover nearly 1,200 customers, realizing wide accessibility to financial institutions of all kinds. It also focused on the two driving forces of "increasing the number of ecosystem customers" and "raising customer value in the ecosystem" to improve the quality and efficiency of customer exploration of the ecosystem.

Secondly, the Bank enriched its "circle of products" and optimized the service system. It continued to deepen the customer-centric service concept and constantly enriched ecosystem products, continuously strengthened resource integration and coordinated development as well as shared premium customers and product resource between the Head Office and branches, and greatly improved customer experience.

Thirdly, the Bank enlarged its "circle of influence" and raised brand value. It held the Interbank Cooperation & Development Forum Chongqing Summit with the theme of "Together we progress", covering nearly 60 financial institutions in the banking industry based in the Southwest and Northwest China. In addition, the Interbank Business Cooperation Hunan Forum with the theme of "Together we envision" was held, which attracted 50 urban and rural commercial banks in the region. And a special event for financial companies with the theme of "Together we progress" was held in Beijing and participated by 24 financial companies. The remarkable marketing effects of group purchasing of funds on the "Together we thrive" platform effectively drove the growth of income from intermediary business.

Inclusive Finance

The Bank has resources, traditional advantages and capabilities to develop inclusive finance which echoes the call of the country and demands in the market. Since its establishment, the Bank has adhered to serving Sannong, urban and rural residents and SMEs. Upholding the philosophy of "covering both urban and rural areas and delivering services to the broad public", it made plans for inclusive finance at an early time, fully leveraged its advantages in online and offline integration, and grasped the opportunities of developing markets at primary levels. During the reporting period, the Bank actively responded to the country's 14th Five-Year Plan, further implemented the rural revitalization strategy, and fully served the micro and small-sized customer groups with vitality. It vigorously promoted the profound integration of finance and technologies, sped up digital transformation and boosted digital inclusive financial services, to ensure a good start for high-quality development of inclusive finance during the 14th Five-Year Plan period. It further strengthened the institutional support for inclusive finance by adding duties related to inclusive finance to the working rules of the Strategic Planning Committee of the Board of Directors, fully supporting the development of inclusive finance business. As of the end of reporting period, the balance of inclusive finance loans to micro and small enterprises (MSEs)[1] amounted to RMB890,503 million[1], with the proportion of balance to the Bank's total loans of more than 14%, which ranked one of the highest among major state-owned banks in China. The balance of agro-related loans reached RMB1.52 trillion, up RMB104,984 million compared with the prior year-end, with the balance accounting for about 25% of the total loans of the Bank, ranking high among major state-owned banks in China.

Rural Revitalization

During the 14th Five-Year Plan period, the country implemented the rural revitalization strategy across the board and accelerated the modernization of agriculture and rural areas, which brought new development opportunities to the banking industry. The Bank actively implemented the decisions and plans of the state for advancing rural revitalization at all fronts, seized relevant strategic opportunities, leveraged its resource endowments and formulated the implementation advice for serving rural revitalization for 2021 and the strategic plan for serving rural revitalization for the 14th Five-Year Plan period. Taking the digital transformation of Sannong finance as the main task, the Bank kept optimizing the professional

The balance of inclusive finance loans to MSEs amounted to RMB890,503 million, and the balance of agro-related loans reached RMB1.52 trillion, both ranking high among major state-owned banks in China.

The Bank built a digital financial bank serving rural revitalization.

94.53% of the micro loans were granted online.

1 Inclusive finance loans to micro and small enterprises refer to small and micro business loans with a single credit line of less than RMB10 million (inclusive) according to the standards of the CBIRC. According to the requirements of the CBIRC, relevant data of bill discounting and rediscount shall be excluded from the regulatory assessment of "two no-less-than" for inclusive finance loans to micro and small enterprises since 2021.

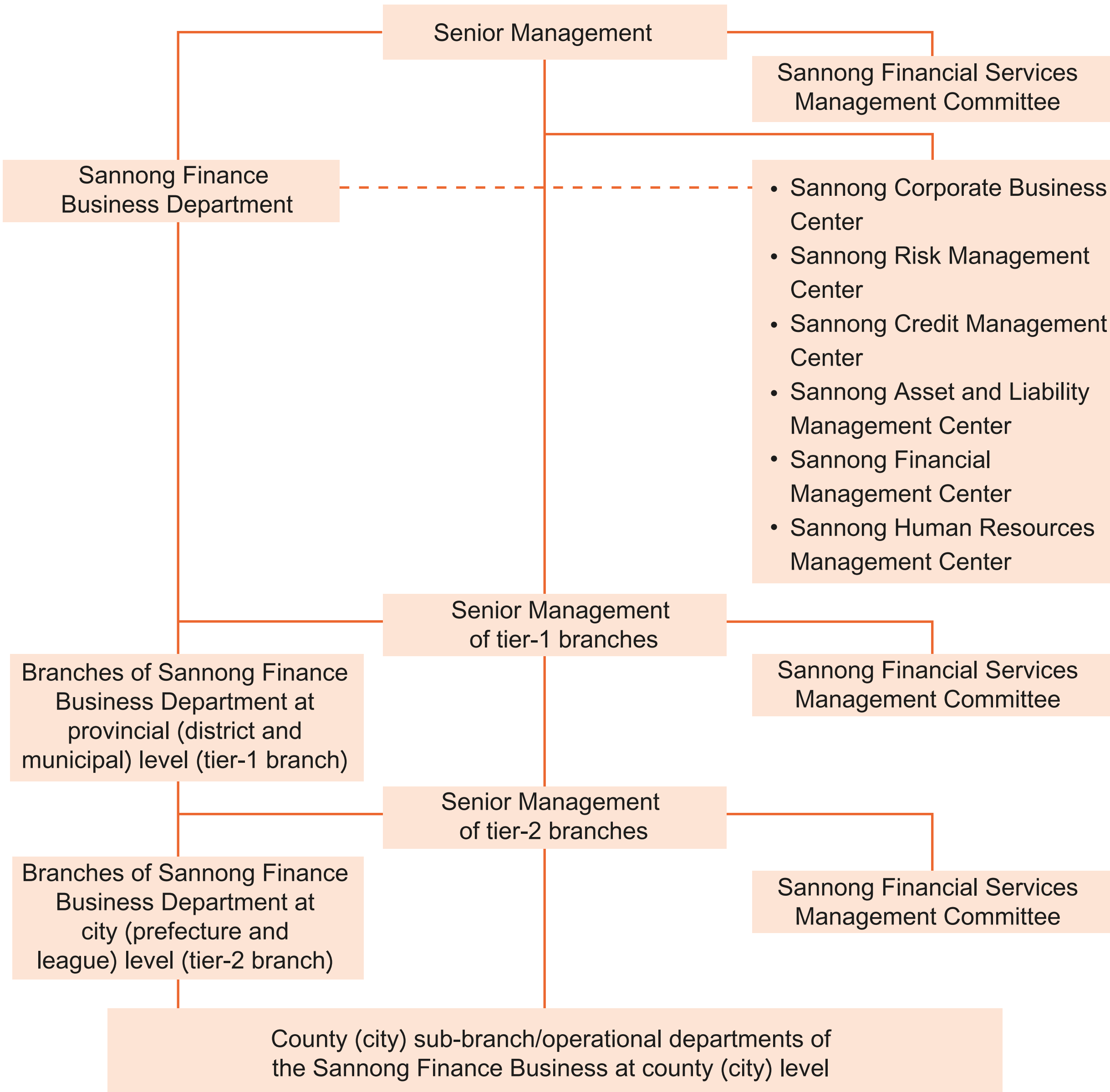
agricultural service system and the integrated online-offline service model, built digital financial banks which served rural revitalization, and continued to boost the Sannong financial business to transform from serving "small farmers" to a full-industry-chain finance which serves the "Comprehensive Sannong". As of the end of reporting period, the balance of agro-related loans accounted for about 25% of total loans of the Bank, with the ratio leading among major state-owned banks in China. The number of micro-loans customers was 3,885,300; the annual interest rate of new personal micro loans was 5.57%, and the non-performing loan ratio was 1.70%. The number of customers the Bank served continued to increase, and the asset quality improved steadily with good momentum.

Management Structure and Operational Mechanism

PSBC set up the Sannong Financial Services Management Committee under the senior management. The Head Office established the headquarters of the Sannong Finance Business Department, provincial and municipal branches established branches of the Sannong Finance Business Department, and counties established operational departments of the Sannong Finance Business. Meanwhile, the Head Office set up six centers, namely the Sannong Corporate Business Center, Sannong Risk Management Center, Sannong Credit Management Center, Sannong Asset and Liability Management Center, Sannong Financial Management Center, and Sannong Human Resources Management Center.

For Sannong Finance Business Department, the Bank established relatively independent mechanisms of financial accounting, business plan, capital management, credit management, risk management and performance appraisal, and formulated policies for preferential resource distribution and information technology support. During the reporting period, the Bank further intensified preferential policies for Sannong, increased the support through internal funds transfer pricing (FTP), and distributed more credit quota and economic capital. The Bank continued to improve the implementation rules for ensuring no one who had fufilled their duties would be held liable for anything beyond their control, refined requirements for the above regarding agro-related loans and micro loans for people who have been lifted out of poverty. In addition, the Bank formulated differentiated credit policies for key areas in rural revitalization, established specialized credit approval teams for rural revitalization, optimized credit approval preference for key areas in rural revitalization, and kept distributing more resources such as the number of fast tracks of credit approval, in order to fully stimulate the momentum and vitality across the Bank to serve rural revitalization.

Management Structure of the Sannong Finance Business Department



Major Measures and Results

Boosting Fintech to Empower Rural Revitalization

During the reporting period, the Bank developed ten core programs in six major areas including individual, enterprise, government, group-wide coordination, digital risk control and brand building in county areas, set up an internal and external collaborative mechanism, and boosted the digital transformation of Sannong finance. It also improved the integrated online-offline service model, built a digital bank serving rural revitalization, and established an ecosystem for Sannong comprehensive services, actively boosting rural revitalization in all respects.

Firstly, accelerating online development to provide more targeted Sannong financial services. The Bank was devoted to building a rural credit system, and forged ahead the information collection of creditworthy households in creditworthy villages. It integrated the data resources of customers of the Bank, and imported external data such as government affairs data and corporate data, so as to build a big data system for agriculture and rural areas. On the basis of this, the Bank actively researched and developed online loan products for creditworthy households, launched the agricultural machinery loan, and vigorously developed online financial businesses such as "Speedy Loan" and "E Convenient Loan". The Bank also generated accurate profiles for a wide range of rural customers and provided reasonable credit through better use of data to save customers' efforts. Furthermore, the Bank started the infrastructure construction for mobile payment at counties, boosting the wide application of mobile payment in important scenarios in these areas. As of the end of the reporting period, the proportion of micro loans disbursed online as a share of the Bank's total micro loans in 2021 was 94.53%, and the balance of Speedy Loans reached RMB214,345 million, with a net increase of RMB79,041 million compared with the prior year-end.

Secondly, empowering offline services to provide more convenient Sannong financial services. The Bank vigorously popularized QR code marketing so that customers could apply for loans in WeChat banking through scanning QR code. It actively applied mobile business terminals in county areas, boosted the upgrading of mobile business functions, and improved the model of retail credit factories. Besides, it rolled out the pilot program of automatic approval, and accelerated the digital transformation of the whole process of Sannong financial businesses by adopting technologies such as face recognition, big data analysis and mobile positioning. It provided rural customers with convenient account opening, credit and other financial services, spreading them from outlets to farmlands.

Thirdly, strengthening technical protection to help Sannong financial services remain steady and sustained. The Bank applied technologies such as automatic positioning and watermark photos, and prevented risks of immorality of employees via mobile business terminals. It also launched the post-lending intelligent outbound call function so as to automatically call of repayment reminder or overdue collection to target customers. Moreover, it kept improving the intelligent risk warning model and carried screening in risk data, strengthening capabilities of technical protection of Sannong financial businesses.

• PSBC continued to forge ahead the building of creditworthy villages – Hainan Baihua Village.

Column

"Smart Longjiang" Boosted Development of Rural Revitalization

Based on the innovation of Speedy Loan, Heilongjiang Branch launched a series of digital agricultural Speedy Loan products named "Smart Longjiang". Through "standardized risk control plus customized upgrading", leveraging data of confirmation of rural land use rights and of grain subsidies, the Branch realized the verification of real production and operation of farmers. Farmers in Heilongjiang Province can log on mobile banking to apply for the loans online across the whole process.

Traditional technologies of micro credit in rural areas suffered from low operational efficiency, high operational cost, large differences in risk identification and a small range of customers, which restricted traditional financial institutions including banks to move its Sannong service further down to the primary markets. Centering around the "technology empowerment" philosophy, the Heilongjiang Branch developed the "Smart Village" front-end system management terminal, and built the core system of internet loans linked with third-party big data platforms, which realized interconnection between big data terminals. It also launched a series of online micro loan products called "Smart Longjiang", which enabled loan application, credit review and approval and loan drawdown through mobile banking. The time for reimbursement was shortened from three days to ten minutes, effectively increasing service efficiency.

At the beginning of 2021, the pandemic broke out sporadically in some areas in Heilongjiang Province when spring farming preparation was under a key period. Farmers urgently needed credit funds for land contracting and transfer as well as purchasing agricultural means of production ahead of schedule. Therefore, the Heilongjiang Branch launched the contingency plan, and solved their urgent problems through online loans during the spring farming preparation. Leveraging the advantages in logistics and e-commerce of China Post Group, the Branch also built a rural financial system featuring "online plus offline channels, self-developed plus embedded service, China Post Group plus the Bank". Apart from applying for loans online, farmers could also entrust the Branch to purchase agricultural means of production online, enjoying the home delivery service. As of the end of the reporting period, Heilongjiang Branch granted RMB6,440 million agriculture-supporting loans cumulatively via "Smart Longjiang" series Speedy Loan products.

Aligning Efforts to Consolidate the Achievements in Poverty Alleviation with Efforts to Promote Rural Revitalization

During the reporting period, the Bank strictly implemented the requirement that "Four acts shall continue after poor counties being removed from the poverty list"[1]. In the transition from poverty alleviation to rural revitalization in all respects, the Bank maintained the overall stability of support policies such as internal funds transfer pricing (FTP), credit approval as well as ensuring no employee who had fufilled their duties would be held liable for anything beyond their control. According to the Bank's supporting policies for severely impoverished areas in the "Three Regions and Three Prefectures", the Bank formulated financial supporting measures targeted at key counties for national rural revitalization, and implemented preferential policies for these counties in terms of credit line, credit approval, institution setting and pricing authorization.

The Bank optimized existing products, formulated micro credit policies for those being lift out of poverty, and continuously supported registered lifted-out-of-poverty people and the marginal households who were prone to poverty with their developments and production, helping them to grow incomes and become wealthy. The Bank formulated the action plan for supporting rural revitalization with small enterprise financial services as well as the development plan for supporting the rejuvenation of old revolutionary base areas with corporate banking, and bolstered the development of distinctive industries in poverty alleviation areas. It also strengthened the self-development capabilities of regions and population which were already out of poverty, boosted the infrastructure construction in poverty alleviation areas, and improved the production and living environment in those areas.

Vigorously Providing Financial Services for Key Areas of Rural Revitalization

The Bank supported the stable production and supply of food and major agricultural products. It formulated the micro loan service plan for spring farming preparation and livestock and poultry cultivation for 2021, gave credit support timely to high-quality customers growing wheat, corn and rice, continued to improve the full-industry-chain financial services of hog industry, and guaranteed that the production of food and agricultural subsidiary products as well as spring farming preparation could be successfully rolled out.

The Bank supported the development of a modern agricultural operation system. It actively participated in the campaign of credit through train for new types of agribusiness carried out by the Ministry of Agriculture and Rural Affairs, and cemented cooperation with the national agricultural credit guarantee system. As of the end of the reporting period, a total of RMB112,520 million of loans were granted through such cooperation, with a balance of RMB48,400 million. Leveraging the advantages of integrating logistics, business flow and fund flow of China Post Group, the Bank provided new types of agribusiness with delivery, e-commerce, finance and other comprehensive services, solving difficulties in logistics, sales and financing of rural areas.

The Bank supported the rural development initiative. It actively innovated financial products and offered more financial support to garbage incineration and wastewater processing in rural areas, so as to satisfy the diverse demands of rural development. Meanwhile, the Bank accelerated the development of the Speedy Loan platform operated by PSBC E Chain, actively carried out cooperation on the development of smart rural platforms for management of collective funds, assets and resources in rural areas and rural property rights transactions, integrating financial services into all kinds of scenarios such as agricultural industry chain, agro-related business community and government affairs. In addition, the Bank vigorously supported the reform of the rural collective property rights system and provided villagers' committee and rural collective economic organizations with account opening and settlement services.

[1] "Four acts shall continue after poor counties being removed from the poverty list" means that poverty alleviation duties, policies, assistance and oversight shall continue after poor counties being removed from the poverty list.

Column

Developing Featured Sub-Branches and Exploring a Unique Path to Support Rural Revitalization through Finance

On March 8, 2021, the Rural Revitalization Featured Sub-Branch in Guanxu, Deqing County in Zhaoqing, Guangdong Province was officially established.

On March 8, 2021, the Rural Revitalization Featured Sub-Branch in Guanxu, Deqing County in Zhaoqing, Guangdong Province was established, becoming the first rural revitalization featured sub-branch established with name changed after the National Administration for Rural Revitalization was established. Actively implementing related requirements of the 2021 No.1 Central Document, the Guangdong Branch changed the “Deqing Guanxu Sub-Branch” into the “Deqing Guanxu Rural Revitalization Featured Sub-Branch” with the help and guidance of local government and regulators. Based on the advantages of serving Sannong, the Sub-Branch was built into an important pivot which supported aligning efforts to consolidate the achievements in poverty alleviation with efforts to promote rural revitalization, in order to increase the efficiency and level of financial services of the rural revitalization strategy.

Centering around “strong agriculture, beautiful countryside, rich farmers”, the Rural Revitalization Featured Sub-Branch in Guanxu, Deqing County kept forging ahead the development of Rural Revitalization Featured Sub-Branches, which included building a number of cash withdrawal stations for farmers, building a number of creditworthy villages, supporting a number of new agricultural business entities, building a base for entrepreneurship and wealth creation, innovating a number of featured financial products, and assisting a processing industrial chain. Firstly, the Bank innovated the “mobile banking” model featuring “Party building plus finance”, carried out the party building activity of “Doing practical things for the masses” with local government, and established 6 cash withdrawal stations for farmers and 16 creditworthy villages. Secondly, the Bank actively leveraged the advantages of PSBC in the flows of goods, business and capital and built a service model of “PSBC Rural Revitalization Loan + Supply and Marketing Platform for Farmers + China Post E-commerce Logistics” in coordination, so as to successfully complete the last mile of financial services in distant rural areas. Thirdly, the Bank innovated the “intellectual integration” service, created a demonstration base of creativity, entrepreneurship, and wealth creation for rural revitalization, and built a service platform for “financing” and “intellectual integration” for entrepreneurship of rural youths. As of the end of the reporting period, the Rural Revitalization Featured Sub-Branch in Guanxu, Deqing County cumulatively extended RMB90 million to Guanxu Town accumulatively. During the reporting period, it extended 77 loans, amounting to RMB43.30 million, covering 23 villages and one industrial park, serving nine industries including planting, cultivation, forest management and protection and manufacturing. It successfully explored a featured path of supporting rural revitalization through financial means.

Increasing Basic Financial Service in County Areas

The Bank strengthened technology empowerment to restructure offline network resources and establish a coordinated online-offline financial service channel system. It coordinated plans and layouts for directly operated outlets, agency outlets and financial service stands for agriculture, sped up the intelligent transformation of outlets, and supported the basic financial service supply for county areas. It further expanded mobile banking in these areas and optimized functions of mobile banking, developing mobile banking into a comprehensive service platform integrating financial services and production and living services. The Bank promoted the New Rural Endowment Insurance (NREI) and the New Rural Cooperative Medical Service (NRCMS), providing comprehensive and multi-level financial services for rural residents. As of the end of the reporting period, the Bank had 101,400 sets of self-service equipment and 39,600 financial service stands for agriculture at or below the county level. During the reporting period, the Bank acted as the collection agency for 2.4756 million NREI transactions with a volume of RMB1,032 million, as the payment agency for 91.4210 million NREI transactions with a volume of RMB16,314million, as well as the payment agency for 265,400 NRCMS reimbursement and subsidies with a volume of RMB236 million.

• Over the past decade, in Zhenghe, Nanping, Fujian Province, employees of PSBC have walked through 124 administrative villages, with their sweat in lucid waters and lush mountains as well as fields. They have been firmly walking on the last mile of serving Sannong.

Microfinance

As a large and dynamic group, micro and small enterprises have a solid foundation for sustainable development and are the cornerstone of China's economic development. In recent years, the CPC Central Committee and the State Council have attached great importance to the development of MSEs, and the number of MSEs has increased rapidly. In 2021, the number of MSEs exceeded 44 million, boasting a broad market prospect. Holding high-quality development of microfinance as the main task, the Bank focused on the "blue sea" market of microfinance, and continued to increase credit support for MSEs with digital transformation as the driving force and risk prevention and safe development as the bottom line, enhancing services to micro and small enterprises in county areas while continuously channelling more services down to less-developed areas. By enriching the digital product system, expanding customer acquisition channels, promoting the standardization and intensification of the operation systems, upgrading the intelligent risk control system and other measures, the Bank was able to solve the financing problems of MSEs and facilitate the mutual promotion of the high-quality development of both the microfinance business and the Bank itself. Given stable and efficient supply of microfinance, as of the end of the reporting period, the balance of inclusive finance loans to micro and small enterprises was RMB890,503 million. The number of accounts with loan balances amounted to 1,646,500, representing an increase of 38,300 compared with the prior year-end. The average interest rate for new loans in the reporting period was 5.23%, representing a decrease of 28bps compared with the prior year, and the non-performing loan ratio was 1.77%.

Continuing to Enrich the Online Product System

The Bank pushed forward the development of online businesses such as "Easy Small and Micro Loan" and "Speedy Micro Loan", and constantly enriched the data access to government affairs, import and export, enterprise orders, etc. It expanded the business scenarios of "Easy Small and Micro Loan", and introduced new models for customs and government affairs on the basis of tax, invoice, comprehensive contribution, project, mortgage and guarantee models, to meet the diversified financing needs of MSEs. The Bank deepened the cooperation with creditchina.gov.cn, optimized customer acquisition, customer activation, review & approval, risk control and other links of the product on the basis of the original exclusive product "Project Easy Loan", and launched the upgraded version of "Project Easy Loan 2.0", i.e. "Project Corporate Loan". In addition, in collaboration with the National Financing Guarantee Fund and based on xyd.creditchina, the Bank made new breakthroughs and launched the product of "Project Corporate Credit Guarantee", which was launched in 6 branches with a total disbursement of nearly RMB400 million. As of the end of the reporting period, the balance of online loans

The balance of online loans to MSEs surpassed RMB600 billion, representing an increase of 33.12%.

The Bank had more than 600 sub-branches featured with MSEs financial service, expanded the data access with government customers, and achieved direct banking-taxation connection in 36 tier-1 branches.

The Bank piloted the digital credit factory model for MSEs.

- The Bank deepened the cooperation with xyd.creditchina by launching the upgraded version of "Project Easy Loan 2.0" on the basis of the original exclusive product "Project Easy Loan", i.e., "Project Corporate Loan".

to MSEs amounted to RMB608,454 million, representing an increase of RMB151,384 million or 33.12% compared with the prior year-end.

Extensively Establishing "Online + Offline" Channels for Customer Acquisition in Batches

The Bank further consolidated its network advantage of offline outlets and constantly pushed forward the development of sub-branches featured with MSEs financial service, with more than 600 sub-branches of this kind underway as of the end of the reporting period, covering all the 36 tier-1 branches. By deepening the cooperation of open platforms and strengthening the multilateral cooperation with government departments, National Financing Guarantee Fund, industry associations, etc, the Bank continued to expand data access with the National Development and Reform Commission, Ministry of Industry and Information Technology, local taxation and other government customers, and achieved direct banking-taxation connection in 36 tier-1 branches, standing in the forefront among peers. It strengthened the coordination with China Post Group, and took the EMS – PSBC delivery card for MSEs to carry out business of withholding the EMS express fee, so as to provide new channels and preferential rights for MSEs in their payment of express fees.

Comprehensively Upgrading the Intelligent Risk Control System

The Bank established extensive accesses with external data platforms and built a library of six types of risk indicators, including industry and commerce, justice, enterprise credit information, business owners's credit information, receipt for a loan (IOU) performance and featured product data, and screened them to create a comprehensive and effective list of indicators. It set up a risk control model covering the whole process of micro loans as well as pre-lending models including precise customers portraits and precise marketing, and comprehensively promoted the event-triggered post-lending examination, in order to effectively improve the intelligence of risk prevention and control.

Further Improving the Standardized and Intensive Operation System

The "credit business platform (corporate)" system was launched to improve the functions involving the whole process and the full range of products, contributing to the realization of paperless processing of business forms. The Bank optimized the online withdrawal and business process of corporate online banking, improved the overall operation efficiency of the system, and effectively enhanced customer experience. With the piloting of the digital credit factory model for MSEs and by encouraging the end-to-end, streamlined and standardized operation, the Bank further optimized the credit process to promote standardized operation, intensified management, intelligent risk control, modular procedure and comprehensive marketing, leading to an enhancement in the quality and efficiency of microfinance service.

Column

PSBC Established SME Institute Jointly with Ministry of Industry and Information Technology and Renmin University of China

In order to comprehensively study the laws of SME (small and medium-sized enterprises) development, grasp the status quo and problems of SME operation, bring into play the professional advantages of government departments, universities and other external intellectual resources, and provide advice and suggestions for the formulation of relevant national policies and industrial planning, PSBC, together with the Ministry of Industry and Information Technology and Renmin University of China (RUC), jointly promoted the establishment of the SME Institute. On the afternoon of May 8, 2021, a founding ceremony was held at RUC, where the Ministry of Industry and Information Technology, RUC and PSBC signed a tripartite cooperation agreement, and the first meeting of the Steering Committee of SME Institute was organized to review the working rules of SME Institute and clarify the research plan for 2021.

In the next step, the Bank will continue to implement the policies of the CPC Central Committee, the State Council and regulators to support SMEs. Relying on the SME Institute, the Bank will build a high-end think tank for SME research by bringing together the strengths of all works of life including governments, enterprises, and research institutes, with an aim to actively contribute to the formulation and implementation of relevant policies, and make new achievements and contributions to the provision of financial services to SMEs and the think tank building for SMEs.

Green Finance

The Bank stayed true to the principle that lucid waters and lush mountains are invaluable assets, implemented major decisions and plans about achieving peak carbon dioxide emissions and carbon neutrality proposed by the CPC Central Committee and the State Council, vigorously developed sustainable finance, green finance and climate financing, and strived to build itself into a world-class green inclusive bank and climate-friendly bank. It officially adopted the Principles for Responsible Banking (PRB) and joined the United Nations Environment Program Finance Initiative (UNEP FI), becoming the second major Chinese state-owned commercial bank to sign the PRB. The Bank's Huzhou Branch in Zhejiang Province was made a Head Office-level green finance reform demonstration branch. Sanming Branch and Nanping Branch in Fujian Province established Green Finance Centers, and Liuzhou Branch and Hezhou Branch in Guangxi Province established Green Finance Business Units. A green finance sub-branch was set up in Jiangbei New Area of Nanjing, Jiangsu Province. As of the end of the reporting period, the balance of green loans amounted to RMB317,104 million, representing an increase of 12.87% over the prior year-end. The balance of green financing amounted to RMB364,137 million, representing an increase of 13.88% over the prior year-end, among which the balance of climate financing amounted to RMB348,908 million, up by 13.67% over the prior year-end. The balance of green bonds investments amounted to RMB29,121 million, among which investments with self-owned funds stood at RMB20,480 million and investments with wealth management funds RMB8,641 million. The underwriting of green bond amounted to RMB2,500 million.

Becoming the second major state-owned commercial bank in China to adopt the Principles for Responsible Banking.

Improving the environmental and climate risk management system.

Exploring financial transformation and innovating climate-friendly financial products.

The balance of green financing amounted to RMB364,137 million, representing an increase of 13.88% over the prior year-end.

Strengthening system formulation. The Bank optimized the guidelines on credit policies, followed the orientation of green finance policies, and prioritized support for key areas of green finance and climate financing such as green transportation, renewable energy, clean energy, green buildings, energy conservation and environmental protection, carbon capture and storage, and afforestation. It issued risk policies and risk limit plans, strengthened the management of industry-specific limits, and controlled credit limits to industries with high pollution, high energy consumption and overcapacity such as steel, coal and coal power. The Bank also set the priorities of green bank building for 2021 and further implemented major plans and decisions for addressing climate change and developing green finance.

Optimizing resource allocation. The Bank implemented the differential policy for measuring economic capital of green finance and improved the economic capital management and evaluation system. With more focus on green credit, the Bank provided preferential interest rates for projects with significant benefits for carbon emission reduction, offered support by lowering the lending rates of internal funds transfer pricing (FTP), opened a "green channel" for review and approval, and increased support for parallel operation to facilitate the development of green finance.

Innovating climate-friendly green finance products. The Bank underwrote the first debt financing plan linked to sustainable development and the first ultra-short-term carbon neutrality bond, issued the country's first loan pledged by the right over incomes from carbon sink, invested in the country's first green mortgage-backed securities based on personal auto loans, and promoted financial products such as Liang Shan Loans and Ecological Loan.

Reinforcing environmental and climate risk management. With the help of the Jinjing (Gold Eye) credit risk monitoring system, the Bank carried out environmental and climate risk management in a bid to restore customers' environmental credit. It also conducted corporate carbon accounting to help enterprises calculate greenhouse gas emissions. In addition, the Bank set strict access standards for new customers, rejected unqualified projects with high energy consumption and high emissions and granted no credit to struggling enterprises with outdated capacity. The Bank undertook ESG and climate risk investigation to strictly control the credit growth and proportion of credit in industries with high pollution, high energy consumption and overcapacity.

Promoting green operation. The Bank included green office into the evaluation system, carried out evaluation tests on a regular basis. It leveraged teleconferences, paperless office work system, etc, reduced office paper usage, conducted green purchasing and encouraged green travel and low-carbon life.

Column

Adopting the Principles for Responsible Banking

In May 2021, the Bank officially adopted the Principles for Responsible Banking (PRB) and joined the United Nations Environment Program Finance Initiative (UNEP FI), becoming the second major Chinese state-owned commercial bank to sign the PRB.

The PRB, developed under the organizing of the UNEP FI, is an important benchmark for the banking industry to implement the United Nations 2030 Sustainable Development Goals (SDGs) and the Paris Agreement. The Bank actively practiced the concept of green development and implemented national policies and regulatory requirements. By benchmarking international best practices, the Bank made improvements in terms of corporate governance, policies and rules, product innovation, fintech, internal control and capacity building, supported green and low-carbon development and promoted the harmonious coexistence between human and nature. Next, the Bank will further implement major decisions and plans by the CPC Central Committee and the State Council for addressing climate change and developing green finance, strive to achieve the United Nations 2030 Sustainable Development Goals (SDGs) and implement the Paris Agreement, and vigorously develop sustainable finance, green finance and climate financing. It will also endeavor to become a green, inclusive and climate-friendly bank with its own characteristics while complying with regulatory requirements and international practices, and make contributions to the goals of achieving peak carbon dioxide emissions and carbon neutrality.

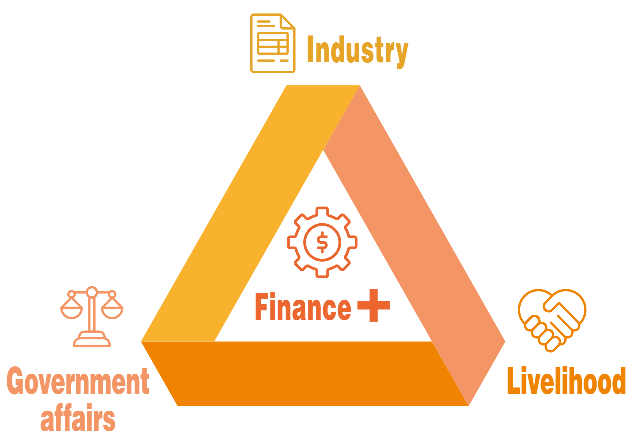
Major Majority-owned Subsidiaries

YOU+ BANK

Since its establishment under regulatory approval, YOU+ BANK has conducted in-depth research on strategy implementation and business planning whereas promoting the preparatory work in all respects, including corporate governance, team building, system development, risk management and business preparation. As of the date of this report, YOU+ BANK has formally submitted the application for opening to the CBIRC and will open for business upon receipt of the financial license.

YOU+ BANK will maintain its strategic focus and plan its business development accordingly. Taking “serving Sannong customers, facilitating micro and small businesses, and delivering benefits to the general public” as its mission, YOU+ BANK aims at building an open and shared digital platform to provide inclusive financial services as well as an innovative platform to support rural revitalization via financial services and achieve a better life with technology. Internally, the platform will connect with the businesses of China Post Group and the Bank and combine intelligent, extensive online services with professional offline services with a human touch. Externally, the platform will be linked to the platforms of government affairs, industrial and internet platforms. By integrating the service needs of different customers, it will work with financial institutions to provide more diversified, customized and targeted financial service solutions, including wealth management and financing services, for customer groups in need of inclusive finance. YOU+ BANK will also build a credit system alliance and an intelligent data-based risk control system to tap into the value of data in Sannong customers and micro and small businesses. In terms of business expansion, YOU+ BANK will focus on three major scenarios of industries, government affairs and people’s livelihood. Firstly, it will create a “finance plus industry” scenario, so as to deepen cooperation with internet enterprises and core enterprises in Sannong businesses, embeds its service into upstream and downstream business scenarios, and provides a full scope of industrial financial services to promote the prosperity of rural industries. Secondly, YOU+ BANK will explore the scenario of “finance plus government affairs”. Covering various government affairs scenarios, it will cooperate with primary-level governments and communities to provide standardized financial products for different scenarios and to assist effective rural governance. Thirdly, YOU+ BANK will build a scenario of "finance plus people's livelihood". Through its inclusive wealth management and bill payment business, YOU+ BANK will extend its services to counties and the rural market and meet urban and rural residents' needs for convenience of consumption, thus promoting the prosperity of rural people.

Solid steps have been taken to prepare for the opening of business. Under the guidance of the regulatory authorities, YOU+ BANK has made all-round preparations for its opening of business. On corporate governance, it has established a corporate governance mechanism featuring "core leadership by the Party committee, strategic decision-making by the Board of Directors, implementation by senior management and law-based supervision by the Board of Supervisors", and an agile organizational structure and a sound internal management policy system. On team building, YOU+ BANK has carried out recruitment and attracted professionals in various fields to build a team of high-caliber professionals with a common vision, entrepreneurship, and innovative potential. On system development, YOU+ BANK has adhered to the strategy of "independence and controllability", insisted on independent innovation with digitalization and intelligence as the starting point, and built an information system structure based on distributed micro-service, cloud-based deployment and open platform, enabling the system to deliver high performance, high flexibility and high availability and process massive transactions. On risk management, YOU+ BANK has established a comprehensive risk management system geared to the innovative business with corporate governance as the foundation and intelligent risk control as the core. It has set up sound risk management policies and a risk management operation mechanism with clear responsibilities, mutual connection and effective checks and balances. YOU+ BANK has continued to advance the building of a data-driven intelligent risk control system, embraced cutting-edge technologies, conducts all-dimensional analysis of customers through advanced AI algorithms and access to reams of data, and will realize life-cycle management of credit by means of a big data platform with remarkable data processing capacity.



PSBC Wealth Management Co., Ltd.

PSBC Wealth Management was established on December 18, 2019 with a registered capital of RMB8 billion, and the Bank held 100% of the shares. Its business scope is as follows: providing unspecified general public with WMPs, and making investment of and managing properties entrusted by investors; issuing WMPs to eligible investors by private offerings, and making investment of and managing properties entrusted by investors; financial advisory and consulting services; other businesses approved by the CBIRC. As of the end of the reporting period, PSBC Wealth Management had total assets of RMB10,235 million and net assets of RMB9,630 million and recorded a net profit of RMB447 million for the first half of 2021.

Actively benchmarking against advanced asset management institutions, PSBC Wealth Management strives to build a first-class bank-funded asset management company that upholds the customer-centric philosophy, pursues prudent, specialized, open and innovative operation and excellent value creation. It has built an investment research system and a customer service system with professionalism, and diversified channels and customers. On the basis of inclusive finance, it has improved its ability to serve high-net-worth customers and institutional customers and support the diversified investment and financing demands of corporate customers. The Bank incorporates PSBC Wealth Management into its overall development strategy for planning and management, and has leveraged its network channels and customer resources to fully support PSBC Wealth Management in its product sales, brand building and collaborative project development, helping the latter to build itself into a first-class asset management institution. PSBC Wealth Management will, leveraging its license advantage and investment research ability, boost the standardized, professional and unique transformation and development of the Bank's wealth management business, facilitate the transformation and upgrading of the Bank's retail banking strategy, and jointly build a specialized wealth management system.

During the reporting period, PSBC Wealth Management steadily increased its scale, pushed forward reform and transformation, and continuously improved corporate management. Firstly, PSBC Wealth Management steadily advanced its reform and transformation. It strictly complied with regulatory requirements, promoted asset reform in an orderly manner as planned, and continued to explore new models of transformation for existing products through natural maturity, net-value products, and market-based disposal of stock assets. Secondly, PSBC Wealth Management formed a prudent investment style. With fixed income and alternative investment as the cornerstone, it actively participated in the capital market and overseas markets and significantly enhanced its capability of allocating asset classes. It also actively engaged in the first batch of pilot projects of public REITs. Thirdly, PSBC Wealth Management enriched its product categories. It arranged investments in low-volatility products represented by those with regular payments and those with minimum holding periods and routine products of different maturities, and developed products with themes including those assisting farmers, overseas assets, FOF, etc. The number of net-value products within duration was 149, among which 85 were issued in the first half of the year. The number of newly issued products exceeded that of last year. Fourthly, PSBC Wealth Management enhanced its operation support capability. It initiated the building of a professional IT team consisting of 100 people, continued to optimize the whole-process risk monitoring system for WMPs, consolidated the foundation for institutionalized development, and strictly abided by the requirements of compliance.

PSBC Consumer Finance Co., Ltd.

PSBC Consumer Finance was established on November 19, 2015 with a registered capital of RMB3 billion, and the Bank held 70.50% of the shares. Its business scope is as follows: 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; advisory and agency services related to consumer finance; agency sales of insurance products related to consumer finance; investment in fixed income securities. As of the end of the reporting period, PSBC Consumer Finance had total assets of RMB36,556 million and net assets of RMB4,507 million and recorded a net profit of RMB791 million for the first half of 2021.

During the reporting period, PSBC Consumer Finance constantly adjusted the development structure and strengthened risk management, which yielded notable results. Firstly, the refined operation capability of self-operated channels was continuously improved. By optimizing customized marketing mechanism and marketing copies, PSBC Consumer Finance conducted special holiday campaigns to encourage the use of credit by new customers. Secondly, it made headway in the synergetic development. PSBC Consumer Finance, together with PSBC Canteen and merchant acquiring, carried out joint marketing campaigns to launch the PSBC Loan on the WeChat account of China Post. Thirdly, the risk control measures were gradually improved. PSBC Consumer Finance refined channel risk strategies for key products, boosting the effectiveness of risk strategies. It also refined the classification of customer group labelling in the data lab, optimized channel strategies of mobile banking, developed the PSBC Wallet app to achieve parallel implementation of multiple strategies, and improved the adjustment policy for revolving loans to increase the proportion of high-quality assets. Both total non-performing loans and the NPL ratio have decreased.

Capability Building

Financial Technology

Based on the fruitful achievements of the IT Planning for the 13th Five-Year Plan period, the Bank is formulating the new IT Planning for the 14th Five-Year Plan period. In line with its overall development strategy and IT development requirements, the new IT Planning charts the course for IT development in the 14th Five-Year Plan period. Under the guidance of the new IT Planning, the Bank will advance its digital transformation and high-quality development in all respects with the fintech platform as the basis, sharing of middle-office capabilities as the support, and intelligent insights as the driving force. During the reporting period, IT spending amounted to RMB5,202 million, accounting for 3.30% of its operating income.

Fintech Development

IT Team Building

The Bank accelerated the IT team building and doubled the IT headcount at the Head Office for two consecutive years since 2019. During the reporting period, the IT team in the Head Office increased to 2,299 people, and that number across the Bank exceeded 4,000. The Bank continued to carry out regular recruitments and introduced more R&D and testing personnel. By developing employee training programs and training course systems and organizing a series of IT special training, the Bank aimed to improve employees' professional skills. It also conducted a new round of leading talent selection to create a three-level talent echelon of "youth, backbone, and leader" and spur entrepreneurship of the IT personnel. The Bank optimized the special incentive plans and carried out the qualification examination for IT-related jobs to effectively improve the professional management of IT talents.

Enhanced Independence and Controllability

The Bank moved faster to enhance its independence and controllability and promoted improvements in independent R&D, independent platforms and agile development. It stepped up its independent R&D efforts on key systems such as the independent development of centralized credit system. The R&D sub-center in Xi'an was officially opened for business, and a "1 plus 4 plus N" independent R&D system which included one R&D center in the Head Office, four sub-centers and a number of R&D centers in branches was formed. The roll-out of the independently developed platforms was effective, especially in supporting the development of the CRM platform and the new generation intermediary business platform, thus significantly boosting the efficiency of product iteration and innovation. The Bank continued to push forward the innovation based on the integration of technology and business and carried out agile research and development in internet finance, retail credit, transaction banking and other business areas to enhance the ability to deliver products at high velocity. It also adhered to a customer-centric approach, improved customer experience, sped up product innovation and scenario expansion, constantly streamlined process, and enhanced customer satisfaction.

