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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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

The board of directors (the "**Board**") of Postal Savings Bank of China Co., Ltd. (the "**Bank**") is pleased to announce the audited annual results of the Bank and its subsidiary for the year ended December 31, 2016. This announcement sets out the main part of the Annual Report of the Bank for 2016, and 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 annual results. The printed version of the Bank's Annual Report for 2016 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, China
March 24, 2017

As at the date of this announcement, the Board comprises Mr. Li Guohua as Chairman and non-executive Director; Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong as executive Directors; Mr. Tang Jian and Mr. Chin Hung I David as non-executive Directors; Mr. Ma Weihua, Ms. Bi Zhonghua, Mr. Fu Tingmei and Mr. Gan Peizhong 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.*

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Profile

Postal Savings Bank of China is a leading large retail bank in China, strategically focuses on providing financial services to communities, SMEs and Sannong customers and is committed to meeting the financial needs of the most promising customers during China's economic transformation. Meanwhile, Postal Savings Bank actively serves large corporate customers, and participates in the construction of major projects, making important contributions to China's economic development.

With approximately 40,000 outlets and services covering over 500 million individual customers, Postal Savings Bank has shown its superior asset quality and significant development potential. At present, we have established an all-around e-banking system consisting of online banking, mobile banking, self-service banking, telephone banking, television banking and Weibank etc, forming a financial service system in which electronic banking functions connect with physical network and offline physical banking keeps pace with online virtual banking. In January 2012, Postal Savings Bank was converted into a joint-stock company with the consent of the State Council and the approval of the CBRC and the MOF. In December 2015, we introduced ten domestic and foreign Strategic Investors, which further improved our comprehensive strength. In September 2016, Postal Savings Bank successfully completed the initial public offering on the Main Board of Hong Kong Stock Exchange and accessed the international capital market, representing the successful implementation of the 3-step reform roadmap, namely transformation of ownership, introduction of strategic investors and initial public offering. According to *The Banker's* list of "Top 1000 World Banks," we ranked 22nd in terms of total assets as of December 31, 2015.

Under the background of transformation and upgrade of China's economy, deepening advancement of financial reform and thriving development of information technology, Postal Savings Bank will commit itself to becoming the most trusted and valuable first-tier large retail bank by providing more comprehensive and convenient financial services for customers while seizing new strategic opportunities, giving full play to its advantages, consistently enriching its business varieties, expanding its service channels and improving its service capability.

Definitions

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

“Articles of Association”	the Articles of Association of Postal Savings Bank of China Co., Ltd., approved by the CBRC on June 24, 2016
“Bank/Postal Savings Bank/Postal Savings Bank of China/PSBC/us/we”	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, and, where the context so requires, includes its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets’ operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiary
“basis point(s)”	a unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
“Board of Directors/Board”	Board of directors of the Bank
“Board of Supervisors”	Board of supervisors of the Bank
“CBRC”	China Banking Regulatory Commission
“central bank/PBOC”	The People’s Bank of China
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“China Post Group”	China Post Group Corporation, an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder

Definitions

“County Area(s)”	areas designated as counties or county-level cities under China’s administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions
“Director(s)”	our director(s)
“Domestic Shares”	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
“duration”	an approach employed to measure the weighted average term of cash flows of debt securities, which mainly reflects the sensitivity of the value of debt securities to interest rate movements
“Group”	our Bank and our subsidiary
“H Shares”	our ordinary shares with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
“industries with high pollution, high energy consumption and over-capacity”	industries with high pollution, high energy consumption and over-capacity

Definitions

“Large Commercial Banks”	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China and our Bank, collectively
“MOF”	Ministry of Finance of the PRC
“One Body Two Wings”	Taking retail banking business as our main body and corporate banking business and treasury business as our two wings
“PSBC Consumer Finance”	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015, in which we own 61.5% equity interests
“qualified tier 2 capital instruments”	debt securities issued by a commercial bank, the claim of which ranks prior to its equity capital and after other debts in respect of repayment of principal and interest in the process of liquidation. Qualified subordinated bonds can be recognized as tier 2 capital
“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers” (農業、農村和農民)
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	our ordinary shares in the share capital with a nominal value of RMB1.00 each
“Shareholder(s)”	the holder(s) of the Shares
“SMEs”	the enterprises classified as micro-sized, small-sized and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
“Supervisor(s)”	our supervisor(s)

Definitions

“the Bank’s corporate loans to small enterprises”	the loans with a credit amount up to RMB30 million for each account provided by the Bank to enterprises, which are classified as medium, small and micro-sized under the Provisions for Classification Standards of Small and Medium-sized Enterprises
“UBS”	UBS AG, a company incorporated in Switzerland on June 29, 1998, which was combined of Union Bank of Switzerland and Swiss Bank Corporation, is a wholly-owned subsidiary of UBS Group AG and one of our shareholders
“VAT Transition”	the transition from paying business tax to value-added taxes
“VIP customers”	Our customer segmentation is primarily based on each customer’s personal financial assets and loan balances with us (collectively “consolidated assets”). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers
“Weibank”	One of our electronic banking service systems, providing banking services on internet social platforms including Wechat Bank, Easy Chat Bank and Weibo Bank

Definitions

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

Geographical locations	Branches	
“Yangtze River Delta”	<ul style="list-style-type: none"> • Shanghai Municipality • Zhejiang Province 	<ul style="list-style-type: none"> • Jiangsu Province • City of Ningbo
“Pearl River Delta”	<ul style="list-style-type: none"> • Guangdong Province • City of Shenzhen 	<ul style="list-style-type: none"> • Fujian Province • City of Xiamen
“Bohai Rim”	<ul style="list-style-type: none"> • Beijing Municipality • Tianjin Municipality • Hebei Province 	<ul style="list-style-type: none"> • Shandong Province • City of Qingdao
“Central China”	<ul style="list-style-type: none"> • Shanxi Province • Hubei Province • Henan Province • Hunan Province 	<ul style="list-style-type: none"> • Jiangxi Province • Hainan Province • Anhui Province
“Western China”	<ul style="list-style-type: none"> • Chongqing Municipality • Sichuan Province • Guizhou Province • Yunnan Province • Shaanxi Province • Gansu Province • Qinghai Province • Ningxia Autonomous Region 	<ul style="list-style-type: none"> • Xinjiang Autonomous Region • Tibet Autonomous Region • Inner Mongolia Autonomous Region • Guangxi Autonomous Region
“Northeastern China”	<ul style="list-style-type: none"> • Liaoning Province • Heilongjiang Province 	<ul style="list-style-type: none"> • Jilin Province • City of Dalian

Certain amounts and percentage figures included in this annual 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.

Basic Corporate Information

Legal name in Chinese:	中國郵政儲蓄銀行股份有限公司 (abbreviation in Chinese “中國郵政儲蓄銀行”)
Legal name in English:	“POSTAL SAVINGS BANK OF CHINA CO., LTD.” (abbreviation in English “POSTAL SAVINGS BANK OF CHINA”)
Legal representative:	Li Guohua
Chairman:	Li Guohua
President:	Lyu Jiajin
Registered address and place of business in the PRC:	No. 3 Financial Street, Xicheng District, Beijing
Postal code:	100808
Contact telephone number:	86-10-68858158
Fax:	86-10-68858165
E-mail:	ir@psbc.com
Principal place of business in Hong Kong:	18/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
Hotline for customer services and complaints:	86-95580
Website:	www.psbc.com
Unified credit code:	9111000071093465XC
Financial license institutional code:	B0018H111000001

Basic Corporate Information

Stock exchange on which H shares are listed:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC
Stock code:	1658
Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
Legal Advisor as to PRC Law:	Haiwen & Partners
Legal Advisor as to Hong Kong Law:	Davis Polk & Wardwell
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP
International auditor:	PricewaterhouseCoopers

Financial Summary

Financial Data and Indicators

(Financial data and indicators set out in this annual report have been prepared in accordance with the IFRS. Unless otherwise specified, they are consolidated data of our Bank and its subsidiary. This report is presented in RMB)

Key Financial Data

In RMB millions

Item	2016	2015	2014	2013
Annual operating results				
Operating income	189,602	190,633	173,875	145,234
Net interest income	157,586	179,259	167,816	138,973
Net fee and commission income	11,498	8,672	6,479	5,965
Operating expenses	129,772	123,610	114,126	101,466
Impairment losses on assets	16,902	25,635	20,412	8,674
Profit before income tax	42,928	41,388	39,337	35,094
Net profit	39,776	34,857	32,567	29,668
Net profit attributable to shareholders of the Bank	39,801	34,859	32,567	29,668
Net cash flow from operating activities	220,457	929,417	680,953	19,781

Financial Summary

In RMB millions

Item	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Data as at the end of the Reporting Period				
Total assets	8,265,622	7,296,364	6,298,325	5,574,451
Total loans to customers ⁽¹⁾	3,010,648	2,471,853	1,875,748	1,492,605
Allowance for impairment on loans	71,431	59,258	43,681	29,345
Loans to customers, net	2,939,217	2,412,595	1,832,067	1,463,260
Investment securities and other financial assets, net	3,463,841	2,986,667	1,580,222	1,277,441
Cash and deposits with central bank	1,310,273	1,131,231	1,389,759	1,225,708
Total liabilities	7,918,734	7,025,533	6,110,416	5,433,404
Customer deposits	7,286,311	6,305,014	5,802,946	5,206,468
Equity attributable to shareholders of the Bank	346,530	270,448	187,909	141,047
Net capital	444,919	329,848	211,744	160,529
Net core tier 1 capital	344,817	269,008	186,975	140,232
Additional tier 1 capital	6	1	—	—
Risk-weighted assets	3,995,908	3,153,015	2,214,818	1,816,168

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

Financial Summary

Financial Indicators

Item	2016	2015	2014	2013
Profitability (%)				
Return on average total assets ⁽¹⁾	0.51	0.51	0.55	0.57
Return on average net assets ⁽²⁾	12.88	15.20	19.80	23.19
Net interest margin ⁽³⁾	2.24	2.78	2.92	2.67
Net interest spread ⁽⁴⁾	2.34	2.71	2.87	2.66
Net fee and commission income to operating income	6.06	4.55	3.73	4.11
Cost-to-income ratio ⁽⁵⁾	66.44	60.71	60.95	65.57
Per share data (RMB)				
Basic earnings per share ⁽⁶⁾	0.55	0.61	0.69	0.66
Diluted earnings per share ⁽⁷⁾	0.55	0.61	0.69	0.66

Item	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Asset quality (%)				
Non-performing loan ratio ⁽⁸⁾	0.87	0.80	0.64	0.51
Allowance coverage ratio ⁽⁹⁾	271.69	298.15	364.10	382.94
Allowance to loan ratio ⁽¹⁰⁾	2.37	2.40	2.33	1.97
Capital adequacy ratio (%)				
Core tier 1 capital adequacy ratio ⁽¹¹⁾	8.63	8.53	8.44	7.72
Tier 1 capital adequacy ratio ⁽¹²⁾	8.63	8.53	8.44	7.72
Capital adequacy ratio ⁽¹³⁾	11.13	10.46	9.56	8.84
Risk-weighted assets to total assets ratio ⁽¹⁴⁾	48.34	43.21	35.17	32.58
Total equity to total assets ratio (%)				
	4.20	3.71	2.98	2.53

Financial Summary

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- (1) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
 - (2) Represents net profit for the period as a percentage of average balance of total equity at the beginning and the end of the period.
 - (3) Calculated by dividing net interest income by the average balance of interest-earning assets.
 - (4) Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
 - (5) Calculated by dividing total operating expenses (excluding tax and surcharges) by operating income.
 - (6) Calculated by dividing net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.
 - (7) There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.
 - (8) Calculated by dividing total non-performing loans by the total loans to customers.
 - (9) Calculated by dividing total allowance for impairment losses on loans by total non-performing loans to customers.
 - (10) Calculated by dividing total allowance for impairment losses on loans by total loans to customers.
 - (11) Calculated by dividing core tier 1 capital, net of core tier 1 capital deductions, by risk-weighted assets.
 - (12) Calculated by dividing tier 1 capital, net of tier 1 capital deductions, by risk-weighted assets.
 - (13) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
 - (14) Calculated by dividing risk-weighted assets by total assets.

Financial Summary

Other Major Indicators

Item	Regulatory Criteria	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Liquidity ratio (%) ⁽¹⁾	≥25	38.37	33.96	43.66	51.28
Loan exposure to one single customer (%) ⁽²⁾	≤10	44.34	73.70	114.87	151.52

Item		2016	2015	2014	2013
Loan migration ratio (%)	Normal	1.58	2.15	1.83	1.71
	Special mention	12.95	6.53	3.84	1.47
	Substandard	88.37	87.94	92.66	92.10
	Doubtful	80.28	81.94	91.45	97.73

- (1) Liquidity ratio = current assets/current liabilities×100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions due within one month, interest receivables and other payment receivables due within one month, eligible loans due within one month, bond investments due within one month, bond investments able to be liquidated at any time in domestic or international secondary markets and other assets able to be liquidated within one month (excluding non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), time deposits due within one month (excluding fiscal deposits), net placements and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interests payables and all kinds of payables due within one month, borrowings from central bank due within one month and other liabilities due within one month.
- (2) Loan exposure to one single customer = total loans to the largest customer/net capital×100%. Largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2016, China Railway Corporation was our largest single borrower, and the outstanding loan balance with China Railway Corporation was RMB197,263 million, representing 44.34% of our net capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which was approved by the CBRC. As of December 31, 2016, the outstanding loan balance under such credit approved by the CBRC for China Railway Corporation was RMB190.0 billion. After the deduction of this RMB190.0 billion, our loan balance with China Railway Corporation represented 1.63% of our net capital.

Honors and Awards

No.	Award	Issued by
1	<p>Excellent Institutional Quality Data Provider of the Consumer Credit Information System among Nationwide Commercial Banks in 2015 (全國性商業銀行2015年度個人徵信系統數據質量工作優秀機構)</p> <p>Our logic centralization system was awarded the second prize of 2015 Bank Technology Development Award (中國郵政儲蓄銀行儲蓄邏輯集中系統榮獲2015年銀行科技發展獎二等獎)</p>	PBOC
2	<p>Excellent Service Award (優秀服務獎)</p> <p>Pioneer Unit of Legal Risk Management in Banking Industry of China 2016 (2016年度中國銀行業法律風險管理工作先進單位)</p> <p>Innovation Award for Bank Cards Business 2015 (銀行卡業務2015年度創新獎)</p> <p>Outstanding Unit in Bank Cards Business (銀行卡行業優秀成員單位獎)</p> <p>Best Charity Contribution Award of Annual Social Responsibility (年度社會責任最佳公益慈善貢獻獎)</p> <p>Special Contribution of Outlet Award of Annual Best Social Responsibility (年度最佳社會責任特殊貢獻網點獎)</p> <p>Annual Charity Excellent Project Award (年度公益慈善優秀項目獎)</p>	China Banking Association
3	<p>Internet Finance Innovation Award 2016 (2016年網絡金融創新獎)</p> <p>The Best Mobile Banking Functions Award 2016 (2016年度最佳手機銀行功能獎)</p> <p>China Financial Marketing Golden Chestnuts Award 2016 (2016年度中國金融營銷金栗子獎)</p>	China Financial Certification Authority
4	<p>Excellent Customer Service Award (客戶服務突出獎)</p>	China UnionPay
5	<p>Internet lending products under the Internet + mode were awarded the prize of Top Ten China Internet Finance Innovation Award 2016 (「互聯網+」模式下的網貸產品榮獲2016中國金融十佳互聯網金融創新獎)</p>	The Banker (China)

Honors and Awards

No.	Award	Issued by
6	The Best Rural Finance (最佳農村金融)	Global Finance (U.S.)
7	Listed Company with the Best Brand Value (最具品牌價值上市公司)	Hong Kong Takung Wenwei Media Group (香港大公文匯傳媒集團)
8	Outstanding Social Responsibility Award 2016 (2016年社會責任傑出企業獎)	Xinhua.net
9	Outstanding Risk Management Bank in 2016 (2016年度卓越風險管理銀行)	21st Century Business Herald
	Outstanding Consumer Credit Service Bank 2016 (2016年度卓越消費信貸業務銀行)	
	The Strongest Publicity Capacity Commercial Bank 2016 (2016年度最具傳播力商業銀行)	
	Ranking 6th among “The Most Competitive Banks in Asia” (「亞洲銀行競爭力排名」第六名)	
10	Influential Financial Institute of the Year (年度影響力金融機構)	CBN
11	Outstanding Inclusive Finance Bank of the Year (年度卓越普惠金融銀行獎)	The Economic Observer
12	Outstanding Chinese Bank Award (傑出中資銀行獎)	China Finance Online
	Outstanding Retail Bank Award (傑出零售銀行獎)	
	Outstanding Credit Card Innovation Award (傑出信用卡創新獎)	
13	The Best Risk Management Bank of the Year (年度最佳風險管理銀行)	Financial Times
	Top 10 Institutions for Innovation in Internet Finance of the Year (年度十佳互聯網金融創新機構)	

Honors and Awards

No.	Award	Issued by
14	Golden Medal Large Commercial Bank of the Year (年度金牌大型商業銀行) Golden Medal Bank of Branding of the Year (年度金牌品牌力銀行) Golden Medal Bank of Financial Management of the Year (年度金牌理財力銀行) Golden Medal Bank of Mobile Service of the Year (年度金牌手機銀行)	Financial Money (金融理財)
15	2016 Bank of Social Responsibility (2016年度社會責任銀行)	China Times
16	Outstanding Community Financial Service Brand (優秀社區金融品牌) Outstanding Green Finance Brand (優秀綠色金融品牌)	National Business Daily
17	Bauhinia Award for Financial Brands in China (中國金融品牌紫荊花獎)	Sina.com
18	Bank with the Best Financial Services for SMEs in 2016 (2016年度最佳小微企業金融服務銀行) Best Branding of Banking Credit Product of 2016 (2016年度最佳銀行信貸產品品牌獎)	The Beijing News
19	Outstanding Retail Bank of Competitiveness in 2016 (2016卓越競爭力零售業務銀行)	China Business Journal
20	The Best IPO Award of 2016 (2016最佳IPO獎) Listed Company with the Best Brand Value (最具品牌價值上市公司)	China Financing



Li Guohua
Chairman

李国华

Message from the Chairman

2016 was a prominent year in the reform and development history of Postal Savings Bank of China. On September 28, Postal Savings Bank of China completed its initial public offering on the Main Board of the Hong Kong Stock Exchange. It symbolizes our Bank's successful implementation of the 3-step development strategy, namely transformation of ownership, introduction of strategic investors, and initial public offering, and a historical step forward changing from a state-owned commercial bank with a single shareholder into an international listed company with diverse shareholding.

Through the introduction of strategic investors and the listing of H shares, our Bank's profitability, corporate governance, risk control and business innovation and development capabilities were significantly enhanced.

As at the end of 2016, our Bank's total assets reached RMB8.27 trillion, representing an increase of RMB0.97 trillion, or by 13.28%, as compared to the end of the previous year; recorded a net profit of RMB39,776 million for the year, representing an increase of RMB4,919 million, or by 14.11%, as compared to the previous year; while the non-performing loan ratio was 0.87% and allowance coverage ratio was 271.69% at the year end, taking the leading position of the industry.

In 2016, our Bank was in full compliance with the regulatory requirements and the corporate governance institution rules to ensure the standardized corporate governance mechanism. The shareholders' general meeting is the principal platform for our Bank to leverage the contribution of the strategic investors on corporate governance; optimise the composition of the Board of Directors and the Board of Supervisors in order to enhance their decision-making and supervising ability; strengthen the advisory capability of the Board committees to enhance the decision-making capability in specialized areas of the Board; strengthen the supervisory and performance evaluation functions of the Board of Supervisors to establish a checking and balancing mechanism of decision making and implementing, to build our Bank into a contemporary one with sound corporate governance.

Message from the Chairman

In 2016, we upgraded our risk management capability, ensuring our core competence. Our Bank deeply collaborated with the strategic investors in introducing risk management philosophy, experiences and methods from the world's leading financial institutions. In the face of complex change in the international economic and financial situation, especially the new challenges brought by interest rate liberalization, RMB internationalization and comprehensive operation of commercial banks, our Bank will further enhance the risk management ability by continuously promoting risk management technique innovations, aiming to keep an industry leading risk management capability and endeavoring to make us a centennial bank with solid operation and sound risk management system.

In 2016, we actively engaged in multi-party cooperation to promote cross-sector integration in exploring new horizons. By borrowing the wisdom of the internet mindset, we invested efforts to establish the big data platform and the cloud platform etc. With the support of big data and internet technology, we adhere to our market position of serving the community, the SMEs and Sannong customers and the strategic position of a large retail bank. Leveraging the broad coverage and wide spectrum of our financial services, we made active explorations to boost the development of inclusive finance through internet technology.

2017 is a new beginning to start our journey to build a large international leading financial institution. On the occasion of the tenth anniversary of the establishment of the Bank, facing the complicated and challenging economic tendency and business situations globally and domestically, our Bank will further strengthen our comprehensive competitiveness, adhere to "One Body Two Wings" strategy, reinforce the advantage of core business, actively explore emerging business horizons, endeavor to boost basic support, and finally achieve sustainable development with the keen expectation from our investors.