IT spending amounted to RMB5,202 million, accounting for 3.30% of the operating income.

The successful launch of the new generation distributed core system technology platform injected new impetus for the digital transformation of the Bank.

The Bank continued to build the two technology innovation platforms, namely, PSBC Brain and the blockchain service platform.

The IT headcount at the Head Office doubled for two consecutive years since 2019.

Strengthened Data Capabilities

The Bank strengthened data output to provide a strong support for the rapid business development, innovation and reform. In terms of big data development, the Bank built an open-source mega cluster big data platform and six big data marts, which accessed and integrated data of 127 key business systems in the Bank to provide data support for 77 downstream applications. The Bank also built a data middle-office platform, created a fast track from basic data support to business scenario empowerment, accumulated experience of 461 data services, and thus realized rapid monetization of data value in business scenarios such as business analysis, precision marketing, risk monitoring and performance appraisal. Regarding big data application, the Bank expanded the coverage and depth of data application. Seven aspects including customer analysis, marketing management, risk monitoring, product management, operation optimization, channel management and regulatory compliance were covered and a data service system for the senior executives, personnel in charge of operation and front-line employees was developed. The Bank strengthened the business model innovation driven by big data technology. While realizing the monetization of data assets through data output services, the Bank embedded the analysis models into business processes, the results of which provided direct support to front-line sales team. The Bank attached great importance to and met the requirements of rural revitalization, strengthened data empowerment, and established a core database of digital finance for Sannong customers. It developed accurate portraits of rural customers, facilitated the development of an inclusive finance credit system in rural areas and explored to release statistical indicators of rural financial service in different regions. In addition, the Bank strengthened the team-building of big data talents and established a collaboration mechanism among the centralized data team from the Head Office, the data teams from business departments at the Head Office and those from branches. It held the second data modeling competition with the aim of enhancing the skills and competence of the big data teams in data application and analysis modeling. As for data governance, the Bank issued 8 types of master data information specifications, set enterprise-level business management specifications and basic data standards for core data assets such as customers and institutions, so as to continuously improve the quality of data assets.

Development of the New Generation Systems

With the increasingly diversified customer needs and the rapid development of fintech, the Bank earnestly followed national policies and the development trend of digitalization and financial ecology, and developed and built a number of new generation systems including the new generation core system for personal banking business, the new generation core system for corporate banking business, the new generation credit business platform, etc.

With a customer-centric approach, the new generation core system for personal banking business focuses on the transaction process of personal deposit and settlement and is dedicated to creating the ultimate user experience across all channels and creating greater value for customers. With the launch of the distributed technology platform, the underlying technologies independently developed by the Bank gradually mature. The distributed technology platform adopts a flexible unit-based distributed architecture that has ten key capabilities such as multi-active disaster tolerance switching, online expansion of unit capability, microservices governance, fault detection and failover, strong business consistency, and grayscale release. Through active-active data centers and remote switching within seconds, the Bank could ensure uninterrupted operation of core businesses and services under extreme conditions and realize independence and controllability of core technologies.

The Bank initiated the preparation of business requirements for the new generation core system for corporate banking business. In line with the enterprise-level business architecture, the system adopts an enterprise-level modeling method and focuses on corporate account deposit, payment and settlement and cash management from the perspectives of customers, users and management to strengthen the integration of customers, products and channels. The Bank actively explored the application of innovative technologies of "ABCD plus 5G", namely, artificial intelligence, blockchain, cloud computing, big data and 5G communications, and improved six capabilities of customer services, product innovation, data integration, risk control, differentiated services, and agile iteration of personalized needs to stimulate the leapfrog business development driven by digitalization and intelligence.

The Bank launched the first phase of credit business platform (corporate business) as the core system of its credit business management, which facilitated the completion of the credit business management ecosystem of the Bank. With enterprise-level modeling and product component design, it realized fast assembly of corporate credit products and created a credit service system that meets differentiated needs of micro and small businesses and corporate clients. Using data mining technology and intelligent decision-making engine, the platform achieved a perfect combination of automatic and manual approval. It introduced models and tactics, accessed the third-party big data platforms, and applied an intelligent risk control model throughout the life cycle of loans. Through powerful functions such as error correction and change of all factors in the post-lending period, the Bank greatly improved business processing efficiency and customer experience in an all-round way.

Application of New Technologies

The function module on AI application service management based on PSBC Brain, the machine learning platform, went into operation, and the biometric recognition as well as intelligent language and speech technologies were widely used in scenarios such as face recognition, voiceprint recognition, voice navigation and intelligent outbound call. As to intelligent risk control, more than 150 models including scorecards, risk portraits, anti-fraud and anti-money laundering, were launched. The model iteration cycle was shortened by 70%, effectively enhancing the risk prevention and control. In regard to intelligent operation, the OCR recognition technology was used over 100,000 times on a daily basis and the face recognition, voiceprint recognition and other technologies were used more than 1.5 million times on a daily basis. The percentage of intelligent customer service in remote banking reached 77.56%, further improving the financial service experience.

The blockchain service platform provided technical support for the blockchain development of Xiongan New Area and the Bank and ensured the rapid implementation and roll-out of applications. The Bank built a blockchain network of construction funds, non-tax revenues and e-bills in Xiongan New Area and realized interconnection among three nodes of finance bureaus, the fund management committee and the Bank to facilitate the development of Xiongan Intelligent City. It also established a cross-border financial blockchain system that obtained the certification from SAFE to allow the Bank to set up a node in the blockchain and realized credit information sharing in export invoice financing and other scenarios.

Column

Non-tax Revenue Blockchain Management System for Xiongan New Area Was Launched

The Bank fully taped into its leading advantages in fintech, earnestly supported major national strategies and assisted in pushing forward the implementation of the plan to build Xiongan as a technology highland and a smart city with high standards and high quality. A fintech innovation laboratory of PSBC was established in Xiongan New Area. An enterprise risk management platform based on chain transmission jointly developed with the State Grid was approved as the first batch of regulatory sandbox pilot in the area. The first factoring business based on the digital credit certificate "Xiongan Credit" issued by the supply chain financial service platform in Xiongan New Area was carried out. In terms of blockchain applications, the Bank launched the first blockchain-based asset custody business system in China's banking industry in 2016, and conducted the first cross-chain forfaiting transaction in 2020. The Bank built and launched the underlying platform of blockchain to lay the foundation for the all-round development of a fintech ecosystem based on blockchain technology.

The non-tax revenue blockchain management system jointly developed by the Bank and Xiongan New Area Blockchain Laboratory was launched at the end of 2020 and was successfully put into trial operation in the first half of this year. As of the end of the reporting period, the number of on-chain bills reached 1.23 million on an accumulative basis, with a face value of over RMB19.2 billion. A total of 430 companies and institutions joined, with the market share over 90%. The system is a successful exploration by the Bank in applying blockchain technology in the fields of community services and inclusive finance, creating a new service model of bill payment and collection at any time without visiting the outlets.

As the demand for fintech and digital scenarios in Xiongan New Area continues to grow, the Bank will further scale up investment in technological innovation, deepen the iteration and upgrade of "blockchain plus government affairs" products, and support national strategies with higher efficiency and better service while serving customer groups in need of inclusive finance. It will also continue to combine the results of financial innovation with local characteristics to contribute to the blueprint of building Xiongan New Area as a highland of technology.

Distribution Channels

The Bank, with its physical outlets covering urban and rural areas plus the e-banking channels and remote service channels, provides high-quality products and convenient services for customers.

Physical Distribution Channels

The Bank moved faster to transform its outlets into "marketing and service centers" and "customer experience centers" in order to enhance the capability of outlets in maintaining customer relationships and providing wealth management and comprehensive financial services.

Transformation towards Marketing and Service Centers

Firstly, the Bank vigorously promoted the data-based, intelligent and precision marketing. To enhance the capabilities in customer marketing and services, the Bank continuously optimized the functions of the CRM platform and launched online as well as offline collaborative marketing functions such as investment portfolio. The Bank further integrated static and dynamic data as well as the relationship network data of its individual customers from within and outside of the Bank and pushed forward its efforts in customer labeling and management with digital technologies to form a multifaceted customer view. With the improvement of the wealth management system for individual customers on all fronts, the Bank integrated investment and research viewpoints and intelligent algorithms to carry out wealth planning for customers. The Bank enhanced the customer service capability of outlets on all fronts to realize further enhancement by leveraging the integrated marketing performance management system. Secondly, with the goal of meeting the integrated wealth management needs of a wider range of customers, the Bank promoted the wealth management upgrade. As of the end of the reporting period, the numbers of VIP and affluent customers grew rapidly, up 14.87% and 20.44% respectively compared with the prior year-end. Thirdly, the Bank strengthened the capability of providing comprehensive services to customers. It expanded the service radius of outlets in terms of corporate business and promoted the integrated marketing and performance appraisal, which further energized the employees of outlets in improving business results. As of the end of the reporting period, the number of outlets offering corporate services reached 5,916, representing an increase of 762 compared with the prior year-end. By pushing forward the systematic transformation of outlets, the Bank unfolded rectification of outlets with low productivity.

Transformation towards Customer Experience Centers

Firstly, the Bank continuously improved outlet services. It accelerated the replacement of the old logo at outlets to improve their images. It enhanced the service capabilities of lobby managers by organizing remote training and qualification certification for them. It also conducted skill contests for tellers to improve their professional competence. Secondly, the Bank stepped up to enrich the self-service business scenarios. It developed special businesses to meet the diversified financial needs of people in different regions. Thirdly, the Bank enhanced its capability to serve special customer groups by applying a user interface with big fonts to intelligent teller machines (ITMs) with the aim of providing convenient operation and upgrading elderly-oriented service. Special lobby queuing service was provided to give priority channels for special groups. Fourthly, the Bank further applied a new model of outlet operation, promoted "mobile authorization", and continuously improved the functions of "intelligent counters", aiming to explore the model of outlet operation with fewer traditional counters. Fifthly, the Bank expanded the coverage of outlet services. By increasing the use of mobile business terminals, diversifying business scenarios, and optimizing functions in business process, the Bank was able to better meet the personalized financial needs of customers.

The number of mobile banking customers was 314 million with over 43 million MAUs.

The percentage of intelligent customer service in remote banking was 77.56%.

The number of mobile business terminals exceeded 60,000 sets.

Transactions through personal electronic banking amounted to RMB15.59 trillion, representing a year-on-year increase of 18.33%.

• New image of a PSBC outlet

As of the end of the reporting period, the Bank had a total of 39,635 outlets; the existing self-service equipment numbered 148,973, among which, the number of ITMs were 49,999 sets, accounting for 89.23% of non-cash equipment. There were 61,562 sets of internet-connected mobile business terminals.

Electronic Banking Channels

The Bank continued to enhance the online services by strengthening technology empowerment and optimizing electronic banking channels. During the reporting period, transactions through personal electronic banking amounted to RMB15.59 trillion, representing a year-on-year increase of 18.33%, and the Bank's substitution ratio of personal electronic banking was 95.99%, representing an increase of 0.3 percentage point compared with the prior year-end.

Mobile Banking

During the reporting period, the Bank continued to innovate and upgrade the functions of mobile banking, refined the interface and process of mobile banking, added new functions such as fingerprint-based transfer and personal credit report inquiry, and iterated and upgraded the large-font login page as well as the recipient list sorting, in order to provide services "with human touches" to different customer groups. At the same time, the Bank focused on improving the mobile banking experience and strengthened the closed-loop management of the experience problem pools with the feature of "problem identification – diagnostic analysis – track optimization" through the collection of a wide range of customer inputs, in-depth analysis of competitors' products and the introduction of assessment from external institutions.

As of the end of the reporting period, the number of mobile banking customers reached 314 million. During the reporting period, transactions through mobile banking amounted to RMB6.75 trillion, representing a year-on-year increase of 24.71%. The monthly active users (MAUs) of mobile banking exceeded 43 million.

Column

"Online + Offline" Model with Financial Services Accessible to Everyone

Leveraging its unique operation model of "directly-operated outlets + agency outlets", the Bank builds an extensive financial service network of "online + offline" to fulfill its social responsibility of promoting inclusive finance and serving the real economy as well as providing services with human touches to all customers.

Broad physical network covering urban and rural areas. With outlets spreading over urban and rural areas nationwide, the Bank is able to deliver financial products and services to the massive existing customers and attract prospective customers for potential business. As of the end of the reporting period, the Bank had a total of 39,635 outlets, consisting of 7,888 directly-operated outlets and 31,747 agency outlets. Among them, 12,140 outlets or 30.63% were in cities; 8,679 outlets or 21.90% were in county areas; 18,816 outlets or 47.47% were in areas below the county level.

Integrated centers for delivering professional and comprehensive financial services. The Bank further taps into the potential of physical distribution channels and promotes the transformation of outlets from "transaction and settlement centers" into "marketing and service centers" and "customer experience centers" that deepen customer relations, provide wealth management services and meet customers' overall financial needs, thus providing customers with one-stop financial services aiming to improve both outlet productivity and employee performance. As of the end of the reporting period, 100% of outlets completed the transformation and the implementation of the wealth management strategy. In the safe and private space designed for wealth management consulting, customer managers can quickly build mutual trust with customers by face-to-face communication, precisely understand their needs, address their inquiries about complex financial products with detailed explanations, and provide customers with professional wealth management plans.

Efficient and convenient education bases for communicating financial knowledge. Customer activities such as financial knowledge communication and investor education are carried out in outlets on a regular basis to continuously enhance the customers' awareness of financial risks. Moreover, by providing professional advice on investment and finance, the Bank helps customers share the fruits of China's economic growth together with PSBC to increase user stickiness and stimulate user activity.

A social platform offering heartfelt customer service. By organizing small salons and community-featured activities in outlets, the Bank builds social platforms for customers, which enriches their cultural life and strengthens their connections. The Bank aims to enhance their reliance on and trust in the outlets through providing heartfelt services and get customer referrals through word-of-mouth among their social network.

An open and complementary customer acquisition system of "outlet + business circle". Taking outlets as its center, the Bank builds "micro business circles" by fully exploring the surrounding consumption scenarios including food markets and catering venues, so as to enhance the business efficiency of merchants and stickiness of consumers in all aspects and improve the development quality. As of the end of the reporting period, the number of existing business circles served by our outlets was 2,901. In the meantime, the Bank speeds up the exploration of industries and propels the formation of a market layout featured "4+X+100" (4 bank-wide key industries + X branch-specific scenarios + 100 benchmark demonstration projects). The Bank has built an intelligent platform through a two-wheel drive with both introduction and going-out approaches to create a closed-loop of traffic both on the merchant and consumer sides. As of the end of the reporting period, the Bank had around 2,117,900 acquiring merchants with the AUM of sole proprietorship merchants exceeding RMB100 billion.

PSBC-featured online scenario ecosystem. The Bank continues to enhance agile collaboration across the Bank and improve its online customer acquisition. The ecosystem featuring "PSBC Canteen + postal services + livelihood scenarios" becomes increasingly mature. During the reporting period, the Bank introduced China Philately, newspaper subscription, postal cultural innovation and other postal services into its mobile banking, in an effort to consolidate its unique and differentiated advantages. Thanks to the upgraded user benefits in PSBC Canteen, the number of registered users on PSBC Canteen was around 56,810,900 by the end of the reporting period, representing an increase of 11.52% from the prior year-end. The Bank works unremittingly to foster the development of the membership system of PSBC Life to increase member benefits and expand the member scale.

Column

Promoting Cooperation to Benefit Farmers and Fueling Rural Revitalization

The Bank has fully implemented key national strategies of poverty alleviation and rural revitalization, and built a comprehensive service model integrating finance, delivery, e-commerce, technology and industries and centering around three key customer groups, i.e., farmer professional associations, upstream and downstream customers in the industrial chain, and rural merchants. It strives to build a collaborative ecosystem for farmers, and respond to and meet the "one-stop" service needs of new agricultural operating entities in a timely manner, thus effectively solving customers' difficulties in financing and logistics as well as sales.

Gutian County, located in Ningde City of Fujian Province, known as the Capital of Edible Fungi in China, is a traditional agricultural county and "the Hometown of Tremella". The tremella industry is a pillar industry and the source of income for the local people. In 2020, Gutian County was selected as the first batch of pilot counties for China Post's nationwide cooperation project to benefit farmers. Based on the local pillar industry, Gutian Sub-Branch customizes a comprehensive service plan for the edible fungi industry and tailored seven new products such as loan pledged by subsidy income for mushroom shed renovation, turnover loan for the fungus, and tremella e-commerce loans to provide financing for business entities in various segments of the edible fungi industrial chain. It has provided services like fund settlement, and amplifies the effect of capital flow to catalyze business flow. The Sub-Branch has also helped coordinate production and sales, created the brand Gutian Tremella as one of the China Post Agricultural Product. It has integrated the offline and online sales channels of China Post Group, and promoted the agricultural products. Two provincial demonstration cooperatives for tremella selected by Gutian Branch of China Post Group have been transformed into national demonstration bases of China Post Group for delivering benefits to farmers.

As of the end of the reporting period, Gutian Sub-Branch of PSBC visited nearly 1,218 farmers' professional associations and family farms through the collaboration with China Post Group, injecting RMB561 million for the edible fungi industry with 3,040 farmers sharing the benefits. Gutian Branch of China Post Group achieved online sales of RMB14.69 million of edible fungi in 29 provinces and cities nationwide. Through improved collaboration with China Post Group, Gutian Sub-Branch has found a new way to propel rural revitalization and provide financial services to agricultural industries with distinctive features, which is a win-win scenario for all parties involved.

Credit Card App

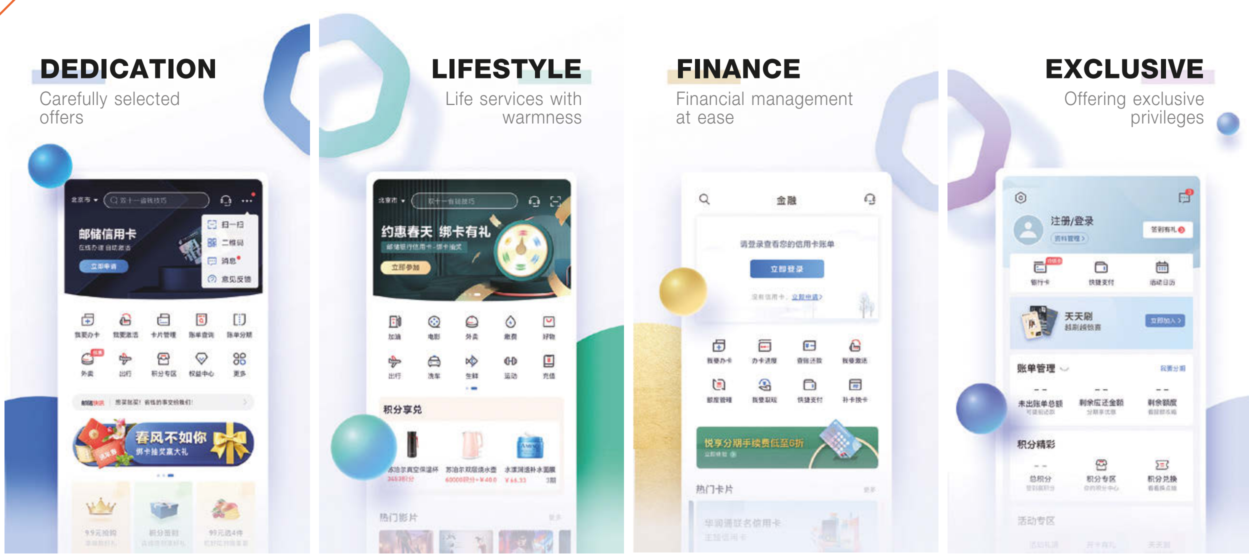
During the reporting period, the Bank launched the PSBC Credit Card App 3.0 with improved details in functions and new functions such as optical character recognition (OCR), voice search, account balance change alerts and information push. The new App enhanced the data sharing of customer accounts within the Bank and supported the binding of the Bank's debit cards. Interactive operations were enhanced with the process and content display for card applications optimized to improve the readability of message prompts. The Bank rearranged the layout of different segments, optimized the page design, rationalized categorization of functions, and harmonized the design styles. It improved the panoramic experience and strengthened the building of livelihood scenarios, with credit card-related information and other contents included.

As of the end of the reporting period, the total number of PSBC Credit Card App users was approximately 4,933,800, representing an increase of 35.50% compared with the prior year-end. The number of monthly active users (MAUs) was approximately 1,594,300, representing an increase of 5.20% compared with the prior year-end.

Online Banking

The Bank continued to improve its capabilities on personal online banking and promote online and standardized services. During the reporting period, the Bank enriched its products and services by adding new functions such as application for personal credit reporting, strengthened channel coordination by launching the function of applying the code for binding the mobile device, and improved customer experience by optimizing functions such as inquiry of delayed transfer revocation and inquiry of utility payment locations. As of the end of the reporting period, the number of personal online banking customers reached 247 million.

Focusing on customer experience, the online corporate banking 2.0 kept iterating and optimizing the Bank's capabilities in providing one-stop, comprehensive online financial services. As of the end of the reporting period, the Bank had approximately 730,400 online corporate banking customers, representing an increase of 26.1% compared with the prior year-end. Effective online corporate banking customers accounted for 78.47% of the total corporate customers, representing an increase of 6.76% compared with the prior year-end. Customers were increasingly active in online transactions.



• PSBC Credit Card App 3.0 went live

• Scan the code to download the PSBC Credit Card App

Column

Improving Age-friendly Services to Bridge the Digital Divide in Elderly Communities

With the responsibility and commitment as a major state-owned bank in mind, the Bank earnestly implements the decisions and plans of the State Council and requirements of regulators, efficiently addresses the difficulties encountered by elderly customers in using smart technologies when accessing financial services, and takes solid steps to advance the innovation and integrated development of the Bank's traditional and intelligent services in parallel.

Firstly, consolidating the foundation of offline financial services. During the reporting period, the Bank's total number of outlets remained stable. Relying on its outlet network, the Bank continued to deliver service with a human touch to ensure inclusive financial services to the majority of urban and rural customers, including the elderly. For lobby and counter services, the Bank increased the number of staff members in the lobby of branches, optimized the criteria for assessing the percentage of services delivered off the counter, set priority windows, and strengthened doorstep services and extended services. Self-service equipment were adapted for the elderly, and special counter services were added to help the elderly with card binding for quick payment and the sign-up for collection by mobile phone number.

Secondly, accelerating the process of special action for the barrier-free and elder-friendly transformation of intelligent applications. The Bank made a thorough survey of the difficulties and pain points of elderly customers in the use of smart technology, continued to focus on the high-frequency transactions by elderly customers via mobile banking, optimized the page design of the large-font version, and introduced new functions such as voice transfer. A dedicated hotline for the elderly was launched in the call center, and over-60s can skip voice navigation and option selection when calling 95580. The Bank worked to encourage the elderly to learn new things, experience new technologies, and actively integrate into the smart environment.

Thirdly, launching educational campaigns and training through multiple channels and in various forms on a regular basis. Focusing on application of new smart technologies, prevention of illegal fund-raising and telecommunications fraud and other topics, the Bank made full use of online and offline methods to carry out educational campaigns, strengthened employee training, further improved service attitude, and improved the service quality and emergency response in the lobby.

Remote Service Channels

Remote Banking

The Bank actively enhances remote service capability through application of intelligent technologies and refined management, steps up the development of service channels, and expands the use of intelligent applications. Adhering to a customer-centric approach, the Bank further refines its service system by means of omnichannel access, diversified scenarios, artificial intelligence, and big data technology. During the reporting period, the Bank built 95580 into a full-voice portal, realized self-service voice interaction and improved service efficiency through the combination of human and intelligent operators. The Bank sped up the elder-friendly adaptation, and launched an elderly service hotline and a large-font version of online customer service to provide convenient and considerate exclusive services for elderly customers. During the reporting period, the manual response rate in telephone banking was 98.18%, and the intelligent customer service volume accounted for 77.56% of all the business volume, with an accuracy rate of 95.96%.

Credit Card Customer Service Center

During the reporting period, the Credit Card Customer Service Center of the Bank placed emphasis on intelligent, digital, and value-oriented transformation, propelled the full-scale application of advanced technologies such as intelligent voice navigation, intelligent robots and intelligent call-back, and developed functions such as intelligent assistants, video customer service representatives and voiceprint recognition. As a result, the percentage of intelligent customer service increased to more than 74%, with the accuracy rate of intelligent recognition reaching 95%. Taking customer experience as its focus, the Bank worked to generate more economic returns and pursue better development by providing high-quality service. The customer experience was effectively improved. The manual response rate was 97.44% with customer satisfaction of manual response reaching 99.74%. The Bank put more efforts to protect the interests of credit card consumers, carried out financial literacy campaigns, and examined and addressed consumers' concerns from their perspective so as to put into practice the service concept of "dedicated service for customer satisfaction".

Column

Improving Customer Experience through Customer Journey Optimization

Further highlighting the idea of building a modern bank which puts customers first, the Bank has coordinated its efforts to upgrade customer experience from a company-wide perspective, established a closed-loop management mechanism, and pushed forward the re-engineering of the digital process in an agile and rapid manner.

Firstly, using the "end-to-end" customer journey methodology and Value Stream Mapping (VSM), the Bank benchmarked against industry leaders and recast its target journeys. To this end, the Bank reshaped and optimized 48 customer journeys covering 13 professions, and completed 74% of the three-year optimization target from 2020 to 2022.

Secondly, the Bank prioritized the optimization of core journeys in six sectors including consumer credit, credit cards, wealth management, Sannong finance, micro and small enterprises and corporate account settlement. The business processing time for corporate account opening, application for corporate online banking, credit card application, online Easy Small and Micro Loan, and quota-based consumer credit was shortened by over 50%. The volume of businesses which span across a journey, including credit card application (through customer referral), merchant installment, online Easy Small and Micro Loan, and Speedy Micro Loan increased by 4.80 to 13.66 times.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent team building, the Bank thoroughly implemented the 3-year talent development plan, adhered to an open-door policy for professionals, and expanded the market-oriented selection. Focusing on the development goal of strategic transformation, it actively introduced outstanding professionals in the fields of financial technology, intelligent risk control and wealth management. As of the end of the reporting period, 78.61% of the employees in the Bank held a bachelor's degree or above, with an average age of 35. Focusing on the return on human capital and by taking into account regional differences, the Bank continued to optimize the personnel structure of all lines and levels. The Bank accelerated the recruitment and training of top professional talents, enabling them to act as leaders and role models. Starting with the cultivation plan for key professionals, the Bank focused on and systematically strengthened the building of professional talent teams in IT, retail finance, corporate banking, treasury and asset management, risk management and marketing. Attaching great importance to the development of employees, the Bank built a "management plus professional" dual promotion path for employees, broke the barriers among all positions, and encouraged employees to choose the appropriate career development path based on their own will. Based on performance and contributions, it promoted high-calibre employees with professional competence and excellent performance appraisal results to higher level, and accelerated the establishment of a team of core talents in PSBC.

In terms of building talent pools, the Bank innovated the selection and appointment methods and introduced the market-oriented selection and recruitment as an important way of cadre management by the Party. It actively carried out the construction of the senior-level, medium-level and primary-level talent pools, established and strengthened the concept of "talents come from competition", built mechanisms and platforms and changed from "spotting talents via good judges" to "selecting talents through fair competition". Outstanding cadres needed by the Party, the people, and investors and recognized by the market were selected through open platforms, fair rules and righteous judgments. The employment principle of emphasizing morality, professional skills, responsibility, performance and recognition was established. The construction of a senior management talent pool of around 500 people, a medium-level management talent pool of around 2,000 people and a primary-level talent pool of around 8,000 people was completed, laying a solid foundation for the planned training and use of excellent young cadres, the strengthening of the strategic reserve of cadres and the improvement of leadership teams in the next stage. The satisfaction level of cadres and employees continued to improve. According to the survey conducted by an independent third party, the overall employee satisfaction increased by 21 percentage points from 2018 to 2020, and the proportion of employees being confident in the Bank's future development increased by 21 percentage points compared with that of 2018. The employee morale were significantly improved. In 2020, the score rated by employees who were enthusiastic in their work rose by almost 15 percentage points compared with that of 2019, indicating that an honest and positive entrepreneurial atmosphere has been fostered.

In terms of remuneration and benefits management, centering on the development strategies and the focuses of business development, the Bank further optimized a payroll management mechanism driven by performance and value creation. For urgently needed high-end talents, the Bank explored the application of market-oriented payroll distribution, enabling the talents with market-based remuneration to play leading roles. The Head Office recruited from outside the Bank scarce talents for critical positions such as the chief risk officer, chief information officer, chairman of PSBC Wealth Management, and talents in fields of information technology and intelligent risk control, and offered them with competitive salaries to stimulate their entrepreneurship so that they could better facilitate the transformation and development of PSBC. Performance-based salary distribution was closely linked to the results of performance appraisal to encourage employees to actively improve their performance.

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, the Bank closely followed the trends of business management and development and improved a talent training and development system with centralized training and remote training as major approaches and Party School training and qualification certification as supplementary ones. The Bank consolidated the foundation of training by enhancing the team building of internal lecturers, developing training resources, and continuously upgrading and optimizing its online training platforms. With the goal of improving the professional ability of employees and based on the position categories, the standards of qualifications for all positions were clearly defined from five key aspects, namely, the construction of qualification standards, the development of learning resources, the organization of training and learning, the job qualification certification and continuing education. The Bank established the job qualification certification in a systematic way and regularly carried out job qualification certification. The Bank promoted the concept of continuous learning and lifelong learning to constantly improve the professional capabilities and match the right people to the right positions, so as to achieve the growth of employees and the Bank together. During the reporting period, over 17,000 online and offline training sessions were organized with more than 1.54 million person-times trained.

Employees

As of the end of the reporting period, the Bank had a total of 190,880 employees, among which, 174,785 were contracted employees (including 1,142 in majority-owned subsidiaries), and 16,095 were dispatched employees. The number of retired employees of the Bank was 20,016.

Employees by Age

Item	Number of employees	Percentage (%)
Under 30 (inclusive)	29,901	17.11
31-40	87,909	50.29
41-50	41,878	23.96
Over 51 (inclusive)	15,097	8.64
Total	**174,785**	**100.00**

Employees by Education Background

Item	Number of employees	Percentage (%)
Master’s degree and above	13,794	7.89
Bachelor’s degree	123,607	70.72
Associate degree	32,603	18.65
Others	4,781	2.74
Total	**174,785**	**100.00**

Institution Management

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

During the reporting period, the Bank continued to optimize its organizational structure and allocated more resources to key businesses and areas. The Bank actively implemented the national development strategy, set up the Digital Currency Department as a primary level department in the Head Office, and strengthened the organizational support for the development of e-CNY business. It gradually optimized the layout of branches and sub-branches, dynamically adjusted the setting of internal institutions at all levels, and improved the operation efficiency of organizations. The Bank continued to optimize the organizational and management structure to effectively enhance the strategic support ability.

As of the end of the reporting period, the Bank had 8,200 institutions, including the Head Office, 36 tier-1 branches, 324 tier-2 branches, 2,072 tier-1 sub-branches, 5,765 tier-2 sub-branches and others, and two majority-owned subsidiaries.

Branches, Sub-Branches and Employees by Geographical Region and Asset Size

In millions of RMB, except for percentages or otherwise stated

Region	Asset size	Percentage (%) [1]	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Head Office	5,174,411	29.95	1	0.01	5,287	3.03
Yangtze River Delta	1,853,299	10.73	936	11.42	18,761	10.73
Pearl River Delta	1,199,585	6.94	763	9.30	18,780	10.74
Bohai Rim	2,012,241	11.65	1,124	13.71	26,246	15.02
Central China	3,657,523	21.17	2,394	29.20	44,608	25.52
Western China	2,514,830	14.55	2,137	26.06	40,536	23.19
North-eastern China	867,306	5.01	845	10.30	20,567	11.77
Offsetting and deferred income tax assets	(5,062,144)	–	–	–	–	–
Total	**12,217,051**	**100.00**	**8,200**	**100.00**	**174,785**	**100.00**

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

Note (2): Other than the number of institutions disclosed above, the Bank has received approval from the CBIRC for the establishment of the Credit Card Center as a specialized institution and for the establishment of a direct bank.

Risk Management

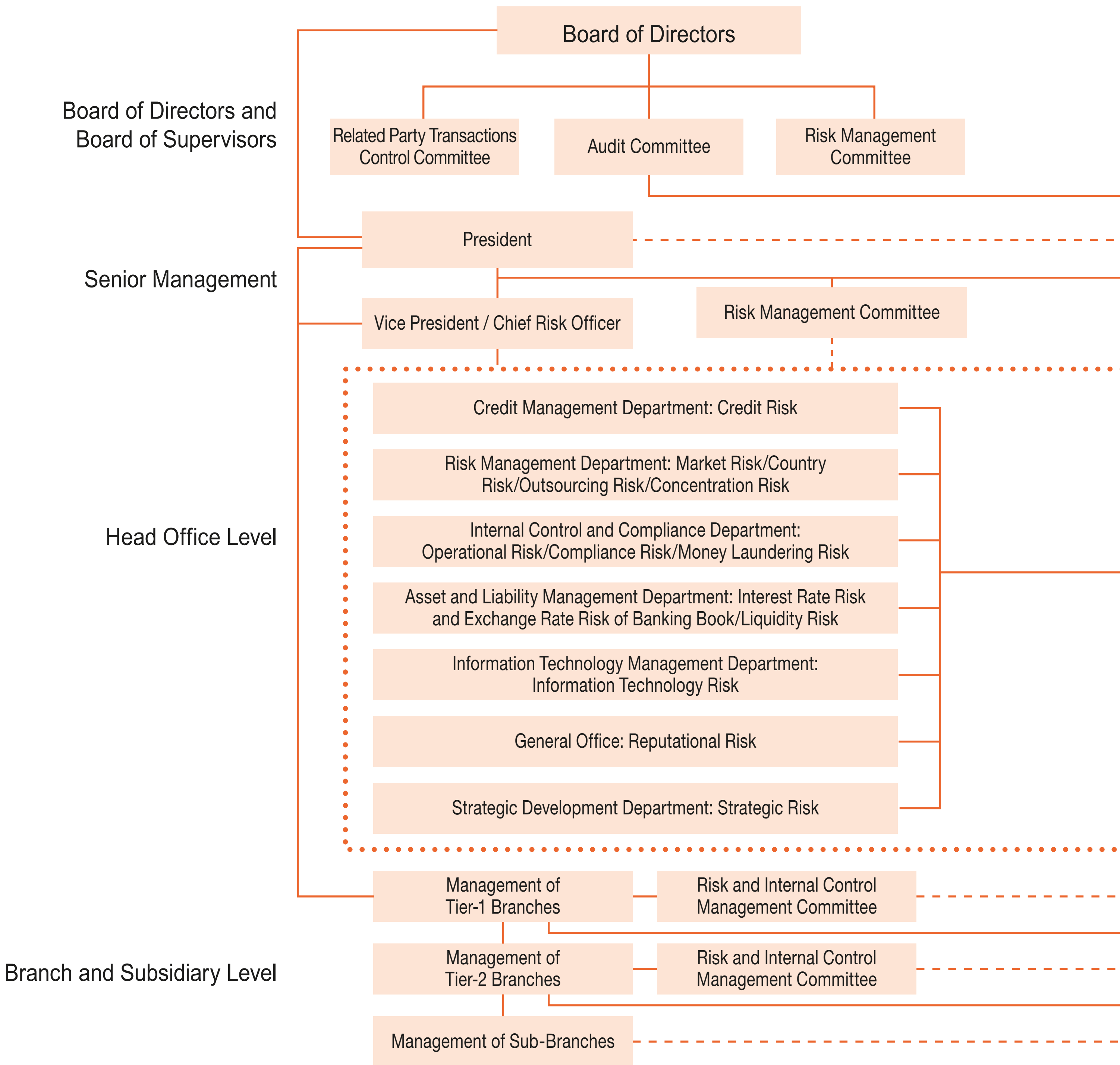
Risk Management Organizational Structure

The Board of Directors assumes the ultimate responsibilities for comprehensive risk management. It is responsible for establishing the risk culture, formulating and approving risk management strategies, setting and approving risk appetites and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, monitoring comprehensive risk management implemented by the senior management, reviewing comprehensive risk management reports, examining and approving disclosure of comprehensive risks and various significant risks, appointment of chief risk officer, and other duties related to risk management.

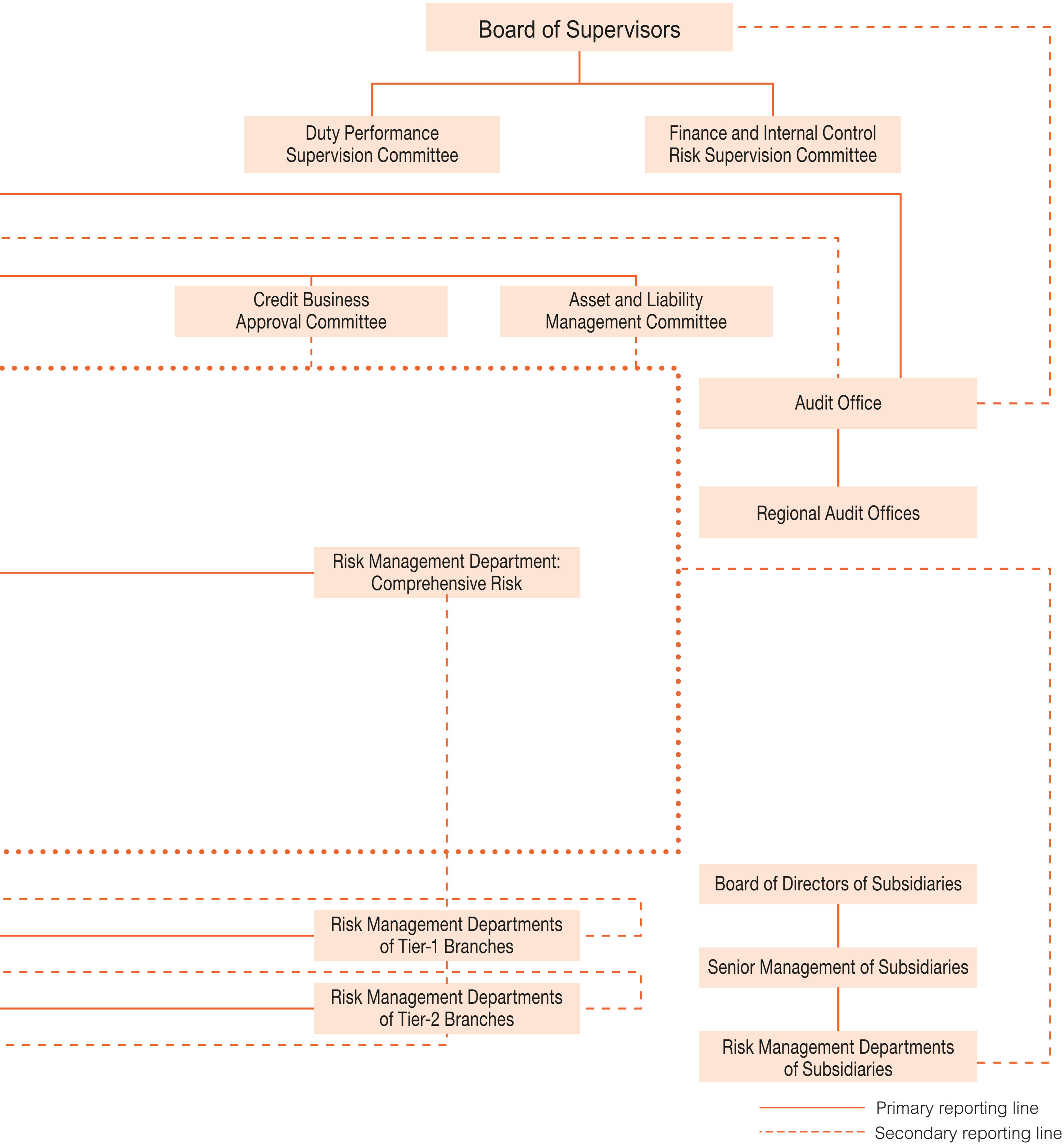
The Board of Supervisors assumes the supervisory responsibilities for comprehensive risk management, and is responsible for supervising the Board of Directors and the senior management in fulfilling their duties of risk management and urging for rectifications.

The senior management assumes the responsibilities for the implementation of comprehensive risk management and the execution of the Board's decisions. It is responsible for setting up the operation and management structure in line with the requirements of comprehensive risk management, clarifying division of responsibilities among departments responsible for risk management, business departments and other departments in comprehensive risk management, establishing an operational mechanism with effective coordination and balance of power across departments, and formulating a clear execution and accountability mechanism to ensure adequate communication and effective implementation of risk management strategies, risk appetites and risk limits. It sets up risk limits according to risk appetite determined by the Board of Directors, including but not limited to dimensions such as industry, region, customer, and product. It also formulates risk management policies and procedures, makes regular assessments, with adjustments when necessary, and assesses the management of comprehensive risks and various important risks with reports to the Board of Directors. It establishes a sound management information system and a data quality control mechanism, oversees violations of risk appetites, risk limits, risk management policies and procedures, and deals with them under authorization of the Board of Directors. It also assumes other responsibilities of risk management.