Think broadly and act prudently. Listen eagerly and talk humbly. We believe, at this new starting point of our history, all of us will unitedly engage in the strategic layout of the national reform and development and maintain our strategic positioning. With a pragmatic and practical culture and pioneering and innovating spirits, considering Party building as leadership, we will boost our business to a new level, and better contribute to the economic and social development of our country.



Lyu Jiajin
President

吕家劲

Message from the President

In the previous year, in face of the complicated economic and financial environment and the arduous reform and development tasks, we adhered to a prudent and solid operational philosophy, considered building ourselves a first-tier large retail bank as the general direction, and actively adapted to the economic new normal, deepened reform, adjusted our structures, controlled risks in a strict manner, and successfully fulfilled all tasks and achieved remarkable results.

The asset grew rapidly and the profitability rose steadily. As at the end of 2016, our Bank's asset amounted to RMB8,270 billion, representing an increase of 13.28% as compared to the previous year. Total deposit balance amounted to RMB7.29 trillion, representing an increase of 15.56% as compared to the previous year. Total loans to customers amounted to RMB3.01 trillion, representing an increase of 21.80% as compared to the previous year. Profits before income tax for the year amounted to RMB42,928 million, representing an increase of 3.72% as compared to the previous year; net profits amounted to RMB39,776 million, representing an increase of 14.11% as compared to the previous year.

Deepening reform was speeded up and the development momentum was fully inspired. We completed our initial public offering of H Shares which attracted enormous investments from renowned overseas and domestic investors, raising HKD59.15 billion, which was the largest IPO project in the last two years globally, and effectively enhanced our corporate governance and comprehensive competitiveness. Carrying forward the independent business line reform, we set up Sannong Finance Department to further enlarge, strengthen and specialize our proficiency of providing Sannong financial services. The comprehensive operation arrangement accelerated. PSBC Consumer Finance has made a good start in its business development and risk management, and we proactively applied for the incorporation of PSBC Financial Leasing Company (中郵金融租賃有限公司(籌)).

Message from the President

Transformation development demonstrated fruitful achievements, and the business structure was constantly optimized. Retail finance business remained stable with positive progress. Our personal deposits increased by RMB823,536 million or 15.29% as compared to the end of the previous year; we intensively promoted the cooperation platform among government, banks and guarantors, to contribute efforts into serving contemporary agriculture and increase the scale of loans to new agriculture operation entities; developed small and micro finance businesses of “Innovation and Entrepreneurship” related to the fields of people’s livelihood and government-bank cooperation, accelerated transformation of traditional financial businesses; formed the “Family One (郵你有家)” enterprises alliance in the consumer industry and launched a “Cheer up for your happiness (幸福•加郵)” thematic marketing campaign, increasing personal consumer loan by RMB364,723 million, representing an increase of 49.49% as compared to the end of the previous year, leaving a balance over RMB1 trillion. With the corporate financial services expanding rapidly, corporate deposits increased by RMB157,417 million, representing an increase of 17.16% as compared to the end of the previous year; prioritized corporate loans national strategic industries and emerging industries, promoted linkage between investment, loans and debts to meet the diverse fundraising needs of clients and increased by RMB98,412 million, representing an increase of 10.03% as compared to the end of the previous year. Financial market business created the “financing + intelligence” business model in line with the supply-side structural reform, and actively served to stabilize growth, adjust structure, benefit the people and prevent risks. The Bank fully initiated the internet finance development plan and emphasized the establishment of “PSBC e-loan” product series, with doubled trading volume of e-payment.

Risk management mechanism produced remarkable results, and the quality of asset remained superior. We widely promoted comprehensive risk management system, enhanced capital constraints, determined the risk preferences and risk management policy, optimized the mechanism of dynamic adjustment of risk quota; promoted reasonable asset allocation, optimized asset quality control, implemented the dual control mechanism on the increase and balance of non-performing loans, prudently and fully accrued impairment allowance; actively established the internal ratings system and risk data mart to improve quantitative risk management standard and decision-making supporting ability; steadfastly carried forward the building of internal control system and continuously reinforced the basis of internal control management. As of the end of 2016, our non-performing loan ratio was 0.87%, allowance coverage ratio was 271.69%, reflecting the superior asset quality.

Message from the President

→ **Operation Capability was continuously enhanced, and management efficiency fully enhanced.** We actively carried out independent technological innovation to promote the Thirteenth Five Year IT Plan construction, and successfully put forward 94 key projects including the internet finance cloud platform and retail loan factory. We realized a groundbreaking progress in block-chain technique application and our software development center was certified by the international CMMI3 accreditation. We kept the overall information technology risk under control and maintained a comparable high successful trading rate of core business systems. We reinforced asset and liability coordination management, enhanced the linkage between asset allocation and capital constraint. We facilitated the coordinative and stable growth among asset and liability, risk and income. We perfected interest rate management mechanism and launched a pricing management system and optimized structuring approach of the FTP curve, strengthening the pricing ability in a practical manner. By optimizing budget management measurement, we strengthened the centralized management of financial capital, and actively promoted financial management transformation, which aggregately lead to a firm foundation for financial management with outstanding benefits.

In 2017, we will stick to our large retail bank positioning and adapt to the economic new normal, insist on pursuing progress in a stable growth, firmly build up a value creation philosophy, consider accelerating the transformation as the general requirement, improving quality and efficiency as the overall goal, and the reform as our motivation; so as to increase income, lower cost, control risks, improve technology and strive to build up an outstanding listed bank!



Chen Yuejun

Chairman of the Board of Supervisors

陈永军

Discussion and Analysis

ENVIRONMENT AND PROSPECTS

In 2016, the overall global economy showed a warm-up tendency with an accelerating growth rate. Meanwhile, the volatility of financial markets increased, and the level of geopolitical uncertainty became more intensive. The U.S. labour market remained stable, and the price level rebounded, representing a positive sign of economic recovery. Eurozone saw a good momentum on economic recovery, and the pressure of deflation was slightly relieved, yet the refugee problems and risks in the banking industry still stress on the sustainability of its economic recovery. Japan maintained its monetary easing policies and its economic continued to recover, yet its endogenous economic growth momentum was still weak, and the appreciation of Yen affected its export growth and industrial production, as such the economic growth met obstacles. Looking forward to 2017, the pace of global economic recovery is expected to speed up, but the global market is still subject to considerable uncertainties, especially possible turmoil resulted from eco-political events in Europe and the U.S. including Brexit, general elections in Germany, Italy and France, the changes of political situation in the U.S., as well as the accelerated schedule of the U.S. Federal Reserve interest rate like. According to the forecasts of the World Economic Outlook published by the International Monetary Fund (IMF) in January 2017, the global economy growth rate in 2017 was projected to be 3.4%, representing an increase of 0.3 percentage points as compared to 2016.

In 2016, China's economy slowed down but remained stable with robust development momentum, which performed within a reasonable range with enhanced quality and efficiency. Annual gross domestic product (GDP) amounted to RMB74.4 trillion, representing an increase of 6.7% as compared to the previous year. Consumer prices showed moderate increase, and CPI recorded an increase of 2.0% as compared to the previous year, falling within the target range set by the government. The economic structure was continuously optimized, and the GDP contribution of the service sector increased to 51.6%, representing an increase of 1.4 percentage points as compared to 2015. The consumption contributed 64.6% of the economic growth, representing an increase of 4.9 percentage points as compared to 2015. With accelerated implementation of supply-side structural reforms, substantial progress was achieved in the course of cutting excessive capacity, destocking and deleveraging, reducing cost and shore-up weakness.

Discussion and Analysis

The PBOC continued to implement robust monetary policies, maintained flexible and moderate policies, and focused on stabilizing market expectation, so as to create a monetary and financial environment in favor of supply-side structural reforms. In respect of operation modes, liquidity was provided to the market by, among others, regular open market operations, medium-term lending facilities, standing lending facilities and pledged supplementary lendings. Following further implementation of the reform of RMB exchange rate determination mechanism, the determination mechanism of the RMB's central parity rate of RMB against the US dollar, which takes into account closing rate and changes in the exchange rates of a basket of currencies, has been initially established.

Discussion and Analysis

In 2016, Chinese banking industry of China operated in steady and assets grew strongly. Meanwhile, the assets quality stabilized and the risk resistance capacity enhanced continuously. These collectively represented a sound start of the Thirteenth Five Year Plan. As of the end of 2016, the total assets in domestic and foreign currency of the financial institutions of the banking industry amounted to RMB232.25 trillion, representing an increase of 15.8% as compared to the previous year and an increase of 0.13 percentage points in the growth rate as compared to the previous year. The non-performing loan ratio was 1.91%, representing a decrease of 0.02 percentage points as compared to the previous year. The allowance coverage ratio of commercial banks was 176.4%, the loan coverage ratio was 3.08% and the capital adequacy ratio was 13.28%. All of these figures basically remained similar as the previous year, and the systematic risk of the banking industry was generally under control.

Year 2017 represents an important year for the implementation of the “13th Five Year Plan”, as well as for the deepening of supply-side structural reforms. China’s economy is expected to maintain steady growth. The World Economic Outlook published by IMF in January 2017 anticipated that China’s GDP will grow by 6.5% in 2017, up 0.3 percentage points as compared to the forecast made in October 2016. It is expected that the PBOC will continue to implement robust and neutral monetary policy, and the liquidity will basically remain stable. The reform of RMB exchange rate determination mechanism is expected to be further facilitated.

In 2016, our Bank launched its initial public offering in Hong Kong. The scale of our global offering was the largest initial public offering (IPO) worldwide in the past two years, marking our successful implementation of a 3-step reform roadmap, namely transformation of ownership, introduction of strategic investors and initial public offering. Currently, reforms and development of banking industry are still confronted with stiff and complicated domestic and international economic environments. In 2017, leveraging our successful listing, we will adhere to our strategic positioning as a large retail bank, as well as further improve our corporate governance, continue to consolidate our foundation and accelerate our transformation to make new development progress.

Discussion and Analysis

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

In 2016, focusing on becoming a first-tier large retail bank, we took the initiatives to adapt the economic new normal, deepen our reform, refine structure and strengthen risk control. We recorded a net profit of RMB39,776 million, representing an increase of RMB4,919 million, or by 14.11%, as compared to the previous year. We obtained stable growth in earnings mainly due to optimizing our business structure, proactively expanding customer base, enhancing product innovation and exploring new sources of non-interest income. Meanwhile, we upheld prudent and stable credit risk management policies and adjusted the investment structure, which resulted in a decrease in impairment losses on assets. However, due to the impact from external environment, our net interest income decreased.

Changes of Key Comprehensive Income Statement Items

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Change (%)
Net interest income	157,586	179,259	(21,673)	(12.09)
Net fee and commission income	11,498	8,672	2,826	32.59
Other non-interest income	20,518	2,702	17,816	659.36
Operating income	189,602	190,633	(1,031)	(0.54)
Less: Operating expenses	129,772	123,610	6,162	4.99
Impairment losses on assets	16,902	25,635	(8,733)	(34.07)
Profit before income tax	42,928	41,388	1,540	3.72
Less: Income tax expenses	3,152	6,531	(3,379)	(51.74)
Net profit	39,776	34,857	4,919	14.11
Attributable to Shareholders of the Bank	39,801	34,859	4,942	14.18
Attributable to non-controlling interests	(25)	(2)	(23)	(1,150.00)
Other comprehensive income	(4,845)	2,637	(7,482)	(283.73)
Total comprehensive income	34,955	37,397	(2,442)	(6.53)

Net Interest Income

During the reporting period, our net interest income was RMB157,586 million, representing a decrease of RMB21,673 million, or by 12.09%, as compared to the previous year. In 2016, our net interest margin and net interest spread was 2.24% and 2.34%, respectively, representing decreases of 54 basis points and 37 basis points, as compared to the previous year. The decreases in net interest margin and net interest spread were primarily due to the consecutive cuts in benchmark interest rates by the central bank, which resulted in lower interest rates for new loans extended during the reporting period and the re-pricing of existing loans, and the separation of price and tax of interest income as a result of VAT Transition.

Discussion and Analysis

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

In millions of RMB, except for percentages

Item	2016			2015		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Assets						
Total loans to customers	2,699,198	134,905	5.00	2,235,188	139,417	6.24
Fixed-income investments ⁽¹⁾	2,498,930	98,215	3.93	1,796,935	81,742	4.55
Deposits with central bank ⁽²⁾	1,225,068	19,322	1.58	1,284,596	23,963	1.87
Amounts due from banks and other financial institutions ⁽³⁾	617,569	25,756	4.17	1,137,768	55,439	4.87
Total interest-earning assets	7,040,765	278,198	3.95	6,454,487	300,561	4.65
Allowance for assets impairment	(49,290)	—	—	(56,282)	—	—
Non-interest earning assets ⁽⁴⁾	1,067,416	—	—	224,813	—	—
Total assets	8,058,891	—	—	6,623,018	—	—
Liabilities						
Customer deposits	6,853,286	102,197	1.49	6,066,394	117,184	1.93
Amounts due to banks and other financial institutions ⁽⁵⁾	608,396	17,113	2.81	169,137	3,770	2.23
Debt securities issued ⁽⁶⁾	30,246	1,302	4.30	7,740	348	4.50
Total interest-bearing liabilities	7,491,928	120,612	1.61	6,243,271	121,302	1.94
Non-interest bearing liabilities ⁽⁷⁾	124,775	—	—	129,999	—	—
Total liabilities	7,616,703	—	—	6,373,270	—	—
Net interest income	—	157,586	—	—	179,259	—
Net interest spread⁽⁸⁾	—	—	2.34	—	—	2.71
Net interest margin⁽⁹⁾	—	—	2.24	—	—	2.78

Discussion and Analysis

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- (1) Consists of fixed income investments held by the Bank and classified as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.
 - (2) Consists of statutory deposit reserves, surplus deposit reserves, special deposits and fiscal deposits.
 - (3) Consists of deposits with banks and other financial institutions, financial assets held under resale agreements and placements with banks and other financial institutions.
 - (4) Consists primarily of cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred tax assets and other assets.
 - (5) Consists of deposits from banks and other financial institutions, financial assets sold under repurchase agreements and placements from banks and other financial institutions.
 - (6) Consists of qualified tier 2 capital instruments issued.
 - (7) Consists primarily of derivative financial liabilities, employee benefits payable, payables for agency services, taxes payable, interest payables and other liabilities.
 - (8) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
 - (9) Calculated by dividing net interest income by the average balance of total interest-earning assets.

Discussion and Analysis

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

In millions of RMB

Item	2016 vs 2015		Total ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Assets			
Gross loans to customers	23,191	(27,703)	(4,512)
Fixed-income investments	27,590	(11,117)	16,473
Deposits with central bank	(939)	(3,702)	(4,641)
Amounts due from banks and other financial institutions	(22,346)	(7,337)	(29,683)
Changes in interest income	27,497	(49,860)	(22,363)
Liabilities			
Customer deposits	11,734	(26,721)	(14,987)
Amounts due to banks and other financial institutions	12,303	1,040	13,343
Debt securities issued	969	(15)	954
Changes in interest expense	25,006	(25,696)	(690)
Changes in net interest income	2,491	(24,164)	(21,673)

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the period.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

During the reporting period, the Bank's interest income amounted to RMB278,198 million, representing a decrease of RMB22,363 million, or by 7.44%, as compared to the previous year, primarily due to a decrease in the average yield of 70 basis points, which was partially offset by an increase of RMB568,278 million in the average balance of interest-earning assets.

Discussion and Analysis

Interest Income from Loans to Customers

During the reporting period, interest income from loans to customers amounted to RMB134,905 million, representing a decrease of RMB4,512 million, or by 3.24%, as compared to the previous year, primarily due to a decrease of 124 basis points in the average yield, which was partially offset by an increase of RMB464,010 million in the average balance of loans to customers.

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

In millions of RMB, except for percentages

Item	2016			2015		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,040,431	46,185	4.44	901,759	49,548	5.49
Discounted bills	318,764	10,689	3.35	223,748	10,633	4.75
Personal loans	1,340,004	78,031	5.82	1,109,682	79,236	7.14
Total loans to customers	2,699,198	134,905	5.00	2,235,188	139,417	6.24

In terms of business lines, during the reporting period, interest income from corporate loans amounted to RMB46,185 million, representing a decrease of RMB3,363 million, or by 6.79%, as compared to the previous year. Interest income from personal loans amounted to RMB78,031 million, representing a decrease of RMB1,205 million, or by 1.52%, as compared to the previous year. The decline in interest income from corporate and personal loans was mainly due to the decrease in the average yield on loans, which was partially offset by the increase in the average balance of loans to customers. The decline in the average yield on corporate and personal loans was primarily due to the lower interest rates for new loans during the reporting period and the re-pricing of existing loans as well as a decrease in interest income from loans to customers, and the separation of price and tax of interest income of customer loan as a result of VAT Transition.

Discussion and Analysis

Interest Income from Fixed Income Investments

During the reporting period, interest income from fixed income investments amounted to RMB98,215 million, representing an increase of RMB16,473 million, or by 20.15%, as compared to the previous year, primarily due to an increase in the average balance, which was partially offset by a decline in average yield. The decrease of 62 basis points in the yield on investments was primarily due to the decline in the yield on our debt securities with floating interest rates as a result of consecutive cuts in benchmark interest rates by the central bank, and the fact that the yields on interbank investment products we newly invested in 2016 were lower than those in the previous year as a result of the decreased market interest rates.

Interest Income from Deposits with Central Bank

During the reporting period, interest income from deposits with central bank amounted to RMB19,322 million, representing a decrease of RMB4,641 million, or by 19.37%, as compared to the previous year, primarily because all of our Bank's special deposits with the central bank with a higher interest rate became due in 2015.

Interest Income from Amounts Due from Banks and Other Financial Institutions

During the reporting period, interest income from amounts due from banks and other financial institutions amounted to RMB25,756 million, representing a decrease of RMB29,683 million, or by 53.54%, as compared to the previous year, primarily due to a decrease of RMB520,199 million in the average balance of amounts due from banks and other financial institutions, and a decrease of 70 basis points in the average yield as compared to the previous year. The decrease in the average balance was primarily due to the active adjustment in the structure of assets and liabilities by allocating the funds under our interbank deposits and placements to assets with higher returns when they became due, and the decline of funding needs of banks and other financial institutions as a result of the adequate market liquidity. The decrease in the average yield was primarily attributable to the decreased interbank market interest rates as a result of the consecutive cuts in benchmark interest rates by the central bank and adequate market liquidity.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB120,612 million, representing a decrease of RMB690 million, or by 0.57%, as compared to the previous year, primarily due to a decrease in the average cost of 33 basis points, which was partially offset by an increase of RMB1,248,657 million in the average balance of interest-bearing liabilities.

Discussion and Analysis

Interest Expense on Customer Deposits

During the reporting period, interest expense on customer deposits amounted to RMB102,197 million, accounting for 84.73% of total interest expense and representing a decrease of RMB14,987 million, or by 12.79%, as compared to the previous year, primarily due to a decrease in the average cost of customer deposits, which was partially offset by an increase in the average balance of customer deposits. The decline in average cost was mainly due to the effect of consecutive cuts in the benchmark interest rates by the central bank.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	2016			2015		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	323,006	7,525	2.33	255,003	7,714	3.03
Demand	683,353	4,624	0.68	564,159	4,184	0.74
Subtotal	1,006,359	12,149	1.21	819,162	11,898	1.45
Personal deposits						
Time	3,723,509	83,584	2.24	3,353,551	98,837	2.95
Demand ⁽¹⁾	2,123,418	6,464	0.30	1,893,681	6,449	0.34
Subtotal	5,846,927	90,048	1.54	5,247,232	105,286	2.01
Total customer deposits	6,853,286	102,197	1.49	6,066,394	117,184	1.93

(1) Inclusive of credit card deposits.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

During the reporting period, interest expense on amounts due to banks and other financial institutions amounted to RMB17,113 million, representing an increase of RMB13,343 million, or by 353.93%, as compared to the previous year, primarily due to an increase in the average balance of amounts due to banks and other financial institutions. The increase in the average balance was primarily due to our increased interbank borrowing, to maintain a coordinated growth in our liabilities with our assets for the purpose of liquidity management according to market liquidity conditions.

Discussion and Analysis

Interest Expense on Debt Securities Issued

During the reporting period, interest expense on debt securities issued amounted to RMB1,302 million, representing an increase of RMB954 million, or by 274.14%, as compared to the previous year, primarily due to our issuance of qualified tier 2 capital instruments of RMB25 billion and RMB30 billion in 2015 and 2016 respectively.