Risk Management Organizational Structure



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


Board of Supervisors
Duty Performance Supervision Committee
Finance and Internal Control Risk Supervision Committee
Credit Business Approval Committee
Asset and Liability Management Committee
Audit Office
Regional Audit Offices
Risk Management Department: Comprehensive Risk
Board of Directors of Subsidiaries
Senior Management of Subsidiaries
Risk Management Departments of Tier-1 Branches
Risk Management Departments of Tier-2 Branches
Risk Management Departments of Subsidiaries
Primary reporting line
Secondary reporting line

Comprehensive Risk Management

The Bank earnestly fulfills the requirements of the 14th Five-Year Plan, takes solid steps to improve the rules and mechanisms of risk prevention, alert, resolution and accountability and focuses on forestalling and defusing major risks. During the reporting period, the Bank accelerated the optimization and upgrading of the comprehensive risk management system, achieved good results with high efficiency in applying the advanced approaches for capital management, and gave full play to the intelligent risk control technology. It built a "firewall" against risks, strengthened the strict enforcement of risk limits and carried out the major campaign of "solidifying the fundamentals by disposing non-performing assets" on all fronts with good asset quality maintained. It enhanced internal control and compliance in an in-depth manner to solidify the results of rectification and embed the compliance culture into the Bank's operation. It strengthened the prevention and control of consolidated risks and effectively prevented risks from spreading across industries.

Asset quality was maintained at a good level. The NPL ratio was 0.83%, down 0.05 percentage point compared with the prior year-end; and the special mention loan ratio was 0.48%.

The application of advanced approaches made significant progresses, and the application of intelligent risk control expanded continuously.

Stationing of over a thousand risk managers to build a line of defense against risks at primary levels.

Allowance to NPLs ratio was 421.33%, up 13.27 percentage points compared with the prior year-end.

Three Lines of Defense

To establish a solid and effective risk management environment, the Bank keeps improving the mechanism of "three lines of defense" for internal control and sets clear definitions based on main substantial risks. During the reporting period, the Bank further refined the risk management mechanism featuring clear responsibilities, interconnection, and effective checks and balances. The Bank continued to carry out the campaign on improving the quality and efficiency of internal control and compliance management, implemented the requirements of the activity "the Year of Internal Control and Compliance Management" in an in-depth manner, further advocated the concept of active compliance by all employees and value creation by compliance among all employees, and developed an internal control and compliance culture where everyone performs their duties. The Bank continuously strengthened risk information sharing among the three lines of defense to perfect the joint risk prevention and control mechanism.

The first line of defense refers to the operation and management departments, tier-1 and tier-2 sub-branches, and agency branches for relevant risks, all of which bear the primary responsibilities for risk prevention and control; the second line of defense refers to risk management departments, internal control and compliance departments, and leading management departments for relevant risks, which are responsible for coordinating, supervising and reviewing the work related to internal risk control; the third line of defense refers to the audit and the supervision departments which supervise and manage the first and second lines of defense.

Risk Appetite

Risk appetite is the type and level of risks that the Bank is willing to bear while pursuing its strategic business objectives, and is decided by the Board of Directors. It represents a balance among income, capital and risk, and enables the Bank to undertake risks compatible with its business strategies and management capabilities and to create value through risk management.

During the reporting period, the Bank followed the requirements of a prudent and sound risk appetite, optimized the system of risk appetite indicators and set management targets in line with the strategic positioning of the Group, the Bank and its subsidiaries against profits, capital and major risks in credit, market, operation and other areas, effectively supporting the steady operation and development of all businesses.

Column

Carrying Out Campaign on Improving the Quality and Efficiency of Internal Control and Compliance to Advance the Building of Compliance Culture

The Bank has attached great importance to internal control and compliance management and carried out a three-year campaign on improving the quality and efficiency of internal control and compliance. It has intensified efforts in management and steadily advanced the building of an internal control and compliance mechanism through the guidance of concept, development of mechanisms, and innovation of approaches. The campaign focuses on further improving its internal control mechanism, enhancing the management of internal control and compliance on all fronts, and providing guidance to employees across the Bank on operation in compliance with laws and regulations, thus effectively supporting the healthy development of all businesses of the Bank.

Firstly, the Bank clarified responsibilities of departments and persons in charge to prevent and control compliance risk. Business departments as the first line of defense incorporated compliance requirements into policy formulation, product research and development, decision-making on important matters, major project operation and system development, and shouldered the main responsibility for preventing and controlling risks. Risk compliance departments as the second line of defense earnestly performed their responsibilities for implementing compliance review, risk monitoring and risk investigation, continuously tracked problems in mechanisms, rules, processes and operation, and urged for correction and improvement. Supervision and audit departments as the third line of defense continued to strengthen the supervision of the first and second lines of defense, focused on key businesses, key institutions and key steps, carried out key audit projects and advanced the in-depth audit supervision with solid steps.

Secondly, the Bank strengthened the management of internal control and compliance on a continuous basis. In 2021, the Bank carried out a campaign to improve the quality and efficiency of internal control and compliance, focusing on the rectification and accountability of various problems found in internal and external inspection. Taking into account the economic development and new regulatory requirements, the Bank focused on preventing compliance risk, operational risk, fraud risk and money laundering risk, stepped up efforts in the accountability and notification of violations, strengthened supervision and assessment of problem rectification, and reinforced technology support to further improve its internal control and compliance management.

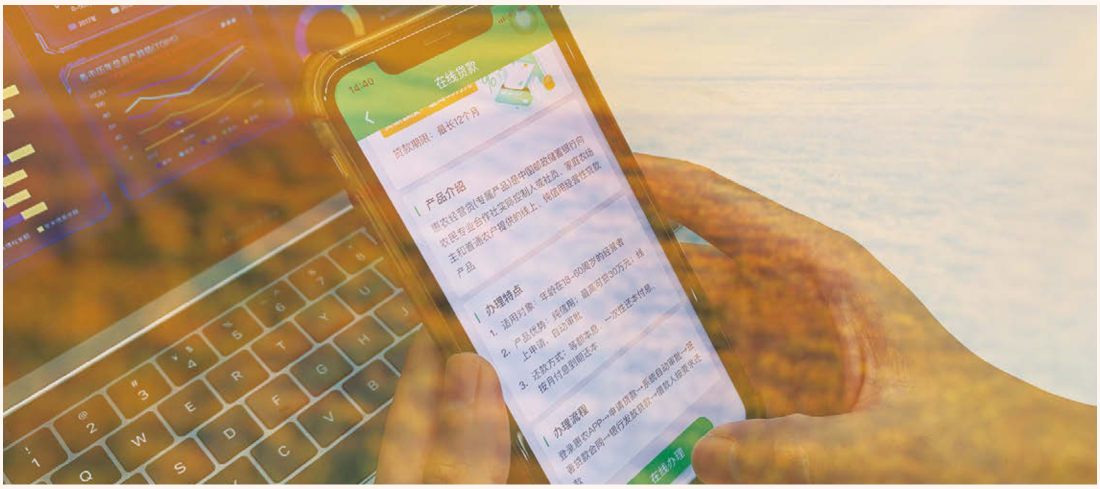
Thirdly, the Bank built a compliance culture of prudent operation. Adhering to the principles of prudent operation, sustainable business and high-quality development, the Bank and China Post Group jointly conducted educational activities on code of conduct of its employees. Through a series of activities such as online learning and examination, legal literacy campaigns, lectures on code of conduct, building of a compliance culture corridor, compliance essay competition, animated films on cases, and visits to education bases, the Bank fostered a sound internal control and compliance culture where employees understand and abide by laws and regulations.

Intelligent Risk Control

The Bank continues to increase its investment in financial technologies to advance the transformation of traditional risk management with smart technologies. During the reporting period, the Bank recruited high-end fintech professionals in fields of smart risk control and smart security to build a professional smart risk control team with solid technical foundation and rich practical experience. It continued to promote the construction of a risk model laboratory, systematically supported model development, testing, verification, deployment and monitoring, and greatly improved the iteration efficiency of model research and development. It advanced the lifecycle management of credit risk models, established frameworks for model validation and on-going model monitoring, and realized up-to-date model inventory management in a phased manner. It made integrated use of big data and artificial intelligence technology to create intelligent risk control tools covering the whole business process, which supported the use in various credit scenarios such as Sannong, consumption and MSE businesses and facilitated the real economy and the rural revitalization. It utilized local administrative information and resources to build a big data risk warning system based on enterprise relationship map, realizing automatic monitoring of corporate credit business and effectively preventing corporate customer risks.

Column

Intelligent Risk Control Supporting Rural Revitalization



In active response to national strategies on rural revitalization, the Bank established an intelligent risk control platform based on big data risk control technology to develop an intelligent decision-making system in order to support the online and intelligent transformation and upgrade of Sannong loans. The intelligent risk control platform integrates information acquisition, data mining, risk decision-making and instruction issuing by using machine learning technologies such as Random Forests, Gradient Boosting Decision Tree (GBDT) and Knowledge Graph. It capitalizes on the government's big data of agriculture and rural areas and data of operations in the agricultural industry chain as well as the information on rural areas and farmers collected by the Bank to establish intelligent risk assessment models on three dimensions of regional industry, rural areas and farmers, realizing the intelligent risk identification, assessment and early warning for the whole process of credit business. In this way, the Bank can screen villages and target loan farmers with excellent credit records, and provide guidance to front-line employees on targeted business development and loan granting in rural areas. Using online channels such as mobile business terminals and the mobile banking app, the Bank is able to provide farmers and new agricultural entities with full-process, online and self-service loan disbursement, so that customers can apply for and draw down loans without visiting banking outlets.

Relying on this platform, the Bank launched online microfinance products for scenarios including plantation, aquaculture, agricultural machinery purchase and agro-related sole proprietorship, completed nationwide rollout and promotion, and provided greater support in major agricultural provinces and areas which were lifted from poverty so as to leverage the demonstration effect of financial technology in empowering rural revitalization. As of the end of the reporting period, it accepted applications of, approved and disbursed around 2 million micro loans online, with the amount exceeding RMB200 billion.

Stress Testing

During the reporting period, the Bank made active efforts to cope with the severe and complicated internal and external risk situations. It kept refining the stress testing system and methodology. The Bank timely carried out comprehensive stress test and targeted stress tests focusing on real estate and other key risk areas. The Bank made prudent evaluation and judgment on its asset quality, profitability, and capital and liquidity levels under various stress scenarios. As shown in the stress tests, the Bank maintained a strong overall resilience under all stress scenarios with risks under control and net profit and capital adequacy not significantly affected.

Credit Risk

Credit risk refers to the risk of loss caused by the default, the credit rating downgrade or reduced performance ability of the debtor or the counterparty. 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, interbank investment, etc.) and off-balance sheet credit businesses (including guarantees and commitments). During the reporting period, the Bank's asset quality was good and stable.

Credit Risk Management

The Bank strictly follows national policies and regulatory requirements. Under the leadership of the Board of Directors and senior management, the Bank strengthens the application of technologies and continuously promotes the comprehensive upgrade of credit risk management system under the principle of "check and balance by segregation of duties, management by process control".

The organizational system of the Bank on credit risk management is as follows: the Board of Directors undertakes the ultimate responsibilities for credit risk management, and the Board of Supervisors undertakes the supervisory responsibilities for credit risk management, while the senior management undertakes the responsibilities for the execution of credit risk management, and is responsible for the implementation of resolutions approved by the Board of Directors on credit risk. Under the senior management, the Risk Management Committee is responsible for credit risk management and the Credit Business Approval Committee for matters related to credit review and approval 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 review and approval, internal control and compliance, legal affairs and others are responsible for the overall planning, supervision and review of credit risk prevention and control, among which the credit management department is the leading department of credit risk management, and internal audit department exercises independent and objective supervision on the performance of duties by all departments in credit risk management.

The Bank continued to implement prudent and sound credit risk management policies, optimized the credit risk management system and implemented special rectification requirements of regulatory authorities. Actively following national strategic deployment and industrial policies, the Bank improved the credit policy, guided and optimized the allocation of credit resources, and dynamically optimized the credit structure to effectively serve the real economy and promote high-quality development. It further refined the credit risk governance system and optimized the basic rules on centralized credit granting, credit granting involving interested parties, disbursement review, risk monitoring and early warning, supervision and inspection, credit compliance and collateral management, non-performing asset disposal, etc. to refine the mechanism of business owner accountability and to strengthen the execution of five unifications in "business initiation, credit granting, approval, industry control, and post-lending (post-investment) management". In line with the trend of digital transformation, the Bank continued to promote the optimization of the strategies for automated approval process for retail credit, provided a better unified view of risks and improved management rules for retail credit customers, furthered the application of early warning model for post-lending management and strengthened the monitoring of product innovation, set strict customer access standards and optimized the retail credit process. In addition, the Bank strengthened financial technology enhancement, pressed forward the establishment of the system building and optimization of functions related to credit risk management, and continued to increase the application of big data, public opinion monitoring, correlation graphs and other financial technologies in credit risk management to enrich the tools and enhance the management in a more proactive, timely and forward-looking manner. It improved credit risk monitoring and early-warning mechanism, extended the application of "Jinjing" (Gold Eye) credit risk monitoring system, and maintained comprehensive monitoring of the Bank's corporate credit customers as well as intensive, smart and multi-dimensional monitoring of the Bank's credit business, achieving early identification, early warning, early disposal and early resolution of credit risks. The Bank developed the "Jindun" (Gold Shield) asset quality monitoring system which allowed dynamic monitoring and visualized management of asset quality across the Bank, and built a panoramic view of asset quality by different categories across the four-tier institutions from the Head Office to sub-branches to support multi-dimensional analysis on regional, institutional, product, industrial and other aspects and strengthen the monitoring of risk limits on assets. It continued to maintain effective asset quality management and control, conducted inspection on the risk classification and risk screening in key areas, identified all existing and potential risks, and implemented stringent measures against "grey rhino" risks by taking a more forward-looking and proactive approach in risk prevention and control. The Bank continued to enhance the disposal of non-performing assets, carried out the major campaign of "solidifying the fundamentals by disposing non-performing assets" to protect and secure its assets, and intensified the efforts for cash recovery, contributing to a 20% year-on-year growth in the amount recovered. It also made proactive efforts in expanding disposal channels, including the issuance of YOUYING HUIZE NPA SERIES 2021-1, to enhance the effectiveness of non-performing assets disposal. On the other hand, the Bank strengthened its traceability management and conducted cause analysis of non-performing assets.

Credit Risk Management of Corporate Loans

During the reporting period, the Bank continued to strengthen the management and control of credit risks of corporate loans. It strengthened the pre-lending investigation, loan review and post-lending inspection, set strict customer access standards, executed limit management in high-risk areas, and enhanced credit limit management and control in key industries. For key areas such as real estate and local government debts, the Bank strictly followed regulatory requirements and its own policies and rules, paid close attention to the operation of corporate customers and the management of real estate projects, conducted in-depth investigation of the existing government cooperation business in a systematic way, identified the nature of debts and the progress of diffusion of risks, carried out customer management by stratification and classification, and maintained effective prevention and diffusion of risks. It also linked financing services with industry scenarios by the establishment of an online supply chain finance platform which timely accessed the information of transactions by core enterprises with upstream and downstream companies, achieving a closed-loop operation of "flows of information, funds and goods". Relying on the application of big data and financial technologies, the Bank incorporated data from the administrations for industry and commerce, judicial bureaus, credit reporting systems, tax bureaus, and invoice management systems into the credit business of small enterprises to improve the rating and scoring models. It refined the rules of post-lending early warning and transformed the post-lending inspection mode from "regular" into "triggered" so as to comprehensively enhance the capability of credit risk prevention and control.

Credit Risk Management of Personal Loans

During the reporting period, the Bank continuously strengthened the credit risk management of personal loans. It strictly implemented the state policies on real estate loan concentration management by developing and implementing differentiated credit policies for residential mortgages. It continued to promote the skip-level early-warning mechanism for risks of consumer loans by promoting the scoring cards of consumer loans across the Bank and extended the management reach of branches to improve the timeliness and effectiveness of risk management. The Bank enhanced its digital risk control capacity and added functions such as face recognition, real-time locating, electronic contract signing and intelligent risk control model. It furthered the application of big data, machine learning, mobile internet and other technologies in customer application, approval and post-lending early warning, gradually building a forward-looking risk management system with mobile business terminals as the vehicle for the pre-lending period, automatic approval model as the basis during the lending process and "dedicated post-lending assistance plus intelligent outbound calls" as the post-lending services.

Credit Risk Management of Credit Card Business

During the reporting period, the Bank continued to strengthen the risk management of credit card business and improved the effectiveness of risk management and control through collaboration between the Head Office and branches, limit management and other means. It enhanced the overall risk identification by advancing the development and application of various scoring models and tools. It improved the accuracy of risk identification and the effectiveness of risk management and control by formulating regional risk policies and enhancing the application of external data. The Bank continued to maintain early warning of high-risk customers, cash out management and control, management and control on use of funds, etc. It also devoted greater recovery efforts through the collaboration between the Head Office and branches, carried out securitization of non-performing assets, enhanced the effectiveness of asset recovery, and enriched means of asset disposal.

Credit Risk Management of Treasury Business

During the reporting period, the Bank continued to improve the credit risk management system of the treasury business, consistently implemented the national macro-control policies and regulatory requirements, promoted the optimization of asset structure and continued to serve the real economy. Apart from setting strict access standards for counterparties and businesses, the Bank fully accessed the credit risk profile of underlying assets in accordance with the principle of "penetrating" management and substance over form, strengthened the strict enforcement of credit policies and risk limits, optimized the concentration management and control system, and properly optimized product structure in terms of product type, maturity, and industry distribution. It strengthened the pre-investment investigation, review and approval during investment and post-investment monitoring, enhanced the communication and collaboration between the Head Office, branches, and the front, middle and back offices, and built an overarching and integrated risk monitoring and early warning system which covered system process, data acquisition, system control, assessment and evaluation. It strengthened risk monitoring of key industries and key customers, carried out risk investigation and various business inspections in an orderly manner, strengthened risk monitoring of external shocks, optimized dynamic management and early warning mechanisms, and improved the timeliness of credit risk monitoring. Besides, the Bank consistently implemented the new requirements of asset management, strengthened the development of an investment research system and a credit rating system, actively carried out macro strategy study, industry analysis and entity risk analysis, effectively implemented the pre-investment decision-making mechanism for the asset management business, strengthened the construction of credit bond pool, strengthened project review and approval management, and continuously enhanced the credit risk management of the asset management business.

Credit Risk Analysis[1]

Non-Performing Loans Structure by Collateral

In millions of RMB, except for percentages

Item	June 30, 2021 Amount	June 30, 2021 Percentage (%)[1]	December 31, 2020 Amount	December 31, 2020 Percentage (%)[1]
Unsecured loans	**10,706**	**20.91**	9,721	19.30
Guaranteed loans[2]	**8,763**	**17.11**	8,862	17.59
Loans secured by mortgages[2][4]	**24,471**	**47.79**	24,589	48.82
Loans secured by pledges[2][3]	**7,253**	**14.17**	7,185	14.27
Discounted bills	**10**	**0.02**	10	0.02
Total	**51,203**	**100.00**	50,367	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 collaterals, the classification would be based on the primary form.

Note (3): Represents loans secured by taking possession of or registering as the holder of assets which mainly include moveable property, certificates of deposit, financial instruments, intellectual property rights and the rights to obtain future cash flows.

Note (4): Represents loans secured by assets that the borrower still retains in possession, and mainly includes loans secured by buildings and fixtures, land use rights, machines, equipment and vehicles.

As of the end of the reporting period, among the Bank's non-performing loans structure by collateral, the proportion of unsecured loans increased by 1.61 percentage points compared with the prior year-end, and the proportions of loans secured by mortgages, guaranteed loans and loans secured by pledges decreased by 1.03, 0.48 and 0.10 percentage point(s), respectively, compared with the prior year-end. Among the non-performing loans secured by different collateral, the amounts of unsecured loans and loans secured by pledges increased by RMB985 million and RMB68 million, respectively, compared with the prior year-end.

1 The total loans to customers in the section headed "Credit Risk Analysis" in this Report exclude accrued interest.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	June 30, 2021 Amount	June 30, 2021 Percentage of total loans (%)	December 31, 2020 Amount	December 31, 2020 Percentage of total loans (%)
Overdue for 1 to 90 days	**21,885**	**0.35**	13,553	0.24
Overdue for 91 to 180 days	**6,658**	**0.11**	5,716	0.10
Overdue for 181 days to 1 year	**8,504**	**0.14**	8,408	0.15
Overdue for 1 to 3 years	**12,621**	**0.21**	13,541	0.24
Overdue for over 3 years	**5,211**	**0.08**	4,161	0.07
Total	**54,879**	**0.89**	45,379	0.80

As of the end of the reporting period, the balance of the Bank's overdue loan was RMB54,879 million, representing an increase of RMB9,500 million compared with the prior year-end. It recorded an overdue loan rate of 0.89%. Specifically, the balance of loans overdue for 1 day to 90 days was RMB21,885 million, of which the percentage in total loans increased 0.11 percentage point compared to the prior year-end; the balance of loans overdue for 91 days to 180 days was RMB6,658 million, of which the percentage in total loans increased 0.01 percentage point compared to the prior year-end; the balance of loans overdue for 181 days to 1 year was RMB8,504 million, of which the percentage in total loans went down by 0.01 percentage point compared to the prior year-end; the balance of loans overdue for 1 year to 3 years was RMB12,621 million, of which the percentage in total loans decreased 0.03 percentage point compared to the prior year-end; the balance of loans overdue for over 3 years was RMB5,211 million, of which the percentage in total loans increased 0.01 percentage point compared to the prior year-end.

Overdue Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2021 Amount	June 30, 2021 Percentage (%)	December 31, 2020 Amount	December 31, 2020 Percentage (%)
Head Office	**2,979**	**5.43**	3,555	7.83
Yangtze River Delta	**7,752**	**14.12**	6,595	14.53
Pearl River Delta	**4,796**	**8.74**	4,262	9.39
Bohai Rim	**9,497**	**17.31**	5,113	11.27
Central China	**13,236**	**24.12**	10,967	24.17
Western China	**12,415**	**22.62**	10,745	23.68
North-eastern China	**4,204**	**7.66**	4,142	9.13
Total	**54,879**	**100.00**	45,379	100.00

Loan Concentration

In millions of RMB, except for percentages

Top ten single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital (%)(1)
Borrower A (2)	Transportation, storage and postal services	182,089	2.94	21.00
Borrower B	Transportation, storage and postal services	13,711	0.22	1.58
Borrower C	Transportation, storage and postal services	13,031	0.21	1.50
Borrower D	Transportation, storage and postal services	12,722	0.21	1.47
Borrower E	Leasing and business services	10,963	0.18	1.26
Borrower F	Transportation, storage and postal services	10,125	0.16	1.17
Borrower G	Transportation, storage and postal services	8,483	0.14	0.98
Borrower H	Transportation, storage and postal services	7,997	0.13	0.92
Borrower I	Transportation, storage and postal services	7,940	0.13	0.92
Borrower J	Transportation, storage and postal services	6,837	0.11	0.79

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

Note (2): Percentage of loans to the largest single borrower = total loans to the largest borrower/net capital×100%. The largest borrower refers to the customer with the highest balance of loans at the period end. As of the end of the reporting period, 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 21% 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 relevant regulatory authorities. As of the end of the reporting period, the outstanding loan balance under such credit line 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 1.97% of the Bank's net capital.

Distribution of Loans by Five-Category Classification

In millions of RMB, except for percentages

	June 30, 2021		December 31, 2020	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Normal	6,093,094	98.69	5,616,782	98.58
Special mention	29,846	0.48	30,566	0.54
Non-performing loans	51,203	0.83	50,367	0.88
Substandard	14,177	0.23	14,106	0.25
Doubtful	12,289	0.20	13,804	0.24
Loss	24,737	0.40	22,457	0.39
Total	6,174,143	100.00	5,697,715	100.00

As of the end of the reporting period, the Bank's non-performing loan balance amounted to RMB51,203 million, representing an increase of RMB836 million compared with the prior year-end. The non-performing loan ratio was 0.83%, representing a decrease of 0.05 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB29,846 million, representing a decrease of RMB720 million compared with the prior year-end. Special mention loan ratio was 0.48%, representing a decrease of 0.06 percentage point compared with the prior year-end. The ratio of special mention and non-performing loans was 1.31%, representing a decrease of 0.11 percentage point compared with the prior year-end. Overall asset quality remained stable.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	June 30, 2021			December 31, 2020		
	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]
Corporate loans						
Working capital loans	**16,924**	**33.05**	**2.16**	16,716	33.19	2.21
Fixed asset loans	**481**	**0.94**	**0.04**	198	0.39	0.02
Trade finance	**255**	**0.50**	**0.10**	285	0.57	0.13
Others[2]	**1,474**	**2.88**	**8.68**	1,450	2.88	9.17
Subtotal	**19,134**	**37.37**	**0.89**	18,649	37.03	0.95
Discounted bills	**10**	**0.02**	**0.00**	10	0.02	0.00
Personal loans						
Consumer loans						
Residential mortgage loans	**9,401**	**18.36**	**0.46**	9,044	17.95	0.47
Other consumer loans	**5,911**	**11.54**	**1.23**	5,182	10.29	1.18
Personal micro loans	**14,870**	**29.04**	**1.70**	14,832	29.45	2.00
Credit card overdrafts and others	**1,877**	**3.67**	**1.21**	2,650	5.26	1.83
Subtotal	**32,059**	**62.61**	**0.90**	31,708	62.95	0.98
Total	**51,203**	**100.00**	**0.83**	50,367	100.00	0.88

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

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

As of the end of the reporting period, the balance of non-performing corporate loans of the Bank amounted to RMB19,134 million, representing an increase of RMB485 million compared with the prior year end. The NPL ratio was 0.89%, representing a decrease of 0.06 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB32,059 million, representing an increase of RMB351 million compared with the prior year-end, and the NPL ratio of personal loans was 0.90%, representing a decrease of 0.08 percentage point compared with the prior year-end.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	June 30, 2021 Amount	June 30, 2021 Percentage (%)	December 31, 2020 Amount	December 31, 2020 Percentage (%)
Head Office	**1,880**	**3.67**	2,653	5.27
Yangtze River Delta	**6,952**	**13.58**	6,481	12.87
Pearl River Delta	**4,607**	**9.00**	4,693	9.32
Bohai Rim	**7,305**	**14.27**	6,510	12.93
Central China	**14,898**	**29.09**	14,902	29.58
Western China	**11,534**	**22.53**	10,901	21.64
North-eastern China	**4,027**	**7.86**	4,227	8.39
Total	**51,203**	**100.00**	50,367	100.00

As of the end of the reporting period, due to the changes in the quality of assets of a few large corporate customers, the Bank's balances of non-performing loans in Bohai Rim and in Western China increased by RMB795 million and RMB633 million compared with the prior year-end, respectively, and their percentages in total NPLs increased by 1.34 and 0.89 percentage point(s) compared with the prior year-end, respectively. The balances of non-performing loans in the Head Office and in North-eastern China decreased by RMB773 million and RMB200 million compared with the prior year-end, respectively, and their percentages in total NPLs decreased by 1.60 and 0.53 percentage point(s) compared with the prior year-end, respectively.

Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	June 30, 2021 Amount	June 30, 2021 Percentage (%)	December 31, 2020 Amount	December 31, 2020 Percentage (%)
Transportation, storage and postal services	**8,254**	**43.14**	7,759	41.61
Manufacturing	**5,126**	**26.79**	5,273	28.27
Wholesale and retail	**3,586**	**18.74**	3,732	20.01
Water conservancy, environmental and public facilities management	**484**	**2.53**	25	0.13
Leasing and business services	**470**	**2.46**	456	2.45
Construction	**456**	**2.38**	382	2.05
Agriculture, forestry, animal husbandry and fishery	**205**	**1.07**	432	2.32
Hotels and catering	**176**	**0.92**	158	0.85
Others[1]	**142**	**0.75**	153	0.82
Production and supply of electricity, heating, gas and water	**81**	**0.42**	116	0.62
Residential services and other services	**46**	**0.24**	26	0.14
Information transmission, computer services and software	**40**	**0.21**	78	0.42
Culture, sports and entertainment	**33**	**0.17**	19	0.10
Mining	**23**	**0.12**	23	0.12
Real estate	**12**	**0.06**	17	0.09
Financial services	**–**	**–**	–	–
Total	**19,134**	**100.00**	18,649	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 was mainly from transportation, storage and postal services and water conservancy, environmental and public facilities management. As of the end of the reporting period, the balance of non-performing corporate loans from transportation, storage and postal services was RMB8,254 million, representing an increase of RMB495 million compared with the prior year-end. The balance of non-performing corporate loans from water conservancy, environmental and public facilities management was RMB484 million, representing an increase of RMB459 million compared with the prior year-end.

Movements of Allowance for Impairment Losses on Loans

Allowance for Impairment Losses of Customer Loans at Amortized Cost

In millions of RMB

Item	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	June 30, 2021			
Loss allowance as at January 1, 2021	148,428	12,003	43,466	203,897
Transfers:				
Transfer to stage 1	2,194	(2,056)	(138)	–
Transfer to stage 2	(1,760)	1,796	(36)	–
Transfer to stage 3	(1,988)	(1,903)	3,891	–
Changes of ECL arising from transfer of stages	(1,915)	3,465	6,992	8,542
Financial assets derecognized or settled during the period	(37,948)	(2,105)	(6,619)	(46,672)
New financial assets originated or purchased	56,282	–	–	56,282
Remeasurement	(4,168)	(403)	2,518	(2,053)
Write-offs	–	–	(5,565)	(5,565)
Loss allowance as at June 30, 2021	159,125	10,797	44,509	214,431

Allowance for Impairment Losses of Customer Loans at Fair Value Through Other Comprehensive Income

In millions of RMB

Item	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	June 30, 2021			
Loss allowance as at January 1, 2021	1,609	11	10	1,630
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(1)	1	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(1,034)	(10)	–	(1,044)
New financial assets originated or purchased	726	–	–	726
Remeasurement	(9)	–	–	(9)
Write-offs	–	–	–	–
Loss allowance as at June 30, 2021	1,291	2	10	1,303

Changes in Restructured Loans

In millions of RMB

Item	June 30, 2021 Loan balances	December 31, 2020 Loan balances
Restructured loans[(1)]	**232.83**	339.32
Including: Rescheduled loans overdue for more than 90 days	**152.92**	234.37

Note (1): Represents restructured non-performing loans.

Large Exposure Management

The Bank attached great importance to the management of large exposures, earnestly implemented the requirements of Rules on Large Exposure of Commercial Banks (CBIRC Order [2018] No. 1) and incorporated large exposure management into its comprehensive risk management system. The Bank strengthened the system support to the management of large exposures, accurately measured and dynamically monitored changes in large exposures, thus improving credit risk management and control. During the reporting period, all limit criteria of the Bank's large exposures met the regulatory requirements.

Market Risk

Market risk refers to the risk of losses in on- and off-balance sheet risk positions arising from adverse movements in market prices (including interest rate, exchange rate, stock price and commodity price). The principal market risks that the Bank is exposed to include interest rate risk and exchange rate risk (inclusive of gold). During the reporting period, the Bank closely monitored changes in the external environment and market conditions, and systematically improved market risk management standards, with market risks generally under control.

Classification of Trading Book and Banking Book

The Bank classifies on- and off-balance sheet assets and liabilities into banking book and trading book. 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.

Market Risk Management for Trading Book

The Bank manages the market risk of trading book by adopting multiple methods including limit management, sensitivity analysis, exposure analysis and stress testing.

During the reporting period, the Bank continued to advance the development of the market risk internal model system, optimized the market risk management system, and refined the management procedures in the fields of market risk emergency management, limit management, new products and risk reporting to further promote the use of measurement tools such as actual profit and loss, Value at Risk, stress testing. It actively carried out forward-looking analysis of risks such as interest rates and exchange rates, and enhanced the risk monitoring of treasury trading businesses.

Market Risk Management for 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 repricing risk and basis risk.

The Bank mainly carried out interest rate risk management of the banking book through repricing gap analysis, net interest income and economic value sensitivity analysis, limit management, duration management, stress testing and active adjustment of asset-liability structure. Based on the active implementation of regulatory requirements, the Bank comprehensively promoted the refined and intelligent development of interest rate risk management system, and improved the ability of active prevention and control of interest rate risk.

During the reporting period, the Bank closely monitored changes in the external interest rate environment, studied in advance and made predictions on market interest rate trends, flexibly adjusted internal and external pricing policies, rationalized the duration structure of asset businesses, promoted the optimization of the deposit term structure continuously, and maintained the growth in net interest income steadily. 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 bearing
June 30, 2021	**(2,315,434)**	**442,610**	**665,310**	**554,975**	**1,028,070**	**302,242**
December 31, 2020	(61,230)	(241,033)	(402,776)	194,284	855,633	256,109

Interest Rate Sensitivity Analysis

The table below shows the potential impact on the Bank's net interest income by an upward or a downward 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 of the Bank as shown in the following analysis may be different from the actual outcome.

In millions of RMB

Basis point movements in yield rate	Movements in net interest income as at June 30, 2021	Movements in net interest income as at December 31, 2020
Increased by 100 basis points	**(16,225)**	(4,171)
Decreased by 100 basis points	**16,225**	4,171

Exchange Rate Risk Management

Exchange rate risk refers to the risk of losses in foreign exchange exposure arising from unbalanced foreign exchange assets and liabilities due to adverse movements in exchange rates. The Bank carried out exchange rate risk analysis and stress testing on a quarterly basis. During the reporting period, the exchange rate risk of the Bank was manageable in general.

During the first half of this year, the COVID-19 epidemic was recurring worldwide. The Bank paid close attention to the international economic and financial situation, continuously monitored market exchange rate trends and changes in exposure, strengthened research and forecast on trends of major currencies such as US dollar, optimized the process for exchange rate risk management, and conducted regular assessments and reported on the exchange rate risk, so as to ensure that the exchange rate risk of the Bank is within an acceptable range.

Currency Concentration

In millions of RMB

Item	June 30, 2021 USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	**119,167**	**1,033**	**9,107**	**129,307**
Spot liabilities	**(61,820)**	**(325)**	**(1,064)**	**(63,209)**
Forward purchases	**233,095**	**1,927**	**2,338**	**237,360**
Forward sales	**(228,288)**	**(438)**	**(10,722)**	**(239,448)**
Net long/(short) position	**62,154**	**2,197**	**(341)**	**64,010**

Item	December 31, 2020 USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	99,854	630	8,801	109,285
Spot liabilities	(42,180)	(104)	(1,026)	(43,310)
Forward purchases	219,744	0	336	220,080
Forward sales	(213,037)	0	(8,546)	(221,583)
Option position	(90)	0	0	(90)
Net long/(short) position	64,291	526	(435)	64,382

Liquidity Risk

Liquidity Risk Management

Liquidity risk refers to the risk of failure to obtain sufficient funds by a 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 business operation. Liquidity risk of the Bank may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by borrowers, overdue payment of debtors, excessive maturity mismatch, difficulties in liquidating assets, and weakening in financing ability, etc.

Governance Structure of Liquidity Risk Management

The governance structure of the Bank's liquidity risk management consists of the systems for decision making, execution and supervision, of which, the decision making system includes the Board of Directors and the Risk Management Committee thereunder, the senior management and the Asset and Liability Management Committee and Risk Management Committee thereunder; the execution system comprises the liquidity management departments, leading management departments of on- and off-balance sheet businesses, Risk Management Department, Information Technology Department and operations management departments, and relevant departments of branches; the supervision system consists of the Board of Supervisors, the Audit Office and the Legal Compliance Department, etc.

Strategy and Policy of Liquidity Risk Management

The objective of liquidity risk management of the Bank is to effectively identify, measure, monitor and control liquidity risk 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 in a timely manner under the normal operation scenario and stress scenarios. The Bank adheres to a prudent and sound liquidity risk management strategy to strike a balance between fund sources and utilization in terms of their amount, maturities and structure. In accordance with regulatory requirements, external macro environment as well as the characteristics of its business, the Bank formulates liquidity risk management policies such as those on limit management, intraday liquidity management, stress testing and contingency plans, manages the liquidity risk of the Bank in a centralized manner and clarifies that the affiliates assume primary responsibilities for their own liquidity risk management. During the reporting period, the Bank paid close attention to changes in macroeconomic situation, followed the trend of the monetary policies, closely monitored the liquidity in the market, and strictly imposed the policy on liquidity risk limits to effectively maintain a balance between safety, liquidity and profitability.

Stress Testing of Liquidity Risk

The Bank performs liquidity risk stress testing on a quarterly basis to test the risk tolerance under stress scenarios and constantly improves stress testing methods based on regulatory and internal management requirements. During the reporting period, the stress testing results indicated that the Bank could pass the minimum viability test under various stress scenario assumptions.

Liquidity Risk Analysis

During the reporting period, the Bank's liabilities were stable, as its major source of funds was retail deposits. Its assets were highly liquid, with a relatively large proportion of qualified high-quality bonds. Its overall liquidity position was sufficient, safe and under control. As of the end of the reporting period, the liquidity ratio of the Bank was 75.26%, the liquidity coverage ratio was 260.52%, and the net stable funding ratio was 160.82%, 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, 2021	**12,484**	**(3,786,901)**	**192,192**	**(202,504)**	**(2,183,526)**	**2,017,724**	**3,432,376**	**1,195,928**	**677,773**
December 31, 2020	9,428	(3,734,107)	(10,149)	(807,104)	(814,869)	1,595,192	3,218,206	1,144,390	600,987

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	June 30, 2021	December 31, 2020
High-quality liquid assets	**2,298,788**	2,227,634
Net cash outflow for the next 30 days	**882,375**	949,497
Liquidity coverage ratio (%)	**260.52**	234.61

Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	June 30, 2021	March 31, 2021	December 31, 2020
Total available stable funding	**10,376,219**	10,239,293	9,753,568
Total required stable funding	**6,452,061**	6,322,330	6,005,513
Net stable funding ratio (%)	**160.82**	161.95	162.41

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 all types 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 the book value of a commercial bank's all types of capital and liability items multiplied by their corresponding ASF coefficients. Required stable funding refers to the sum of the book value of a commercial bank's asset items and off-balance sheet exposures multiplied by their corresponding RSF coefficients.

Operational Risk

Operational risk refers to the risk resulting from inadequate or problematic internal procedures, employees and IT systems, or from external events. The operational risks which the Bank may be exposed to mainly include: internal fraud, external fraud, employment rules and workplace safety; customers, products and business activities; damage to physical assets; IT systems; as well as execution, delivery and process management. During the reporting period, the Bank's operational risk and operational risk loss ratio were kept at a relatively low level.

During the reporting period, the Bank improved the operational risk management system in an all-round manner, improved the operational risk management system, pushed forward the regular application of operational risk management tools within the Bank; carried out the self-assessment of operational risk and control. It set key risk indicators, implemented standardized collection of data on operational risk events and losses, continuously refined operational risk management through identifying high-risk areas in a timely manner by the application of operational risk management tools, and applied targeted prevention and control with specific measures. It strengthened operational risk control in key business areas, optimized the operational risk monitoring and early warning mechanism, carried out trainings on operational risk management for employees at different levels, and established the right operational risk management concept. It upgraded the organizational structure at the primary level, strengthened staff and outlet management, and effectively enhanced the internal control management capabilities of institutions at the primary 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-compliance with laws and breach of contracts of others including the counterparty to the contract, and significant changes in the external legal environment. During the reporting period, the Bank continued to strengthen the management of legal risk, and the legal risk was manageable in general.

The Bank continued to improve the legal risk management system, and consistently enhanced the capability for legal risk management, prevention and control. During the reporting period, the Bank actively prepared legal review guidelines, promoted the standardization of legal review opinions and standardized contract texts, and constantly conducted legal reviews in a more professional and standardized manner. It conducted legal risk investigation, enhanced the legal awareness of all employees, and took the initiative to actively prevent legal risks in the process of business development; established a litigation guidance mechanism, compiled the list of key contact banks to effectively prevent and control litigation risks; improved the legal affairs system, optimized the legal affairs work platform, and strengthened the technological support for legal risk prevention and control. It improved the lawyers' pool, and improved standards on the management of outside counsels and in-house counsels. It strengthened management on authorization, and optimized annual authorization to enhance the refined level of management on authorization. It enhanced the administration of intellectual property rights to provide effective support to the creation and protection of intellectual property rights.

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 a commercial bank's failure to comply with laws, regulations and rules. During the reporting period, the compliance awareness of employees of the Bank was constantly enhanced. The foundation for compliance management was effectively strengthened and the results of regulatory evaluation continued to improve. The Bank maintained its business operation in compliance with laws and regulations, and sustained the sound development, with the overall compliance risk under control.

During the reporting period, the Bank continued to improve the compliance management mechanisms and earnestly promoted compliance review of new systems, new products and new businesses, with a focus on preventing and controlling compliance risks from the source. It regularly tracked the regulations and the release of internal laws, regulations and systems, interpreted new policies and regulations, transmitted the latest compliance requirements, and strengthened compliance risk monitoring. It continued to carry out the regulation review, planning and assessment, established a pool of rules and policies and optimized the regulation system across the Bank. It deepened case prevention and control, consolidated the leader accountability system in case prevention, carried out strict enforcement of case accountability and notification, and continued to maintain a high-pressure dynamic in case prevention. It carried out re-examination of accountability for violations, strengthened accountability of managers and executives, and imposed more penalties for violations. It standardized on-site inspection process, improved the risk model, data analysis and monitoring and analysis functions of the compliance management system, and effectively improved the quality and efficiency of on-site inspection and off-site monitoring. It promoted the fostering of compliance culture, conducted educational activities concerning employee code of conduct, and kept up the work in communicating information on prevention of illegal fund-raising and financial crimes, deepened the concept of proactive compliance and the idea that compliance creates value throughout the Bank, so as to establish a culture of compliance where the senior management sets the example and everyone performs his or her duty.