Net Fee and Commission Income

During the reporting period, the Bank proactively carried out fee- and commission-based businesses. The Bank realized net fee and commission income of RMB11,498 million, representing an increase of RMB2,826 million, or by 32.59%, as compared to the previous year, which accounted for 6.06% of the operating income, representing an increase of 1.51 percentage points, as compared to the previous year.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Change (%)
Settlement and clearing fee income	5,640	5,525	115	2.08
Bank cards and POS fee income	5,041	4,634	407	8.78
Wealth management fee income	4,390	2,161	2,229	103.15
Agency service fee income	3,599	2,260	1,339	59.25
Custodian business income	957	506	451	89.13
Other	1,388	1,186	202	17.03
Fee and commission income	21,015	16,272	4,743	29.15
Less: Fee and commission expense	9,517	7,600	1,917	25.22
Net fee and commission income	11,498	8,672	2,826	32.59

During the reporting period, settlement and clearing fee income amounted to RMB5,640 million, representing an increase of RMB115 million, or by 2.08%, as compared to the previous year.

During the reporting period, bank cards and POS fee income amounted to RMB5,041 million, representing an increase of RMB407 million, or by 8.78%, as compared to the previous year. The increase was primarily due to our continuous efforts to develop bank card business with an increase in the number of cards in circulation, issued, transaction volume and installment business.

Discussion and Analysis

During the reporting period, wealth management fee income amounted to RMB4,390 million, representing an increase of RMB2,229 million, or by 103.15%, as compared to the previous year, primarily due to the increase in the volume of wealth management business and the improvement in our comprehensive service abilities.

During the reporting period, agency service fee income amounted to RMB3,599 million, representing an increase of RMB1,339 million, or by 59.25%, as compared to the previous year, primarily due to the extensive growth of the agency business scope with a higher service fee rate.

During the reporting period, custodian business income amounted to RMB957 million, representing an increase of RMB451 million, or by 89.13%, as compared to the previous year, primarily due to an increase in the assets under our custody, as a result of our increased efforts in continuous development of maturity channels for the custodian business system and the rapid expansion in the asset custodian scale.

During the reporting period, other fee and commission income amounted to RMB1,388 million, representing an increase of RMB202 million, or by 17.03%, as compared to the previous year.

During the reporting period, fee and commission expense amounted to RMB9,517 million, representing an increase of RMB1,917 million, or by 25.22%, as compared to the previous year, primarily due to an increase in the number of financial products distributed by China Post Group on behalf of the Bank.

Other Non-Interest Income

During the reporting period, the Bank realized other non-interest income of RMB20,518 million, representing an increase of RMB17,816 million, or by 659.36%, as compared to the previous year.

Discussion and Analysis

Components of Other Non-Interest Income

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Change (%)
Net trading gains	664	275	389	141.45
Net gains on securities investment	15,479	946	14,533	1,536.26
Other operating income	4,375	1,481	2,894	195.41
Total	20,518	2,702	17,816	659.36

During the reporting period, net trading gains amounted to RMB664 million, representing an increase of RMB389 million, as compared to the previous year, primarily due to an increase in gains on trading of the bonds held for trading and negotiable certificates of deposits.

During the reporting period, net gains on investment securities amounted to RMB15,479 million, representing an increase of RMB14,533 million, as compared to the previous year, primarily due to an increase in gains on investments in money market funds and commercial bank wealth management products.

During the reporting period, other operating income amounted to RMB4,375 million, representing an increase of RMB2,894 million, as compared to the previous year, primarily due to an increase in exchange gains.

Operating Expenses

During the reporting period, our operating expenses amounted to RMB129,772 million, representing an increase of RMB6,162 million, or by 4.99%, as compared to the previous year. Deposit agency fee costs increased by 12.96%, reflecting the increased customer deposits taken through agency outlets. Meanwhile, staff costs increased by 7.04%, and other general operating and administrative expenses increased by 4.04%. Our cost-to-income ratio was 66.44%, representing an increase of 5.73 percentage points as compared to the previous year.

Discussion and Analysis

Composition of the Operating Expenses

In millions of RMB, except for percentages

Item	2016	2015	Increase/ (decrease)	Change (%)
Staff costs	36,579	34,172	2,407	7.04
Deposit agency fee costs	61,446	54,397	7,049	12.96
Other general operating and administrative expenses	20,175	19,392	783	4.04
Taxes and surcharges	3,794	7,886	(4,092)	(51.89)
Depreciation and amortization	4,690	4,817	(127)	(2.64)
Others	3,088	2,946	142	4.82
Total operating expenses	129,772	123,610	6,162	4.99
Cost-to-income ratio (%) ⁽¹⁾	66.44	60.71	5.73	—

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

Impairment Losses on Assets

During the reporting period, our impairment losses amounted to RMB16,902 million, representing a decrease of RMB8,733 million, as compared to the previous year, primarily due to maturity of certain investments classified as receivables. We wrote back part of the allowance for impairment on assets as a result of the review and reassessment of the risk profiles of placements with banks and other financial institutions.

Income Tax Expenses

During the reporting period, our income tax expenses amounted to RMB3,152 million. The effective tax rate was 7.34%, lower than the statutory tax rate of 25%, primarily reflecting the effect of tax reduction and exemption part of the interest income from PRC government bonds, local government bonds, railway construction bonds, long-term special financial bonds and micro loans to farmers.

Segment Information

We manage our business from the business lines perspectives and geographical regions.

Discussion and Analysis

Operating Income by Business Segment

In millions of RMB, except for percentages

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	137,001	72.26	128,204	67.25
Corporate banking	36,248	19.12	33,648	17.65
Treasury business	15,951	8.41	28,341	14.87
Others	402	0.21	440	0.23
Total operating income	189,602	100.00	190,633	100.00

For further details of relevant business segment, please refer to “Discussion and Analysis – Business Overview”.

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	2016		2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	11,274	5.95	23,661	12.42
Yangtze River Delta	26,206	13.83	24,724	12.97
Pearl River Delta	20,709	10.92	19,601	10.28
Bohai Rim	26,323	13.88	24,238	12.71
Central China	50,032	26.39	46,070	24.17
Western China	39,882	21.03	37,218	19.52
Northeastern China	15,176	8.00	15,121	7.93
Total operating income	189,602	100.00	190,633	100.00

Discussion and Analysis

Balance Sheet Analysis

Assets

As of the end of the reporting period, our total assets amounted to RMB8,265,622 million, representing an increase of RMB969,258 million, or by 13.28%, as compared to the end of the previous year. Total loans to customers increased by RMB538,795 million, or 21.80%, as compared to the end of the previous year. Net investment securities and other financial assets increased by RMB477,174 million, or 15.98%, as compared to the end of the previous year. Cash and deposits with central bank increased by RMB179,042 million, or 15.83%, as compared to the end of the previous year. Deposits and placements with banks and other financial institutions decreased by RMB155,559 million, or 29.65%, as compared to the end of the previous year. Financial assets held under resale agreements decreased by RMB75,737 million, or 50.88%, as compared to the end of the previous year. In terms of assets structure, net loans to customers accounted for 35.56% of total assets, net investment securities and other financial assets accounted for 41.91% of total assets, cash and deposits with central bank accounted for 15.85% of total assets, deposits and placements with banks and other financial institutions accounted for 4.47% of total assets, and financial assets held under resale agreements accounted for 0.88% of total assets.

Discussion and Analysis

Key Items of Assets

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans to customers	3,010,648	—	2,471,853	—
Less: Allowance for impairment on loans	71,431	—	59,258	—
Loans to customers, net	2,939,217	35.56	2,412,595	33.07
Investment securities and other financial assets, net ⁽¹⁾	3,463,841	41.91	2,986,667	40.93
Cash and deposits with central bank	1,310,273	15.85	1,131,231	15.50
Deposits with banks and other financial institutions	175,776	2.13	324,137	4.44
Placements with banks and other financial institutions ⁽²⁾	193,287	2.34	200,485	2.75
Financial assets held under resale agreements	73,131	0.88	148,868	2.04
Other assets ⁽³⁾	110,097	1.33	92,381	1.27
Total assets	8,265,622	100.00	7,296,364	100.00

(1) Investment securities and other financial assets consist of investment classified as receivables, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets, net of the related allowance for impairment losses.

(2) Placements with banks and other financial institutions are net of the related allowance for impairment.

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

Loans to Customers

As of the end of the reporting period, our total loans to customers amounted to RMB3,010,648 million, representing an increase of RMB538,795 million, or by 21.80%, as compared to the end of the previous year.

Discussion and Analysis

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	1,079,392	35.85	980,980	39.69
Discounted bills	349,081	11.60	268,303	10.85
Personal loans	1,582,175	52.55	1,222,570	49.46
Total loans to customers	3,010,648	100.00	2,471,853	100.00

As of the end of the reporting period, our total corporate loans amounted to RMB1,079,392 million, representing an increase of RMB98,412 million, or by 10.03%, as compared to the end of the previous year, primarily due to our active support to large national projects and carrying forward the implementation of national strategic layout. Meanwhile, we adapted to the adjustment of the economic structure and gave impetus to the national strategic industries and the emerging industries.

As of the end of the reporting period, our total discounted bills amounted to RMB349,081 million, representing an increase of RMB80,778 million, or by 30.11%, as compared to the end of the previous year, primarily reflecting our moderate growth discounted bills in a moderate manner in response to the increasing customers' demand.

As of the end of the reporting period, our total personal loans amounted to RMB1,582,175 million, representing an increase of RMB359,605 million, or by 29.41%, as compared to the end of the previous year, primarily due to the increase in residential mortgage loans to meet the increasing demand in the market.

Discussion and Analysis

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	317,722	29.44	356,956	36.39
Manufacturing	181,917	16.85	152,310	15.53
Financial services	161,012	14.92	86,576	8.83
Production and supply of electricity, heating, gas and water	132,157	12.24	134,484	13.71
Wholesale and retail	56,937	5.27	58,722	5.99
Construction	54,450	5.05	40,255	4.10
Mining	47,631	4.41	41,712	4.25
Real estate	39,881	3.70	41,113	4.19
Management of water conservancy, environmental and public facilities	36,751	3.40	31,727	3.23
Others ⁽¹⁾	50,934	4.72	37,125	3.78
Total	1,079,392	100.00	980,980	100.00

(1) Others consists of leasing and commercial services, agriculture, forestry, animal husbandry and fishery, information transmission, computer services and software, etc.

As of the end of the reporting period, the top five industries to which we extended corporate loans were transportation, storage and postal services, manufacturing, financial services, production and supply of electricity, heating, gas and water, and wholesale and retail. The balance of loans extended to the top five industries accounted for 78.72% of total corporate loans, representing a decrease of 1.71 percentage points as compared to the end of the previous year.

Discussion and Analysis

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Consumer loans				
Residential mortgage loans	903,967	57.13	577,256	47.22
Other consumer loans	197,695	12.50	159,683	13.06
Personal business loans	288,370	18.23	304,930	24.94
Micro loans	139,239	8.80	136,207	11.14
Credit card overdrafts and others	52,904	3.34	44,494	3.64
Total personal loans	1,582,175	100.00	1,222,570	100.00

During the reporting period, our Bank's personal loans increased by RMB359,605 million, or 29.41%, primarily due to the increase in residential mortgage loans of RMB326,711 million, or by 56.60%. Other consumer loans increased by RMB38,012 million, or 23.80%.