Anti-Money Laundering

Money laundering risk refers to the risk arising from illegal activities such as money laundering, terrorist financing and proliferation financing caused by the use of business and products by illegal criminals. The Bank has established a relatively comprehensive money laundering risk management mechanism, including the anti-money laundering organizational structure from the Board of Directors, senior management, anti-money laundering leading group to general employees, anti-money laundering system, money laundering risk assessment mechanism, independent inspection and auditing, multi-level anti-money laundering training, etc. During the reporting period, the Bank did not have any significant money laundering incidents, and the Bank's money laundering risks were overall controllable.

During the reporting period, in strict compliance with anti-money laundering (AML) laws and regulations, the Bank earnestly upheld the risk-based management concepts of AML, and sincerely fulfilled the legal obligations and social responsibilities concerning AML. The Bank increased its resource input, improved and supplemented the organizational structure of the leading AML management department, and introduced anti-money laundering professionals through multiple channels. It carried out institutional money laundering and terrorist financing risk evaluation, identified money laundering risks, and strengthened the management and control of high-risk areas of money laundering. It continuously kept up the work in reporting large-amount transactions and suspicious transactions, optimized the work mechanism of customer money laundering risk classification, carried out multiple money laundering risk investigations, and focused on preventing and controlling money laundering risks. It continuously optimized the AML system functions, prepared the construction of the new generation anti-money laundering system, increased the investment in the establishment of anti-money laundering and suspicious transactions monitoring models, developed the anti-money laundering data governance in-depth, so as to utilize financial technology to assist in anti-money laundering.

Information Technology Risk

Information technology risk refers to the operational, legal, reputational and other risks of the Bank caused by natural and human factors, technological loopholes and management flaws when applying information technology. During the reporting period, the Bank's operation of the information system was overall stable, with no material security incident found, and various monitoring indicators of information technology risks were within a reasonable range.

During the reporting period, the Bank continued to strengthen information technology risk management with the theme of "proactive prevention", steadily promoted the quality upgrade activities of information technology risk management, gave full play to the "three defense lines" coordination mechanism for technology risks, and enhanced information technology risk management and control capabilities. It constantly improved capabilities of independent R&D and actively carried out special investigations on information technology outsourcing security risks. It improved network security protection measures, strengthened network data security and customer information protection, and kept up the work in ensuring network security during important periods. It carried out special evaluation of information technology risks to improve and upgrade the management of information technology risk in key areas.

During the reporting period, the Bank made proper arrangements for continuous operations, strengthened disaster preparedness, formulated backup and assurance plans in advance, formulated emergency plans for extreme situations, carried out special emergency drills, and improved emergency response capabilities, so as to ensure that business continuity would not be interrupted.

Reputational Risk

Reputational risk refers to the risk resulting from negative comments on the Bank's institutional behaviors, practitioners' behaviors, external events and other actions made by stakeholders, the general public, the media, and other parties, thereby damaging brand value and is detrimental to normal operations, and even affecting market stability and social stability. During the reporting period, public opinions about the Bank remained overall stable, and there was no material reputational risk event.

The Bank continued to implement the reputational risk management concept of "addressing both the symptoms and root causes, with a focus on root causes", and strictly implemented regulatory requirements to optimize reputation risk management system. It advanced reputation risk management, strengthened reputation risk investigation and control, accurately grasped hidden dangers, traced the source, eliminated hidden risks, and continued to use information technology to improve the quality and effectiveness of reputation risk management. It further improved the closed-loop management mechanism of reputation incidents, and dealt with public opinions in a timely and effective manner. Focusing on themes such as serving rural revitalization, supporting real economy, practicing inclusive finance, advancing green finance, developing financial technology and improving customer experience, the Bank continued to explore typical cases, organized thematic communication activities, told PSBC stories, made ourselves heard, and elaborated the corporate culture and value of PSBC to the society.

Strategic Risk

Strategic risk refers to the risk of adverse impact on the Bank's profitability, capital, reputation, market status, etc., arising from improper business and management strategy, strategy implementation deviation or failure to respond to changes in external environment in a timely manner. During the reporting period, the Bank continued to see highlights in its strategy executions and the management and control system for strategic risks was continuously improved. The strategic risks were largely under control.

During the reporting period, the Bank adhered to the customer-centric philosophy, increased product and service innovation and integrated marketing efforts, strengthened technological empowerment, accelerated the construction of a smart ecosystem, and continued to promote the implementation of retail banking strategies and the growth in retail financial business, thereby constantly highlighting its performance in executing strategies.

During the reporting period, the Bank organized the formulation of the 14th Five-year Plan outline, continued to improve the strategic planning system, and laid a solid foundation for high-quality development during the 14th Five-year period. It comprehensively strengthened strategic research concerning major issues such as the economic and financial situation, bank valuation, impact of the epidemic, peer benchmarking, and played an effective role in the decision support of important fields. It conducted comprehensive evaluation on strategy execution, effectively improved the efficiency of strategic management, and continuously improved the overall strategic risk management system.

Country Risk

Country risk refers to the risk of the inability or refusal of the borrowers or debtors of a country or region to repay their debts owed to the bank, or commercial benefit loss suffered by the bank in that country or region due to changes and incidents occurred in its economy, politics and society. During the reporting period, the Bank's country risk exposure mainly concentrated in low-risk countries or regions, and country risk level was generally controllable.

In strict compliance with country risk policies and relevant regulatory requirements, the Bank incorporated country risk into the comprehensive risk management system and managed country risk through a series of management tools such as country risk rating, limit control, exposure statistical monitoring and reserve provision. During the reporting period, facing the complex and ever-changing post-epidemic international situation, the Bank continued to strengthen country risk management, optimize country risk rating and quota approval, improve the scientificity and effectiveness of rating and quota management, and effectively control country risk.

Risk Consolidated Management

Risk consolidated management refers to the continuous improvement and optimization of the comprehensive risk management framework of the Bank group and its affiliates, and the management process of 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 the CBIRC, as of the end of the reporting period, the Bank had two subsidiaries, namely PSBC Consumer Finance Co., Ltd. and PSBC Wealth Management Co., Ltd., which were incorporated into the Bank's risk consolidated management framework. The overall risks of the Group were manageable.

The Bank strictly followed national policies and relevant regulatory requirements and continuously improved the development of the mechanism for risk consolidated management of the Group. It formulated relevant systems for risk consolidated management, clarified the risk consolidated management structure, strengthened the guidance, supervision and evaluation of risk management of affiliates, promoted the development of risk isolation system, realized the coordination of business collaboration and risk isolation, and ensured that the risks of the Bank group were controllable in general. During the reporting period, the Bank formulated the Bank group's risk appetite, optimized the core risk management indicators of its affiliates, and strengthened the application of risk limits in the management assessment of affiliates. The Bank carried out comprehensive risk evaluation of affiliates in combination with the industrial characteristics of the affiliates, and urged affiliates to enhance the capability of risk management.

Capital Management

The objective of the Bank's capital management is to maintain a reasonable and stable capital adequacy level, continuously meet the requirements of capital regulatory regulations and policies; to comprehensively establish and apply a value-based management system with economic capital at its core, strengthen capital budget, communicate the concept of value creation; to constantly enhance the endogenous supplement capacity of capital and proactively replenish capital through external financing channels. During the reporting period, the Bank continued to play the role of capital budget, continuously consolidated the capital management foundation across the Bank, actively optimized the business structure, reduced low-efficiency capital occupancy, and further improved its capital strength and ability to serve the real economy through the non-public issuance of A shares and the issuance of undated capital bonds. As of the end of the reporting period, the Bank's capital indicators stayed within the reasonable range, and the capital adequacy ratios and the leverage ratio continued to meet regulatory requirements.

Capital Adequacy Ratio

According to the requirements of the Capital Rules for Commercial Banks (Provisional) and its supporting policy documents issued by the CBIRC, the Bank 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 core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.74%, 12.35% and 14.32% respectively, details of which are as follows:

Capital Adequacy Ratio

In millions of RMB, except for percentages

Item	June 30, 2021 The Group	June 30, 2021 The Bank	December 31, 2020 The Group	December 31, 2020 The Bank
Core tier 1 capital – net	**589,772**	**576,050**	542,347	529,574
Tier 1 capital – net	**747,728**	**733,905**	670,301	657,432
Net capital	**867,009**	**852,736**	784,579	771,166
Risk-weighted assets	**6,053,964**	**6,026,286**	5,651,439	5,615,106
Credit risk-weighted assets	**5,597,837**	**5,577,889**	5,193,789	5,165,186
Market risk-weighted assets	**93,441**	**93,441**	94,964	94,964
Operational risk-weighted assets	**362,686**	**354,956**	362,686	354,956
Core tier 1 capital adequacy ratio (%)	**9.74**	**9.56**	9.60	9.43
Tier 1 capital adequacy ratio (%)	**12.35**	**12.18**	11.86	11.71
Capital adequacy ratio (%)	**14.32**	**14.15**	13.88	13.73

Market Risk Capital Requirements

In millions of RMB

Item	June 30, 2021	December 31, 2020
Interest rate risk	**2,073**	2,120
Foreign exchange rate risk	**5,402**	5,477

Leverage Ratio

As of the end of the reporting period, the leverage ratio calculated by the Bank pursuant to the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) issued by the CBIRC was 5.90%, meeting the regulatory requirements. For details of leverage ratio, please refer to Appendix I Supplementary Financial Information.

Economic Capital Management

The Bank continued to strengthen the active management of economic capital, improve the transmission mechanism of economic capital, enhance capital budget and promote the capital-light transformation. It deepened the capital allocation mechanism with risk-adjusted return on capital (RAROC) at its core, enhanced capital efficiency, strictly controlled low-efficiency capital occupancy, and promoted capital saving. During the reporting period, the awareness of capital saving and value creation across the Bank was further heightened, the business structure continuously optimized, and the transmission efficiency of economic capital enhanced.

Capital Financing Management

Upon approval by the CSRC, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares in March 2021 at an issue price of RMB5.55 per share, raising a total of approximately RMB30,000 million. After deducting the issuance cost, the actual net proceeds were approximately RMB29,985.92 million, all of which were used for replenishing core tier 1 capital. Please refer to "Changes in Share Capital and Shareholdings of Shareholders" for details.

Upon approval of the CBIRC and the People's Bank of China, the Bank publicly issued RMB30,000 million write-down undated capital bonds in the national Interbank Bond Market, with all proceeds after deducting the issuance cost be used to replenish other tier 1 capital in accordance with applicable laws and approval of the competent authorities.

The Bank convened a meeting of the Board on January 28, 2021 to review and approve the Proposal on the Issuance of Write-down Qualified Tier 2 Capital Instruments by Postal Savings Bank of China. The proposal was submitted to the Shareholders' General Meeting on April 29, 2021 for review and approval. In August 2021, the Bank received approval from the CBIRC and the People's Bank of China to issue tier 2 capital bonds in the national Interbank Bond Market with an aggregate amount of no more than RMB150 billion. The Bank publicly issued RMB60 billion of tier 2 capital bonds in the national Interbank Bond Market in August 2021, and the proceeds were used to replenish the Bank's tier 2 capital in accordance with the applicable laws and approval of the competent authorities.

Focuses of the Operation

Net Interest Margin

During the reporting period, the net interest margin of the Bank was 2.37%, continuing to maintain its leading position in the industry. Since 2020, the overall net interest margin of the banking industry has entered a downward path due to the impact of interest rate liberalization and the COVID-19 pandemic. The Bank continued to optimize its asset and liability structure, which contributed to the slowdown of the decline in net interest margin.

Looking ahead to the second half of 2021, the downward pressure on net interest margin remains, but favorable factors are also increasing. Firstly, the Bank will adhere to its high-quality development strategy and continue to optimize its asset structure to promote the stabilization of net interest margin. In terms of loan business, the Bank will optimize the credit structure, allocate credit resources in a reasonable manner, and increase its support to Sannong loans, consumer loans and green loans. In terms of non-credit investments, the Bank will formulate investment strategies in a scientific way, strengthen its investment in major investment categories including local government bonds, and continue to increase the return on the investment portfolio. Secondly, the Bank will persist to optimization of deposit structure and continue to reduce the proportion of deposits with longer terms. It will also comprehensively promote scenario building, consolidate payment and settlement business such as agency payment and acquiring, increase the proportion of demand deposits and short-term deposits, and take multiple measures to optimize funding costs. Thirdly, the changes in relevant policies are also conducive to the stabilization of net interest margin. In the first half of 2021, the effect resulting from the conversion of the pricing benchmark of the existing floating-rate loans was fully released. The adjustment of deposit pricing methods and interest rate caps under the self-disciplinary mechanism also helps promote orderly market competition and guide the interest rate of long-term deposits down.

Cost to Income Ratio

During the reporting period, confronted with the interest rate liberalization, the LPR conversion for existing floating-rate loans, and the expiration of preferential policies for social insurance premiums, the Bank adhered to the business concept of "quality and efficiency first", firmly followed the working principles set at the beginning of the year to vigorously push forward the high-quality development of various businesses, thus achieving the stable growth of operating income. At the same time, by strengthening refined cost management and optimizing cost structure, the Bank effectively improved the cost efficiency. As a result, the cost to income ratio realized a year-on-year decrease of 0.04 percentage point.

In the second half of 2021, the Bank will firmly grasp the new opportunities brought by economic development, continuously take "stabilizing interest margin, increasing income from intermediary business and controlling costs" as the main task, and deepen the development and transformation of its businesses. In terms of income growth, the first point is to continuously optimize the asset and liability structure and maintain the stable growth of net interest income. On the asset side, the Bank will optimize the credit granting structure, reduce the scale of low-yield assets, and shift its focus to retail business such as Sannong loans, small and micro loans and consumer loans. Meanwhile, it will also strengthen its investment and research capabilities in financial markets to enhance the yield of financial investment portfolios. On the liability side, the emphasis will be placed on structural optimization. The Bank will increase the proportion of demand deposits and short-term deposits by multiple measures such as agency payment, acquiring, and the establishment of a wealth management system, and reduce the high-cost deposits with longer terms. The second point is to vigorously develop intermediary business and improve the income from intermediary business. In the second half of 2021, the Bank will continue to build on its retail business to accelerate the wealth management upgrade and promote the rapid development of businesses including agency sales of funds and wealth management. Efforts will be made to deepen the reform of Credit Card Center as a specialized institution so as to pursue the steady development of credit card business. The Bank will keep optimizing the structure of corporate and treasury business, scale up the transaction banking business, custody business and investment banking business, and achieve faster growth and raise the proportion of income from intermediary business.

In terms of cost control, taking "controlling total expense" as the basis and "adjusting structure and improving efficiency" as the main task, the Bank will remain committed to aligning cost control with development support. First, the Bank will optimize the cost structure and refine cost management. To enhance the Bank's core competitiveness, more efforts will be made to increase investment in technology and deepen the reform of the human resources system. The Bank will also strengthen benchmarking guidance to effectively reduce operating costs and administrative expenses. Second, the Bank will deepen the philosophy of return on resources and highlight the efficiency of output to input. Building a cost-efficiency consciousness of "one should pay for the use of limited resources", the Bank will take the evaluation results of cost-effectiveness as an important decision-making basis for cost allocation and approval of new projects, and strictly control unreasonable expenditures, aiming to improve the cost-efficiency.

Net Non-interest Income

During the reporting period, net non-interest income of the Bank increased by 16.24% year-on-year to RMB25,682 million, accounting for 16.28% of the operating income, up 1.20 percentage points year on year. The increase was mainly due to two reasons. First, the net fee and commission income was RMB11,429 million, representing a year-on-year increase of 37.86%, as the Bank fully utilized advantages of retail business to achieve rapid growth in key businesses such as agency sales, credit cards, electronic payment and custody through measures like expanding customer base, increasing scale and optimizing structure. Second, net gains from securities investment and net trading gains was RMB14,285 million, representing a year-on-year increase of 20.26%, primarily due to rising dividend income received from more investments in securities investment funds with tax benefits and less capital consumption as well as the year-on-year increase in the valuation of bonds and securities investment funds.

Looking into the second half of 2021, adhering to the positioning of a large retail bank, the Bank will move faster to build a "new retail" development model of "attracting users, retaining customers, and delivering more value", and consolidate the foundation for the development of intermediary business with "wealth management upgrade" as the core. It will strengthen market research and analysis, enhance the investment capacity in the financial market, and promote the steady development of non-interest businesses.

Firstly, the Bank will mobilize resources and expand channels to maintain the rapid growth of income from intermediary business. In terms of agency sales business, the Bank will strengthen its efforts in team building, customer management, product & service and technological support by advancing the building of a wealth management system, and further enhance its comprehensive service capacity. As for credit cards, the Bank will further tap into the advantages in system and mechanism of Credit Card Center as a specialized institution to develop credit card business, and make use of the four major customer acquisition channels of "outlets, online channels, sales teams and cooperation between China Post Group and the Bank" to expand the issuance scale, improve user activity and boost consumption and transactions. With respect to electronic payment business, the Bank will keep improving card binding experience, explore the customer potential, and step up marketing efforts to drive the steady growth of transaction scale. As for wealth management business, the Bank will devote major efforts to building the product series featuring "inclusive finance plus wealth plus unique features" based on the stratification and classification of customer needs, and take advantage of channel advantages to make breakthroughs in the scale of WMPs. Regarding investment banking business, the Bank will intensify efforts to expand securitization, M&A, financial advisory and other businesses, and explore more development potential in areas such as debt restructuring and infrastructure REITs. As for custody business, the Bank will continue to optimize the structure and expand the scale of assets under custody, strengthen active marketing and comprehensively improve the yield of such services. Secondly, the Bank will steadily develop other non-interest-earning businesses to improve their comprehensive contributions to income. It will strengthen the study and analysis of markets and products, and seize trading opportunities based on band operation. Moreover, it will improve the investment capability, make early arrangements for key customers and products, and seize market opportunities to invest in high-quality and high-yield assets, so as to improve the efficiency of fund use and maximize the overall income.

Asset Quality and Provisioning

The Bank always adhered to a prudent risk appetite and firmly upheld the new development philosophy, with the aim of striking a long-term balance between sustaining growth and preventing risks. It strengthened management and control over non-performing assets by controlling their generation, reducing existing bad assets and preventing credit migration, and thereby kept good asset quality on a continuous and stable basis. As of the end of the reporting period, the Bank recorded an NPL ratio of 0.83%, representing a decrease of 0.05 percentage point compared with the prior year-end. The special mention loan ratio was 0.48%, a decrease of 0.06 percentage point compared with the prior year-end. During the reporting period, new formed NPLs stood at RMB16,126 million, with an NPL formation ratio[1] of 0.28%. The allowance coverage ratio was 421.33%, an increase of 13.27 percentage points compared with the prior year-end. The risk level was generally stable. The Bank acted in strict compliance with regulatory standards and constantly optimized risk classification rules. Therefore, the quality of assets was true and reliable. As of the end of the reporting period, the ratio of NPLs to loans overdue for more than 90 days was 1.55, and all loans overdue for more than 60 days as well as 94.56% of loans overdue for more than 30 days were recognized as NPLs. The figures reflected the risk of its loan profile in a comprehensive and authentic manner. At the same time, the Bank has always adhered to the prudent provisioning policy. It continuously carried out the risk assessment of financial assets, strengthened the refined management of provisioning, and made forward-looking provisioning in line with the macro situation and market conditions. Therefore, the provision coverage ratio further increased, and the risk compensation capacity remained adequate.

In terms of corporate loans, as of the end of the reporting period, the Bank's balance of non-performing corporate loans amounted to RMB19,134 million, representing an increase of RMB485 million compared with the prior year-end, with an NPL ratio of 0.89%, down 0.06 percentage point year on year. The increase in the balance of NPLs mainly came from industries of transportation, storage and postal services, as well as water conservancy, environmental and public facilities management.

In terms of personal loans, as of the end of the reporting period, the Bank's balance of non-performing personal loans amounted to RMB32,059 million, representing an increase of RMB351 million compared with the prior year-end. The Bank recorded an NPL ratio of 0.90% in the personal loans, a decrease of 0.08 percentage point compared with the prior year-end. Specifically, the NPL balance of credit card business posted RMB1,877 million, representing a decrease of RMB773 million over the prior year-end, with an NPL ratio of 1.21%, down 0.62 percentage point over the prior year-end.

Advanced Approaches for Capital Management

Strictly complying with regulatory requirements including the Capital Rules for Commercial Banks (Trial), the Bank earnestly carried out the development and implementation of advanced approaches for capital management, made coordinated efforts to promote the building of three major pillars, and formed a virtuous circle of "development – application – optimization". During the reporting period, the Bank achieved impressive progress in the development of advanced approaches for capital management. In terms of credit risk, it integrated and optimized the non-retail internal rating model and updated the retail internal rating model, further improving the rules and processes of rating management and measurement model management. The Bank also realized the application of internal rating in credit approval, limit management, post-lending monitoring, credit policy and risk reporting, and gradually deepened the application of internal rating in risk appetite, economic capital, performance appraisal, risk pricing and allowance for losses, so as to enhance the refined risk management. The value at risk model for market risks operated steadily and was directly applied to the management of risk limits and risk reports. The Bank completed the development and promotion of three major tools for operational risk management, which entered the implementation stage on a regular basis. Apart from the development of the first pillar, in terms of the second and third pillars, the Bank further optimized the procedures for internal capital adequacy assessment, strengthened risk assessment, improved the stress testing system, made capital planning in advance, and improved the disclosure of capital adequacy ratio.

Next, the Bank will continue to expedite the development of advanced approaches for capital management, apply the advanced approaches in a practical, accurate and suitable way, and leverage the role of advanced approaches in predicting and measuring risks, thus constantly advancing the transformation of risk management and improving the capability and level of risk management on all fronts.

1 NPL formation ratio = (NPL balance at the end of the period – NPL balance at the beginning of the period + disposal amount during the period)/NPL balance at the beginning of the period

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 92,383,967,605, including 72,527,800,605 A shares and 19,856,167,000 H shares, accounting for 78.51% and 21.49% of all shares respectively.

Details of Changes in Share Capital

Unit: share

	As at December 31, 2020		Increase/decrease (+,-) during the reporting period					As at June 30, 2021	
	Quantity	Percentage (%)	Issuance of new shares	Issuance of bonus shares	Transferred from reserve	Other	Subtotal	Quantity	Percentage (%)
I. Shares subject to restrictions on sales	**55,847,933,782**	**64.21**	**+5,405,405,405**	**-**	**-**	**-**	**+5,405,405,405**	**61,253,339,187**	**66.30**
1. Shareholdings of the State	–	–	–	–	–	–	–	–	–
2. Shareholdings of state-owned legal persons	55,847,933,782	64.21	+5,405,405,405	–	–	–	+5,405,405,405	61,253,339,187	66.30
3. Other domestic shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of domestic non-state-owned legal persons	–	–	–	–	–	–	–	–	–
Shareholdings of domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of foreign legal persons	–	–	–	–	–	–	–	–	–
Shareholdings of foreign natural persons	–	–	–	–	–	–	–	–	–
II. Circulating shares not subject to restrictions on sales	**31,130,628,418**	**35.79**	**-**	**-**	**-**	**-**	**-**	**31,130,628,418**	**33.70**
1. RMB ordinary shares	11,274,461,418	12.96	–	–	–	–	–	11,274,461,418	12.21
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	19,856,167,000	22.83	–	–	–	–	–	19,856,167,000	21.49
4. Others	–	–	–	–	–	–	–	–	–
III. Total ordinary shares	**86,978,562,200**	**100.00**	**+5,405,405,405**	**-**	**-**	**-**	**+5,405,405,405**	**92,383,967,605**	**100.00**

Changes in Share Capital and Shareholdings of Shareholders

Changes in Ordinary Shares

Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC on March 8, 2021, the Bank completed the non-public issuance of 5,405,405,405 A shares of ordinary shares to China Post Group in March 2021. The closing price of the A shares of the Bank on the date of determining the terms of issuance (i.e. November 30, 2020) was RMB5.23 per share. After issuance, the Bank raised a total of RMB30,000 million at an issue price of RMB5.55 per share. After deducting the issuance fee, the actual net proceeds raised totalled RMB29,985.92 million, and net proceeds per share was approximately RMB5.55. After completion of the non-public issuance, total number of shares of the Bank increased from 86,978,562,200 shares to 92,383,967,605 shares. For details, please refer to the announcement of the Bank dated March 26, 2021.

Effect of Changes in Ordinary Shares on Financial Indicators Including Earnings per Share and Net Assets per Share

During the reporting period, the Bank completed the non-public issuance of A shares. Upon the issuance, the total number of shares of the Bank increased from 86,978,562,200 shares to 92,383,967,605 shares, and the new share capital and new capital reserve of the Bank amounted to RMB5,405,405,405.00 and RMB24,580,510,132.24, respectively.

In RMB

	For the six months ended June 30, 2021	Same criteria for the six months ended June 30, 2021[1]
Basic earnings per share	0.40	0.41
Diluted earnings per share	0.40	0.41
Net assets per share attributable to ordinary shareholders of the listed company	6.40	6.80

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, 2021 are calculated with the assumption that no shares will be issued in 2021.

There was no change in ordinary shares of the Bank from June 30, 2021 to the disclosure date of this report.

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 the current year	Increase in shares subject to restrictions on sales in the 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 restriction on sales
China Post Group Corporation Limited	55,847,933,782	–	–	55,847,933,782	Commitments on restrictions on sales of initial public offering of A shares	December 12, 2022
	–	–	5,405,405,405	5,405,405,405	Commitments on restrictions on sales of non-public issuance of A shares	March 25, 2026
Total	55,847,933,782	–	5,405,405,405	61,253,339,187	/	/

Number of Shareholders and Shareholdings

As of the end of the reporting period, the Bank had a total of 256,466 ordinary shareholders (including 253,816 holders of A shares and 2,650 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:

Shareholdings of Top Ten Ordinary Shareholders

Unit: share

Name of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares subject to restrictions on sales	Number of shares pledged, marked or locked-up	Nature of shareholder	Type of ordinary shares
China Post Group Corporation Limited	62,238,414,189	67.37	61,253,339,187	–	State-owned legal person	RMB ordinary shares, overseas listed foreign shares
HKSCC Nominees Limited	19,843,150,610	21.48	–	Unknown	Foreign legal person	Overseas listed foreign shares
China Life Insurance Company Ltd.	2,544,127,900	2.75	–	–	State-owned legal person	RMB ordinary shares
China Telecommunications Corporation	1,117,223,218	1.21	–	–	State-owned legal person	RMB ordinary shares
Ant Group Co., Ltd.	738,820,000	0.80	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Hong Kong Securities Clearing Company Limited	336,598,539	0.36	–	–	Foreign legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – Lombarda China Times Pioneer Stock Promoter Securities Investment Fund	246,133,492	0.27	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Shenzhen Tencent Domain Computer Network Co., Ltd.	128,530,000	0.14	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Central SOEs Poor Regions Industry Investment Fund Co., Ltd.	124,118,000	0.13	–	–	State-owned legal person	RMB ordinary shares
Shanghai International Port (Group) Co., Ltd.	112,539,226	0.12	–	–	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 institutional and individual investors registered with the company as of the end of the reporting period, which includes the 80,700,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee.

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

Note (3): 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.

Note (4): The above shareholders do not have special repurchase accounts nor do they involve delegation/entrustment of voting rights, abstention of voting rights, the strategic investors or general legal persons becoming the top ten ordinary shareholders due to the placement of new shares.

Shareholdings of the Top Ten 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	Quantity
HKSCC Nominees Limited	19,843,150,610	Overseas listed foreign shares	19,843,150,610
China Life Insurance Company Ltd.	2,544,127,900	RMB ordinary shares	2,544,127,900
China Telecommunications Corporation	1,117,223,218	RMB ordinary shares	1,117,223,218
China Post Group Corporation Limited	985,075,002	RMB ordinary shares	904,375,002
		Overseas listed foreign shares	80,700,000
Ant Group Co., Ltd.	738,820,000	RMB ordinary shares	738,820,000
Hong Kong Securities Clearing Company Limited	336,598,539	RMB ordinary shares	336,598,539
Industrial and Commercial Bank of China Limited – Lombarda China Times Pioneer Stock Promoter Securities Investment Fund	246,133,492	RMB ordinary shares	246,133,492
Shenzhen Tencent Domain Computer Network Co., Ltd.	128,530,000	RMB ordinary shares	128,530,000
Central SOEs Poor Regions Industry Investment Fund Co., Ltd.	124,118,000	RMB ordinary shares	124,118,000
Shanghai International Port (Group) Co., Ltd.	112,539,226	RMB ordinary shares	112,539,226

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 institutional and individual investors registered with the company as of the end of the reporting period, which includes the 80,700,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee.

Note (2): The total number of shares held by Hong Kong Securities Clearing Company Limited refers to the A shares (Shanghai-Hong Kong Stock Connect) held on behalf of Hong Kong and overseas investors 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 ten 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 Ten Shareholders Subject to Restrictions on Sales

Unit: share

Name of shareholder	Number of shares subject to restrictions on sales	Conditions for listing and trading of shares subject to restrictions on sales: Date on which listing and trading may commence	Conditions for listing and trading of shares subject to restrictions on sales: Number of new shares allowed to be listed and traded	Restrictions on sales
China Post Group Corporation Limited	55,847,933,782	December 12, 2022	–	36 months since the date of the initial public offering and listing of A shares of the Bank
	5,405,405,405	March 25, 2026	–	60 months since the date of the non-public issuance of A shares of the Bank

Shareholdings of Directors, Supervisors and Senior Management Members in the Shares of the Bank

As of the disclosure date of this report, none of the Directors, Supervisors and senior management members of the Bank held any shares of the Bank. During the reporting period, the shareholdings of the Directors, Supervisors and senior management members remained unchanged.

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 fully 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 shareholder (or nominee) of the Bank was 1. Shareholdings of the top ten 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 restriction 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 placees.

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 (tax inclusive) 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%.

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 2021, the Bank was approved to distribute dividends on the offshore preference shares for the period from September 27, 2020 (inclusive) to September 27, 2021 (exclusive) on September 27, 2021, 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 26, 2021.

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 the 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 for equity instruments, and shall be calculated as equity instruments.

Information of Substantial Shareholders

According to the Interim Measures on Equity Management of Commercial Banks published by the 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 dispatched 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 incorporated in accordance with the Company Law of the People's Republic of China, was established on October 4, 1995, and was officially restructured into 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 law, confidential correspondence, postal financial business, emerging business such as postal logistics and e-mail, e-commerce, agency business and other businesses as stipulated by the state.

Other Substantial Shareholders

China Shipbuilding Industry Corporation ("CSIC")[1] is a wholly state-owned enterprise established under the Company Law of the People's Republic of China by the state with a registered capital of RMB63 billion. Its registered address is No. 72 Kunminghu South Road, Haidian District, Beijing, and 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.

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 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 1.75% 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 Transaction

There were approximately 1,200 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.

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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 would 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.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As of 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 substantial 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	62,164,414,239	Long position	85.71	67.29
	Beneficial owner	H shares	80,700,000	Long position	0.41	0.09
China Post Securities Co., Ltd.(2)	Beneficial owner	A shares	6,700,050	Long position	0.01	0.01
CSIC Investment One Limited(3)	Beneficial owner	H shares	3,776,297,000	Long position	19.02	4.09
China Shipbuilding Capital Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.09
China Shipbuilding & Offshore International (H.K.) Co., Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.09
China Shipbuilding & Offshore International Co., Limited(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.09
China Ship-building Industry Corporation(3)	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.09
Shanghai International Port Group (HK) Co., Limited(4)	Beneficial owner and interest of controlled corporations	H shares	3,369,532,345	Long position	16.97	3.65
Shanghai Port Group (BVI) Holding Co., Limited(4)	Beneficial owner	H shares	736,653,254	Long position	3.71	0.80
Shanghai International Port (Group) Co., Ltd.(4)	Beneficial owner and interest of controlled corporations	H shares	3,479,132,345	Long position	17.52	3.77
	Beneficial owner	A shares	112,539,226	Long position	0.16	0.12
Li Ka-Shing(5)	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.45
Li Tzar Kuoi, Victor(5)	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.45
Li Ka Shing (Canada) Foundation(5)	Beneficial owner	H shares	1,108,228,000	Long position	5.58	1.20
China National Tobacco Corporation	Beneficial owner	H shares	1,296,000,000	Long position	6.53	1.40
Li Lu(6)	Interest of controlled corporations	H shares	1,274,411,000	Long position	6.42	1.38
LL Group, LLC(6)	Interest of controlled corporations	H shares	1,274,411,000	Long position	6.42	1.38
Himalaya Capital Investors, L.P. (6)	Beneficial owner	H shares	1,274,411,000	Long position	6.42	1.38
Himalaya Capital Management LLC (6)	Investment manager	H shares	1,274,411,000	Long position	6.42	1.38
BNP PARIBAS SA (7)	Interest of controlled corporations	H shares	1,554,639,290	Long position	7.83	1.68
	Interest of controlled corporations	H shares	227,941,687	Short position	1.15	0.25

Note (1): Information disclosed above is based on the information provided on the website of Hong Kong Stock Exchange. 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 the shareholding of a shareholder in the Bank 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 62,157,714,189 A shares of the Bank, representing approximately 67.28% of its total share capital. China Post Securities Co., Ltd., a subsidiary of China Post Group, is interested in 6,700,050 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 interests disclosure forms submitted by CSIC Investment One Limited, China Shipbuilding Capital Limited, China Shipbuilding & Offshore International (H.K.) 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, namely, China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (H.K.) Co., Limited and China Shipbuilding Capital Limited. China Shipbuilding Industry Corporation, China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (H.K.) Co., Limited and China Shipbuilding Capital Limited are therefore deemed to be interested in a total of 3,776,297,000 H shares held by CSIC Investment One Limited under the SFO.

Note (4): According to the interests disclosure 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 3,479,132,345 H shares (long position), of which 109,600,000 H shares are beneficially owned, 2,632,879,091 H shares are beneficially owned by Shanghai International Port Group (HK) Co., Limited (which is 100% directly owned by Shanghai International Port (Group) Co., Ltd.), and 736,653,254 H shares are beneficially owned 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 interests disclosure forms submitted by Li Lu, LL Group, LLC, Himalaya Capital Investors, L.P. and Himalaya Capital Management LLC, Li Lu indirectly holds a total of 1,274,411,000 H shares (long position) held by Himalaya Capital Investors, L.P. as a beneficiary owner through its controlled corporation LL Group, LLC. According to the SFO, Li Lu and LL Group, LLC are therefore deemed to be interested in a total of 1,274,411,000 H shares held by Himalaya Capital Investors, L.P., and Himalaya Capital Management LLC is interested in the 1,274,411,000 H shares as investment manager.

Note (7): According to the interests disclosure forms submitted by BNP PARIBAS SA, BNP PARIBAS SA is interested in a total of 1,554,639,290 H shares (long position) and 227,941,687 H shares (short position). Of which 33,849,720 H shares (long position) and 21,482,775 H shares (short position) are beneficially owned by BNP PARIBAS ARBITRAGE (which is 100% directly owned by BNP PARIBAS SA); 17,655,893 H shares (long position) and 5,402,999 H shares (short position) are beneficially owned by BNP PARIBAS SECURITIES SERVICES (which is 100% directly owned by BNP PARIBAS SA); 1,167,923 H shares (long position) are beneficially owned by BNP PARIBAS LONDON BRANCH (which is 100% directly owned by it); 204,272,808 H shares (long position) and 201,055,913 H shares (short position) are beneficially owned by BNP PARIBAS (which is 100% directly owned by it); 1,297,692,946 H shares (long position) are available to be borrowed by BNP PARIBAS ARBITRAGE (which is 100% directly owned by it) pursuant to the securities lending agreement.

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	March 25, 2021	5.55	5,405,405,405	March 25, 2021	5,405,405,405	–

For details regarding exercise of the non-public issuance of A shares of the Bank, please refer to the “Changes in Ordinary Shares”. For details of the issuance of other securities of the Bank during the reporting period, please refer to “Notes to the Condensed Consolidated Financial Statements – 28 Debt securities issued” and “Notes to the Condensed Consolidated Financial Statements – 30.2 Other equity instruments”.

Corporate Governance

Overview of 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 Bank convened two Shareholders' General Meetings, including the 2021 First Extraordinary General Meeting and the 2020 Annual General Meeting held in Beijing on April 29, 2021 and June 29, 2021, respectively.

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 April 29, 2021 and June 29, 2021 respectively.

During the reporting period, the Bank convened a total of 7 meetings of the Board of Directors (5 on-site meetings and 2 written signing meetings), at which 73 proposals were reviewed and 14 reports were heard; the special committees of the Board of Directors convened 19 meetings (4 for Strategic Planning Committee, 2 for Related Party Transactions Control Committee, 3 for Audit Committee, 4 for Risk Management Committee, 3 for Nomination and Remuneration Committee and 3 for Social Responsibility and Consumer Rights Protection Committee), at which 64 proposals were reviewed and 7 reports were heard; the Board of Supervisors convened a total of 5 meetings (4 on-site meetings and 1 written signing meeting), at which 11 proposals were reviewed and 41 reports were heard; the special committees of the Board of Supervisors convened 3 meetings (1 for Duty Performance Supervision Committee and 2 for Finance and Internal Control Risk Supervision Committee), at which 15 proposals were reviewed.

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, and the Bank has also complied with most of the recommended best practices therein.

Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management

As of the disclosure 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 14 directors in total, including Mr. Zhang Jinliang, the Chairman and Non-executive Director; 3 Executive Directors, namely Mr. Liu Jianjun, Mr. Zhang Xuewen and Ms. Yao Hong; the other 5 Non-executive Directors, namely Mr. Han Wenbo, Mr. Chen Donghao, Mr. Wei Qiang, Mr. Liu Yue and Mr. Ding Xiangming; and 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 and Shareholder Representative Supervisor; the other 2 Shareholder Representative Supervisors, namely Mr. Li Yujie and Mr. Zhao Yongxiang; 3 External Supervisors, namely Mr. Wu Yu, Mr. Bai Jianjun and Mr. Chen Shimin; and 3 Employee Supervisors, namely Mr. Li Yue, Mr. Bu Dongsheng and Mr. Gu Nannan.

The Bank had a total of 10 senior management members, namely Mr. Liu Jianjun, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Qu Jiawen, Mr. Xu Xueming, Mr. Shao Zhibao, Mr. Du Chunye, Ms. Tang Junfang, Mr. Liang Shidong and Mr. Niu Xinzhuang.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On January 4, 2021, Mr. Guo Xinshuang resigned from his positions as Executive Director and President, 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 of the Bank due to change of job. Mr. Zhang Xuewen started to perform the duties on behalf of the President, and Ms. Yao Hong started to perform the duties on behalf of the Chairwoman of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors, with effect from January 4, 2021, immediately after the departure of Mr. Guo Xinshuang. For details, please refer to the announcement of the Bank dated January 4, 2021.

On January 29, 2021, Mr. Liu Yaogong resigned from his positions as Non-executive Director, member of the Risk Management Committee of the Board of Directors and member of the Audit Committee of the Board of Directors of the Bank due to change of job. For details, please refer to the announcement of the Bank dated January 29, 2021.

On March 29, 2021, the Board of Directors of the Bank nominated Mr. Han Wenbo for re-election as a Non-Executive Director of the Bank. On April 29, 2021, Mr. Han Wenbo was re-elected as a Non-executive Director of the Bank at the 2021 First Extraordinary General Meeting of the Bank, and his qualification shall take effect after the election and approval at the Shareholders' General Meeting.

On March 29, 2021, the Board of Directors of the Bank nominated Mr. Wei Qiang as a Non-executive Director of the Bank. On April 29, 2021, Mr. Wei Qiang was elected as a Non-executive Director of the Bank at the 2021 First Extraordinary General Meeting of the Bank. On May 31, 2021, the qualification of Mr. Wei Qiang as a Non-executive Director of the Bank, member of the Audit Committee and member of the Risk Management Committee of the Board of Directors of the Bank was approved by the CBIRC. For details, please refer to the announcement of the Bank dated June 3, 2021.

On March 29, 2021, the Board of Directors of the Bank nominated Mr. Chen Donghao as a Non-executive Director of the Bank. On April 29, 2021, Mr. Chen Donghao was elected as a Non-executive Director of the Bank at the 2021 First Extraordinary General Meeting of the Bank. On July 15, 2021, the qualification of Mr. Chen Donghao as a Non-executive Director of the Bank, member of the Risk Management Committee and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors of the Bank was approved by the CBIRC. For details, please refer to the announcement of the Bank dated July 21, 2021.

On May 31, 2021, the Board of Directors of the Bank nominated Mr. Liu Jianjun as an Executive Director of the Bank. On June 29, 2021, Mr. Liu Jianjun was elected as an Executive Director of the Bank at the 2020 Annual General Meeting of the Bank. On August 1, 2021, the qualification of Mr. Liu Jianjun as an 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 of the Bank was approved by the CBIRC. Immediately after the commencement of the term of office of Mr. Liu Jianjun, 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. For details, please refer to the announcement of the Bank dated August 4, 2021.

Changes in Supervisors

On June 8, 2021, Mr. Song Changlin resigned from his positions as the Employee Supervisor and the member of the Nomination Committee of the Board of Supervisors, the Duty Performance Supervision Committee of the Board of Supervisors and the Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank due to work reasons. For details, please refer to the announcement of the Bank dated June 8, 2021.

On June 8, 2021, the Seventh Session of the First Employee Representative Assembly of the Bank elected Mr. Gu Nannan as the Employee Supervisor of the Bank. On June 17, 2021, the Board of Supervisors of the Bank agreed Mr. Gu Nannan to act as the member of the Nomination Committee of the Board of Supervisors, the Duty Performance Supervision Committee of the Board of Supervisors and the Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank. For details, please refer to the announcements of the Bank dated June 8, 2021 and June 17, 2021.

Changes in Senior Management

On January 4, 2021, Mr. Guo Xinshuang resigned from the position as President of the Bank due to change of job. Mr. Zhang Xuewen started to perform the duties on behalf of the President, with effect from January 4, 2021 immediately after the departure of Mr. Guo Xinshuang. For details, please refer to the announcement of the Bank dated January 4, 2021.

On May 31, 2021, the Board of Directors of the Bank appointed Mr. Liu Jianjun as the President of the Bank. On August 1, 2021, the CBIRC approved the appointment of Mr. Liu Jianjun as President of the Bank. Mr. Zhang Xuewen ceased to perform the duties on behalf of the President immediately after the appointment of Mr. Liu Jianjun. For details, please refer to the announcement of the Bank dated August 4, 2021.

Changes in Biographies of Directors, Supervisors and Senior Management

Changes in Biographies of Directors

In June 2021, Mr. Wen Tiejun no longer served as Executive Dean of Institute for New Rural Development at Fujian Agriculture and Forestry University.

In June 2021, Mr. Chung Shui Ming Timpson no longer served as Independent Non-Executive director of Glorious Sun Enterprises Limited.

In June 2021, Mr. Hu Xiang started to serve as Chairman and General Manager of Shanghai TURIN Chi Robot Co., Ltd.

Changes in Biographies of Supervisors

In May 2021, Mr. Chen Shimin no longer served as Independent Director of Oriental Pearl Group Co., Ltd. and Huafa Industrial Co., Ltd. Zhuhai.

Changes in Biographies of Senior Management

In April 2021, Mr. Qu Jiawen started to serve as Vice Chairman of Chinese Finance Photographer Association.

In April 2021, Ms. Tang Junfang no longer served as Director of Suzhou New Century Hotel Co., Ltd.

Positions Taken by Directors and Supervisors Assigned by Shareholders at Shareholders' Companies

Name	Name of company	Major titles	Commencement time of tenure
Zhang Jinliang	China Post Group	Board Member, President	August 2018
Liu Jianjun	China Post Group	Vice President	May 2021
Han Wenbo	China Post Group	Board Member	February 2021
Chen Donghao	China Post Group	Board Member	February 2021
Liu Yue	China Shipbuilding Industry Corporation	Chairman of the Board of Directors of China Shipbuilding Capital Limited	January 2016
Ding Xiangming	SIPG	Vice President and Secretary to the Board of Directors	December 2014
Li Yujie	China Post Group	General Manager of the Financial Department	September 2014
Zhao Yongxiang	China Post Group	Managing Director and Inspection Commissioner of Discipline Inspection Office of the Leading Party Members' Group	May 2020

Note (1): Save as disclosed above, as of the disclosure date of this report, none of the Directors, Supervisors and senior management members of the Bank took positions in shareholders' companies.

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 is committed to fulfilling the responsibility of protecting consumer's rights and interests and 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. By giving full play to the "three lines of defense", the Bank helped construct an enduring mechanism for protecting consumer's rights and interests, strengthened the concept of all staff in protecting consumer's rights and interests and enhanced employees' awareness of reputation risks prevention which enhanced the level of service of the Bank and promoted a healthy and sustainable development of business.

During the reporting period, the Bank further improved consumer protection mechanisms, revamped the work framework on the decision making and the supervision of implementation in respect of protecting consumer's rights and interests, the review of consumer protection, the internal assessment of consumer protection, information disclosure in terms of consumer protection, etc., and constantly optimized every scope of work in protecting financial consumers' rights and interests so as to provide a comprehensive guideline for protecting consumers. The Bank continued to reinforce the whole-process management throughout the operation process, carefully implemented the "prevention-first" working principle, and promoted the concept of protecting consumers at an earlier stage. In terms of sales of products and the process of providing services, the Bank put further efforts in supervising and managing operation activities and employees involved. The Bank also regulated the process and standard of handling complaints, strengthened the management of the whole process of dealing with complaints and adopted appropriate measures to improve products and services with reference to complaints, network public opinion, checking results, etc. The Bank proactively implemented the management requirement of major areas of protecting consumers, attached great importance to personal information protection, and promoted strict implementation of relevant laws, regulations and regulatory requirements on information protection throughout the Bank.

In order to fulfill social responsibility, the Bank continued to carry out public education for promoting financial knowledge, provided convenient services for target groups such as the elderly, and enhanced the quality of financial services provided for major groups. The Bank continuously leveraged its advantages of vast network and wide coverage in both urban and rural areas, innovated promotion method by incorporating the online and offline platforms, and facilitated promoting harmony and trustworthiness throughout society.

Profit and Dividends Distribution

The Bank reviewed and approved the profit distribution plan for 2020 at the 2020 Annual General Meeting held on June 29, 2021. On the basis of 92,383,967,605 ordinary shares of the Bank, the Bank distributed cash dividends of RMB2.085 (tax included) per ten shares, totaling approximately RMB19,262 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 2021, nor did it convert any capital reserve to share capital. For details on the distribution of dividends on offshore preference shares, please refer to "Changes in Share Capital and Shareholdings of Shareholders – Offshore Preference Shares".

Internal Control and Internal Audit

Internal Control

The Bank continues to enhance its internal control system, improve internal control measures, and strengthen internal control support. It clarifies 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 labor, clear responsibilities, and clear reporting relationships.

The internal control and compliance departments, as the departments taking the lead of internal control management, are responsible for leading the efforts for the building of an internal control system.

During the reporting period, the Bank steadily advanced the building of the internal control system, launched a three-year plan for improving the quality and efficiency of internal control and compliance, and enhanced the quality of internal control management. It implemented the stationing of risk managers in institutions at the primary level and strengthened the vertical division of power and horizontal supervision to prevent and control key risk areas. It also enhanced the effectiveness of internal control of institutions at the primary level by dual presence of a business supervisor together with a risk manager. The Bank amended the management measures for problem rectification, improved the mechanism for rectifying problems circulated by regulatory authorities and strengthened the systematic rectification of problems by drawing inferences. Moreover, it optimized the off-site working mechanisms for conducting supervision and analysis, built up a regular feedback mechanism in response to the drawbacks of internal control and continued to strengthen the effectiveness of the application of risk information.

Internal Audit

The Bank implements an internal audit system and has established 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, and also set up an internal audit reporting system and reporting lines consistent with such structure. The Audit Office at the Head Office is responsible to the Board of Directors and the Audit Committee under it, regularly reports 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, as well as the organization and conduct of audit activities in accordance with the Guidelines for the Internal Audit of Commercial Banks and the audit charter of the Bank. There are 7 regional audit offices under the Audit Office, which are key components of the audit force of the Head Office and are mainly responsible for the audit 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 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, adhered to a problem-oriented and risk-based approach incorporated with high-quality development and focused on the key business lines and key risk areas. It conducted audit supervision and provided suggestions for improvements in major areas such as implementation of major policies, serving real economy, risk management, compliance of internal control, information technology and protection of consumer rights, and continued to follow up and supervise the rectification of issues, thus striving to enhance the effectiveness of audit supervision.

During the reporting period, the Bank actively responded to the dynamics of development trends, continuously promoted the institution and mechanism reform of internal audit, strengthened the team building of audit personnel, furthered the application of big data technology in audit, and accelerated the digital transformation of audit supervision, so as to secure sound operation and high-quality development of the Bank.

Use of Proceeds from Fund-raising Activities

The funds raised by the Bank have been used in accordance with the purposes as disclosed in the offering prospectuses, which is to consolidate the Bank's capital base to support the continuing growth of the Bank's business.

For the plan of the use of proceeds disclosed in the public disclosure documents such as prospectuses and offering prospectuses previously issued by the Bank, the implementation progresses are in line with the planning as described after verification and analysis.

Material Legal Proceedings and Arbitration

During the reporting period, there were no legal proceedings or arbitrations 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 RMB5,494 million. Accruals in respect of these matters have been fully established, and the Bank considers that these pending cases will not have any material adverse impact on the business, financial position or operating results of the Bank.

Major Asset Acquisition, Disposal and Merger

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

Significant Contracts and Their Performance

Material Custody, Subcontracting and Leasing

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

Material Guarantees

The provision of guarantees is an off-balance sheet service in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any other material guarantee that needed to be disclosed except for the financial guarantee services within the business scope as approved by the PBOC and the CBIRC. There were no cases in which the Bank violated laws and administrative regulations or entered guarantee contract against the resolution procedure for guarantee stipulated by the CSRC.

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

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

Credibility

During the reporting period, there were no cases in which the Bank and its controlling shareholder failed to fulfill its obligations under legal instrument enforced by courts in major litigation cases, and there were no cases in which the debts of a relatively large amount were due and unpaid.

Fulfillment of 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 the initial public offering and listing of A shares	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 the initial public offering and listing of A shares	Yes	Yes
		Directors and senior management members of the Bank	Measures in relation to stabilizing the share price	3 years since the date of the initial public offering and listing of A shares	Yes	Yes
		The Bank	Measures in relation to stabilizing the share price	3 years since the date of the initial public offering and listing of A shares	Yes	Yes
		Directors and senior management members of the Bank	Commitments to take remedial measures for the dilution on immediate return	Long-term	Yes	Yes
		The Bank	Commitments to take remedial measures for the dilution on immediate return	Long-term	Yes	Yes
	Resolving competition amongst peers	China Post Group	Commitment in relation to avoiding 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

Upon review and approval at the 2020 Annual General Meeting, the Bank engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditor of the Bank for 2021, responsible for providing audit and related services for the financial statements of the Bank prepared in accordance with the China Accounting Standards for Business Enterprises and IFRSs in 2021.

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 conducted in compliance with relevant laws, which served the overall interests of the Bank and its minority shareholders.

Non-public Issuance of A Shares to China Post Group Constitutes a Major Connected Transaction

On March 8, 2021, the Bank received the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC. In March 2021, the Bank completed the non-public issuance of A Shares to China Post Group, the controlling shareholder of the Bank, and the net proceeds raised therefrom after deducting the issuance fee amounted to approximately RMB29,985.92 million, all of which were used to supplement the core tier 1 capital of the Bank. Please refer to the announcement of the Bank dated March 26, 2021 for details.

Implementation of the Caps of Connected Transactions

On March 25, 2020, the Bank convened 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. On May 26, 2021, the Bank convened the Fifth Meeting of the Board of Directors in 2021 to review and approve the Proposal on the Caps of Related Party Transactions Forecast of Postal Savings Bank of China for 2021, agreeing to adjust the caps of amounts of connected transactions with China Post Group and its related parties in 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 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. Except for the "Connected Transactions with China Post Group and its Associates" that constitute connected transactions under the Hong Kong Listing Rules, the other connected transactions disclosed in this report do not constitute connected transactions under the Hong Kong Listing Rules.

Implementation of the Caps of Connected Transactions with China Post Group and its Related Parties

Credit Type Connected Transactions

In 2021, the cap of ordinary credit type connected transactions between the Bank and China Post Group and its related parties is RMB14 billion. As of the end of the reporting period, the balance of credit to China Post Group and its related parties by the Bank was RMB17 million. Credit type transactions were conducted on normal or better commercial terms, and were fully exempted in accordance with the Hong Kong Listing Rules.

Non-credit Type Connected Transactions

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

In RMB100 million

Type of Connected Transactions	Forecast Caps in 2021	Amount of connected transactions as at June 30, 2021
Leasing of certain properties and ancillary equipment to China Post Group and/or its associates by the Bank	13	4.89
Leasing of certain properties and ancillary equipment to the Bank by China Post Group and/or its associates	2	0.41
Sales of philatelic items and provision of mailing services by China Post Group and/or its associates to the Bank	4	0.57
Sale of goods other than philatelic items by China Post Group and/or its associates to the Bank	10	1.31
Provision of marketing for corporate deposit-taking and other businesses by China Post Group and/or its associates to the Bank	15	2.86
Provision of labor services by China Post Group and/or its associates to the Bank	13.50	4.22
Agency sales of insurance products provided by the Bank to China Post Group and/or its associates	12	6.08
Provision of agency sales (distribution) of precious metals business by the Bank to China Post Group and/or its associates	6	0.15
Sales of production materials and other goods by the Bank to China Post Group and/or its associates	2	0.32
Provision of labor services by the Bank to China Post Group and/or its associates	3	0.50

Implementation of the Caps of Connected Transactions with China Shipbuilding Industry Corporation and its Related Parties

In 2021, the caps of ordinary credit type connected transactions between the Bank and China State Shipbuilding Corporation Limited[1] and its related parties is RMB20 billion. 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 was RMB1,195 million.

Implementation of the Caps of Connected Transactions with China UnionPay Co., Ltd.

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

In RMB100 million

Type of Connected Transactions	Forecast Caps in 2021	Amount of connected transactions as at June 30, 2021
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund paid by the Bank	50	6.90
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund received by the Bank	95	21.58

For the related party transactions defined under domestic and overseas laws and regulations, and accounting standards, please refer to "Notes to the Condensed Consolidated Financial Statements — 35. Relationship and Transactions with Related Parties".

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 for commercial banks according to the Interim Measures on Equity Management of Commercial Banks, the Board of Directors of the Bank agreed that the caps of credit type connected transactions (line of credit) of the Bank for 2020-2021 shall cover China State Shipbuilding Corporation Limited and its related parties.

Pledge of Assets

For details relating to the pledge of assets of the Bank, please refer to "Notes to the Condensed Consolidated Financial Statements – 37.4 Collateral".

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' and Supervisors' Rights to Acquire Shares or Debentures

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

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

As of the end of the reporting period, none of the Directors or Supervisors of the Bank held any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the SFO) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or any interests or short positions which have to be recorded in the register under Section 352 of the SFO, or any interests or short positions which have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Changes in Share Capital and Shareholdings of Shareholders – Interests and Short Positions Held by Substantial Shareholders and Other Persons".

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

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

Other Significant Events

During the reporting period, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares in March 2021, and publicly issued RMB30 billion write-down undated capital bonds in the national Interbank Bond Market in March 2021, and publicly issued RMB60 billion of tier 2 capital bonds in the national inter-bank bond market in August 2021. Please refer to "Discussion and Analysis – Capital Management" for details on the Bank's capital financing.

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 2021 interim financial report prepared by the Bank in accordance with the Chinese Accounting Standards and IFRSs was reviewed by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu in accordance with the PRC and International Standards on Review Engagements, respectively.

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

Report On Review of Condensed Consolidated Financial Information

Deloitte. 德勤

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 condensed consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 150 to 280, which comprise the condensed consolidated statement of financial position as of June 30, 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain 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" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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" ("ISRE 2410") issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, China
August 27, 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Notes	Six-month period ended June 30 2021 (unaudited)	2020 (unaudited)
Interest income	3	**220,927**	202,760
Interest expense	3	**(88,831)**	(78,368)
Net interest income	3	**132,096**	124,392
Fee and commission income	4	**24,035**	16,382
Fee and commission expense	4	**(12,606)**	(8,092)
Net fee and commission income	4	**11,429**	8,290
Net trading gains	5	**1,705**	1,771
Net gains on investment securities	6	**12,580**	10,107
Net (losses)/gains on derecognition of financial assets measured at amortized cost		**(46)**	1
Net other operating gains	7	**14**	1,924
Operating income		**157,778**	146,485
Operating expenses	8	**(82,565)**	(76,664)
Credit impairment losses	9	**(29,454)**	(33,590)
Impairment losses on other assets		**(8)**	(4)
Profit before income tax		**45,751**	36,227
Income tax expenses	10	**(4,507)**	(2,554)
Net profit		**41,244**	33,673
Net profit attributable to:			
Equity holders of the Bank		**41,010**	33,658
Non-controlling interests		**234**	15

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30 2021 (unaudited)	2020 (unaudited)
Net profit		**41,244**	33,673
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 gains/(losses) on investments in financial assets measured at fair value through other comprehensive income		**802**	(477)
Subtotal		**802**	(163)
Total comprehensive income for the period		**42,046**	33,510
Total comprehensive income attributable to:			
Equity holders of the Bank		**41,812**	33,495
Non-controlling interests		**234**	15
Basic and diluted earnings per share (in RMB Yuan)	11	**0.40**	0.36

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

Condensed Consolidated Statement of Financial Position

AS AT JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Notes	As at June 30, 2021 (unaudited)	As at December 31, 2020 (audited)
Assets			
Cash and deposits with central bank	12	**1,249,615**	1,219,862
Deposits with banks and other financial institutions	13	**49,901**	43,682
Placements with banks and other financial institutions	14	**264,362**	248,396
Derivative financial assets	15	**6,820**	11,140
Financial assets held under resale agreements	16	**420,891**	259,956
Loans and advances to customers	17	**5,977,969**	5,512,361
Financial investments			
Financial assets measured at fair value through profit or loss	18.1	**495,476**	419,281
Financial assets measured at fair value through other comprehensive income-debt instruments	18.2	**371,676**	315,922
Financial assets measured at fair value through other comprehensive income-equity instruments	18.3	**6,304**	5,804
Financial assets measured at amortized cost	18.4	**3,208,712**	3,173,643
Property and equipment	20	**49,285**	48,706
Deferred tax assets	21	**57,531**	53,217
Other assets	22	**58,509**	41,293
Total assets		**12,217,051**	11,353,263
Liabilities			
Borrowings from central bank	23	**20,951**	25,288
Deposits from banks and other financial institutions	24	**190,713**	85,912
Placements from banks and other financial institutions	25	**57,272**	30,743
Derivative financial liabilities	15	**6,105**	9,632
Financial assets sold under repurchase agreements	26	**114,593**	25,134
Customer deposits	27	**10,913,567**	10,358,029
Debt securities issued	28	**56,309**	57,974
Other liabilities	29	**107,156**	87,621
Total liabilities		**11,466,666**	10,680,333

Condensed Consolidated Statement of Financial Position

AS AT JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Notes	As at June 30, 2021 (unaudited)	As at December 31, 2020 (audited)
Equity			
Share capital	30.1	**92,384**	86,979
Other equity instruments	30.2		
Preference shares		**47,869**	47,869
Perpetual bonds		**109,986**	79,989
Capital reserve	31	**125,486**	100,906
Other reserves	32	**176,323**	175,484
Retained earnings		**197,007**	180,572
Equity attributable to equity holders of the Bank		**749,055**	671,799
Non-controlling interests		**1,330**	1,131
Total equity		**750,385**	672,930
Total equity and liabilities		**12,217,051**	11,353,263

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

Approved and authorized for issue by the Board of Directors on August 27, 2021.

Zhang Jinliang
(On behalf of Board of Directors)

Zhang Xuewen
(On behalf of Board of Directors)

Condensed Consolidated Statement of Changes In Equity

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

		Attributable to equity holders of the Bank										
			Other equity instruments			Other reserves						
	Notes	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total equity
As at January 1, 2021 (audited)		86,979	47,869	79,989	100,906	42,688	130,071	2,725	180,572	671,799	1,131	672,930
Net profit for the period		-	-	-	-	-	-	-	41,010	41,010	234	41,244
Other comprehensive income for the period	32.3	-	-	-	-	-	-	802	-	802	-	802
Total comprehensive income for the period		-	-	-	-	-	-	802	41,010	41,812	234	42,046
Issuance of ordinary shares	30.1	5,405	-	-	24,580	-	-	-	-	29,985	-	29,985
Issuance of perpetual bonds	30.2	-	-	29,997	-	-	-	-	-	29,997	-	29,997
Appropriation to general reserve	32.2	-	-	-	-	-	37	-	(37)	-	-	-
Dividends declared to ordinary shareholders	33	-	-	-	-	-	-	-	(19,262)	(19,262)	(35)	(19,297)
Dividends declared to preference shareholders	33	-	-	-	-	-	-	-	(2,324)	(2,324)	-	(2,324)
Distribution to perpetual bonds holders	33	-	-	-	-	-	-	-	(2,952)	(2,952)	-	(2,952)
As at June 30, 2021 (unaudited)		92,384	47,869	109,986	125,486	42,688	130,108	3,527	197,007	749,055	1,330	750,385

		Attributable to equity holders of the Bank										
			Other equity instruments			Other reserves						
	Notes	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	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
Net profit for the period		–	–	–	–	–	–	–	33,658	33,658	15	33,673
Other comprehensive income for the period	32.3	–	–	–	–	–	–	(163)	–	(163)	–	(163)
Total comprehensive income for the period		–	–	–	–	–	–	(163)	33,658	33,495	15	33,510
Capital contribution from shareholders	30.1	776	–	–	3,429	–	–	–	–	4,205	–	4,205
Issuance of perpetual bonds	30.2	–	–	79,989	–	–	–	–	–	79,989	–	79,989
Dividends declared and paid to ordinary shareholders	33	–	–	–	–	–	–	–	(18,283)	(18,283)	–	(18,283)
Dividends declared and paid to preference shareholders	33	–	–	–	–	–	–	–	(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

Condensed Consolidated Statement of Changes In Equity

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

		Attributable to equity holders of the Bank										
			Other equity instruments			Other reserves						
	Notes	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	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
Net profit for the year		–	–	–	–	–	–	–	64,199	64,199	119	64,318
Other comprehensive income for the year	32.3	–	–	–	–	–	–	406	–	406	–	406
Total comprehensive income for the year		–	–	–	–	–	–	406	64,199	64,605	119	64,724
Capital contribution from shareholders	30.1	776	–	–	3,429	–	–	–	–	4,205	–	4,205
Issuance of perpetual bonds	30.2	–	–	79,989	–	–	–	–	–	79,989	–	79,989
Appropriation to surplus reserve	32.1	–	–	–	–	6,249	–	–	(6,249)	–	–	–
Appropriation to general reserve	32.2	–	–	–	–	–	13,942	–	(13,942)	–	–	–
Dividends declared and paid to ordinary shareholders	33	–	–	–	–	–	–	–	(18,283)	(18,283)	–	(18,283)
Dividends declared and paid to preference shareholders	33	–	–	–	–	–	–	–	(2,584)	(2,584)	–	(2,584)
As at December 31, 2020 (audited)		86,979	47,869	79,989	100,906	42,688	130,071	2,725	180,572	671,799	1,131	672,930

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Six-month period ended June 30	
	2021 (unaudited)	2020 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**45,751**	36,227
Adjustments for:		
Amortization of intangible assets and other assets	**481**	348
Depreciation of property and equipment, investment properties and right-of-use assets	**3,732**	3,542
Impairment loss on assets		
– Credit impairment losses	**29,454**	33,590
– Impairment losses on other assets	**8**	4
Interest income arising from financial investments	**(63,343)**	(62,285)
Interest expense arising from debt securities issued	**996**	1,875
Net gains on investment securities	**(12,534)**	(10,108)
Unrealized exchange losses/(gains)	**958**	(1,613)
Net losses from disposal of property and equipment and other assets	**16**	10
Subtotal	**5,519**	1,590
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	**(50,734)**	(10,436)
Deposits with banks and other financial institutions	**(7,607)**	(9,094)
Placements with banks and other financial institutions	**(9,616)**	(54,266)
Financial assets measured at fair value through profit or loss	**(22,347)**	(29,995)
Financial assets held under resale agreements	**(6,672)**	3,630
Loans and advances to customers	**(483,659)**	(513,709)
Other operating assets	**(13,030)**	(9,687)
Subtotal	**(593,665)**	(623,557)
NET (DECREASE)/INCREASE IN OPERATING LIABILITIES		
Borrowings from central bank	**(4,342)**	10,721
Deposits from banks and other financial institutions	**104,764**	22,557
Placements from banks and other financial institutions	**26,445**	23,808
Financial assets sold under repurchase agreements	**89,431**	18,712
Customer deposits	**557,477**	551,915
Other operating liabilities	**(2,532)**	(3,988)
Subtotal	**771,243**	623,725
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	**183,097**	1,758
Income tax paid	**(15,020)**	(12,687)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**168,077**	(10,929)
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**164,827**	141,834
Interest paid	**(89,620)**	(75,525)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

	Note	Six-month period ended June 30	
		2021 (unaudited)	2020 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of financial investments		**574,060**	405,978
Cash received from income arising from financial investments		**72,689**	68,870
Cash received from disposal of property and equipment, intangible assets and other long-term assets		**72**	96
Cash paid for purchase of financial investments		**(718,765)**	(664,420)
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		**(3,399)**	(2,038)
NET CASH USED IN INVESTING ACTIVITIES		**(75,343)**	(191,514)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of ordinary shares		**30,000**	4,203
Cash received from issuance of perpetual bonds		**30,000**	80,000
Cash received from issuance of debt securities		**5,409**	27,185
Cash paid for dividends and interests		**(3,854)**	(15,384)
Cash paid for issuance of perpetual bonds		**(3)**	(7)
Cash paid for issuance of ordinary shares		**(15)**	(1)
Cash paid for repayment of debt securities		**(7,170)**	(1,641)
Cash paid to repay principal and interest of lease liabilities		**(1,921)**	(1,953)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**52,446**	92,402
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(242)**	1,255
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**144,938**	(108,786)
Balance of cash and cash equivalents at the beginning of period		**335,526**	280,348
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	34	**480,464**	171,562

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

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

1 General information

Postal Savings Bank of China Co., Ltd. (the "Bank") 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 through restructuring of the postal savings system.

In 2011, with the approval from the Ministry of Finance of the People's Republic of China ("PRC", together with the Ministry of Finance, the "MOF") and China Banking and Insurance Regulatory Commission ("CBIRC"), the Bank was restructured into a joint-stock bank.

On September 28, 2016 and December 10, 2019, the Bank was listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange respectively. Information regarding the Bank's share issuance is set out in Note 30.

As at June 30, 2021, the Bank had 92,384 million common shares, at a face value of RMB1.00 per share.

The Bank, as approved by the CBIRC, holds a financial institution license of the PRC (No. B0018H111000001) and approved by 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.

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, 2021, the Bank had a total of 36 tier-one branches and 324 tier-two branches across China.

The information of the Bank's subsidiaries is set out in Note 19.

The condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on August 27, 2021.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "*Interim Financial Reporting*" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to 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 value.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month ended June 30, 2021 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2020.

Application of amendments to IFRSs

In the current period, the Group has applied the following mandatory amendments to IFRSs issued by the IASB, for the first time, which are effective for the annual period beginning on or after January 1, 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to IFRS 16	COVID-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform-Phase 2

Except as described below, the application of the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.2.1 Impacts on early application of Amendment to IFRS 16 "COVID-19-Related Rent Concessions beyond June, 30 2021"

The Group has early applied the amendment in the current period. The application of this amendment has had no material impact on the Group's financial positions and performance for the current and prior periods.

2.2 Significant accounting policies (continued)

2.2.2 Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

Accounting policies

Changes to the basis for determining the contractual cash flows as a result of interest rate benchmark reform.

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortized cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change to the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in IFRS 9 *Financial Instrument* on modification of a financial asset or a financial liability to the additional changes to which the practical expedient does not apply.

Transition and summary of effects

As at January 1, 2021, the Group has several financial assets, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. After assessment by the management of the Group, the application of the amendments has had no material impact on the Group's condensed consolidated financial statement.

2.3 Use of estimates and assumptions

The preparation of the condensed consolidated 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 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, 2020.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

3 Net interest income

		Six-month period ended June 30	
		2021	2020
Interest income			
Deposits with central bank		**9,456**	8,592
Deposits with banks and other financial institutions		**579**	427
Placements with banks and other financial institutions		**5,335**	6,251
Financial assets held under resale agreements		**2,735**	1,434
Loans and advances to customers		**139,479**	123,771
Including: Corporate loans and advances		**47,721**	45,119
Personal loans and advances	(1)	**91,758**	78,652
Financial investments			
Financial assets measured at fair value through other comprehensive income-debt instruments		**6,114**	4,652
Financial assets measured at amortized cost		**57,229**	57,633
Subtotal		**220,927**	202,760
Interest expense			
Borrowings from central bank		**(216)**	(38)
Deposits from banks and other financial institutions		**(570)**	(408)
Placements from banks and other financial institutions		**(581)**	(556)
Financial assets sold under repurchase agreements		**(832)**	(847)
Customer deposits		**(85,636)**	(74,644)
Debt securities issued		**(996)**	(1,875)
Subtotal		**(88,831)**	(78,368)
Net interest income		**132,096**	124,392

(1) According to requirement of the "*Notice on Strictly Implementing Accounting Standards for Business Enterprises and Practically Strengthening the Work of Enterprises' 2020 Annual Reports*" (關於嚴格執行企業會計準則切實加強企業2020年年報工作的通知) (Cai Kuai [2021] No. 2), the Group reclassified credit card installment fee income (Note 4) to "Interest income from personal loans and advances" during the six-month ended June 30, 2020, amounting to RMB1,438 million.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

4 Net fee and commission income

		Six-month period ended June 30	
		2021	2020
Agency service business	(1)	**9,949**	4,392
Bank cards business (Note 3)		**5,782**	5,516
Settlement and clearing	(2)	**4,620**	3,757
Wealth management		**2,122**	1,902
Custody business		**515**	412
Other		**1,047**	403
Fee and commission income		**24,035**	16,382
Fee and commission expense	(3)	**(12,606)**	(8,092)
Net fee and commission income		**11,429**	8,290

(1) Fee and commission 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 and commission 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 (Note 35.3.1(1)).

5 Net trading gains

	Six-month period ended June 30	
	2021	2020
Debt securities	**1,684**	1,775
Derivative financial instruments	**21**	(4)
Total	**1,705**	1,771

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

6 Net gains on investment securities

	Six-month period ended June 30	
	2021	2020
Net gain from financial assets measured at fair value through profit or loss	**11,939**	9,513
Net gain from financial assets measured at fair value through other comprehensive income	**641**	594
Total	**12,580**	10,107

7 Net other operating gains

	Six-month period ended June 30	
	2021	2020
Net (loss)/gain on foreign exchanges	**(581)**	1,394
Government subsidies	**334**	259
Leasing income	**69**	78
Other	**192**	193
Total	**14**	1,924

8 Operating expenses

		Six-month period ended June 30	
		2021	2020
Deposit agency fee and other (Note 35.3.1(1))		**43,428**	40,691
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	**24,572**	22,631
Depreciation and amortization		**4,213**	3,890
Taxes and surcharges	(2)	**1,257**	1,128
Other expenses	(3)	**9,095**	8,324
Total		**82,565**	76,664

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

8 Operating expenses (continued)

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

	Six-month period ended June 30	
	2021	2020
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	**16,585**	16,524
Housing funds	**1,862**	1,683
Social insurance	**1,428**	1,029
Including: Medical insurance	**1,357**	972
Maternity insurance	**36**	36
Work injury insurance	**35**	21
Staff welfare	**848**	739
Labour union funds and employee education funds	**441**	558
Other	**20**	11
Subtotal	**21,184**	20,544
Defined contribution plans		
Basic pensions	**2,317**	1,327
Annuity scheme	**983**	748
Unemployment insurance	**77**	1
Subtotal	**3,377**	2,076
Retirement benefits	**11**	11
Total	**24,572**	22,631

The retirement benefits are changes from actuarial of supplementary retirement benefits and early retirement benefits (Note 29(1)(iii)).

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

(3) For the six-month period ended June 30, 2021, the rental expenses of short-term leases and low value asset leases of unrecognized right-of-use assets included in other expenses was RMB355 million (for the six-month period ended June 30, 2020: RMB369 million).

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

9 Credit impairment losses

	Six-month period ended June 30	
	2021	2020
Deposits with banks and other financial institutions	**100**	–
Placements with banks and other financial institutions	**4,587**	(95)
Financial assets held under resale agreements	**1,370**	(570)
Loans and advances to customers	**15,886**	33,760
Financial investments		
Financial assets measured at fair value through other comprehensive income-debt instruments	**534**	124
Financial assets measured at amortized cost	**6,097**	(945)
Credit commitments	**273**	998
Other financial assets	**607**	318
Total	**29,454**	33,590

10 Income tax expenses

	Six-month period ended June 30	
	2021	2020
Current income tax	**9,089**	6,829
Deferred income tax (Note 21(1))	**(4,582)**	(4,275)
Total	**4,507**	2,554

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.

10 Income tax expenses (continued)

Reconciliation of income tax expenses and profits before income tax are as follow:

	Six-month period ended June 30	
	2021	2020
Profit before income tax	**45,751**	36,227
Income tax expenses calculated at the statutory tax rate of 25%	**11,438**	9,063
Tax effect of income with non-taxable and tax reduction for tax purpose	**(7,096)**	(6,627)
Tax effect of expenses not deductible for tax purpose	**165**	118
Income tax expenses	**4,507**	2,554

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 bonds issued by Ministry of Railways 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.

11 Basic and diluted earnings per share

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

	Six-month period ended June 30	
	2021	2020
Net profit attributable to equity holders of the Bank	**41,010**	33,658
Less: Net profit for the period attribute to preference shareholders of the Bank	**2,324**	2,584
Net profit for the period attribute to perpetual bond holders of the Bank	**2,952**	–
Net profit attributable to ordinary shareholders of the Bank	**35,734**	31,074
Weighted average number of ordinary shares in issue (in millions)	**89,681**	86,849
Basic and diluted earnings per share (in RMB Yuan)	**0.40**	0.36

The Bank issued non-cumulative preference shares in 2017. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not exist for the six-month period ended June 30, 2021 and 2020, respectively. Accordingly, there were no potential dilutive ordinary shares and the diluted earnings per share were the same as the basic earnings per share.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

12 Cash and deposits with central bank

		As at June 30, 2021	As at December 31, 2020
Cash		**44,718**	50,056
Statutory reserve with central bank	(1)	**1,179,321**	1,131,795
Surplus reserve with central bank	(2)	**16,284**	31,899
Fiscal deposits with central bank		**9,292**	6,112
Total		**1,249,615**	1,219,862

(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, 2021, the ratio for RMB deposits statutory reserve was 11.00% (December 31, 2020: 11.00%), whereas the ratio for foreign currency deposits was 7.00% (December 31, 2020: 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, 2021	As at December 31, 2020
Deposits with domestic banks	**46,090**	40,091
Deposits with other domestic financial institutions	**693**	173
Deposits with overseas banks	**3,291**	3,491
Gross amount	**50,074**	43,755
Allowance for impairment loss	**(173)**	(73)
Carrying amount	**49,901**	43,682

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

14 Placements with banks and other financial institutions

	As at June 30, 2021	As at December 31, 2020
Placements with domestic banks	**17,332**	8,791
Placements with other domestic financial institutions	**252,003**	240,189
Placements with overseas banks	**497**	299
Gross amount	**269,832**	249,279
Allowance for impairment loss	**(5,470)**	(883)
Carrying amount	**264,362**	248,396

15 Derivative financial assets and liabilities

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

The contractual/notional amount and fair value 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 value 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 value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates, or foreign exchange rates relative to their terms. The aggregate fair value of derivative financial assets and liabilities can fluctuate significantly over different periods.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

15 Derivative financial assets and liabilities (continued)

By types of contracts:

	As at June 30, 2021			As at December 31, 2020		
	Contractual/ Notional amounts	Assets	Liabilities	Contractual/ Notional amounts	Assets	Liabilities
Exchange rate contracts	**440,895**	**6,138**	**(5,522)**	433,998	10,438	(8,959)
Interest rate contracts	**192,107**	**623**	**(574)**	154,117	702	(673)
Precious metal contracts	**1,082**	**59**	**(9)**	–	–	–
Total	**634,084**	**6,820**	**(6,105)**	588,115	11,140	(9,632)

Analyzed by credit risk-weighted amount for counterparty:

	As at June 30, 2021	As at December 31, 2020
Credit risk-weighted amount		
Exchange rate contracts	**5,411**	5,852
Interest rate contracts	**1**	1
Precious metal contracts	**21**	–
Subtotal	**5,433**	5,853
Credit value adjustments	**3,191**	3,800
Central counterparties risk-weighted amount	**174**	239
Total	**8,798**	9,892

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "*Capital Rules for Commercial Banks (Provisional)*" issued by the CBIRC which was effective from 1 January 2013 and "*Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives*" issued by the CBIRC which was effective from 1 January 2019, and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract.

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

16 Financial assets held under resale agreements

Analyzed by type of collateral:

	As at June 30, 2021	As at December 31, 2020
Debt securities	**330,674**	205,824
Bills	**92,707**	55,252
Gross amount	**423,381**	261,076
Allowance for impairment loss	**(2,490)**	(1,120)
Carrying amount	**420,891**	259,956

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 37.4 Contingent liabilities and commitments – Collateral". As at June 30, 2021 and December 31, 2020, the Group did not have any netting agreements or similar arrangements with counterparties.

17 Loans and advances to customers

17.1 Loans and advances to customers by type

		As at June 30, 2021	As at December 31, 2020
Loans and advances to customers			
– Measured at amortized cost	(1)	**5,375,421**	4,901,887
– Measured at fair value through other comprehensive income	(2)	**602,548**	610,474
Total		**5,977,969**	5,512,361

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2021 (All amounts in millions of RMB unless otherwise stated)

17.1 Loans and advances to customers by type (continued)

(1) Loans and advances to customers at amortized cost

	As at June 30, 2021	As at December 31, 2020
Corporate loans and advances		
– Loans	**1,996,683**	1,826,416
– Discounted bills	**35,223**	25,475
Subtotal	**2,031,906**	1,851,891
Personal loans and advances		
Consumer loans	**2,522,968**	2,363,000
– Residential mortgage loans	**2,040,828**	1,921,055
– Other consumer loans	**482,140**	441,945
Personal micro loans	**879,578**	746,252
Credit cards overdrafts and other	**155,400**	144,641
Subtotal	**3,557,946**	3,253,893
Gross loans and advances to customers measured at amortized cost	**5,589,852**	5,105,784
Less: Allowance for impairment loss of loans and advances to customers at amortized cost		
– Stage 1	**159,125**	148,428
– Stage 2	**10,797**	12,003
– Stage 3	**44,509**	43,466
Net loans and advances to customers measured at amortized cost	**5,375,421**	4,901,887

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17.1 Loans and advances to customers by type (continued)

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

	As at June 30, 2021	As at December 31, 2020
Corporate loans and advances		
– Loans	**162,913**	151,369
– Discounted bills	**439,635**	459,105
Loans and advances to customers measured at fair value through other comprehensive income	**602,548**	610,474

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 40.3.4.