As of the end of the reporting period, our Bank's residential mortgage loans balance amounted to RMB903,967 million, representing an increase of RMB326,711 million, or by 56.60%, as compared to the end of the previous year, primarily due to our active support of households' financing needs to purchase residential properties in view of the ever-increasing market demand.

As of the end of the reporting period, other consumer loans balance amounted to RMB197,695 million, representing an increase of RMB38,012 million, or by 23.80%, as compared to the end of the previous year, primarily due to our continuous efforts in diversificating consumer loan products to meet consumers' multi-level demands.

Discussion and Analysis

Distribution of Customer Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	246,633	8.19	287,598	11.63
Yangtze River Delta	540,236	17.94	396,183	16.03
Pearl River Delta	321,097	10.67	271,485	10.98
Bohai Rim	460,587	15.30	363,593	14.71
Central China	676,974	22.49	508,398	20.57
Western China	540,762	17.96	458,173	18.54
Northeastern China	224,359	7.45	186,423	7.54
Total loans to customers	3,010,648	100.00	2,471,853	100.00

Investment Securities and Other Financial Assets

Our investment securities and other financial assets are major components of our total assets. As of the end of the reporting period, our investment securities and other financial assets (net of allowance for impairment) amounted to RMB3,463,841 million, representing 41.91% of our total assets and an increase of RMB477,174 million, or by 15.98%, as compared to the end of the previous year.

Investment Structure by Type of Investment Instrument

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt instruments	2,541,586	73.37	2,723,005	91.17
Equity instruments	922,255	26.63	263,662	8.83
Total	3,463,841	100.00	2,986,667	100.00

Discussion and Analysis

As of the end of the reporting period, the debt instruments decreased by RMB181,419 million, or 6.66%, as compared to the end of the previous year; the equity instruments increased by RMB658,593 million, or 249.79%, primarily due to our increased investments in wealth management products issued by commercial bank.

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Debt securities	2,099,383	60.61	1,874,852	62.78
Government bonds	552,222	15.94	396,339	13.27
Debt securities issued by public institutions and quasi-government	570	0.02	570	0.02
Debt securities issued by financial institutions	1,473,371	42.54	1,408,485	47.16
Debt securities issued by corporates	73,220	2.11	69,458	2.33
Negotiable certificates of deposit	46,128	1.33	18,526	0.62
Commercial bank wealth management products	708,676	20.46	326,581	10.93
Asset management plans	253,370	7.31	285,426	9.56
Trust investment plans	171,152	4.94	228,317	7.64
Securities investment funds	172,696	4.99	246,103	8.24
Others	12,436	0.36	6,862	0.23
Total	3,463,841	100.00	2,986,667	100.00

During the reporting period, from the perspective of the structure of issuers, we seized the opportunity in the market to increase investments in commercial bank wealth management products, and our major counterparties are large commercial banks and joint-stock commercial banks. Meanwhile, we moderately increased our investments in local government bonds moderately to support regional economic development.

Discussion and Analysis

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	—	—	—	—
Less than 3 months	30,865	1.47	37,472	2.00
Over 3 months up to 12 months	178,809	8.52	69,223	3.69
Over 1 year up to 5 years	748,205	35.64	618,015	32.96
More than 5 years	1,141,504	54.37	1,150,142	61.35
Total	2,099,383	100.00	1,874,852	100.00

As of the end of the reporting period, our investments in debt securities due in less than 3 months as a percentage of our total investment in debt securities decreased by 0.53 percentage points, investments in debt securities due in over 3 months up to 12 months increased by 4.83 percentage points, and investments in debt securities due in over 1 year decreased by 4.30 percentage points, as compared to the end of the previous year.

During the reporting period, the proportion of our debt securities investments with remaining maturities of more than 5 years declined, while that with remaining maturities of 1–5 years increased, primarily due to the fact that as time passes, the remaining maturities of certain debt securities naturally shorten to less than 5 years, and also due to the effect of the structure of the new local government bond investments.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Renminbi	2,085,377	99.33	1,873,163	99.91
Foreign currencies	14,006	0.67	1,689	0.09
Total	2,099,383	100.00	1,874,852	100.00

Discussion and Analysis

As of the end of the reporting period, our Bank's debt securities denominated in Renminbi increased by RMB212,214 million, or 11.33%, as compared to the end of the previous year; and debt securities denominated in foreign currencies increased by RMB12,317 million, or 729.25%, primarily due to the moderate increase in investment of debt securities in foreign currencies based on our strategy to manage our positions of domestic and foreign currencies need.

Distribution of Investment Securities and Other Financial Assets by Investment Intention

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Financial assets at fair value through profit or loss	68,976	1.99	27,719	0.93
Available-for-sale financial assets	1,160,187	33.49	390,683	13.08
Held-to-maturity investments	736,154	21.25	684,767	22.93
Investment classified as receivables ⁽¹⁾	1,498,524	43.27	1,883,498	63.06
Total	3,463,841	100.00	2,986,667	100.00

(1) Investment classified as receivables is net of the related allowance for impairment.

For further details of investment securities and other financial assets, please refer to the "Notes to the Consolidated Financial Statements — 17. Financial assets at fair value through profit or loss" and "Notes to the Consolidated Financial Statements — 21. Investments instruments".

Liabilities

As of the end of the reporting period, our Bank's total liabilities amounted to RMB7,918,734 million, representing an increase of RMB893,201 million, or 12.71%, as compared to the end of the previous year. Customer deposits increased by RMB981,297 million, or 15.56%, as compared to the end of the previous year; deposits and placements from banks and other financial institutions increased by RMB133,635 million, or 82.38%, as compared to the end of the previous year; financial assets sold under repurchase agreements decreased by RMB265,028 million, or 67.13%, as compared to the end of the previous year.

Discussion and Analysis

Key Items of Liabilities

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	7,286,311	92.01	6,305,014	89.74
Deposits from banks and other financial institutions	281,687	3.56	91,351	1.30
Placements from banks and other financial institutions	14,158	0.18	70,859	1.01
Financial assets sold under repurchase agreements	129,789	1.64	394,817	5.62
Debt securities issued	54,943	0.69	24,973	0.36
Other liabilities ⁽¹⁾	151,846	1.92	138,519	1.97
Total liabilities	7,918,734	100.00	7,025,533	100.00

- (1) Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, interest payable, agency services payables, employee benefit payables, taxes payable and other liabilities.

Customer deposits

As of the end of the reporting period, the Bank's total customer deposits was RMB7,286,311 million, representing an increase of RMB981,297 million, or 15.56%, as compared to the end of the previous year.

Discussion and Analysis

Distribution of Customer Deposits by Business Line

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate deposits	1,075,024	14.75	917,607	14.55
Time	332,644	4.57	301,356	4.78
Demand	742,380	10.18	616,251	9.77
Personal deposits	6,210,166	85.23	5,386,630	85.44
Time	3,862,371	53.01	3,335,615	52.91
Demand	2,347,795	32.22	2,051,015	32.53
Other deposits ⁽¹⁾	1,121	0.02	777	0.01
Total	7,286,311	100.00	6,305,014	100.00

- (1) Other deposits consist of funds deposited with us for remittance, credit card deposits and outbound remittance.

As of the end of the reporting period, in terms of customer structure, personal deposits increased by RMB823,536 million, or 15.29%; and corporate deposits increased by RMB157,417 million, or 17.16%, as compared to the end of the previous year. In terms of product structure, the proportion of demand deposits was 42.41%, representing an increase of 0.11 percentage points, as compared to the end of the previous year.

Discussion and Analysis

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	803	0.01	589	0.01
Yangtze River Delta	1,086,265	14.91	917,696	14.56
Pearl River Delta	700,766	9.62	608,887	9.66
Bohai Rim	1,083,905	14.88	969,905	15.38
Central China	2,209,718	30.33	1,876,608	29.76
Western China	1,607,985	22.07	1,387,835	22.01
Northeastern China	596,869	8.19	543,494	8.62
Total customer deposits	7,286,311	100.00	6,305,014	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Repayable on demand	3,133,204	43.00	2,728,957	43.28
Less than 3 months	1,568,794	21.53	1,396,678	22.15
Over 3 months up to 12 months	2,026,764	27.82	1,713,012	27.17
Over 1 year up to 5 years	557,549	7.65	466,367	7.40
More than 5 years	—	—	—	—
Total	7,286,311	100.00	6,305,014	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's shareholders' equity was RMB346,888 million, representing an increase of RMB76,057 million, or by 28.08%, as compared to the end of the previous year, primarily as a result of the capital raised from the listing and the increase in net profit during the reporting period.

Discussion and Analysis

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	81,031	23.36	68,604	25.33
Capital reserve	74,586	21.50	36,887	13.62
Investment revaluation reserve	143	0.04	4,988	1.84
Surplus reserve	20,395	5.88	16,411	6.06
General reserve	93,803	27.04	84,754	31.29
Retained earnings	76,572	22.07	58,804	21.71
Equity attributable to shareholders of the Bank	346,530	99.89	270,448	99.86
Non-controlling interests	358	0.11	383	0.14
Total shareholders' equity	346,888	100.00	270,831	100.00

Off-Balance Sheet Items

Our off-balance sheet commitments consist primarily of irrevocable loan commitments, bank acceptances, issued letters of guarantee and guarantees, issued letter of credit and unused credit card commitments. Loan commitments are the Bank's commitments to extend credit. Our Bank issues letters of guarantee and letters of credit to the third parties to guarantee our customers' performance of their obligations. Bank acceptances consist of the undertakings by the Bank to pay the bills of exchange issued by our customers.

Off-Balance Sheet Commitments

In millions of RMB, except for percentages

Item	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Loan commitments	286,172	54.52	167,205	52.63
Bank acceptance	41,327	7.87	20,739	6.53
Guarantee and letters of guarantee	25,230	4.81	12,653	3.98
Letters of credit	7,438	1.42	2,960	0.93
Unused credit card commitments	164,742	31.38	114,133	35.93
Total	524,909	100.00	317,690	100.00

Discussion and Analysis

Analysis of cash flow statement items

Net cash inflow from operating activities of our Bank amounted to RMB220,457 million. In particular, cash inflow amounted to RMB1,402,716 million, representing a decrease of RMB402,752 million as compared to the previous year, primarily due to the decrease of cash inflow from the placement with central bank and other financial institutions in deposits with central bank and state-owned funds; cash outflow amounted to RMB1,182,259 million, representing an increase of RMB306,208 million as compared to the previous year, primarily due to the increase in cash outflow from financial assets sold under repurchase agreements.