17.3 Loans and advances to customers by allowance for impairment loss

	As at June 30, 2021			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortized cost	**5,509,099**	**29,863**	**50,890**	**5,589,852**
Allowance for impairment loss of loans and advances to customers measured at amortized cost	**(159,125)**	**(10,797)**	**(44,509)**	**(214,431)**
Net loans and advances to customers measured at amortized cost	**5,349,974**	**19,066**	**6,381**	**5,375,421**
Gross loans and advances to customers measured at fair value through other comprehensive income	**602,337**	**201**	**10**	**602,548**
Allowance for impairment loss of loans and advances to customers measured at fair value through other comprehensive income	**(1,291)**	**(2)**	**(10)**	**(1,303)**

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17.3 Loans and advances to customers by allowance for impairment loss (continued)

	As at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers measured at amortized cost	5,022,263	33,148	50,373	5,105,784
Allowance for impairment loss of loans and advances to customers measured at amortized cost	(148,428)	(12,003)	(43,466)	(203,897)
Net loans and advances to customers measured at amortized cost	4,873,835	21,145	6,907	4,901,887
Gross loans and advances to customers measured at fair value through other comprehensive income	609,857	607	10	610,474
Allowance for impairment losses of loans and advances to customers measured at fair value through other comprehensive income	(1,609)	(11)	(10)	(1,630)

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17.4 The following tables illustrate the changes in the gross carrying amount of loans and advances to customers:

(1) Corporate loans and advances to customers measured at amortized cost

Corporate loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2021	**1,810,474**	**22,768**	**18,649**	**1,851,891**
Transfers:				
Transfer to stage 1	**2,442**	**(2,439)**	**(3)**	**–**
Transfer to stage 2	**(6,913)**	**6,935**	**(22)**	**–**
Transfer to stage 3	**(1,834)**	**(1,771)**	**3,605**	**–**
Financial assets derecognized or settled during the period	**(470,300)**	**(7,734)**	**(1,830)**	**(479,864)**
New financial assets originated or purchased	**661,144**	**–**	**–**	**661,144**
Write-offs	**–**	**–**	**(1,265)**	**(1,265)**
Gross carrying amount as at June 30, 2021	**1,995,013**	**17,759**	**19,134**	**2,031,906**

Corporate loans and advances to customers measured at amortized cost	Year ended December 31, 2020 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	410	(409)	(1)	–
Transfer to stage 2	(15,255)	15,268	(13)	–
Transfer to stage 3	(4,681)	(7,586)	12,267	–
Financial assets derecognized or settled during the period	(906,422)	(12,329)	(6,789)	(925,540)
New financial assets originated or purchased	1,044,907	–	–	1,044,907
Write-offs	–	–	(3,359)	(3,359)
Gross carrying amount as at December 31, 2020	1,810,474	22,768	18,649	1,851,891

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17.4 The following tables illustrate the changes in the gross carrying amount of loans and advances to customers (continued)

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

Personal loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2021	**3,211,789**	**10,380**	**31,724**	**3,253,893**
Transfers:				
Transfer to stage 1	**1,836**	**(1,648)**	**(188)**	**–**
Transfer to stage 2	**(10,231)**	**10,256**	**(25)**	**–**
Transfer to stage 3	**(8,477)**	**(3,064)**	**11,541**	**–**
Financial assets derecognized or settled during the period	**(705,437)**	**(3,820)**	**(6,996)**	**(716,253)**
New financial assets originated or purchased	**1,024,606**	**–**	**–**	**1,024,606**
Write-offs	**–**	**–**	**(4,300)**	**(4,300)**
Gross carrying amount as at June 30, 2021	**3,514,086**	**12,104**	**31,756**	**3,557,946**

Personal loans and advances to customers measured at amortized cost	Year ended December 31, 2020 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	1,435	(1,098)	(337)	–
Transfer to stage 2	(8,829)	8,859	(30)	–
Transfer to stage 3	(19,705)	(2,896)	22,601	–
Financial assets derecognized or settled during the period	(867,939)	(4,072)	(6,480)	(878,491)
New financial assets originated or purchased	1,392,958	–	–	1,392,958
Write-offs	–	–	(11,362)	(11,362)
Gross carrying amount as at December 31, 2020	3,211,789	10,380	31,724	3,253,893

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17.4 The following tables illustrate the changes in the gross carrying amount of loans and advances to customers (continued)

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

Loans and advances to customers measured at fair value through other comprehensive income	Six-month period ended June 30, 2021 Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
Gross carrying amount as at January 1, 2021	**609,857**	**607**	**10**	**610,474**
Transfers:				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(131)**	**131**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(435,305)**	**(537)**	**–**	**(435,842)**
New financial assets originated or purchased	**427,916**	**–**	**–**	**427,916**
Write-offs	**–**	**–**	**–**	**–**
Gross carrying amount as at June 30, 2021	**602,337**	**201**	**10**	**602,548**

Loans and advances to customers measured at fair value through other comprehensive income	Year ended December 31, 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	(607)	607	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(483,981)	(3,336)	(188)	(487,505)
New financial assets originated or purchased	610,464	–	–	610,464
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2020	609,857	607	10	610,474

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17.5 The following tables illustrate the changes in the loss allowance of loans and advances to customers:

(1) Corporate loans and advances to customers measured at amortized cost

Corporate loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**80,519**	**8,052**	**16,946**	**105,517**
Transfers:				
Transfer to stage 1	**1,382**	**(1,380)**	**(2)**	**–**
Transfer to stage 2	**(657)**	**675**	**(18)**	**–**
Transfer to stage 3	**(560)**	**(407)**	**967**	**–**
Changes of ECL arising from transfer of stages	**(1,201)**	**682**	**1,824**	**1,305**
Financial assets derecognized or settled during the period	**(20,129)**	**(1,009)**	**(1,449)**	**(22,587)**
New financial assets originated or purchased	**29,796**	**–**	**–**	**29,796**
Remeasurement	**(3,087)**	**(373)**	**759**	**(2,701)**
Write-offs	**–**	**–**	**(1,265)**	**(1,265)**
Loss allowance as at June 30, 2021	**86,063**	**6,240**	**17,762**	**110,065**

Corporate loans and advances to customers measured at amortized cost	Year ended December 31, 2020 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
Transfers:				
Transfer to stage 1	200	(199)	(1)	–
Transfer to stage 2	(2,123)	2,132	(9)	–
Transfer to stage 3	(2,880)	(4,245)	7,125	–
Changes of ECL arising from transfer of stages	(174)	1,230	3,208	4,264
Financial assets derecognized or settled during the period	(22,895)	(1,377)	(5,306)	(29,578)
New financial assets originated or purchased	51,851	–	–	51,851
Remeasurement	(10,565)	341	(14)	(10,238)
Write-offs	–	–	(3,359)	(3,359)
Loss allowance as at December 31, 2020	80,519	8,052	16,946	105,517

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17.5 The following tables illustrate the changes in the loss allowance of loans and advances to customers (continued)

(2) Personal loans and advances to customers measured at amortized cost

Personal loans and advances to customers measured at amortized cost	Six-month period ended June 30, 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**67,909**	**3,951**	**26,520**	**98,380**
Transfers:				
Transfer to stage 1	**812**	**(676)**	**(136)**	**–**
Transfer to stage 2	**(1,103)**	**1,121**	**(18)**	**–**
Transfer to stage 3	**(1,428)**	**(1,496)**	**2,924**	**–**
Changes of ECL arising from transfer of stage	**(714)**	**2,783**	**5,168**	**7,237**
Financial assets derecognized or settled during the period	**(17,819)**	**(1,096)**	**(5,170)**	**(24,085)**
New financial assets originated or purchased	**26,486**	**–**	**–**	**26,486**
Remeasurement	**(1,081)**	**(30)**	**1,759**	**648**
Write-offs	**–**	**–**	**(4,300)**	**(4,300)**
Loss allowance as at June 30, 2021	**73,062**	**4,557**	**26,747**	**104,366**

Personal loans and advances to customers measured at amortized cost	Year ended December 31, 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
Transfers:				
Transfer to stage 1	661	(431)	(230)	–
Transfer to stage 2	(1,405)	1,429	(24)	–
Transfer to stage 3	(3,623)	(1,242)	4,865	–
Changes of ECL arising from transfer of stage	(625)	2,184	11,788	13,347
Financial assets derecognized or settled during the period	(14,818)	(867)	(3,235)	(18,920)
New financial assets originated or purchased	37,423	–	–	37,423
Remeasurement	2,703	(53)	1,695	4,345
Write-offs	–	–	(11,362)	(11,362)
Loss allowance as at December 31, 2020	67,909	3,951	26,520	98,380

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17.5 The following tables illustrate the changes in the loss allowance of loans and advances to customers (continued)

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

Loans and advances to customers measured at fair value through other comprehensive income	Six-month period ended June 30, 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**1,609**	**11**	**10**	**1,630**
Transfers:				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(1)**	**1**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Changes of ECL arising from transfer of stages	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(1,034)**	**(10)**	**–**	**(1,044)**
New financial assets originated or purchased	**726**	**–**	**–**	**726**
Remeasurement	**(9)**	**–**	**–**	**(9)**
Write-offs	**–**	**–**	**–**	**–**
Loss allowance as at June 30, 2021	**1,291**	**2**	**10**	**1,303**

Loans and advances to customers measured at fair value through other comprehensive income	Year ended December 31, 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
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(11)	11	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(646)	(44)	(30)	(720)
New financial assets originated or purchased	847	–	–	847
Remeasurement	773	–	–	773
Write-offs	–	–	–	–
Loss allowance as at December 31, 2020	1,609	11	10	1,630

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18 Financial investments

18.1 Financial assets measured at fair value through profit or loss

	As at June 30, 2021	As at December 31, 2020
Debt securities		
– Listed in Hong Kong	**702**	823
– Listed outside Hong Kong	**78,010**	75,530
Subtotal	**78,712**	76,353
Interbank certificates of deposits		
– Listed outside Hong Kong	**70,850**	46,948
– Unlisted	**8,220**	7,055
Subtotal	**79,070**	54,003
Asset-backed securities		
– Listed outside Hong Kong	**28**	301
Fund investments		
– Unlisted	**279,811**	236,389
Trust investment plans and asset management plans		
– Unlisted	**56,587**	50,693
Wealth management products issued by financial institutions		
– Unlisted	**–**	493
Equity instruments		
– Listed outside Hong Kong	**63**	12
– Unlisted	**1,205**	1,037
Subtotal	**1,268**	1,049
Total	**495,476**	419,281

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

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

Analyzed by types of issuers:

	As at June 30, 2021	As at December 31, 2020
Debt securities		
– Government	**621**	1,189
– Financial institutions	**46,964**	46,578
– Corporates	**31,127**	28,586
Subtotal	**78,712**	76,353
Interbank certificates of deposits		
– Financial institutions	**79,070**	54,003
Asset-backed securities		
– Financial institutions	**28**	301
Fund investments		
– Financial institutions	**279,811**	236,389
Trust investment plans and asset management plans		
– Financial institutions	**56,587**	50,693
Wealth management products issued by financial institutions		
– Financial institutions	**–**	493
Equity instruments		
– Financial institutions	**14**	14
– Corporates	**1,254**	1,035
Subtotal	**1,268**	1,049
Total	**495,476**	419,281

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

	As at June 30, 2021	As at December 31, 2020
Debt securities		
– Listed in Hong Kong	**5,348**	6,064
– Listed outside Hong Kong	**361,849**	305,200
Subtotal	**367,197**	311,264
Interbank certificates of deposits		
– Listed outside Hong Kong	**347**	719
Debt financing plans		
– Unlisted	**4,132**	3,939
Total	**371,676**	315,922

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

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18.2 Financial assets measured at fair value through other comprehensive income-debt instruments (continuted)

Analyzed by types of issuers:

	As at June 30, 2021	As at December 31, 2020
Debt securities		
– Government	**97,394**	59,577
– Financial institutions	**213,606**	203,253
– Corporates	**56,197**	48,434
Subtotal	**367,197**	311,264
Interbank certificates of deposits		
– Financial institutions	**347**	719
Debt financing plans		
– Corporates	**4,132**	3,939
Total	**371,676**	315,922

For the six-month period ended June 30, 2021 and the year ended December 31, 2020, there was no significant change of loss allowance arising from transfer of stages for the Group's financial assets measured at fair value through other comprehensive income-debt instruments. The main reasons for the movement in the loss allowance were originates or purchases, derecognition or settlement. As at June 30, 2021, the allowance for impairment losses of the Group's financial assets measured at fair value through other comprehensive income-debt instruments was RMB1,061 million (As at December 31, 2020: RMB526 million).

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

	As at June 30, 2021	As at December 31, 2020
Equity instruments		
– Listed outside Hong Kong	**4,251**	4,251
– Unlisted	**2,053**	1,553
Total	**6,304**	5,804

Analyzed by types of issuers:

	As at June 30, 2021	As at December 31, 2020
Equity instruments		
– Financial institutions	**2,053**	1,553
– Corporates	**4,251**	4,251
Total	**6,304**	5,804

The Group designates part of non-trading equity investments as financial assets measured at fair value through other comprehensive income-equity instruments. During the six-month period ended June 30, 2021 and 2020, the Group did not recognize any dividend income for such equity investments. During the six-month period ended June 30, 2021 and the year ended December 31, 2020, the Group did not dispose of any such equity investments.

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18.4 Financial assets measured at amortized cost

		As at June 30, 2021	As at December 31, 2020
Debt securities			
– Listed in Hong Kong		**38,853**	38,395
– Listed outside Hong Kong		**2,203,208**	2,076,861
– Unlisted	(1)	**541,431**	661,376
Subtotal		**2,783,492**	2,776,632
Interbank certificates of deposits			
– Listed outside Hong Kong		**217,077**	179,904
Asset-backed securities			
– Listed outside Hong Kong		**136,471**	119,803
– Unlisted		**21,696**	25,360
Subtotal		**158,167**	145,163
Debt financing plans			
– Unlisted		**3,940**	406
Other debt instruments			
– Unlisted	(2)	**72,641**	92,025
Gross amount		**3,235,317**	3,194,130
Allowance for impairment losses		**(26,605)**	(20,487)
Carrying amount		**3,208,712**	3,173,643

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

(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 7 to 20 years. As at June 30, 2021, the carrying amount of these special financial bonds was RMB514,581 million (December 31, 2020: RMB514,475 million).

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

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18.4 Financial assets measured at amortized cost (continued)

Analyzed by types of issuers:

	As at June 30, 2021	As at December 31, 2020
Debt securities		
– Government	**1,112,047**	1,069,157
– Financial institutions	**1,555,725**	1,586,139
– Corporates	**115,720**	121,336
Subtotal	**2,783,492**	2,776,632
Interbank certificates of deposits		
– Financial institutions	**217,077**	179,904
Asset-backed securities		
– Financial institutions	**158,167**	145,163
Debt financing plans		
– Corporates	**3,940**	406
Other debt instruments		
– Financial institutions	**72,641**	92,025
Gross amount	**3,235,317**	3,194,130
Allowance for impairment losses	**(26,605)**	(20,487)
Carrying amount	**3,208,712**	3,173,643

For the six-month period ended June 30, 2021 and the year ended December 31, 2020, there was no significant change of loss allowance arising from transfer of stages for the Group's financial assets measured at amortized cost. The main reasons for the changes in the loss allowance were originates or purchases, derecognition or settlement.

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18.4 Financial assets measured at amortized cost (continued)

The following tables explain the changes in the loss allowance of financial assets measured at amortized cost:

	Six-month period ended June 30, 2021			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2021	**3,784**	**3,723**	**12,980**	**20,487**
Transfers:				
Transfer to stage 1	**34**	**(34)**	**–**	**–**
Transfer to stage 2	**–**	**–**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Changes of ECL arising from transfer of stage	**(32)**	**–**	**–**	**(32)**
Financial assets derecognized or settled during the period	**(1,424)**	**(223)**	**(135)**	**(1,782)**
New financial assets originated or purchased	**2,001**	**–**	**–**	**2,001**
Remeasurement	**1,579**	**4,297**	**34**	**5,910**
Exchange rate changes and other	**(1)**	**–**	**22**	**21**
Loss allowance as at June 30, 2021	**5,941**	**7,763**	**12,901**	**26,605**

	Year ended December 31, 2020			
Financial assets measured at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	2,616	9,486	12,898	25,000
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(46)	46	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	89	–	89
Financial assets derecognized or settled during the period	(1,465)	(2,539)	(26)	(4,030)
New financial assets originated or purchased	2,706	–	–	2,706
Remeasurement	(18)	(3,359)	60	(3,317)
Exchange rate changes and other	(9)	–	48	39
Loss allowance as at December 31, 2020	3,784	3,723	12,980	20,487

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19 Investment in subsidiaries

The entities in consolidation scope are mainly subsidiaries established by the Bank.

The Bank	As at June 30, 2021	As at December 31, 2020
Investment cost	**10,115**	10,115

Name of entities		Place of incorporation	Authorized/ paid-in capital RMB	Nature of business	Percentage of equity interest	Proportion of voting rights	Year of establishment
PSBC Consumer Finance Co., Ltd.	(1)	Guangzhou, Guangdong Province, PRC	3 billion	Consumer finance	70.50%	70.50%	2015
PSBC Wealth Management Co., Ltd.	(2)	Beijing, PRC	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 following RMB business: granting personal consumer loans; accepting deposits from domestic shareholders and their domestic subsidiaries; borrowing from domestic financial institutions; authorized issuance of financial bonds; placements with/from domestic 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, 2021, the Bank owns 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2020: 70.50%).

(2) On December 18, 2019, the Bank established PSBC Wealth Management Co., Ltd. ("PSBC Wealth Management"), which is wholly-owned by the Bank, according to the CBIRC's approval issued on December 3, 2019. The business scope of PSBC Wealth Management are: public issuing wealth management products to unspecified general investors, carrying out investment and management of properties entrusted by investors; non-public issuing wealth management products to eligible investors, carrying out investment and management of assets entrusted by investors; financial advising and consulting services in relation to wealth management; and other businesses as approved by CBIRC.

As at June 30, 2021, the Bank owns 100.00% in the equity interest and voting rights of PSBC Wealth Management (December 31, 2020: 100.00%).

(3) On July 9, 2020, under the approval of the Board of Directors, the Bank decided to establish a wholly owned direct banking subsidiary, YOU+ BANK. The Bank received the approval issued by CBIRC on December 18, 2020 for the establishment of the subsidiary. On January 22, 2021, the Bank transferred RMB5 billion to YOU+ BANK (equivalent to paid-in capital). As at June 30, 2021, the business of YOU+ BANK has not yet launched and is subject to formal approval of relevant regulatory authorities. The capital injection from the Bank is presented in other assets.

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20 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and other	Construction in progress	Total
Cost						
As at January 1, 2021	53,413	9,944	1,206	4,433	11,628	80,624
Additions	161	158	147	80	2,006	2,552
Transfer from construction in progress	959	25	–	22	(1,006)	–
Disposals	(39)	(389)	(37)	(182)	(68)	(715)
As at June 30, 2021	54,494	9,738	1,316	4,353	12,560	82,461
Accumulated depreciation						
As at January 1, 2021	(19,339)	(8,436)	(949)	(3,194)	–	(31,918)
Charge for the period	(1,333)	(306)	(43)	(140)	–	(1,822)
Disposals	5	370	35	154	–	564
As at June 30, 2021	(20,667)	(8,372)	(957)	(3,180)	–	(33,176)
Carrying amount						
As at January 1, 2021	34,074	1,508	257	1,239	11,628	48,706
As at June 30, 2021	33,827	1,366	359	1,173	12,560	49,285

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20 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and other	Construction in progress	Total
Cost						
As at January 1, 2020	48,191	10,493	1,243	4,597	11,765	76,289
Additions	285	638	179	298	4,924	6,324
Transfer from investment properties	1,083	–	–	–	–	1,083
Transfer from construction in progress	4,175	81	–	59	(4,315)	–
Disposals	(321)	(1,268)	(216)	(521)	(746)	(3,072)
As at December 31, 2020	53,413	9,944	1,206	4,433	11,628	80,624
Accumulated depreciation						
As at January 1, 2020	(16,393)	(8,914)	(1,112)	(3,380)	–	(29,799)
Charge for the year	(2,503)	(618)	(44)	(302)	–	(3,467)
Transfer from investment properties	(636)	–	–	–	–	(636)
Disposals	193	1,096	207	488	–	1,984
As at December 31, 2020	(19,339)	(8,436)	(949)	(3,194)	–	(31,918)
Carrying amount						
As at January 1, 2020	31,798	1,579	131	1,217	11,765	46,490
As at December 31, 2020	34,074	1,508	257	1,239	11,628	48,706

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 are still in the process of renewing ownership certificates, with cost amounted to RMB1,025 million as at June 30, 2021 (December 31, 2020: RMB1,026 million), while net book value amounted to RMB390 million as at June 30, 2021 (December 31, 2020: RMB415 million).

As at June 30, 2021, the Group was still in the process of obtaining ownership certificates of certain properties other than those contributed from China Post Group, with cost amounted to RMB2,881 million (December 31, 2020: RMB3,889 million), while net book value of RMB2,360 million (December 31, 2020: RMB3,366 million).

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

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

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21 Deferred taxes

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, 2021	As at December 31, 2020
Deferred tax assets	**57,531**	53,217

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

	Allowance for impairment loss	Staff cost accrued but not paid	Fair value changes of financial assets	Provisions	Contract liabilities and others	Total
As at January 1, 2021	**49,327**	**1,645**	**(3)**	**1,765**	**483**	**53,217**
Charge to profit or loss (Note 10)	**5,945**	**330**	**(1,718)**	**(5)**	**30**	**4,582**
Charge to other comprehensive income	**(52)**	**–**	**(216)**	**–**	**–**	**(268)**
As at June 30, 2021	**55,220**	**1,975**	**(1,937)**	**1,760**	**513**	**57,531**
As at January 1, 2020	41,390	1,244	2,362	1,850	391	47,237
Charge to profit or loss (Note 10)	8,196	401	(2,481)	(85)	92	6,123
Charge to other comprehensive income	(259)	–	116	–	–	(143)
As at December 31, 2020	49,327	1,645	(3)	1,765	483	53,217

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21 Deferred taxes (continued)

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

	As at June 30, 2021		As at December 31, 2020	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment loss	**220,880**	**55,220**	197,308	49,327
Provisions	**7,042**	**1,760**	7,060	1,765
Fair value changes of financial assets	**401**	**100**	3,520	880
Staff cost accrued but not paid	**7,899**	**1,975**	6,580	1,645
Contract liabilities and other	**2,385**	**596**	2,256	564
Total	**238,607**	**59,651**	216,724	54,181
Deferred tax liabilities				
Fair value changes of financial assets	**(8,148)**	**(2,037)**	(3,532)	(883)
Other	**(333)**	**(83)**	(324)	(81)
Total	**(8,481)**	**(2,120)**	(3,856)	(964)
Net value	**230,126**	**57,531**	212,868	53,217

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22 Other assets

		As at June 30, 2021	As at December 31, 2020
Right-of-use assets	(1)	**12,631**	12,325
Amounts pending for settlement and clearing		**9,126**	9,039
Other accounts receivable		**6,897**	1,687
Receivable of fee and commission		**5,732**	3,679
Prepaid investment (Note 19(3))		**5,000**	–
Interest receivable		**4,629**	3,582
Continuing involvement assets (Note 38.2)		**4,070**	2,871
Prepaid expenses		**3,126**	2,058
Intangible assets		**2,187**	2,307
Deferred expenses		**1,489**	1,289
Low-value consumables		**358**	431
Foreclosed assets		**240**	234
Investment properties		**43**	45
Other		**4,065**	2,635
Gross amount		**59,593**	42,182
Allowance for impairment loss		**(1,084)**	(889)
Net value		**58,509**	41,293

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(1) Right-of-use assets

	Properties	Land use rights	Total
Cost			
As at January 1, 2021	**15,971**	**2,613**	**18,584**
Additions	**2,635**	**1**	**2,636**
Decrease	**(1,497)**	**–**	**(1,497)**
As at June 30, 2021	**17,109**	**2,614**	**19,723**
Accumulated depreciation/amortization			
As at January 1, 2021	**(5,611)**	**(648)**	**(6,259)**
Additions	**(1,881)**	**(31)**	**(1,912)**
Decrease	**1,079**	**–**	**1,079**
As at June 30, 2021	**(6,413)**	**(679)**	**(7,092)**
Carrying value			
As at January 1, 2021	**10,360**	**1,965**	**12,325**
As at June 30, 2021	**10,696**	**1,935**	**12,631**

	Properties	Land use rights	Total
Cost			
As at January 1, 2020	12,259	2,270	14,529
Additions	5,055	343	5,398
Decrease	(1,343)	–	(1,343)
As at December 31, 2020	15,971	2,613	18,584
Accumulated depreciation/amortization			
As at January 1, 2020	(2,799)	(585)	(3,384)
Additions	(3,659)	(63)	(3,722)
Decrease	847	–	847
As at December 31, 2020	(5,611)	(648)	(6,259)
Carrying value			
As at January 1, 2020	9,460	1,685	11,145
As at December 31, 2020	10,360	1,965	12,325

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23 Borrowings from central bank

	As at June 30, 2021	As at December 31, 2020
Borrowings from central bank	**20,951**	25,288

As at June 30, 2021, borrowings from central bank were special central bank lendings carried out by the Bank and PBOC.

24 Deposits from banks and other financial institutions

	As at June 30, 2021	As at December 31, 2020
Deposits from domestic banks	**140,172**	21,099
Deposits from other domestic financial institutions	**50,541**	64,813
Total	**190,713**	85,912

25 Placements from banks and other financial institutions

	As at June 30, 2021	As at December 31, 2020
Placements from domestic banks	**44,681**	26,723
Placements from overseas banks	**12,591**	4,020
Total	**57,272**	30,743

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26 Financial assets sold under repurchase agreements

	As at June 30, 2021	As at December 31, 2020
Analyzed by type of collateral:		
Debt securities	**84,767**	2,573
Bills	**29,826**	22,561
Total	**114,593**	25,134

The collateral pledged under repurchase agreement is disclosed in "Note 37.4 Contingent liabilities and commitments – Collateral".

27 Customer deposits

	As at June 30, 2021	As at December 31, 2020
Demand deposits		
Corporates	**951,277**	874,155
Personal	**2,767,538**	2,893,163
Subtotal	**3,718,815**	3,767,318
Time deposits		
Corporates	**402,583**	385,694
Personal	**6,788,049**	6,202,401
Subtotal	**7,190,632**	6,588,095
Other deposits	**4,120**	2,616
Total	**10,913,567**	10,358,029

As at June 30, 2021, customer deposits received by the Group included pledged deposits of RMB42,538 million (December 31, 2020: RMB39,020 million).

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28 Debt securities issued

		As at June 30, 2021	As at December 31, 2020
Debt securities issued		**50,875**	50,835
Including: 10-year tier-2 capital bonds at a fixed interest rate (issued in October, 2016)	(1)	**30,646**	30,154
10-year tier-2 capital bonds at a fixed interest rate (issued in March, 2017)	(2)	**20,229**	20,681
Interbank certificates of deposits	(3)	**5,434**	7,139
Total		**56,309**	57,974

(1) In October 2016, upon the approval from CBIRC and PBOC, the Group issued RMB30 billion of 10-year tier-2 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.

(2) In March 2017, upon the approval from CBIRC and PBOC, the Group issued RMB20 billion of 10-year tier-2 capital bonds at a fixed 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-2 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-2 capital bonds meet the relevant criteria of CBIRC and are qualified as tier-2 capital instruments.

(3) During the six-month period ended June 30, 2021, the Group issued interbank certificates of deposit with the total carrying amount of RMB5.48 billion (for the year ended 2020: RMB59.47 billion) with an original maturity of 6 months, with interest rate of 2.60% (2020: with original maturity of 1 to 12 months, with interest rates ranging from 1.33% to 3.05%). As at June 30, 2021, the outstanding interbank certificates of deposit amounted RMB5.48 billion (As at December 31, 2020: RMB7.17 billion).

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29 Other liabilities

		As at June 30, 2021	As at December 31, 2020
Dividends payable		**21,638**	–
Payables for agency services		**18,533**	15,704
Employee benefits payable	(1)	**12,929**	15,615
Provisions	(2)	**11,753**	11,498
Lease liabilities	(3)	**9,740**	9,278
Income taxes payable		**4,551**	10,482
Sundry taxes payable		**4,357**	4,153
Continuing involved liabilities (Note 38.2)		**4,070**	2,871
Amount pending for settlement and clearing		**2,779**	1,457
Payables to China Post Group and other related parties (Note 35.3.1(9))		**1,944**	2,118
Contract liabilities		**1,876**	1,746
Dormant accounts		**1,840**	1,998
Payable for construction cost		**1,072**	1,151
Exchange transaction payables		**817**	939
Other		**9,257**	8,611
Total		**107,156**	87,621

(1) Employee benefits payable

		As at June 30, 2021	As at December 31, 2020
Short-term employee benefits	(i)	**11,792**	14,339
Defined contribution benefits	(ii)	**506**	640
Supplementary retirement benefits and early retirement benefits	(iii)	**631**	636
Total		**12,929**	15,615

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(1) Employee benefits payable (continued)

(i) Short-term employee benefits

	Six-month period ended June 30, 2021			
	Balance at the beginning of the period	Charge for the current period	Payment in current period	Balance at at the end of the period
Wages and salaries, bonus, allowance and subsidies	**12,697**	**16,585**	**(19,290)**	**9,992**
Staff welfare	**–**	**848**	**(848)**	**–**
Social security contributions	**133**	**1,428**	**(1,346)**	**215**
Including: Medical insurance	**124**	**1,357**	**(1,278)**	**203**
Maternity insurance	**8**	**36**	**(36)**	**8**
Work injury insurance	**1**	**35**	**(32)**	**4**
Housing funds	**14**	**1,862**	**(1,842)**	**34**
Labour union funds and employee education funds	**1,495**	**441**	**(385)**	**1,551**
Other	**–**	**20**	**(20)**	**–**
Total	**14,339**	**21,184**	**(23,731)**	**11,792**

	Year ended December 31, 2020			
	Balance at the beginning of the year	Charge for the current year	Payment in current year	Balance at at the end of the year
Wages and salaries, bonus, allowance and subsidies	10,459	36,873	(34,635)	12,697
Staff welfare	–	2,258	(2,258)	–
Social security contributions	91	2,453	(2,411)	133
Including: Medical insurance	88	2,324	(2,288)	124
Maternity insurance	2	81	(75)	8
Work injury insurance	1	48	(48)	1
Housing funds	14	3,537	(3,537)	14
Labour union funds and employee education funds	1,543	1,041	(1,089)	1,495
Others	–	36	(36)	–
Total	12,107	46,198	(43,966)	14,339

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(1) Employee benefits payable (continued)

(ii) Defined contribution benefits

	Six-month period ended June 30, 2021			
	Balance at the beginning of the period	Charge for the current period	Payment in current period	Balance at at the end of the period
Basic pensions	**103**	**2,317**	**(2,228)**	**192**
Unemployment insurance	**5**	**77**	**(76)**	**6**
Annuity scheme	**532**	**983**	**(1,207)**	**308**
Total	**640**	**3,377**	**(3,511)**	**506**

	Year ended December 31, 2020			
	Balance at the beginning of the year	Charge for the current year	Payment in current year	Balance at at the end of the year
Basic pensions	95	3,293	(3,285)	103
Unemployment insurance	4	41	(40)	5
Annuity scheme	1,210	1,804	(2,482)	532
Total	1,309	5,138	(5,807)	640

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(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 condensed consolidated statement of financial position using the projected unit credit method as follows:

	Six-month period ended June 30, 2021	Year ended December 31, 2020
Balance at the beginning of period/year	**636**	630
Interest expenses	**11**	21
Gain or loss from actuarial calculation	**–**	17
– Charge to profit or loss	**–**	(2)
– Charge to other comprehensive income	**–**	19
Benefits paid	**(16)**	(32)
Balance at the end of period/year	**631**	636

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

	As at June 30, 2021	As at December 31, 2020
Discount rate-retirement benefit plan	**3.50%**	3.50%
Discount rate-early retirement benefit plan	**2.75%**	3.00%
Annual growth rates 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, 2021 and December 31, 2020, the future mortality rate assumption is based on the China Life Insurance Mortality Table (2010-2013) issued on December 28, 2016, which is the statistical information publicly available in China.

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(2) Provisions

		January 1, 2021	Current period accrual/(reversal)	June 30, 2021
Guarantee and commitments	(i)	**4,438**	**273**	**4,711**
Litigation and other	(ii)	**7,060**	**(18)**	**7,042**
Total		**11,498**	**255**	**11,753**

		January 1, 2020	Current year accrual/(reversal)	December 31, 2020
Guarantee and commitments	(i)	2,260	2,178	4,438
Litigation and other	(ii)	7,398	(338)	7,060
Total		9,658	1,840	11,498

(i) As at June 30, 2021 and December 31, 2020, the major of the Group's provision for guarantee and commitments are 12-month ECL. For the six-month period ended June 30, 2021 and the year ended December 31, 2020, there was no significant transfer between stages for the Group's provision for guarantee and commitments. The reasons for the changes in gross carrying amount and the provision for guarantee and commitments were originates or purchases, derecognition or settlement.

(ii) As at June 30, 2021 and December 31, 2020, the Group established accruals for unsettled litigations according to the best estimation for a variety of risk events and outflow of economic benefits.

(3) Lease liabilities

	As at June 30, 2021	As at December 31, 2020
Net present value of lease payments	**9,574**	8,938
Interest adjustments	**166**	340
Total	**9,740**	9,278

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30 Share capital and other equity instruments

30.1 Share capital

	As at June 30, 2021		As at December 31, 2020	
	Number of shares (million shares)	Face value	Number of shares (million shares)	Face value
Domestically listed (A shares)	**72,528**	**72,528**	67,123	67,123
Listed overseas (H shares)	**19,856**	**19,856**	19,856	19,856
Total	**92,384**	**92,384**	86,979	86,979

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 face value of RMB1.00 per share and enjoy equal rights.

According to the Approval by the MOF on the *State-owned Equity Management Plan of Postal Savings Bank Co., Ltd. (Finance (2011) No. 181)*, China Post Group was the exclusive promoter 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 CBIRC on Capital Increase and the Introduction of Strategic Investors by the Postal Savings Bank of China, the CBIRC agreed the Bank's non-public offering of no more than 11,604 million shares to 10 institutional investors, including UBS Limited, China Life Insurance Company Ltd., China Telecommunications Corporation, Canada Pension Fund Investment Corporation, Zhejiang Ant Small and Micro Financial Services Group Co., Ltd., JPMorgan Bank China Investment Second Investment, Futun Management, International Finance Corporation, DBS Bank Co., Ltd. and Shenzhen Tencent Domain Calculator Network (hereinafter referred to as "Strategic Investors"). After the capital increase, the Bank's total shares increased to 68,604 million.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. In the same year, the over-allotment option was exercised and the total shares of the Bank increased to 81,031 million.

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覆》(銀保監覆[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覆》(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. After initial public offering of A shares, the total shares of the Bank increased to 86,203 million.

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30.1 Share capital (continued)

The joint lead underwriters exercised the over-allotment option in January 2020. The over-allotment issued 776 million A shares at a face value of RMB1.00 and the issue price is 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. After execution of the over-allotment, the total shares of the Bank increased to 86,979 million.

The Bank completed the private offering of 5,405 million of A shares in March 2021 to its controlling shareholders. The face value of A shares is RMB1.00, and the issue price is RMB5.55 per share. The net proceeds raised were RMB29,985 million, of which the share capital was RMB5,405 million and capital reserve was of RMB24,580 million. After the private offering of A shares, the total shares of the Bank increased to 92,384 million.

As at June 30, 2021, the total number of ordinary shares of the Bank was 92,384 million of which 61,253 million shares were restricted for sales and 31,131 million shares were unrestricted shares (As at December 31, 2020: 55,848 million shares were restricted).

30.2 Other equity instruments

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

		Total amount				
Outstanding financial instruments	Classification	Original currency (USD million)	Equivalent (RMB million)	Conversion condition	Maturity date	Conversion
Offshore preference shares	Equity instruments	7,250	47,989	Mandatory	No maturity date	No
Issuance costs			(120)			
Carrying amount			47,869			

On September 27, 2017, the Group completed the issuance of 362.5 million of offshore preference shares at price of USD20 per share with 4.50% of initial dividend rate per annum. The total issuance amount was USD7,250 million equivalent to RMB47,989 million. On June 30, 2021, the balance of preference shares issued by the Group less the direct issuance costs was RMB47,869 million (December 31, 2020: RMB47,869 million).

30.2 Other equity instruments (continued)

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

The key terms are set out below:

(a) Dividend

Fixed rate is applied before the first reset date 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 is equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread remains unchanged throughout the term of the preference shares. Dividends is 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 until 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 and not subject to the approval of offshore preference shareholders, in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%; if the offshore preference shares were converted to H shares, they could not be converted to preference shares again.

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

30.2 Other equity instruments (continued)

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

(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: subordinated 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 with no maturity date. Under the premise of obtaining the approval of the CBIRC and condition of redemption, the Bank has the right to redeem all or part 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 in the distribution of residual profits with ordinary shareholders. Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

The Bank shall distribute dividends for the offshore preference shares in cash, based on the total amount of the issued and outstanding offshore preference shares on 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).

(2) Changes in outstanding preference shares

There were no changes in both quantity and carrying amount of the preference shares for the six-month period ended June 30, 2021 and for the year ended December 31, 2020.

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30.2 Other equity instruments (continued)

(3) Perpetual bonds 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
Undated additional tier 1 capital bonds	March 23, 2021	Equity instrument	4.42%	100	300	RMB	30,000	No maturity date	No
Issuance costs							(14)		
Carrying amount							109,986		

The key terms are set out below:

(a) Conditional redemption rights

From the fifth anniversary since the issuance of the undated additional tier 1 capital bonds (the "Bonds"), the Bank may redeem full or part of the Bonds on each distribution payment date (including the fifth distribution payment date since the issuance). After the issuance, if the event that 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 full 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 of the CBIRC.

(b) Subordination

The claims in respect of the Bonds 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 to the subordination, such relevant laws and regulations shall prevail.

30.2 Other equity instruments (continued)

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

(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 full or in part, without the need for consent from 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 after the occurrence of the trigger event, 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.

(e) Distribution payment

The Bank shall have the right to cancel, in full 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 regardless in full or in part, will not impose any restrictions on the Bank, except in relation to dividend distributions on ordinary shares. Any cancellation of distributions on the Bonds regardless in full or in part, will require the deliberation by and approval from the general shareholders meeting. The Bank shall give notice to the investors on such cancellation in a timely manner.

In the event a distribution cancellation of the Bonds, regardless in full or in part, the Bank shall not make any distribution to the ordinary shareholders from the next date following the resolution being approved in the general shareholders meeting, until its decision to resume the distribution payments in full 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 shall only be paid out of distributable items, and will not be affected by the rating of the Bank, nor 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.

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30.2 Other equity instruments (continued)

(4) Changes in outstanding perpetual bonds

Outstanding financial Instruments	January 1, 2021 Units of the Bonds (million)	January 1, 2021 Carrying amount (RMB million)	Increase in current period Units of the Bonds (million)	Increase in current period Carrying amount (RMB million)	June 30, 2021 Units of the Bonds (million)	June 30, 2021 Carrying amount (RMB million)
Undated additional tier 1 capital bonds	800	79,989	300	29,997	1,100	109,986

(5) Equity attributable to the holders of equity instruments

Items	As at June 30, 2021	As at December 31, 2020
1. Total equity attributable to equity holders of the Bank	**749,055**	671,799
(1) Equity attributable to ordinary shareholders of the Bank	**591,200**	543,941
(2) Equity attributable to other equity holders of the Bank	**157,855**	127,858
Including: Net profit	**5,276**	2,584
Dividends/interests declared	**(5,276)**	(2,584)
2. Total equity attributable to non-controlling interests	**1,330**	1,131
(1) Equity attributable to non-controlling interests of ordinary shares	**1,330**	1,131
(2) Equity attributable to non-controlling interests of preference shares	**–**	–

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31 Capital reserve

	As at June 30, 2021	As at December 31, 2020
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	**37,675**	37,675
Change of equity interest in a subsidiary	**(11)**	(11)
Share premium arising from the Bank's initial public offering of A shares	**26,258**	26,258
Share premium arising from the Bank's private offering of A shares (Note 30.1)	**24,580**	–
Total	**125,486**	100,906

32 Other reserves

32.1 Surplus reserve

In accordance with *the Company Law of the People's Republic of China* (中華人民共和國公司法), and the Bank's Articles of Association, the Bank shall appropriate 10% of its net profit under accounting standards and relevant requirements 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 of the Bank.

32.2 General reserve

	Six-month period ended June 30, 2021	Year ended December 31, 2020
At the beginning of period/year	**130,071**	116,129
Appropriations in current period/year	**37**	13,942
At the end of period/year	**130,108**	130,071

In accordance with *the Administrative Measures for Provisioning of Financial Enterprises* (金融企業準備金計提管理辦法) (Cai Kuai [2012] No.20) issued by the MOF on March 30, 2012, the Bank shall appropriate general reserve from its net profit for the purpose to recover any unidentified potential losses. The balance of general reserve shall be no less than 1.5% of risk assets at the end of each year.

Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries also appropriate a certain amount of its net profit as general reserve.

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32.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
January 1, 2021	**3,726**	**(1,001)**	**2,725**
Gains arising from changes in fair value of financial assets measured at fair value through other comprehensive income	**862**	**(216)**	**646**
Changes in impairment provision of financial assets measured at fair value through other comprehensive income	**208**	**(52)**	**156**
June 30, 2021	**4,796**	**(1,269)**	**3,527**

	Gross amount	Taxation effect	Net carrying amount
January 1, 2020	3,177	(858)	2,319
Fair value changes on equity instrument measured at fair value through other comprehensive income	419	(105)	314
Losses arising from changes in fair value of financial assets measured at fair value through other comprehensive income	(600)	150	(450)
Changes in impairment provision of financial assets measured at fair value through other comprehensive income	(36)	9	(27)
June 30, 2020	2,960	(804)	2,156

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32.3 Other comprehensive income (continued)

	Gross amount	Taxation effect	Net carrying amount
January 1, 2020	3,177	(858)	2,319
Remeasurement of retirement benefit obligations	(19)	–	(19)
Fair value changes on equity instrument measured at fair value through other comprehensive income	1,307	(327)	980
Losses arising from changes in fair value of financial assets measured at fair value through other comprehensive income	(1,772)	443	(1,329)
Changes in impairment provision of financial assets measured at fair value through other comprehensive income	1,033	(259)	774
December 31, 2020	3,726	(1,001)	2,725

33 Dividends distribution

Upon the approval obtained in the 2020 annual shareholders' meeting, the Bank distributed RMB19,262 million (tax inclusive) of cash dividends for the year ended December 31, 2020 to all the ordinary shareholders whose names appeared on the register with RMB2.085 per ten shares (tax inclusive). The Bank distributed the A shares cash dividends on July 22, 2021 and the H shares cash dividends on August 5, 2021 respectively.

Upon the approval obtained in the 2019 annual shareholders' meeting, the Bank distributed RMB18,283 million (tax inclusive) of cash dividends for the year ended December 31, 2019 to all the ordinary shareholders whose names appeared on the register with RMB2.102 per ten shares (tax inclusive). The Bank distributed the A shares cash dividends on June 10, 2020 and the H shares cash dividends on July 17, 2020 respectively.

In the Board of Directors' meeting held in May 2021, 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 RMB2,324 million (tax inclusive). The Bank will distribute the cash dividends in September 2021.

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 (tax inclusive). The Bank distributed the cash dividends on September 27, 2020.

In March 2021, the Bank paid RMB2,952 million (tax inclusive) interests to perpetual bonds holders. The interest rate equals to 3.69% (after tax), which is calculated by the initial interest rate before the first reset date which is determined in accordance with the terms and conditions of the perpetual bonds.

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34 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, 2021	As at June 30, 2020
Cash	**44,718**	48,018
Surplus reserve with central bank	**16,284**	7,163
Deposits with banks and other financial institutions	**8,531**	6,755
Placements with banks and other financial institutions	**19,582**	16,808
Financial assets held under resale agreements	**389,637**	92,818
Short-term debt securities	**1,712**	–
Total	**480,464**	171,562

35 Relationship and transactions with related parties

35.1 Information of the parent company

	Place of registration	Nature of business
China Post Group	Beijing, PRC	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 law, confidential correspondence, postal financial business, emerging business such as postal logistics and e-mail, e-commerce, agency business and other businesses as stipulated by the state.

China Post Group is managed and supervised by the MOF on behalf of the State Council.

As at June 30, 2021 and December 31, 2020, the registered capital of China Post Group are RMB137,600 million.

As at June 30, 2021, China Post Group directly held 67.37% of the equity shares and voting rights in the Bank (As at December 31, 2020: 65.34%). In addition, China Post Group held 0.01% of the equity shares and voting rights in the Bank through its subsidiary China Post Securities Co., Ltd. (As at December 31, 2020: 0.01%).