Net cash outflow from investing activities amounted to RMB335,356 million. In particular, cash inflow amounted to RMB2,056,312 million, representing the increase of RMB1,390,593 million as compared to the previous year, primarily due to increase in cash received from disposal of investment; cash outflow amounted to RMB2,391,668 million, representing an increase of RMB414,506 million as compared to the previous year, primarily due to the increase in cash paid for investment instruments.

Net cash inflow from financing activities amounted to RMB69,911 million. In particular, cash inflow amounted to RMB80,072 million, primarily arising from the listing and issuance of debt securities; cash outflow amounted to RMB10,161 million, primarily due to distribution of dividends and interest payments of debt securities.

Other Financial Information

Changes in Accounting Policies

There was no significant change in accounting policies during the reporting period. For details, please refer to “Notes to the Consolidated Financial Statements — 2 Significant Accounting Policies”.

Discussion and Analysis

Business Overview

Personal Banking Business

We intensively carried out the transformation of retail business in responding to the challenges brought by interest rate liberalization. We improved the classification and grouping of the customer service system to provide comprehensive and differentiated services based on their demands. We also thoroughly explored product and service innovations, and enhanced our business competitiveness, so as to constantly improve our customers' experience. We optimized the personal customer marketing system and started to operate the personal integrated credit system, to continuously improve our comprehensive service abilities. As of the end of the reporting period, the number of our Bank's personal customer accounts reached 522 million, of which 21.95 million were VIP customers.

Personal Loans

Our Bank offers a wide variety of personal loan products, such as residential mortgage loans, other consumer loans, personal business loans, micro loans, credit card overdrafts, among others. As of the end of the reporting period, our Bank's total personal loans amounted to RMB1,582,175 million, representing an increase of RMB359,605 million, or by 29.41%, as compared to the end of the previous year. In particular, the balance of consumer loans was RMB1,101,662 million, representing 69.63% of our total personal loans; the balance of personal business loans was RMB288,370 million, representing 18.23% of our total personal loans, and the balance of micro loans was RMB139,239 million, representing 8.80% of our total personal loans.

Personal Deposits

During the reporting period, our Bank's personal deposits grew rapidly. Our Bank strengthened its interest cost management and enhanced its targeted management capabilities for interest rate in order to achieve a balance between deposit growth and cost control. As of the end of the reporting period, the balance of our Bank's personal deposits was RMB6,210,166 million, representing an increase of RMB823,536 million, or by 15.29%, as compared to the end of the previous year.

Discussion and Analysis

Bank Card Business

During the reporting period, our Bank further enriched the debit card products by launching “Family Card”, “+ Salary Card”, “PSBC Philately Card” and “Rural Areas E-commerce Co-branded Card”. We actively developed the multi-application in one single financial IC card and have already started 52 industry application cooperation projects in total.

In respect of credit cards, during the reporting period, our Bank actively utilized the cooperative strength between the Bank and China Post Group, and developed characterized products, facilitating the rapid growth of credit card business and steadily promoting market popularity. In addition, our Bank actively engaged in internet finance and explored emerging mobile payment technology, providing our customers with a convenient payment experience. As of the end of the reporting period, the increase in the number of our Bank’s credit cards was 3.74 million, and the number of credit cards in circulation reached 12.87 million, representing an increase of 33.61%, as compared to the previous year, while the accumulated consumption amount was RMB456.7 billion, representing an increase of 29.85%, as compared to the previous year.

Details of Bank Cards

	December 31, 2016	December 31, 2015	Growth rate (%)
Debit cards in circulation (in thousand)	848,792	748,750	13.36
Credit cards in circulation (in thousand)	12,872	9,634	33.61
	2016	2015	Growth rate (%)
Debit card consumption amount (RMB million)	2,849,569	1,736,925	64.06
Credit card consumption amount (RMB million)	456,675	351,698	29.85

Discussion and Analysis

Personal Settlement Business

We provide various settlement services and a variety of collection and payment agency services for retail customers. The collection and payment agency services primarily included payment of payrolls, benefits and allowances, pensions, as well as collection of utility bill payments. We also provided collection and payment agency services for the New Rural Social Endowment Insurance (“NSEI”) and the New Rural Cooperative Medical Service (“NCMS”). During the reporting period, the transaction volumes of our Bank’s collection services and payment services were RMB650,023 million and RMB2,294,184 million, respectively. In particular, we provided collection agency services for 65,851,700 pension transactions with transaction volume of RMB42,208 million, and payment agency services for 664.75 million pension transactions with transaction volume of RMB742,878 million. We also acted as the collection agency for 16.23 million “NSEI” transactions with transaction volume of RMB4,121 million, and as the payment agency for 247.33 million “NSEI” transactions with transaction volume of RMB28,401 million.

Personal Wealth Management Services

Personal Wealth Management

During the reporting period, we launched equity and debt hybrid net worth products and structured wealth management products, constantly issued “Privileged”, “Smart”, “Royal” and other products to different groups of customers, and prioritized to supporting branches’ issuance of specific products. As of the end of the reporting period, the balance of our Renminbi wealth management products to personal customers was RMB542,018 million, increased by RMB138,343 million, or 34.27%, as compared to the end of the previous year.

Bancassurance

During the reporting period, we greatly expanded the online sales channels, and focused on the development of regular payment insurance business with high embedded value, so as to promote the transformation of bancassurance business. As of the end of the reporting period, our Bank has entered into insurance business-related agreements with 60 insurance companies, while the products of these covered life, property, health, accident and other insurances business. The total written premium of new policies of our bancassurance business during the reporting period amounted to RMB368,339 million. In particular, the size of regular payment insurance business was RMB32,981 million, representing an increase of 390.04%, as compared to the end of the previous year.

Discussion and Analysis

Distribution of Fund Products

During the reporting period, stock markets fluctuated at relatively low position. Our Bank focused on the development of principal-guaranteed funds and automatic investment plans of our investment fund business, tailored automatic investment plans for our various groups of customers and provided professional asset allocation services for customers. During the reporting period, the accumulated volume of fund products distributed by our Bank amounted to RMB38.29 billion.

Distribution of PRC Government Bonds

During the reporting period, our Bank increased marketing for government bond products and actively promoted the sales function of internet banking for government bonds. We distributed four tranches of government savings bonds (certificate) with total sales of RMB9,006 million, and ten tranches of government savings bonds (electronic) with total sales of RMB20,126 million.

Precious Metals Business

We traded precious metals on the Shanghai Gold Exchange on behalf of our customers and distribute gold and silver coins, gold and silver investment products, gold and silver crafts and other precious metal products for professional co-operative institutions. In order to satisfy the diversified investment demands of customers, we also promoted the “PSBC Gold Coin & Bar (郵儲金)”, our own brand of precious metals product. During the reporting period, the transaction volume of our precious metals business was RMB43.44 billion.

Corporate Banking Business

We provided diversified financial products and services to our corporate banking customers, mainly including corporate loans, corporate deposits, and intermediary products and services such as settlement, cash management, investment banking and custodian businesses. As of the end reporting period, our Bank had 622.80 thousand corporate customers, increased by 27.70 thousand, as compared to the end of the previous year.

Discussion and Analysis

Corporate Loans Business

We provide working capital loans, fixed asset loans, trade finance, corporate loans to small enterprises and other corporate loan products to corporate customers. During the reporting period, we continued to increase lending to various sectors such as transportation, electricity and urban infrastructure, adapted to the structural reform of China's economy, actively established our presence in emerging industries such as renewable energy and environmental protection, medical care and innovative technology. As of the end of the reporting period, the balance of our corporate loans was RMB1,079,392 million, increased by RMB98,412 million, or 10.03%, as compared to the end of the previous year.

We kept insisting on serving SMEs by actualizing our large retail banking strategic positioning, and constantly and strongly promoted the development of small enterprises financial business. As of the end of the reporting period, our Bank's balance of corporate loans to small enterprises was RMB156,163 million. During the reporting period, our Bank's microfinance service platform formally commenced its operation. We realized the intelligent customer management by actively applying big data technology in the integration of internal and external information. We promoted the innovative mobile APP online operating mode to streamline business processes and to improve the quality and efficiency of the work of the customer managers and post-loan officer.

Corporate Deposits Business

We offered time and demand deposits to corporate customers in Renminbi and other major foreign currencies. By leveraging our networks, we continued to improve our comprehensive financial service standard in the areas of cash management, electronic banking, fund custody, corporate wealth management, etc, enhancing the competitiveness and achieving stable and rapid growth of corporate deposits business. As of the end of the reporting period, our Bank's balance of corporate deposits was RMB1,075,024 million, representing an increase of RMB157,417 million, or by 17.16%, as compared to the end of the previous year.

Discussion and Analysis

Settlement and Cash Management Business

During the reporting period, our Bank continuously designed comprehensive customized cash management solutions for customers and helped customers manage cash effectively, improved financial management consolidation, strengthened cash utilization rate and reduced financial risk by leveraging on our vast settlement network and advanced cash settlement products. Our Bank continuously promoted product innovation and enhanced our service abilities by researching, developing and promoting products and business systems to platform institutional customers, such as resources trading centers, block commodity trading markets, emerging factor trading markets, non-financial payment institutions and e-commerce business. During the reporting period, our Bank's corporate RMB settlement amounted to RMB65.21 trillion, representing an increase of 72.72%, as compared to the previous year. As of the end of the reporting period, the cash management business had 148,662 contracted accounts, representing an increase of 28,192 accounts, as compared to the end of the previous year.

Trade Finance and International Trade Settlement Business

During the reporting period, we insisted on applying customer-centric approach while we put continuous effort on product innovation. In respect of the trade finance product innovation, we researched and developed a number of products including discount guarantee for commercial paper and interbank risk participation, providing our customers with an array of flexible financing instruments. As to the settlement business, we introduced various functions such as foreign exchange online banking, self-service foreign exchange settlement, domestic and overseas foreign currency payment, elevating the service efficiency of and the customer experience on settlement business. Regarding fund value appreciation products, we commenced innovative business such as forward and swap of exchange and other fund trading business. We met the value appreciation and hedging needs of our customers and we drove the growth of deposits, international settlement volume and fee- and commission-based business income at the same time.

We continuously expanded the scope of corresponding banking services and have established an agency relationship with 1,003 domestic and foreign banks, covering Asia, Europe, North America, Africa, Oceania and other major regions. Through identifying, monitoring, analyzing and reporting trade finance risks, we were able to provide important information on risk decision for carrying out business, stabilizing the quality of assets and facilitating the trade financing business to enter a virtuous cycle.

During the reporting period, the annual volume of international settlement was USD20,185 million, while the trade finance business advanced RMB438,522 million.