35.2 Information of major related parties

Name of enterprise	Relationship with the Bank
Shanghai International Port (Group) Co., Ltd.	Major shareholder of the Bank
China Shipbuilding Industry Corporation	Major shareholder of the Bank
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
Ningxia China Post 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
Mulei Tongyuan Hongshen New Energy Development Co., Ltd.	Related party of the major shareholder of the Bank
CSIC (Tianjin) Offshore Wind Power Eng. & Tech. Co., Ltd.	Related party of the major shareholder of the Bank
China National Shipbuilding Equipment & Materials (South China) Company Limited	Related party of the major shareholder of the Bank
China Ship-building Industry Corporation Finance Co., Ltd.	Related party of the major shareholder of the Bank
China UnionPay Co., Ltd.	Related party of the connected persons of the Bank
Anhui Ltech Information Technology Co., Ltd.	Related party of the connected persons of the Bank
Shaoxing Tridor Electronic Weighing Equipment Co., Ltd.	Related party of the connected persons of the Bank

The Group's connected person include the Bank's directors, supervisors, senior executives and their direct relatives, as well as the Bank's controlling shareholders' directors, supervisors, senior executives and their direct relatives and other connected persons. The Group's other related parties include other related parties of China Post Group, other related parties of major shareholders of the Bank and other related parties arising from connected persons.

35.3 Related party transactions

For transactions between the Group and related parties in accordance with general commercial terms and normal business operations, 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.

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates

(1) Agency banking services from China Post Group

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, credit cards repayment processing services; 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, the "Framework Agreement") 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 = Σ(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 RMB 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%.

To effectively manage the interest expenses 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 foreign currency deposit-taking business was insignificant, as such the Bank and China Post Group applied market rates such as the composite interest rate of the China Interbank Foreign Currency Market to determine the agency fee.

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.

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35.3 Related party transactions (continuted)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continuted)

(1) Agency banking services from China Post Group (continuted)

		Six-month period ended June 30	
		2021	2020
Deposit agency fee and other	(i)	**43,428**	40,691
Fees for agency savings settlement		**4,085**	4,039
Fees for agency sales and other commissions	(ii)	**7,076**	3,047
Total		**54,589**	47,777

(i) For the six-month period ended June 30, 2021, deposit agency fee cost amounted to RMB45.46 billion (For the six-month period ended June 30, 2020: RMB41.82 billion). The offsetting settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-2.04 billion (For the six-month period ended June 30, 2020: RMB-1.13 billion). According to the netting arrangement between the Bank and China Post Group, deposit agency fee and other are settled and disclosed on a net basis.

(ii) Fees for agency sales and other commissions include agency income generated from sales of insurance products of China Post Life Insurance Co., Ltd. by agency outlets. The Bank firstly recognized relevant fee and commission income (Note 4) in the consolidated statement of profit or loss, and the same amount of the fee and commission will be payable by the Bank to China Post Group following the principle of "fee payable to the entity providing the service (誰辦理誰受益)". The remaining agency income generated from sales for other insurance companies are directly settled with China Post Group according to the contracts.

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35.3 Related party transactions (continued)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (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

	Six-month period ended June 30	
As lessor	**2021**	2020
Buildings and other	**41**	46

	Six-month period ended June 30	
As lessee	**2021**	2020
Buildings and other	**489**	501

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

	As at June 30, 2021	As at December 31, 2020
Right-of-use assets	**1,149**	718
Lease liabilities	**1,092**	685

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35.3 Related party transactions (continued)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

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

(a) Revenue from rendering other comprehensive services to China Post Group and its related parties

		Six-month period ended June 30	
		2021	2020
Agency sales of insurance products	(i)	**608**	247
General office materials sold		**32**	30
Agency sales of fund products		**9**	19
Comprehensive services rendered	(ii)	**19**	11
Custody business		**12**	29
Agency sales of collective asset management plans		**6**	4
Agency sales of precious metals		**14**	4
Treasury depository business		**1**	1
Total		**701**	345

(i) Agency sales of insurance products are income generated from agency service for China Post Life Insurance Co., Ltd. by directly-operated outlets of the Bank.

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

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35.3 Related party transactions (continuted)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continuted)

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

(b) Expenditure from receiving other comprehensive services from China Post Group and its related parties

		Six-month period ended June 30	
		2021	2020
Comprehensive services received	(i)	**419**	377
Marketing services received		**286**	196
Goods purchased		**143**	195
Supplementary employee medical insurance		**32**	30
Payment of precious metals		**1**	6
Underwriting and sponsoring service received	(ii)	**–**	54
Total		**881**	858

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

(ii) Underwriting and sponsoring service received from China Post Securities Co., Ltd. for A share issuance and perpetual bonds issuance of the Group.

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35.3 Related party transactions (continued)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(4) Loans, discounted bills and letters of guarantee

	As at June 30, 2021	As at December 31, 2020
Other related parties	**17**	18

As at June 30, 2021, the amounts were mainly arising from Ningxia China Post Logistics Co., Ltd. (As at December 31, 2020: mainly arising from Ningxia China Post Logistics Co., Ltd., China Postal Express & Logistics Co., Ltd. and Jiangsu Post and Telecommunication Printing Factory).

(5) Deposits from related parties

	As at June 30, 2021	As at December 31, 2020
China Post Group	**7,261**	6,247
Other related parties	**2,447**	3,176
Total	**9,708**	9,423
Interest rates per annum	**0.30%-2.94%**	0.30%-2.94%

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.

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35.3 Related party transactions (continued)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(6) Deposits from banks and other financial institutions

	As at June 30, 2021	As at December 31, 2020
Other related parties	**1,054**	6,369

The amounts are mainly from China Post Life Insurance Co., Ltd. and China Post Securities Co., Ltd.

(7) Financial investments

	As at June 30, 2021	As at December 31, 2020
Financial assets measured at fair value through profit or loss		
China Post Group	**1,503**	2,011
China Post & Capital Fund Management Co., Ltd.	**3,186**	1,139
Total	**4,689**	3,150
Financial assets measured at amortized cost		
China Post Group	**393**	399
Financial assets measured at fair value through other comprehensive income-debt instruments		
China Post Group	**2,956**	2,934

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35.3 Related party transactions (continued)

35.3.1 Transactions with China Post Group, its subsidiaries, joint ventures and associates (continued)

(8) Other receivables

	As at June 30, 2021	As at December 31, 2020
China Post Group and other related parties	**599**	254

(9) Other payables

	As at June 30, 2021	As at December 31, 2020
China Post Group and other related parties (Note 29)	**1,944**	2,118

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

	Six-month period ended June 30	
	2021	2020
Interest income	**162**	64
Fee and commission income	**17**	19
Interest expense	**116**	104
Fee and commission expense	**9**	9
Operating expenses	**15**	2

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35.3 Related party transactions (continued)

35.3.2 Transactions with major shareholders of the Bank and their related parties

Transactions	As at June 30, 2021	As at December 31, 2020
Assets		
Loans and advances to customers	**1,195**	704
Right-of-use assets	**2**	–
Liabilities		
Customer deposits	**30**	35
Lease liabilities	**1**	–

Transactions	Six-month period ended June 30 2021	2020
Interest income	**39**	5

As at June 30, 2021 and December 31, 2020, loans and advances to customers were mainly with Mulei Tongyuan Hongshen New Energy Development Co., Ltd., CSIC (Tianjin) Offshore Wind Power Eng. & Tech. Co., Ltd., China National Shipbuilding Equipment & Materials (South China) Company Limited and China Ship-building Industry Corporation Finance Co., Ltd.

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35.3 Related party transactions (continued)

35.3.3 Transactions with related parties arising from the connected person of the Bank

Transactions		As at June 30, 2021	As at December 31, 2020
Assets			
Loans and advances to customers	(1)	**17**	1,361
Financial assets measured at fair value through profit or loss	(2)	**–**	505
Financial assets measured at amortized cost	(2)	**–**	710
Financial assets measured at fair value through other comprehensive income-debt instruments	(2)	**–**	796
Financial assets measured at fair value through other comprehensive income-equity instruments	(3)	**53**	53
Right-of-use assets		**–**	15
Other assets		**11**	8
Liabilities			
Customer deposits		**4,525**	4,182
Lease liabilities		**–**	15
Other liabilities		**1**	8

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35.3 Related party transactions (continued)

35.3.3 Transactions with related parties arising from the connected person of the Bank (continued)

		Six-month period ended June 30	
Transactions		2021	2020
Interest income		–	78
Fee and commission income	(4)	**2,157**	1,924
Interest expense		**57**	42
Fee and commission expense	(4)	**578**	473
Operating expenses		**84**	35

(1) As at June 30, 2021, loans and advances to customers were mainly with Shaoxing Tridor Electronic Weighing Equipment Co., Ltd. As at December 31, 2020, loans and advances to customers were mainly with Shenzhen Investment Holdings Co., Ltd., Anhui Ltech Information Technology Co., Ltd. and Ant Group Co., Ltd. As at June 30, 2021, Shenzhen Investment Holdings Co., Ltd. and Ant Group Co., Ltd. were no longer related parties of the Group.

(2) As at December 31, 2020, financial assets measured at fair value through profit or loss, financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income-debt instruments were mainly arising from the transactions with Shenzhen Investment Holdings Co., Ltd. As at June 30, 2021, Shenzhen Investment Holdings Co., Ltd. was no longer a related party of the Group.

(3) As at June 30, 2021 and as at December 31, 2020, financial assets measured at fair value through other comprehensive income-equity instruments were mainly with China UnionPay Co., Ltd.

(4) The net fee and commission income was mainly arising from the settlement and clearing business with China UnionPay Co., Ltd. both during the six-month period ended June 30, 2021 and 2020.

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35.3 Related party transactions (continued)

35.3.4 Transactions with connected person of the Bank

Transactions	As at June 30, 2021	As at December 31, 2020
Assets		
Loans and advances to customers	**126**	120
Liabilities		
Customer deposits	**237**	239

Transactions	Six-month period ended June 30 2021	2020
Interest income	**3**	2
Interest expense	**2**	1

35.3.5 The Group and other government related entities

Other than related party transactions disclosed above and also in other relevant notes, a significant part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other entities under control of state. 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 entities under control of state.

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35.4 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.

	Six-month period ended June 30	
	2021	2020
Key management personnel compensation	**5**	5

Part of the remuneration for key management personnel for the six-month period ended June 30, 2021 and 2020 is subject to strategic performance assessment after the reporting date and has not yet been paid.

36 Structured entities

36.1 Unconsolidated structured entities managed by the Group

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

As at June 30, 2021 and December 31, 2020, the outstanding non-principal guaranteed WMPs issued by WMP vehicles and managed by the Group amounted to RMB936,080 million and RMB865,319 million, respectively. The Group earned net fee and commission income of RMB2,122 million and RMB1,902 million from these non-principal guaranteed WMPs for the six-month period ended June 30, 2021 and 2020, respectively.

As at June 30, 2021 and December 31, 2020, the Group does not hold any amount of the non-principal guaranteed WMPs which are managed by the Group.

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36.2 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 investment products to investors.

As at June 30, 2021 and December 31, 2020, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at June 30, 2021		
	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Total
Fund investments	279,811	–	279,811
Trust investment plans and asset management plans	56,587	–	56,587
Asset-backed securities	28	155,845	155,873
Other debt instruments	–	29,123	29,123
Total	336,426	184,968	521,394

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36.2 Unconsolidated structured entities held by the Group (continuted)

	As at December 31, 2020		
	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Total
Fund investments	236,389	–	236,389
Trust investment plans and asset management plans	50,693	–	50,693
Wealth management products issued by financial institutions	493	–	493
Asset-backed securities	301	143,220	143,521
Other debt instruments	–	37,793	37,793
Total	287,876	181,013	468,889

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, 2021 and 2020, the income from these unconsolidated structured entities earned by the Group was as follows:

	Six-month period ended June 30	
	2021	2020
Interest income	**4,087**	2,853
Net gains on investment securities	**10,647**	8,635
Net trading gains	**1**	–
Net gains on derecognition of financial assets measured at amortized cost	**4**	–
Other comprehensive income	**–**	2
Total	**14,739**	11,490

36.3 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, 2021 and the year 2020, the Group did not provide any financial support to the special purpose trust.

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37 Contingent liabilities and commitments

37.1 Lawsuits and claims

The Group was involved in a number of lawsuits and claims in its normal course of business. Provisions for losses from cases and lawsuits are disclosed in Note 29 (2).

37.2 Capital commitments

	As at June 30, 2021	As at December 31, 2020
Contracts signed but not executed	**5,136**	2,828

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

37.3 Credit commitments

	As at June 30, 2021	As at December 31, 2020
Loan commitments		
– With an original maturity of less than 1 year	**4,093**	3,986
– With an original maturity of 1 year or above	**206,721**	273,806
Subtotal	**210,814**	277,792
Bank acceptances	**32,639**	38,652
Guarantees and letters of guarantee	**41,476**	40,226
Letters of credit	**33,634**	30,383
Unused credit card commitments	**357,806**	330,260
Total	**676,369**	717,313

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.

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37.4 Collateral

Assets pledged as collaterals

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

	As at June 30, 2021	As at December 31, 2020
Debt securities	**87,671**	420
Bills	**29,939**	22,639
Total	**117,610**	23,059

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at June 30, 2021, the carrying amount of debt securities pledged as collaterals amounted to RMB90,082 million (December 31, 2020: RMB73,536 million).

Collaterals received

Collaterals under loans and advances mainly include land use rights and buildings. The Group has not resold or re-pledged these collaterals which the owners of the pledged properties have not breached the contracts. As at June 30, 2021, the Group's exposure to customer loans and advances with credit impairment covered by corresponding collateral was RMB35,256 million (December 31, 2020: RMB30,916 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, 2021, the Group did not obtain the above-mentioned collaterals from counterparts (December 31, 2020: RMB2,150 million).

37.5 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 honor 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 face 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, 2021, the nominal value of treasury bonds the Group was obligated to redeem was RMB120,186 million (December 31, 2020: RMB118,605 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.

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

	As at June 30, 2021	As at December 31, 2020
Financial guarantees and credit commitments	**237,469**	267,884

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.

38 Transfer of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose trusts. In some cases these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

38.1 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, 2021		As at December 31, 2020	
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income
Carrying amount of the collateral	–	–	2,122	30
Financial assets sold under repurchase agreements	–	–	(2,142)	(29)

38.2 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 in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognize the associated credit assets by evaluating the extent to which it transfers the risks and rewards of the assets.

With respect to the credit assets that are securitized and qualified for derecognition, the Group derecognizes the transferred credit assets in their entirety. During the six-month ended June 30, 2021, the Group has transferred credit assets amounted to RMB1,909 million (for the six-month ended June 30, 2020: nil). As the Bank substantially transferred all the risks and rewards of these credit assets, the full amount of such securitized loans were derecognized.

In the cases that the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and for which the Group retains control, the Group recognizes an asset in the condensed consolidated statement of financial position to the extent of the Group's continuing involvement in the transferred assets. The extent of the Group's continuing involvement is the extent of the risks and rewards exposed by the Group to the value changes of the transferred assets. For the six-month ended June 30, 2021, the face value at the date of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring the subordinated tranches, was RMB10,294 million (for the six-month ended June 30, 2020: RMB5,019 million). The carrying amount of the continuing involvement asset and the corresponding continuing involvement liability, which are recognized in other assets and other liabilities in the condensed consolidated statement of financial position, are both RMB4,070 million as at June 30, 2021 (December 31, 2020: RMB2,871 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, 2021 and the year 2020, the Group did not provide any financial support to the special purpose trust.

39 Segment analysis

39.1 Operating segment

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

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds, insurance agency services, etc.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include 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 borrowings and lendings, 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.

The management of the Group monitor operating results of each segment for the purposes of resource allocation and assessment of segment performance. The accounting policies of the operating segments are the same as the Group's accounting policies when preparing segment financial information.

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39.1 Operating segment (continued)

	Six-month period ended June 30, 2021				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	94,781	47,313	78,833	–	220,927
Interest expense to external customers	(77,988)	(7,648)	(3,195)	–	(88,831)
Intersegment net interest income/(expense)	84,385	(14,524)	(69,861)	–	–
Net interest income	101,178	25,141	5,777	–	132,096
Net fee and commission income	8,717	870	1,842	–	11,429
Net trading gains	–	–	1,705	–	1,705
Net gains on investment securities	–	–	12,580	–	12,580
Net losses on derecognition of financial assets measured at amortized cost	–	–	(46)	–	(46)
Net other operating gains/(losses)	304	(52)	(430)	192	14
Operating expenses	(65,667)	(8,170)	(8,623)	(105)	(82,565)
Credit impairment losses	(11,028)	(9,170)	(9,256)	–	(29,454)
Impairment losses on other assets	(8)	–	–	–	(8)
Profit before income tax	33,496	8,619	3,549	87	45,751
Supplementary information					
Depreciation and amortization	3,438	677	98	–	4,213
Capital expenditures	2,803	555	41	–	3,399

	As at June 30, 2021				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	3,969,549	2,819,855	5,370,116	–	12,159,520
Deferred tax assets					57,531
Total assets					12,217,051
Segment liabilities	(9,638,600)	(1,390,102)	(437,914)	(50)	(11,466,666)
Supplementary information					
Credit commitments	357,806	318,563	–	–	676,369

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39.1 Operating segment (continuted)

	Six-month period ended June 30, 2020				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	81,266	44,259	77,235	–	202,760
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	89,314	26,027	9,051	–	124,392
Net fee and commission income	6,762	560	968	–	8,290
Net trading gains	–	–	1,771	–	1,771
Net gains on investment securities	–	–	10,107	–	10,107
Net gains on derecognition of financial assets measured 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 December 31, 2020				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	3,647,977	2,644,587	5,007,482	–	11,300,046
Deferred tax assets					53,217
Total assets					11,353,263
Segment liabilities	(9,176,091)	(1,278,929)	(225,313)	–	(10,680,333)
Supplementary information					
Credit commitments	330,260	387,053	–	–	717,313

39.2 Geographical segment

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

- Head Office
- "Yangtze River Delta": Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;
- "Pearl River Delta": Guangdong Province, Shenzhen, Fujian Province and Xiamen;
- "Bohai Rim": Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province and Qingdao;
- "Central China" region: Shanxi Province, Henan Province, Hubei Province, Hunan Province, Anhui Province, Jiangxi 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, Heilongjiang Province, Jilin Province and Dalian.

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39.2 Geographical segment (continuted)

	Six-month period ended June 30, 2021							
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Total
Interest income from external customers	88,923	27,135	18,520	19,457	34,735	24,729	7,428	220,927
Interest expense to external customers	(6,063)	(14,100)	(7,092)	(12,735)	(25,700)	(17,189)	(5,952)	(88,831)
Intersegment net interest (expense)/income	(81,680)	8,431	5,309	12,803	28,473	19,438	7,226	–
Net interest income	1,180	21,466	16,737	19,525	37,508	26,978	8,702	132,096
Net fee and commission income	100	1,752	1,858	2,271	2,713	2,064	671	11,429
Net trading gains	1,705	–	–	–	–	–	–	1,705
Net gains on investment securities	11,977	200	26	89	158	85	45	12,580
Net losses on derecognition of financial assets measured at amortized cost	(46)	–	–	–	–	–	–	(46)
Net other operating (losses)/gains	(579)	59	17	64	86	350	17	14
Operating expenses	(3,291)	(11,220)	(9,376)	(11,637)	(22,435)	(17,875)	(6,731)	(82,565)
Credit impairment losses	(8,600)	(4,186)	(3,016)	(2,434)	(3,099)	(7,403)	(716)	(29,454)
Impairment losses on other assets	(1)	–	–	–	–	(6)	(1)	(8)
Profit before income tax	2,445	8,071	6,246	7,878	14,931	4,193	1,987	45,751
Supplementary information								
Depreciation and amortization	387	633	498	682	788	914	311	4,213
Capital expenditures	1,197	310	208	610	474	447	153	3,399

	As at June 30, 2021								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	5,174,411	1,853,299	1,199,585	2,012,241	3,657,523	2,514,830	867,306	(5,119,675)	12,159,520
Deferred tax assets									57,531
Total assets									12,217,051
Segment liabilities	(4,545,740)	(1,843,880)	(1,189,316)	(1,994,880)	(3,642,074)	(2,505,349)	(865,102)	5,119,675	(11,466,666)
Supplementary information									
Credit commitments	357,807	53,181	66,409	70,608	57,360	57,169	13,835	–	676,369

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39.2 Geographical segment (continuted)

	Six-month period ended June 30, 2020							
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Total
Interest income from external customers	85,895	22,744	16,765	17,751	30,899	21,776	6,930	202,760
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	7,742	17,769	15,193	17,195	34,102	24,271	8,120	124,392
Net fee and commission (expense)/income	(1,303)	1,496	1,603	1,720	2,238	1,913	623	8,290
Net trading gains/(losses)	1,773	(2)	–	2	(1)	(1)	–	1,771
Net gains on investment securities	9,656	185	33	70	74	47	42	10,107
Net gains on derecognition of financial assets measured 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 December 31, 2020								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	4,723,307	1,728,335	1,134,851	1,836,351	3,424,621	2,402,606	843,684	(4,793,709)	11,300,046
Deferred tax assets									53,217
Total assets									11,353,263
Segment liabilities	(3,681,078)	(1,714,679)	(1,121,574)	(1,814,651)	(3,402,708)	(2,387,698)	(840,866)	4,282,921	(10,680,333)
Supplementary information									
Credit commitments	330,261	66,040	81,584	81,054	67,157	73,924	17,293	–	717,313

40 Financial risk management

40.1 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 procedures in managing those risk exposures, as well as the Group's capital management.

40.2 Framework of financial risk management

The Group's Board of Directors assumes the ultimate responsibilities for comprehensive risk management, which include establishing risk culture, formulating and approving risk management strategies, setting and approving risk appetites and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, monitoring comprehensive risk management implemented by the senior management, reviewing comprehensive risk management reports, examining and approving disclosure of comprehensive risks and various significant risks, appointment of Chief Risk Officer, and other duties related to risk management.

The Group's Board of Supervisors assumes the supervisory responsibilities for comprehensive risk management, and is responsible for supervising the Board of Directors and the senior management in fulfilling their duties of risk management and urging them for any rectifications.

The Group's senior management assumes the responsibilities for implementation of comprehensive risk management and carrying out decisions of the Board of Directors, which includes setting up the operation and management structure in line with comprehensive risk management framework, clarifying division of responsibilities among functional departments, business departments and other departments in comprehensive risk management, establishing coordination mechanism with effective balance of power across departments, formulating clear implementation and accountability mechanism to ensure adequate communication and effective implementation of risk management strategies, risk appetites and risk limits, setting up risk limits according to risk appetite determined by the Board of Directors, including but not limited to levels such as industry, region, customer, and product. It also formulates risk management policies and procedures, regular assessments, with adjustments when necessary, and assesses conditions of comprehensive risks and various important risk management with reports to the Board of Directors. It establishes sound management information system and data quality control mechanism, and oversees violation of risk appetite, risk limits, and risk management policies and procedures, and deal with them under authorization of the Board of Directors, and assumes other responsibilities of risk management.

40.3 Credit risk

Credit risk refers to the risk of loss caused by the default or the deterioration of credit rating and repayment ability of the debtor or the counterparty.

The main sources of the Group's credit risk include: credit business, treasury business (including deposits and placements, resale agreement, debt securities issued by corporates and financial institutions, inter-bank investment, etc.), off-balance sheet credit business (including guarantee, commitment, etc.).

40.3 Credit risk (continued)

The organizational structure of the Group on credit risk management is as follows: the Board of Directors takes the ultimate responsibilities for credit risk management, the Board of Supervisors takes the supervisory responsibilities for credit risk management, while the senior management undertaking the responsibilities for implementation of credit risk management, and for the implementation of resolutions approved by the Board of Directors on credit risk; the Risk Management Committee is responsible for credit risk management; and the Credit Business Approval Committee is responsible for approving credit lines within the scope of authorization; each business department shall bear the primary responsibility for credit risk mitigation, and implementation of policies, standards and procedures of credit risk management in its own field of business in accordance with the segregation of duties among different 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 management and mitigation, of which the Credit Management Department is the leading department of credit risk management, and the Internal Audit Department supervises each department's performance of duties in credit risk management independently and objectively.

(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 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.

(2) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arising from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt security investments by focusing on low-risk debt securities, including government bonds and bonds issued by financial institutions. Other debt instruments are mainly trust investment plans and assets management plans.

The Group established a risk evaluation system on the issuers of corporate bonds and other debt instruments, and performs ongoing post-lending monitoring on a timely basis.

(3) Interbank financing business

The Group manages the credit quality by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

40.3.1 Expected credit loss measurement

The Group has applied "Expected Credit Loss Model" ("ECL") to measure the impairment of debt instruments measured at amortized cost and at fair value through other comprehensive income, 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 and at the date of initial recognition.

Stage 3: includes financial assets that are credit-impaired.

40.3 Credit risk (continuted)

40.3.1 Expected credit loss measurement (continuted)

The Group assesses impairment allowance through either the ECL models or discounted cash flow method. For those loans and advances to customers together with financial investments, which are individually significant with objective evidences of credit-impairment, or where the ECL results could not be calculated automatically using the existing models, the discounted cash flow method will be adopted. Other than the above mentioned circumstance, the impairment allowance for loans and advances to customers as well as financial investments are assessed by using ECL models.

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 and financial investments which applied discounted cash flow method.

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

For measurement of ECL, the credit asset of portfolio segmented is based on similar credit risk characteristics. In determination of the portfolio segmentation of credit assets, the Group considers the type of borrower, industry, purpose of the loan, and security type. The segmentation of portfolio are regularly monitored and reviewed to ensure the appropriateness and reliability of credit risk segmentation.

Considering the impact of COVID-19 on the customers varies by industries, the Group comprehensively considers the impact of both internal and external environmental changes on assessment of credit risk segmentation, and regroups the credit risk segmentation on a reasonable basis.

40.3 Credit risk (continued)

40.3.1 Expected credit loss measurement (continued)

(2) Significant Increase in credit risk (SICR)

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

The Group has set up both quantitative and qualitative standards according to the different features of credit risk associated with the financial assets as well as the related management. They mainly include the downgrading of credit of more than 3 levels, adverse change of risk classification, and whether overdue days has exceed 30 days, etc., to determine whether a significant increase in credit risk of financial assets has occurred.

During the COVID-19 outbreak, the Group developed financial relief scheme for existing customers being affected by the epidemic in accordance with the regulatory provisions. For the customers who applied for the financial relief policy, the Group took into account of the borrowers' repayment ability. If they meet the requirements of financial relief policy, the Group would take the methods of term extension, loan extension or loan renewal to relieve their difficulties, and assess whether there have been significant increase in credit risk.

(3) Definition of default and credit-impaired

The Group considers 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.

- certain specific credit ratings;
- 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;
- lack of liquidity of the financial asset due to financial difficulties of the issuer or the borrower;
- a borrower or his/her family members suffer from a major accident and become insolvency;
- a borrower and guarantor declares bankruptcy, closure or dissolution according to law;
- other factors that impair financial assets.

40.3 Credit risk (continuted)

40.3.1 Expected credit loss measurement (continuted)

(4) Description of parameters, assumptions, and estimation techniques

ECL is measured on either a 12-month (12M) or lifetime basis depending on whether an SICR has occurred since initial recognition and whether an asset is considered to be impaired. ECL derived from the discounted value of the multiplication 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 in time under the current macroeconomic environment.

LGD refers to the ratio of the expected loss in the total amount of the loan portfolios, which is the extent of loss on a default. 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 the next 12 months or over the remaining lifetime from the time of default. The assessment is on an individual basis by customer type, guarantee method, and historical non-performing loan collection experience, etc.

EAD is based on the amounts the Group expects to be repaid at the time of default.

The Group estimates PD, LGD and EAD of each portfolio in the future to calculate the ECL. The Group multiples the three and adjusts their expected life (such as default), and discount and aggregate the calculation result of each period to determine the ECL. The discount rate used in the ECL calculation is the contractual rate or its approximate value.

The Group monitors the related assumptions concerning the calculation of ECL on a quarterly basis and makes necessary updates and adjustments.

40.3 Credit risk (continuted)

40.3.1 Expected credit loss measurement (continuted)

(5) Forward-looking information

The calculation of ECL incorporates forward-looking information. The Group performs historical analysis and identified the key economic variables impacting credit risk and expected credit loss for each portfolio, mainly including Gross Domestic Product ("GDP"), Consumer Price Index, and Producer Price Index, etc. The growth rate of GDP for the year 2021 in the base scenario is predicted to have no significant change comparing with that of last year.

These economic variables and their associated impacts on PD vary by segmentation of the portfolio. 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 that might have on PD.

The Group has adopted three economic scenarios (Base, Upside and Downside) and applied weightings 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, and makes necessary updates and adjustments.

Relatively substantial management judgements are involved in the weighting scheme of macroeconomic scenarios, macroeconomic forecasts, and significant increase in credit risk in ECL models. The variation of key inputs above will inevitably lead to changes in ECL as a result of model's inherent complexity. The Group has analyzed sensitivity of ECL model by considering changes in macroeconomic scenario weightings.

Assuming the weighting of the Upside scenario or Downside scenario would increase by 10% and the weighting of the base scenario would decrease by 10%, the absolute change rate of the balance of loss allowance as at June 30, 2021 would be no more than 10%.

40.3 Credit risk (continuted)

40.3.1 Expected credit loss measurement (continuted)

(6) Management Overlay

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

In the six-month period ended June 30, 2021, the Group has accrued additional loss allowance for those loans qualified for the financial relief scheme and applied delayed payment of principals and interests affected by the COVID-19. The amount of overlay was not material as compared to the balance of loss allowance.

(7) The estimated future cash flows for loans and advances to customers as well as financial investments which applied discounted cash flow method.

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 full or in part, when it has taken all necessary recovery efforts and is still not capable of reasonably expecting to recover partial or all the financial assets. 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, 2021 were RMB5,565million (for the period ended June 30, 2020: RMB6,100 million).

(9) Rescheduled loans and advances

In order to minimize the credit loss, the Group may renegotiate the terms of the contract with borrowers that have deteriorated in financial position, or are unable to meet their original repayment schedule, which include concessions given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Such contract modifications may include terms of loan, repayment schedule or interest rate. Based on the management's judgment of the borrowers' repayment possibility, the Group has formulated specific rescheduled loan policy and practice, and reviewed the policy continuously. Rescheduled loans should be reviewed with at least 6 months of observation to reach the corresponding stage classification criteria. Credit-impaired rescheduled loans and advances of the Group as at June 30, 2021 amounted to RMB233 million (December 31, 2020: RMB339 million).

40.3.2 Credit risk limit control and mitigation policy

In accordance with risk policies and limits, the risk management and business departments of the Group enhanced risk management policies and procedures to optimize business processes and monitor the implementation of risk control indicators.

To mitigate 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 its validity and conform to market practices.

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40.3 Credit risk (continued)

40.3.3 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, 2021, and December 31, 2020 respectively. 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, 2021	As at December 31, 2020
Deposits with central bank	**1,204,897**	1,169,806
Deposits with banks and other financial institutions	**49,901**	43,682
Placements with banks and other financial institutions	**264,362**	248,396
Derivative financial assets	**6,820**	11,140
Financial assets held under resale agreements	**420,891**	259,956
Loans and advances to customers	**5,977,969**	5,512,361
Financial investments		
Financial assets measured at fair value through profit or loss – debt instruments	**494,208**	418,232
Financial assets measured at fair value through other comprehensive income – debt instruments	**371,676**	315,922
Financial assets measured at amortized cost	**3,208,712**	3,173,643
Other financial assets	**30,307**	20,247
Subtotal	**12,029,743**	11,173,385
Credit commitments	**676,369**	717,313
Total	**12,706,112**	11,890,698

(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 loss 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.

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40.3 Credit risk (continued)

40.3.3 Credit risk exposures (continued)

(2) *Maximum exposure to credit risk – Financial instruments subject to impairment (continued)*

The table below represents the exposure to credit risk on loans and advances to customers at amortized cost.

	As at June 30, 2021 Stages of ECL Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate loans and advances to customers – financial assets measured at amortized cost				
Credit Grade				
Risk level 1	**1,982,621**	**12,887**	**–**	**1,995,508**
Risk level 2	**12,392**	**4,085**	**–**	**16,477**
Risk level 3	**–**	**787**	**–**	**787**
Default	**–**	**–**	**19,134**	**19,134**
Gross Carrying amount	**1,995,013**	**17,759**	**19,134**	**2,031,906**
Loss allowance	**(86,063)**	**(6,240)**	**(17,762)**	**(110,065)**
Carrying amount	**1,908,950**	**11,519**	**1,372**	**1,921,841**

	As at December 31, 2020 Stages of ECL Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate loans and advances to customers – financial assets measured at amortized cost				
Credit Grade				
Risk level 1	1,796,622	12,030	–	1,808,652
Risk level 2	13,852	10,142	–	23,994
Risk level 3	–	596	–	596
Default	–	–	18,649	18,649
Gross Carrying amount	1,810,474	22,768	18,649	1,851,891
Loss allowance	(80,519)	(8,052)	(16,946)	(105,517)
Carrying amount	1,729,955	14,716	1,703	1,746,374

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40.3 Credit risk (continued)

40.3.3 Credit risk exposures (continued)

(2) *Maximum exposure to credit risk – Financial instruments subject to impairment (continued)*

	As at June 30, 2021 Stages of ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Personal loans and advances to customers – financial assets measured at amortized cost				
Credit Grade				
Risk level 1	**3,512,345**	**–**	**–**	**3,512,345**
Risk level 2	**1,741**	**6,420**	**–**	**8,161**
Risk level 3	**–**	**5,684**	**–**	**5,684**
Default	**–**	**–**	**31,756**	**31,756**
Gross Carrying amount	**3,514,086**	**12,104**	**31,756**	**3,557,946**
Loss allowance	**(73,062)**	**(4,557)**	**(26,747)**	**(104,366)**
Carrying amount	**3,441,024**	**7,547**	**5,009**	**3,453,580**

	As at December 31, 2020 Stages of ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Personal loans and advances to customers – financial assets measured at amortized cost				
Credit Grade				
Risk level 1	3,210,897	–	–	3,210,897
Risk level 2	892	5,934	–	6,826
Risk level 3	–	4,446	–	4,446
Default	–	–	31,724	31,724
Gross Carrying amount	3,211,789	10,380	31,724	3,253,893
Loss allowance	(67,909)	(3,951)	(26,520)	(98,380)
Carrying amount	3,143,880	6,429	5,204	3,155,513

The majority of loans and advances to customers measured at fair value through other comprehensive income and credit commitment are in Stage 1 with credit grade as "Risk level 1".

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40.3 Credit risk (continued)

40.3.4 Loans and advances to customers

(1) Loans and advances to customers by geographical region:

	As at June 30, 2021		As at December 31, 2020	
	Amount	Proportion	Amount	Proportion
Head Office	**336,941**	**5%**	318,627	6%
Central China	**1,531,750**	**25%**	1,406,061	25%
Yangtze River Delta	**1,276,456**	**21%**	1,157,455	20%
Western China	**1,064,449**	**17%**	979,625	17%
Bohai Rim	**932,867**	**15%**	869,133	15%
Pearl River Delta	**718,847**	**12%**	668,372	12%
Northeastern China	**331,090**	**5%**	316,985	5%
Total	**6,192,400**	**100%**	5,716,258	100%

(2) Loans and advances to customers by types:

	As at June 30, 2021		As at December 31, 2020	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including: Corporate loans	**2,159,596**	**35%**	1,977,785	35%
Discounted bills	**474,858**	**8%**	484,580	8%
Personal loans and advances	**3,557,946**	**57%**	3,253,893	57%
Total	**6,192,400**	**100%**	5,716,258	100%

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40.3 Credit risk (continued)

40.3.4 Loans and advances to customers (continued)

(3) Loans and advances to customers by industry:

	As at June 30, 2021		As at December 31, 2020	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services	**663,019**	**11%**	611,929	11%
Manufacturing	**322,860**	**5%**	312,480	5%
Financial services	**230,132**	**4%**	193,861	3%
Production and supply of electricity, heating, gas and water	**205,492**	**3%**	204,923	4%
Wholesale and retail	**130,602**	**2%**	117,424	2%
Real estate	**130,415**	**2%**	93,607	2%
Leasing and business services	**123,992**	**2%**	110,249	2%
Construction	**123,657**	**2%**	110,440	2%
Management of water conservancy, environmental and public facilities	**114,045**	**2%**	96,018	2%
Mining	**58,905**	**1%**	69,268	1%
Other industries	**56,477**	**1%**	57,586	1%
Subtotal	**2,159,596**	**35%**	1,977,785	35%
Discounted bills	**474,858**	**8%**	484,580	8%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	**2,040,828**	**33%**	1,921,055	34%
– Other consumer loans	**482,140**	**8%**	441,945	8%
Personal micro loans	**879,578**	**14%**	746,252	13%
Credit card overdraft and other	**155,400**	**2%**	144,641	2%
Subtotal	**3,557,946**	**57%**	3,253,893	57%
Total	**6,192,400**	**100%**	5,716,258	100%

As at June 30, 2021, the balance of loans and advances to customers in relation to transportation, storage and postal services included loans to China State Railway Group Co., Ltd. of RMB182,089 million (December 31, 2020: RMB182,089 million).

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40.3 Credit risk (continued)

40.3.4 Loans and advances to customers (continued)

(4) Loans and advances to customers by types of collateral:

	As at June 30, 2021		As at December 31, 2020	
	Amount	Proportion	Amount	Proportion
Unsecured loans	**1,619,681**	**26%**	1,504,504	26%
Guaranteed loans	**435,854**	**7%**	383,601	7%
Loans secured by mortgages	**3,030,296**	**49%**	2,779,991	49%
Loans secured by pledges	**631,711**	**10%**	563,582	10%
Discounted bills	**474,858**	**8%**	484,580	8%
Total	**6,192,400**	**100%**	5,716,258	100%

(5) Overdue loans and advances to customers

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

	As at June 30, 2021				
	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	5,315	5,210	2,066	714	13,305
Guaranteed loans	2,515	2,559	2,482	856	8,412
Loans secured by mortgages	7,925	6,963	7,107	2,982	24,977
Loans secured by pledges	6,130	430	956	659	8,175
Discounted bills	–	–	10	–	10
Total	21,885	15,162	12,621	5,211	54,879

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40.3 Credit risk (continued)

40.3.4 Loans and advances to customers (continued)

(5) Overdue loans and advances to customers (continued)

	As at December 31, 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	4,018	4,960	2,504	198	11,680
Guaranteed loans	2,165	2,154	2,394	812	7,525
Loans secured by mortgages	6,910	7,005	7,219	2,943	24,077
Loans secured by pledges	460	5	1,414	208	2,087
Discounted bills	–	–	10	–	10
Total	13,553	14,124	13,541	4,161	45,379

40.3.5 Debt instruments

(1) 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 gross carrying amounts of debts instruments analyzed by rating as at the balance sheet date are as follows:

	As at June 30, 2021					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	672,516	537,442	–	104	–	1,210,062
Bonds issued by financial institutions	1,646,016	144,250	308	14,730	10,991	1,816,295
Corporate bonds	35,488	147,267	410	18,879	1,000	203,044
Interbank certificates of deposits	296,147	347	–	–	–	296,494
Asset-backed securities	36,287	121,908	–	–	–	158,195
Debt financing plans	8,072	–	–	–	–	8,072
Fund investments	279,811	–	–	–	–	279,811
Trust investment plans and asset management plans	56,587	–	–	–	–	56,587
Other debt instruments	72,641	–	–	–	–	72,641
Total	3,103,565	951,214	718	33,713	11,991	4,101,201

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40.3 Credit risk (continued)

40.3.5 Debt instruments (continued)

(1) *Debt instruments analyzed by credit rating (continued)*

	As at December 31, 2020					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	652,437	477,486	–	–	–	1,129,923
Bonds issued by financial institutions	1,683,521	124,952	101	17,439	9,957	1,835,970
Corporate bonds	22,144	154,889	408	19,615	1,300	198,356
Interbank certificates of deposits	234,626	–	–	–	–	234,626
Asset-backed securities	41,519	103,881	64	–	–	145,464
Debt financing plans	4,345	–	–	–	–	4,345
Fund investments	236,389	–	–	–	–	236,389
Trust investment plans and asset management plans	50,693	–	–	–	–	50,693
Wealth management products issued by financial institutions	493	–	–	–	–	493
Other debt instruments	92,025	–	–	–	–	92,025
Total	3,018,192	861,208	573	37,054	11,257	3,928,284

Unrated debt instruments held by the Group are bonds issued by the Chinese government, policy banks, China Development Bank, 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.

40.3.6 Concentration of credit risk

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

40.4 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 in normal business 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 disposal assets, deterioration 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 Group's liquidity regulatory indicators were functioning normally, with sufficient liquidity as a whole and safe and controllable.

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40.4 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 balance sheet date.

	As at June 30, 2021								
	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	-	61,002	-	529	-	-	-	1,188,084	1,249,615
Deposits with banks and other financial institutions	-	8,533	1,000	2,691	37,677	-	-	-	49,901
Placements with banks and other financial institutions	-	-	39,786	36,705	138,002	49,869	-	-	264,362
Derivative financial assets	-	-	1,736	2,049	2,469	566	-	-	6,820
Financial assets held under resale agreements	-	-	367,081	39,412	14,398	-	-	-	420,891
Loans and advances to customers	11,042	-	306,194	402,399	1,843,053	1,211,814	2,203,467	-	5,977,969
Financial assets measured at fair value through profit or loss	10	96,380	8,321	13,879	93,448	147,616	134,554	1,268	495,476
Financial assets measured at fair value through other comprehensive income-debt instruments	17	-	17,230	35,962	90,033	216,038	12,396	-	371,676
Financial assets measured at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	-	6,304	6,304
Financial assets measured at amortized cost	-	-	57,286	87,204	449,902	1,482,601	1,131,719	-	3,208,712
Other financial assets	1,415	17,970	517	5,128	143	583	4,279	272	30,307
Total financial assets	12,484	183,885	799,151	625,958	2,669,125	3,109,087	3,486,415	1,195,928	12,082,033
Borrowings from central bank	-	-	12,300	427	8,224	-	-	-	20,951
Deposits from banks and other financial institutions	-	179,356	209	144	2,010	8,994	-	-	190,713
Placements from banks and other financial institutions	-	-	25,211	11,034	21,027	-	-	-	57,272
Derivative financial liabilities	-	-	1,392	1,813	2,401	499	-	-	6,105
Financial assets sold under repurchase agreements	-	-	94,514	10,330	9,749	-	-	-	114,593
Customer deposits	-	3,776,147	453,554	800,381	4,802,697	1,080,788	-	-	10,913,567
Debt securities issued	-	-	-	-	6,340	-	49,969	-	56,309
Other financial liabilities	-	15,283	19,779	4,333	203	1,082	4,070	-	44,750
Total financial liabilities	-	3,970,786	606,959	828,462	4,852,651	1,091,363	54,039	-	11,404,260
Net liquidity	12,484	(3,786,901)	192,192	(202,504)	(2,183,526)	2,017,724	3,432,376	1,195,928	677,773

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40.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 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	–	81,953	–	559	–	–	–	1,137,350	1,219,862
Deposits with banks and other financial institutions	–	9,958	3,493	863	29,368	–	–	–	43,682
Placements with banks and other financial institutions	–	–	20,491	24,504	156,019	47,382	–	–	248,396
Derivative financial assets	–	–	1,159	2,170	7,153	658	–	–	11,140
Financial assets held under resale agreements	–	–	217,257	31,958	10,741	–	–	–	259,956
Loans and advances to customers	7,974	–	355,597	402,017	1,611,352	1,087,726	2,047,695	–	5,512,361
Financial assets measured at fair value through profit or loss	10	60,737	8,863	29,342	50,084	123,464	145,732	1,049	419,281
Financial assets measured at fair value through other comprehensive income-debt instruments	–	–	5,742	9,420	76,092	212,204	12,464	–	315,922
Financial assets measured at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	5,804	5,804
Financial assets measured at amortized cost	34	–	59,998	167,341	429,556	1,454,642	1,062,072	–	3,173,643
Other financial assets	1,410	11,724	133	3,216	134	362	3,081	187	20,247
Total financial assets	9,428	164,372	672,733	671,390	2,370,499	2,926,438	3,271,044	1,144,390	11,230,294
Borrowings from central bank	–	–	–	4,422	20,866	–	–	–	25,288
Deposits from banks and other financial institutions	–	65,733	–	–	11,045	9,134	–	–	85,912
Placements from banks and other financial institutions	–	–	4,647	5,132	20,964	–	–	–	30,743
Derivative financial liabilities	–	–	1,403	1,870	5,643	716	–	–	9,632
Financial assets sold under repurchase agreements	–	–	7,695	10,763	6,676	–	–	–	25,134
Customer deposits	–	3,819,615	652,681	1,452,836	3,112,622	1,320,275	–	–	10,358,029
Debt securities issued	–	–	–	695	7,312	–	49,967	–	57,974
Other financial liabilities	–	13,131	16,456	2,776	240	1,121	2,871	–	36,595
Total financial liabilities	–	3,898,479	682,882	1,478,494	3,185,368	1,331,246	52,838	–	10,629,307
Net liquidity	9,428	(3,734,107)	(10,149)	(807,104)	(814,869)	1,595,192	3,218,206	1,144,390	600,987

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40.4 Liquidity risk (continued)

Analysis of the cash flows of non-derivative financial assets and financial liabilities

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, 2021								
	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	-	61,002	-	529	-	-	-	1,188,084	1,249,615
Deposits with banks and other financial institutions	-	8,533	1,000	2,854	38,297	-	-	-	50,684
Placements with banks and other financial institutions	-	-	39,813	38,519	142,267	51,235	-	-	271,834
Financial assets held under resale agreements	-	-	369,407	39,588	14,599	-	-	-	423,594
Loans and advances to customers	12,457	-	328,639	445,093	2,014,271	1,788,858	3,251,617	-	7,840,935
Financial assets measured at fair value through profit or loss	10	96,380	8,388	14,185	95,692	154,921	138,922	1,268	509,766
Financial assets measured at fair value through other comprehensive income-debt instruments	17	-	17,326	36,431	95,016	233,331	14,064	-	396,185
Financial assets measured at fair value through other comprehensive income-equity instruments	-	-	-	-	-	-	-	6,304	6,304
Financial assets measured at amortized cost	-	-	58,455	94,724	515,290	1,783,573	1,369,137	-	3,821,179
Other financial assets	-	17,970	517	5,128	143	583	4,279	272	28,892
Total non-derivative financial assets	12,484	183,885	823,545	677,051	2,915,575	4,012,501	4,778,019	1,195,928	14,598,988
Non-derivative financial liabilities									
Borrowings from central bank	-	-	12,327	453	8,276	-	-	-	21,056
Deposits from banks and other financial institutions	-	179,356	211	145	2,034	9,655	-	-	191,401
Placements from banks and other financial institutions	-	-	25,217	11,123	21,340	-	-	-	57,680
Financial assets sold under repurchase agreements	-	-	94,539	10,365	9,820	-	-	-	114,724
Customer deposits	-	3,776,147	454,091	804,884	4,893,826	1,201,009	-	-	11,129,957
Debt securities issued	-	-	-	-	7,370	7,560	51,890	-	66,820
Other financial liabilities	-	15,283	19,779	4,333	203	1,082	4,070	-	44,750
Total non-derivative financial liabilities	-	3,970,786	606,164	831,303	4,942,869	1,219,306	55,960	-	11,626,388
Net liquidity	12,484	(3,786,901)	217,381	(154,252)	(2,027,294)	2,793,195	4,722,059	1,195,928	2,972,600

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40.4 Liquidity risk (continued)

Analysis of the cash flows of non-derivative financial assets and financial liabilities (continued)

	As at December 31, 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	–	81,953	–	559	–	–	–	1,137,350	1,219,862
Deposits with banks and other financial institutions	–	9,958	3,502	946	29,833	–	–	–	44,239
Placements with banks and other financial institutions	–	–	20,516	26,667	159,654	49,282	–	–	256,119
Financial assets held under resale agreements	–	–	217,337	32,106	10,858	–	–	–	260,301
Loans and advances to customers	9,086	–	383,273	444,868	1,758,500	1,610,617	3,016,250	–	7,222,594
Financial assets measured at fair value through profit or loss	10	60,737	8,871	29,488	51,870	131,008	150,011	1,049	433,044
Financial assets measured at fair value through other comprehensive income-debt instruments	–	–	5,816	9,753	80,091	229,380	14,444	–	339,484
Financial assets measured at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	5,804	5,804
Financial assets measured at amortized cost	332	–	63,076	178,438	493,266	1,769,345	1,302,363	–	3,806,820
Other financial assets	–	9,552	133	3,216	134	362	3,081	187	16,665
Total non-derivative financial assets	9,428	162,200	702,524	726,041	2,584,206	3,789,994	4,486,149	1,144,390	13,604,932
Non-derivative financial liabilities									
Borrowings from central bank	–	–	–	4,497	20,958	–	–	–	25,455
Deposits from banks and other financial institutions	–	65,733	–	–	11,131	9,970	–	–	86,834
Placements from banks and other financial institutions	–	–	4,649	5,321	21,299	–	–	–	31,269
Financial assets sold under repurchase agreements	–	–	7,700	10,798	6,719	–	–	–	25,217
Customer deposits	–	3,819,615	653,192	1,458,023	3,155,990	1,389,964	–	–	10,476,784
Debt securities issued	–	–	–	900	8,160	7,560	53,690	–	70,310
Other financial liabilities	–	13,131	16,456	2,776	240	1,121	2,871	–	36,595
Total non-derivative financial liabilities	–	3,898,479	681,997	1,482,315	3,224,497	1,408,615	56,561	–	10,752,464
Net liquidity	9,428	(3,736,279)	20,527	(756,274)	(640,291)	2,381,379	4,429,588	1,144,390	2,852,468

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40.4 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, 2021					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	3	(2)	4	33	–	38

	As at December 31, 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	3	6	11	35	–	55

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, 2021					
	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	84,982	70,300	281,630	5,236	–	442,148
– Cash outflow	(84,647)	(70,025)	(281,395)	(5,238)	–	(441,305)
Total	335	275	235	(2)	–	843

	As at December 31, 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	103,517	76,350	244,850	9,134	–	433,851
– Cash outflow	(104,142)	(76,025)	(242,890)	(9,320)	–	(432,377)
Total	(625)	325	1,960	(186)	–	1,474

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40.4 Liquidity risk (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, 2021			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	**61,047**	**134,775**	**14,992**	**210,814**
Bank acceptance	**32,639**	**–**	**–**	**32,639**
Guarantee and letters of guarantee	**22,189**	**15,583**	**3,704**	**41,476**
Letters of credit	**33,634**	**–**	**–**	**33,634**
Unused credit card commitments	**357,806**	**–**	**–**	**357,806**
Total	**507,315**	**150,358**	**18,696**	**676,369**

	As at December 31, 2020			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	70,856	190,821	16,115	277,792
Bank acceptance	38,652	–	–	38,652
Guarantee and letters of guarantee	22,618	13,982	3,626	40,226
Letters of credit	30,383	–	–	30,383
Unused credit card commitments	330,260	–	–	330,260
Total	492,769	204,803	19,741	717,313

40.5 Market risk

Market risk refers to the risk of loss to the Group's on- and off-balance sheet business operations arising from unfavorable 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 during the normal course of business.

The Group adopts a centralized approach during the market risk management process, including identification, measurement, monitoring and control of the market risk. The Group has established basic rules and procedures for the management of market risk, separation of bank and trading books, and valuation of financial assets. The Group applies such rules and procedures to separately, identify, measure, monitor and control market risks on bank book and trading book respectively.

The Group is also exposed to market risk on its derivative investments on behalf of customers that are hedged through back-to-back transactions with other financial institutions.

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40.5 Market risk (continued)

Measurement techniques and limit setting for market risks

Trading book

Market risk on the trading book mainly arises from losses in value of financial instruments in the trading book due to adverse changes of market interest rates and exchange rates.

The Group uses limit management, sensitivity analysis, exposure analysis, stress test and other methods to manage the market risk of trading book and control the risk exposure within an acceptable range.

Bank book

The interest rate risk of the Group includes the risk operating the adverse changes in the interest rate and term structure may affect the economic value and overall operating income of the Group, mainly based on the gap risk and the basis interest 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 of net interest income in the coming 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, 2021	As at December 31, 2020
Upward parallel shift of 100 bps for yield curves	**(16,225)**	(4,171)
Downward parallel shift of 100 bps for yield curves	**16,225**	4,171

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40.5 Market risk (continued)

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities at the balance sheet date are stated at their carrying amounts based on the earlier of their repricing date or contractual maturity date:

	As at June 30, 2021						
	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	1,192,776	–	–	–	–	56,839	1,249,615
Deposits with banks and other financial institutions	9,530	2,670	37,509	–	–	192	49,901
Placements with banks and other financial institutions	39,667	36,474	137,688	49,869	–	664	264,362
Derivative financial assets	–	–	–	–	–	6,820	6,820
Financial assets held under resale agreements	366,900	39,325	14,362	–	–	304	420,891
Loans and advances to customers	390,835	596,604	4,648,590	213,512	110,172	18,256	5,977,969
Financial assets measured at fair value through profit or loss	20,400	12,368	70,814	13,160	39,225	339,509	495,476
Financial assets measured at fair value through other comprehensive income-debt instruments	16,302	35,758	87,053	214,617	12,396	5,550	371,676
Financial assets measured at fair value through other comprehensive income-equity instruments	–	–	–	–	–	6,304	6,304
Financial assets measured at amortized cost	171,463	524,072	428,742	1,127,461	916,246	40,728	3,208,712
Other financial assets	–	–	–	–	–	30,307	30,307
Total financial assets	2,207,873	1,247,271	5,424,758	1,618,619	1,078,039	505,473	12,082,033
Borrowings from central bank	12,300	400	8,224	–	–	27	20,951
Deposits from banks and other financial institutions	179,356	131	1,979	8,820	–	427	190,713
Placements from banks and other financial institutions	25,187	10,922	20,902	–	–	261	57,272
Derivative financial liabilities	–	–	–	–	–	6,105	6,105
Financial assets sold under repurchase agreements	94,449	10,290	9,734	–	–	120	114,593
Customer deposits	4,212,015	782,918	4,713,175	1,054,824	–	150,635	10,913,567
Debt securities issued	–	–	5,434	–	49,969	906	56,309
Other financial liabilities	–	–	–	–	–	44,750	44,750
Total financial liabilities	4,523,307	804,661	4,759,448	1,063,644	49,969	203,231	11,404,260
Interest rate risk gap	(2,315,434)	442,610	665,310	554,975	1,028,070	302,242	677,773

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40.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 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	1,160,589	–	–	–	–	59,273	1,219,862
Deposits with banks and other financial institutions	13,451	847	29,337	–	–	47	43,682
Placements with banks and other financial institutions	20,475	24,238	155,882	47,382	–	419	248,396
Derivative financial assets	–	–	–	–	–	11,140	11,140
Financial assets held under resale agreements	217,090	31,847	10,690	–	–	329	259,956
Loans and advances to customers	2,872,910	559,660	1,885,547	155,817	19,903	18,524	5,512,361
Financial assets measured at fair value through profit or loss	8,654	28,953	40,645	14,847	35,951	290,231	419,281
Financial assets measured at fair value through other comprehensive income-debt instruments	5,658	10,748	72,704	208,637	12,464	5,711	315,922
Financial assets measured at fair value through other comprehensive income-equity instruments	–	–	–	–	–	5,804	5,804
Financial assets measured at amortized cost	181,033	573,939	517,136	1,019,197	837,282	45,056	3,173,643
Other financial assets	–	–	–	–	–	20,247	20,247
Total financial assets	4,479,860	1,230,232	2,711,941	1,445,880	905,600	456,781	11,230,294
Borrowings from central bank	–	4,400	20,866	–	–	22	25,288
Deposits from banks and other financial institutions	65,706	–	10,861	8,934	–	411	85,912
Placements from banks and other financial institutions	4,613	5,078	20,875	–	–	177	30,743
Derivative financial liabilities	–	–	–	–	–	9,632	9,632
Financial assets sold under repurchase agreements	7,661	10,717	6,663	–	–	93	25,134
Customer deposits	4,463,110	1,451,070	3,048,314	1,242,662	–	152,873	10,358,029
Debt securities issued	–	–	7,138	–	49,967	869	57,974
Other financial liabilities	–	–	–	–	–	36,595	36,595
Total financial liabilities	4,541,090	1,471,265	3,114,717	1,251,596	49,967	200,672	10,629,307
Interest rate risk gap	(61,230)	(241,033)	(402,776)	194,284	855,633	256,109	600,987

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40.5 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, 2021, and December 31, 2020. 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, 2021			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,247,197	2,363	55	1,249,615
Deposits with banks and other financial institutions	45,501	3,080	1,320	49,901
Placements with banks and other financial institutions	247,161	17,201	–	264,362
Derivative financial assets	620	6,173	27	6,820
Financial assets held under resale agreements	420,891	–	–	420,891
Loans and advances to customers	5,939,803	31,152	7,014	5,977,969
Financial assets measured at fair value through profit or loss	486,554	8,922	–	495,476
Financial assets measured at fair value through other comprehensive income-debt instruments	365,771	5,905	–	371,676
Financial assets measured at fair value through other comprehensive income-equity instruments	6,304	–	–	6,304
Financial assets measured at amortized cost	3,163,572	45,112	28	3,208,712
Other financial assets	26,100	4,207	–	30,307
Total financial assets	11,949,474	124,115	8,444	12,082,033
Borrowings from central bank	20,951	–	–	20,951
Deposits from banks and other financial institutions	190,713	–	–	190,713
Placements from banks and other financial institutions	31,400	25,872	–	57,272
Derivative financial liabilities	561	5,529	15	6,105
Financial assets sold under repurchase agreements	114,593	–	–	114,593
Customer deposits	10,883,670	29,443	454	10,913,567
Debt securities issued	56,309	–	–	56,309
Other financial liabilities	41,756	2,994	–	44,750
Total financial liabilities	11,339,953	63,838	469	11,404,260
Net on-balance sheet position	609,521	60,277	7,975	677,773
Net notional amount of derivative financial instruments	(11,125)	15,107	(3,221)	761
Credit commitments	657,061	12,780	6,528	676,369

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40.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2020			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,217,177	2,625	60	1,219,862
Deposits with banks and other financial institutions	39,737	3,059	886	43,682
Placements with banks and other financial institutions	245,087	3,309	–	248,396
Derivative financial assets	701	10,439	–	11,140
Financial assets held under resale agreements	259,956	–	–	259,956
Loans and advances to customers	5,474,928	29,759	7,674	5,512,361
Financial assets measured at fair value through profit or loss	411,184	8,097	–	419,281
Financial assets measured at fair value through other comprehensive income-debt instruments	308,211	7,711	–	315,922
Financial assets measured at fair value through other comprehensive income-equity instruments	5,804	–	–	5,804
Financial assets measured at amortized cost	3,129,775	43,868	–	3,173,643
Other financial assets	18,458	1,789	–	20,247
Total financial assets	11,111,018	110,656	8,620	11,230,294
Borrowings from central bank	25,288	–	–	25,288
Deposits from banks and other financial institutions	85,912	–	–	85,912
Placements from banks and other financial institutions	17,426	13,317	–	30,743
Derivative financial liabilities	652	8,980	–	9,632
Financial assets sold under repurchase agreements	25,134	–	–	25,134
Customer deposits	10,304,038	53,647	344	10,358,029
Debt securities issued	57,974	–	–	57,974
Other financial liabilities	35,713	880	2	36,595
Total financial liabilities	10,552,137	76,824	346	10,629,307
Net on-balance sheet position	558,881	33,832	8,274	600,987
Net notional amount of derivative financial instruments	(15,357)	25,295	(8,123)	1,815
Credit commitments	700,522	12,192	4,599	717,313

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40.5 Market 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, 2021	As at December 31, 2021
5% of appreciation of USD against RMB	**1,781**	661
5% of depreciation of USD against RMB	**(1,781)**	(661)

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 balance sheet date 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.

40.6 Operational risk

Operational risk refers to risks caused by inadequate 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 appetite approved by the Board of Directors, the Group's senior management is mainly responsible for establishing and implementing the operational risk management policies and limits. 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.

40.7 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, 2021, and the year ended December 31, 2020, there were no assets or liabilities which were discontinued being measured at fair value by the Group.

40.7 Fair value of financial instruments (continued)

(1) Valuation techniques, 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 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 to satisfy segregation of duties, relevant departments are respectively responsible for valuation, model validation and accounting treatment.

During the six-month period ended June 30, 2021 and the year ended December 31, 2020, there was no significant change in the valuation technology and input value used in the fair value measurement of the Group's financial statements.

(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.

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40.7 Fair value of financial instruments (continued)

(3) Financial assets and financial liabilities not measured at fair value on the statement of financial position

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, loans and advances to customers measured at amortized cost, financial assets measured at amortized cost, borrowings from central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

The tables below summarize the 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, 2021				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortized cost	**3,208,712**	**3,260,818**	**46,432**	**2,574,267**	**640,119**
Financial liabilities					
Debt securities issued	**56,309**	**56,590**	**–**	**56,590**	**–**

	As at December 31, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortized cost	3,173,643	3,011,327	45,451	2,340,101	625,775
Financial liabilities					
Debt securities issued	57,974	58,201	–	58,201	–

Except for the financial assets and liabilities above, the fair value of other financial assets and financial 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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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured at their fair value on the statement of financial position:

	As at June 30, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– Measured at fair value through other comprehensive income	–	162,913	439,635	602,548
Subtotal	–	162,913	439,635	602,548
Financial assets measured at fair value through profit or loss				
– Debt securities	702	78,010	–	78,712
– Interbank certificates of deposits	8,220	70,850	–	79,070
– Asset-backed securities	–	28	–	28
– Fund investments	–	279,376	435	279,811
– Trust investment plans and asset management plans	–	–	56,587	56,587
– Equity instruments	63	–	1,205	1,268
Subtotal	8,985	428,264	58,227	495,476
Derivative financial assets				
– Exchange rate derivatives	–	6,138	–	6,138
– Interest rate derivatives	–	623	–	623
– Precious metal derivatives	–	59	–	59
Subtotal	–	6,820	–	6,820

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

	As at June 30, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income-debt instruments				
– Debt securities	5,905	361,292	–	367,197
– Interbank certificates of deposits	–	347	–	347
– Debt financing plans	–	–	4,132	4,132
Subtotal	5,905	361,639	4,132	371,676
Financial assets measured at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	4,251	2,053	6,304
Subtotal	–	4,251	2,053	6,304
Total financial assets	14,890	963,887	504,047	1,482,824
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	–	(5,522)	–	(5,522)
– Interest rate derivatives	–	(574)	–	(574)
– Precious metal derivatives	–	(9)	–	(9)
Subtotal	–	(6,105)	–	(6,105)
Total financial liabilities	–	(6,105)	–	(6,105)

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– Measured at fair value through other comprehensive income	–	151,369	459,105	610,474
Subtotal	–	151,369	459,105	610,474
Financial assets measured at fair value through profit or loss				
– Debt securities	1,047	75,306	–	76,353
– Interbank certificates of deposits	7,055	46,948	–	54,003
– Asset-backed securities	–	301	–	301
– Fund investments	–	235,673	716	236,389
– Trust investment plans and asset management plans	–	–	50,693	50,693
– Wealth management products issued by financial institutions	–	493	–	493
– Equity instruments	12	–	1,037	1,049
Subtotal	8,114	358,721	52,446	419,281
Derivative financial assets				
– Exchange rate derivatives	–	10,438	–	10,438
– Interest rate derivatives	–	702	–	702
Subtotal	–	11,140	–	11,140
Financial assets measured at fair value through other comprehensive income-debt instruments				
– Debt securities	7,711	303,553	–	311,264
– Interbank certificates of deposits	–	719	–	719
– Debt financing plans	–	–	3,939	3,939
Subtotal	7,711	304,272	3,939	315,922

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	4,251	1,553	5,804
Subtotal	–	4,251	1,553	5,804
Total financial assets	15,825	829,753	517,043	1,362,621
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	–	(8,959)	–	(8,959)
– Interest rate derivatives	–	(673)	–	(673)
Subtotal	–	(9,632)	–	(9,632)
Total financial liabilities	–	(9,632)	–	(9,632)

There were no significant movements among levels of the fair value hierarchy for the six-month period ended June 30, 2021, and the year ended December 31, 2020.

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, volatility level, correlation, pre-payment rate and counterparties' credit spread.

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

Changes in Level 3 are analyzed below:

	Six-month period ended June 30, 2021			
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income – debt instruments	Financial assets measured at fair value through other comprehensive income – equity instruments	Loans and advances to customers
Balance at the beginning of the year	52,446	3,939	1,553	459,105
Increased	–	4,130	500	–
Settled	(365)	(3,939)	–	(19,744)
Total gains or losses recognized in				
– Profit or loss	6,146	–	–	–
– Other comprehensive income	–	2	–	274
Balance at the end of the period	58,227	4,132	2,053	439,635

	Year ended December 31, 2020			
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income – debt instruments	Financial assets measured 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	–	3,939	500	149,484
Settled	(325)	–	–	–
Total gain or loss recognized in				
– Profit or loss	7,842	–	–	–
– Other comprehensive income	–	–	–	48
Balance at the end of the year	52,446	3,939	1,553	459,105

40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(a) Basis of determining the market price for recurring fair value measurements categorised within Level 1

Bloomberg's quoted prices are used for financial instruments with quoted prices in an active market.

(b) Valuation techniques, key parameters used for recurring fair value measurement categorised within Level 2

Financial investments

Financial investments valued using valuation techniques mainly consist of debt securities and investment fund, etc. A majority of the debt securities classified as Level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. The fair value of the investment fund classified as Level 2 derived from the observable quoted price in market.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly foreign exchange forwards and swaps, interest rate swaps, cross currency interest rate swaps, and precious metals swaps, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

Loans and advances to customers

The loans and advances to customers valued by the valuation technology are mainly forfaiting. The fair value of these forfaiting is measured by discounted cash flow approach.

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(c) Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

June 30, 2021		Fair Value	Valuation technique	Unobservable inputs Inputs	Range of inputs	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets measured at fair value through profit or loss						
– Fund investments	(i)	435	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	56,587	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,205	Net asset method	Net assets		Positive correlation
Subtotal		58,227				
Financial assets measured at fair value through other comprehensive income-debt instruments						
– Debt financing plans	(ii)	4,132	Discounted cash flow method	Discount rate	3.36%-5.27%	Negative correlation
Financial assets measured at fair value through other comprehensive income-equity instruments	(i)	2,053	Net asset method	Net assets		Positive correlation
Financial assets measured at fair value through other comprehensive income-loans and advances	(iii)	439,635	Discounted cash flow method	Discount rate	2.58%-3.10%	Negative correlation
Total		504,047				

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40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(c) Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below (continued)

				Unobservable inputs		
December 31, 2020		Fair Value	Valuation technique	Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets measured at fair value through profit or loss						
– Fund investments	(i)	716	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	50,693	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,037	Net asset method	Net assets		Positive correlation
Subtotal		52,446				
Financial assets measured at fair value through other comprehensive income-debt instruments						
– Debt financing plans	(ii)	3,939	Discounted cash flow method	Discount rate	3.70%-5.50%	Negative Correlation
Financial assets measured at fair value through other comprehensive income-equity instruments	(i)	1,553	Net asset method	Net assets		Positive Correlation
Financial assets measured at fair value through other comprehensive income-loans and advances	(iii)	459,105	Discounted cash flow method	Discount rate	2.83%	Negative correlation
Total		517,043				

40.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities measured at fair value on the statement of financial position (continued)

(c) Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below: (continued)

(i) The fair value of fund investments, trust investment plans and asset management plans, equity instruments of fair value through profit or loss, and the fair value of equity instruments of fair value through other comprehensive income are determined using net asset method, where the significant unobservable inputs are the net assets.

(ii) The fair value of debt financing plans of fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable inputs 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 measured at fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable inputs are the yield curves of similar financial instruments to be used as discount rates.

40.8 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 continually 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 demand 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 the comprehensive use of 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 at June 30, 2021, 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, 2020: 7.50%,8.50% and 10.50%, respectively). During the six-month period ended June 30, 2021, 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.

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40.8 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 at June 30, 2021 and December 31, 2020 is as follows:

		As at June 30, 2021	As at December 31, 2020
Core tier 1 capital adequacy ratio	(1)	**9.74%**	9.60%
Tier 1 capital adequacy ratio	(1)	**12.35%**	11.86%
Capital adequacy ratio	(1)	**14.32%**	13.88%
Core tier 1 capital		**591,959**	544,654
Deductions of core tier 1 capital	(2)	**(2,187)**	(2,307)
Core tier 1 capital – net		**589,772**	542,347
Other tier 1 capital		**157,956**	127,954
Tier 1 capital – net		**747,728**	670,301
Tier 2 capital			
Directly issued qualifying tier 2 instruments including related premium		**49,969**	49,967
Excess provision for loan loss		**69,109**	64,121
Non-controlling interests recognized in tier 2 capital		**203**	190
Net capital	(3)	**867,009**	784,579
Risk-weighted assets	(4)	**6,053,964**	5,651,439

(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.

41 Events after the balance sheet date

On August 23, 2021, the Bank issued tier-2 capital bonds in the Domestic Interbank Bond Market with a face value of RMB60,000 million. The proceeds from the issuance will be eligible for replenishing the additional tier-2 capital of the Bank in accordance with applicable laws and approvals by the regulatory authorities.

Up to the date of the approval for the condensed consolidated financial statements, there was no material event subsequent to the balance sheet date, except for the event above and in Note 33.

42 Reclassification of comparative figures

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

Appendix I: Supplementary Financial Information

Leverage ratio

In millions of RMB, except for percentages

Item	As at June 30, 2021	As at March 31, 2021	As at December 31, 2020	As at September 30, 2020
Tier 1 capital – net	**747,728**	748,283	670,301	655,785
On- and off-balance sheet assets after adjustments	**12,677,234**	12,407,500	11,806,091	11,623,969
Leverage ratio (%)	**5.90**	6.03	5.68	5.64

Accounting items corresponding to regulatory leverage ratios and differences between regulatory items and accounting items

In millions of RMB

No.	Item	As at June 30, 2021
1	Consolidated total assets	**12,217,051**
2	Consolidated adjustments	**–**
3	Customer assets adjustments	**–**
4	Derivatives adjustments	**8,787**
5	Securities financing transactions adjustments	**20,665**
6	Off-balance sheet items adjustments	**432,918**
7	Other adjustments	**(2,187)**
8	On- and off-balance sheet assets after adjustments	**12,677,234**

Leverage ratio, tier 1 capital – net, on- and off-balance sheet assets after adjustments and relevant details

In millions of RMB, except for percentages

No.	Item	As at June 30, 2021
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**11,789,340**
2	Less: Deduction from tier 1 capital	**2,187**
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	**11,787,153**
4	Replacement costs of various derivatives (excluding eligible margin)	**6,231**
5	Potential risk exposures of various derivatives	**9,376**
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 principal arising from sales of credit derivatives	**–**
10	Less: Deductible assets arising from sales of credit derivatives	**–**
11	Derivative assets	**15,607**
12	Accounting assets arising from securities financing transactions	**420,891**
13	Less: Deductible assets arising from securities financing transactions	**–**
14	Counter-party credit risk exposures arising from securities financing transactions	**20,665**
15	Assets arising from agency services in connection with securities financing transactions	**–**
16	Securities financing transactions assets	**441,556**
17	Off-balance sheet assets	**1,872,699**
18	Less: Decrease in off-balance sheet items due to credit conversion	**1,439,781**
19	Off-balance sheet items after adjustments	**432,918**
20	Tier 1 capital – net	**747,728**
21	On- and off-balance sheet assets after adjustments	**12,677,234**
22	Leverage ratio (%)	**5.90**

International claims

The Group regards all claims on third parties outside the Chinese mainland and claims denominated in foreign currencies on third parties in the Chinese mainland 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, investments in debt securities, 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.

International claims

In millions of RMB

	As at June 30, 2021			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	**4,666**	**52,774**	**50,183**	**107,623**
– of which attributed to Hong Kong	**–**	**4,075**	**15,530**	**19,605**
North and South America	**–**	**2,036**	**4,711**	**6,747**
Europe	**–**	**4,500**	**7,368**	**11,868**
Others	**91**	**–**	**–**	**91**
Total	**4,757**	**59,310**	**62,262**	**126,329**

In millions of RMB

	As at December 31, 2020			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	4,936	45,321	45,885	96,142
– of which attributed to Hong Kong	–	420	11,137	11,557
North and South America	–	2,668	4,054	6,722
Europe	–	1,005	8,170	9,175
Total	4,936	48,994	58,109	112,039

Gross amount of overdue loans to customers

In millions of RMB, except for percentages

	As at June 30, 2021	As at December 31, 2020
Gross loans to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	**21,885**	13,553
Between 3 months and 6 months (inclusive)	**6,658**	5,716
Between 6 months and 12 months (inclusive)	**8,504**	8,408
Over 12 months	**17,832**	17,702
Total	**54,879**	45,379
As a percentage of total loans to customers[1] (%)		
Within 3 months (inclusive)	**0.35**	0.24
Between 3 months and 6 months (inclusive)	**0.11**	0.10
Between 6 months and 12 months (inclusive)	**0.14**	0.15
Over 12 months	**0.29**	0.31
Total	**0.89**	0.80

1 In calculating the percentage, total loans to customers exclude accrued interest.

Appendix II: Composition of Capital

In millions of RMB, except for percentages

Item		Amount
Core tier 1 capital:		
1	Paid-in capital	**92,384**
2	Retained earnings	**369,803**
2a	Surplus reserve	**42,688**
2b	General risk reserve	**130,108**
2c	Undistributed profits	**197,007**
3	Accumulated other comprehensive income and disclosed reserve	**129,013**
3a	Capital reserve	**125,486**
3b	Others	**3,527**
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	**759**
6	Core tier 1 capital before regulatory adjustments	**591,959**
Core tier 1 capital: Regulatory adjustments		
7	Prudential valuation adjustments	**–**
8	Goodwill (net of deferred tax liabilities)	**–**
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	**2,187**
10	Net deferred tax assets that rely on future profitability and arise from operating losses	**–**
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	**–**
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 insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
20	Mortgage servicing rights	**–**
21	Deductible amount in net deferred tax assets that rely on the bank's future profitability	**–**
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 net deferred tax assets that rely on the bank's future profitability	**–**
23	Including: Deductible amount of significant minority investments in capital instruments issued by financial institutions	**–**
24	Including: Deductible amount of mortgage servicing rights	**–**
25	Including: Deductible amount in net deferred tax assets that rely on the bank's future profitability	**–**
26a	Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
26c	Other items that should be deducted from core tier 1 capital	**–**
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	**–**
28	Total regulatory adjustments to core tier 1 capital	**2,187**
29	Core tier 1 capital	**589,772**

Item		Amount
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	**157,855**
31	Including: Portion classified as equity	**157,855**
32	Including: Portion classified as liabilities	**–**
33	Invalid instruments to additional tier 1 capital after the transition period	**–**
34	Valid portion of minority interests	**101**
35	Including: Invalid portion to additional tier 1 capital after the transition period	**–**
36	Additional tier 1 capital before regulatory adjustments	**157,956**
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 insignificant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
41a	Investments in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
41c	Other items that should be deducted from additional tier 1 capital	**–**
42	Undeducted shortfall that should be deducted from tier 2 capital	**–**
43	Total regulatory adjustments to additional tier 1 capital	**–**
44	Additional tier 1 capital	**157,956**
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	**747,728**
Tier 2 capital:		
46	Tier 2 capital instruments and related premium	**49,969**
47	Invalid instruments to tier 2 capital after the transition period	**–**
48	Valid portion of minority interests	**203**
49	Including: Invalid portion after the transition period	**–**
50	Valid portion of surplus provision for loan impairment	**69,109**
51	Tier 2 capital before regulatory adjustments	**119,281**
Tier 2 capital: Regulatory adjustments		
52	Direct or indirect investments in own tier 2 instruments	**–**
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	**–**
54	Deductible portion of tier 2 capital instruments in insignificant minority investments issued by financial institutions that are not subject to consolidation	**–**
55	Tier 2 capital instruments in significant minority investments issued by financial institutions that are not subject to consolidation	**–**
56a	Investments in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
56c	Other items that should be deducted from tier 2 capital	**–**
57	Total regulatory adjustments to tier 2 capital	**–**
58	Tier 2 capital	**119,281**
59	Total capital (tier 1 capital + tier 2 capital)	**867,009**
60	Total risk-weighted assets	**6,053,964**

Appendix II: Composition of Capital

Item		Amount
Requirements for capital adequacy ratios and reserve capital		
61	Core tier 1 capital adequacy ratio	**9.74**
62	Tier 1 capital adequacy ratio	**12.35**
63	Capital adequacy ratio	**14.32**
64	Institution specific capital requirements	**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	**4.74**
Domestic minimum regulatory capital requirements		
69	Core tier 1 capital adequacy ratio	**5.00**
70	Tier 1 capital adequacy ratio	**6.00**
71	Capital adequacy ratio	**8.00**
Amounts below the thresholds for deduction		
72	Undeducted amount of insignificant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	**42,951**
73	Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	**–**
74	Mortgage servicing rights (net of deferred tax liabilities)	**–**
75	Other net deferred tax assets that rely on the bank's future profitability (net of deferred tax liabilities)	**57,531**
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	**215,734**
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	**69,109**
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

Item	Balance sheet under regulatory scope of consolidation	Code
Goodwill	–	a
Intangible assets	4,122	b
Including: Land use rights	1,935	c
Deferred income tax liabilities	–	
Including: Deferred tax liabilities related to goodwill	–	d
Including: Deferred tax liabilities related to other intangible assets other than land use rights	–	e
Paid-in capital		
Including: Amount included in core tier 1 capital	92,384	f
Other equity instruments	157,855	g
Including: Preference shares	47,869	
Including: Perpetual bonds	109,986	
Capital reserve	125,486	h
Others	3,527	i
Surplus reserve	42,688	j
General risk reserve	130,108	k
Undistributed profits	197,007	l

Appendix II: Composition of Capital

Correspondence between all the items disclosed in the second step and items in the disclosure template of capital composition

In millions of RMB

Item		Amount	Code
Core tier 1 capital:			
1	Paid-in capital	92,384	f
2	Retained earnings	369,803	j+k+l
2a	Surplus reserve	42,688	j
2b	General risk reserve	130,108	k
2c	Undistributed profits	197,007	l
3	Accumulated other comprehensive income and disclosed reserve	129,013	h+i
3a	Capital reserve	125,486	h
3b	Others	3,527	i
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	759	
6	Core tier 1 capital before regulatory adjustments	591,959	
Core tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	–	a-d
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	2,187	b-c-e
10	Net deferred tax assets that rely on future profitability and arise from operating losses	–	
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	–	
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 insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
20	Mortgage servicing rights	–	
Additional tier 1 capital:			
21	Additional tier 1 capital instruments and related premium	157,855	
22	Including: Portion classified as equity	157,855	g

Main features of regulatory capital instruments		Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds	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	1628016.IB	1728005.IB	4612	2028006.IB	2128011.IB
3	Applicable laws	PRC laws	PRC laws/laws of Hong Kong, PRC	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	PRC laws
4	Including: Applicable to rules for the transitional period of the Capital Rules for Commercial Banks (Trial)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital	Additional tier 1 capital	Additional tier 1 capital
5	Including: Applicable to the rules after expiration of the transitional period of the Capital Rules for Commercial Banks (Trial)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 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	Additional tier 1 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)	RMB142,264	RMB75,606	RMB29,982	RMB19,987	RMB47,869	RMB79,989	RMB29,997
9	Par value of instrument (in millions)	RMB72,528	RMB19,856	RMB30,000	RMB20,000	USD7,250	RMB80,000	RMB30,000
10	Accounting treatment	Share capital, capital reserve	Share capital, capital reserve	Bonds payable	Bonds payable	Other equity instruments	Other equity instruments	Other equity instruments
11	Initial issuance date	November 28, 2019	September 28, 2016	October 26, 2016	March 22, 2017	September 27, 2017	March 16, 2020	March 19, 2021
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Perpetual	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	October 28, 2026	March 24, 2027	No maturity date	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	October 28, 2021 redemption in part or full	March 24, 2022 redemption in 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	The first redemption date is March 23, 2026 full or part
16	Including: Subsequent redemption date (if any)	Not applicable	Not applicable	Not applicable	Not applicable	September 27 each year after the first redemption date	March 18 each year after the first redemption date	March 23 each year after the first redemption date
17	Including: Fixed or floating interest payment or dividend	Floating	Floating	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	Floating: The coupon rate is fixed in a single coupon rate adjustment cycle (five years) and is reset every five years

Appendix II: Composition of Capital

	Main features of regulatory capital instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds	Undated capital bonds
18	Including: Coupon rate and relevant indicators	Not applicable	Not applicable	3.30%	4.50%	The dividend yield in the first five years is 4.50% and is reset every 5 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 is reset every 5 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	The coupon rate in the first five years is 4.42% and is reset every 5 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 133 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	Yes	Yes	Yes
20	Including: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	No	No	Full discretion	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	Non-cumulative	Non-cumulative	Non-cumulative
23	Conversion into shares	No	No	No	No	Yes	No	No
24	Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, that is, the core tier 1 capital adequacy ratio 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; (2) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable	Not applicable	Not applicable

Main features of regulatory capital instruments		Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds	Undated capital bonds
25	Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any 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 offshore preference shares into ordinary H shares; Upon the occurrence of any 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 offshore preference shares into ordinary H shares	Not applicable	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	The initial conversion price is the average trading price of ordinary H shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution (March 24, 2017) on the Offshore Preference Shares issuance	Not applicable	Not applicable
27	Including: Please specify share conversion is mandatory or not, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Mandatory	Not applicable	Not applicable
28	Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Core tier 1 capital	Not applicable	Not applicable
29	Including: Please specify the issuer of the instrument after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	The Bank	Not applicable	Not applicable
30	Write-down or not	No	No	Yes	Yes	No	Yes	Yes
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	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

Appendix II: Composition of Capital

Main features of regulatory capital instruments		Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds	Undated capital bonds
32	Including: Please specify write-down in part or in full, if allowed	Not applicable	Not applicable	In full	In full	Not applicable	Part or full	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	Not applicable	Perpetual	Perpetual
34	Including: Please specify the book entry value recovery mechanism, if temporary write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims in liquidation (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 sequence of the bond principal and the interest payment sequence are after depositors and general creditors, and before equity capital, additional 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 with the same repayment order as the current bonds and are paid in the same order as additional tier 2 capital instruments that may be issued in the future with the same repayment order as the current bonds	The repayment sequence of the bond principal and the interest payment sequence are after depositors and general creditors, and before equity capital, additional 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 with the same repayment order as the current bonds and are paid in the same order as additional tier 2 capital instruments that may be issued in the future with the same repayment order as the current bonds	After depositors, general creditors, and holders of subordinated debts (including tier 2 capital bonds), pari passu with those capital instruments with the same repayment order	After depositors, general creditors, and holders of subordinated debts that are senior to the current bonds and before all classes of shares held by shareholders of the issuer; the current bonds are in the same priority as additional tier 1 capital instruments of the issuer with the same repayment order	After depositors, general creditors, and holders of subordinated debts that are senior to the current bonds and before all classes of shares held by shareholders of the issuer; the current bonds are in the same priority as additional tier 1 capital instruments of the issuer with the same repayment order
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