Discussion and Analysis

Investment Banking Services

We provided corporate customers with underwriting and distribution services and oversea debt advisory services in respect of debt financing instruments, including short-term commercial papers, medium-term notes, private placement notes and asset-backed securities, and expands the financial advisory business by leveraging on our project financing and acquisition financing capacities. Our Bank will intensively develop investment banking business as an important means to increase the fee and commission income. During the reporting period, we had 44 debt securities underwriting projects and 22 structured finance or acquisition financing projects in the phase of execution, amounted to approximately RMB100 billion in total. We have abundant project reserve, enabling the subsequent work to be implemented progressively.

Custodian Services

During the reporting period, we enhanced the construction of marketing systems and emphasized on development of key custodian products, and the layered operation system between the headquarter and the branches became mature. We offered custodian services to 416 customers, achieving a constantly rapid and healthy development of assets custodian business.

We had applied block-chain technology in assets custodian business system for the first time in the industry so as to further enhance the custodian business service capability.

As of the end of the reporting period, the assets under our custody amounted to RMB4.17 trillion in total, representing an increase of 85.36%, as compared to the end of the previous year and a CAGR of 100.59% over the past 3 years. In particular, the balance of equity investment fund under our custody amounted to RMB1.84 trillion, ranking the first in the industry. During the reporting period, the accumulated custodian business fee income amounted to RMB957 million, representing an increase of 89.13%, as compared to the previous year, maintaining a rapid growth trend.

Discussion and Analysis

Treasury Business

Our Bank's treasury business primarily consists of financial market business, including trading, investment and interbank financing, as well as asset management business.

Trading Business

During the reporting period, our Bank strengthened the interactions and communication with regulatory institutions such as the PBOC, SAFE and CFETS, and actively cooperated with the regulatory institutions in various areas including open market operation of Renminbi, promotion of foreign currency call interbank loan platform and anonymous automated trading. We also put effort in obtaining the market-making qualification in the interbank bond market, the business qualification for option trading in the interbank foreign exchange market, enabling our Bank to leap forward to become a fully licensed trading institution with a comprehensive product scope.

During the reporting period, the total trading volume of our Bank in the domestic and foreign currency markets reached RMB60.55 trillion with a total number of 91.30 thousand transactions.

Investment Business

Investments in Debt Securities and Negotiable Certificates of Deposit

During the reporting period, our Bank upheld the directions and policies of "Prevent Risks, Increase Returns and Adjust Structure" in our debt securities and negotiable certificates of deposit investment business. We strengthened credit bond investment management, improved the credit bond investment process, reinforced the pre-investment analysis and post-investment management regarding credit bond investment, strictly prevented credit risk, enhanced study and judgment of market situations, strengthened efforts to promote bond market transactions, activated the bond trading, increased investment returns on debt securities, actively explored the establishment of bond investor system, and promoted the distribution business of rate securities.

As of the end of the reporting period, the balance of investments in debt securities and negotiable certificates of deposit amounted to RMB2,145,511 million.

Discussion and Analysis

Interbank Investments

Our Bank's interbank investment refers to our Bank's investments (or investments made through other financial institutions) in special purpose vehicles (including commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds) according to our Bank's investment strategies and risk appetite as well as market development conditions. As of the end of the reporting period, the balance of our Bank's investments (or investments made through other financial institutions) in commercial bank wealth management products, trust investment plans, asset management plans and securities investment funds was RMB1,305,894 million in total.

Interbank Financing Business

Interbank financing is a strategic business of our Bank to enhance cooperation with financial institutions, and also a business where our Bank has inherent advantages and significant market influence. During the reporting period, our Bank made flexible adjustment to the interbank financing strategy, and pushed ahead the lending in and out two-way operation. As of the end of the reporting period, the total balance of our Bank's deposits and placement with banks and other financial institutions was RMB369,063 million, and the total balance of our Bank's deposits and placement from banks and other financial institutions was RMB295,845 million.

Asset Management Business

We manage proceeds raised from wealth management products issued to retail and corporate customers. We have launched two major product lines, namely, "PSBC Fortune" for retail customers and "PSBC Wisdom" for corporate customers, which are tailored to meet the diversified investment and wealth management needs of our customers with different risk preferences. We have established an investment management system covering a variety of investment products with diversified allocation strategies. By optimizing the customers base, expanding the scope of investment and diversifying the allocation strategy, our Bank was able to retain our customers, maintain a stable revenue stream and manage risks.

During the reporting period, the investment horizon of our asset management business was broadened and a wider range of investment products were introduced so as to increase investment returns, and customer base was adjusted so as to reduce capital cost. As of the end of the reporting period, our Bank's assets under management amounted to RMB859,637 million, increased by RMB384,998 million, or 81.12%, as compared to the end of the previous year.

Discussion and Analysis

Sannong Finance Services

During the reporting period, our Bank focused our services on farmers and contemporary agriculture, and offered qualified comprehensive financial services to new-type agriculture operators such as family farms, professional customer, farmer professional cooperatives and leading agricultural enterprises. As of the end of the reporting period, the balance of our Bank's agriculture-related loans was RMB917,445 million, increased by RMB169,553 million, or 22.67%, as compared to the end of the previous year. In particular, the balance of our Bank's farmers loan was RMB757,091 million, increased by RMB157,937 million or 26.36%, as compared to the end of the previous year.

During the reporting period, our Bank strived to transform and upgrade and promoted innovations in product and means of guarantee to improve Sannong's product systems and establish a sound internal management institution, utilizing information technology including big data, cloud computing and internet for business process optimization, post-loan management enhancement and strict credit risk monitoring.

We established the Sannong Finance Department in September 2016, to expand our services on farmers and contemporary agriculture. As of the end of the reporting period, we had formally established the first batch of trial branches of the Sannong Finance Department in five locations including Inner Mongolia, Jilin, Anhui, Henan and Guangdong, and we will then promote it nationwide.

Distribution channels

Business outlets

During the reporting period, we further promoted outlet transformation to continuously improve service quality and value-creating capabilities. As of the end of the reporting period, our Bank had a total of 39,927 outlets, including 8,163 directly-operated outlets, accounted for 20.44% of all outlets, and 31,764 agency outlets, accounted for 79.56% of all outlets, covering all cities and 98.9% of the county areas in the PRC.

Discussion and Analysis

Electronic Banking

During the reporting period, our Bank enhanced financial products innovation, by improving service model and accelerating the transformation from traditional banking business to internet banking business based on internet mindset. We launched new products including “PSBC Prime Loan” and “PSBC Wage Earners Loan”, and commenced innovative researches on, among others, WeChat platform loan marketing and customized device. As at the end of the reporting period, we had 185 million electronic banking customers, increased by 23.47% as compared to the end of the previous year; during the reporting period, the transaction substitution ratio of our Bank reached 81.78%, representing an increase of 10.08 percentage points as compared to the previous year.

Mobile Finance

During the reporting period, our Bank strengthened its efforts on innovation of mobile finance products, and endeavored to build new models for mobile finance services. We actively explored ways to construct application system for mobile finance, and introduced the new generation mobile banking platform, so as to further satisfy customers’ needs for financial services. We have comprehensively promoted mobile banking business development and the functions of mobile finance products covered electronic banking and credit card. As of the end of the reporting period, the number of our mobile banking customers exceeded 133 million. During the reporting period, the number of transactions amounted to 2,066 million, with a total transaction volume of RMB2.38 trillion.

Online Banking

During the reporting period, our Bank continuously improved retail and corporate online banking functions, steadily raised the ability of risk prevention and control, endeavored to provide enriched, convenient and safe online financial services for customers. As of the end of the reporting period, our Bank’s retail online banking customers reached 155 million. During the reporting period, the transaction number and total transaction volume of personal online banking amounted to 728 million and RMB1.90 trillion, respectively.

Discussion and Analysis

Self-service Banking

The Bank actively explored the development of light, self-service and smart outlets, boosting transformation and upgrading of traditional outlets. During the reporting period, our Bank set up smart outlets in Shenzhen, Zhejiang and Beijing, reflecting its encouraging performance on innovation of outlet products and business, optimization of service procedure and enhancement of customer experience. We actively explored new ways to provide services via self-service channels, added 16 business functions, completed the construction of self-service banking system on a pilot basis and promotion of self-form-filing system application, as well as launched ITM customized equipment. As of the end of the reporting period, the number of our Bank's self-service equipment amounted to 113,000 units, and the number and total volume of self-service transactions during the reporting period amounted to 5,134 million and RMB5.07 trillion respectively.

E-commerce

During the reporting period, our Bank actively initiated cooperation with various e-commerce enterprises, in order to continuously innovate payment service models, and strive to provide personalized payment solutions for customers. We launched products such as protocol payment, WeChat Pay, secured payment and innovative multi-level clearance function one after another. As of the end of the reporting period, we had 591 payment merchants in cooperation, and during the reporting period, the number and total volume of transactions amounted to 4,306 million and RMB1.16 trillion respectively.

Information Technology

We put great emphasis on information technology, as such we adhere to the "technology-first" strategy, and orderly promote the research and development of product and technological innovation. During the reporting period, we adopted the "Hyperledger Fabric" structure and successfully applied the block chain technology on physical production. It was the first successful application of block chain technology on core business system in China's banking industry.

We continued to promote the development of key scientific and technological innovation projects. During the reporting period, we launched projects including our bank's internet financial cloud platform, new generation retail credit factory, as well as management system for block-chain custodian business one after another, providing strong support for our bank's business development and enhancement of technological capabilities. We had obtained two technical patents, namely "a flexible and safe concentrated identity authentication method" and "a cloud data service system platform for supporting bank application".

Discussion and Analysis

During the reporting period, the operation of our Bank's information system maintained stable, without any first-grade major and second-grade operational malfunction. During the reporting period, our bank's deposit logical concentration system recorded an average daily trading volume of 87.58 million, with a success rate of 99.81%.

2016 marked the first year of big data application in our Bank. We continued to promote the construction of big data platform, deepen the application of big data, enhance level of service and innovate analysis models, and we completed the research and development of 7 data products in total.

Human Resources Management and Institution Management

Human Resources Management

During the reporting period, we continued to strengthen management on remuneration and performance, improved the incentive and constraint mechanism, and enhanced the level of human resources management throughout our Bank.

In terms of talent cultivating, we deepened the development and nurturing mechanism of talents, and continued to promote the construction of core talent team. During the reporting period, we put extra efforts in cooperation with strategic investors and higher education institutions, in order to cultivate high-end professional talents and management personnel by multiple means; reinforced the resource construction in terms of experts selection and remote education system, so as to provide comprehensive support for talent development; as well as launched job positions certificate verification and learning competition, in order to enhance staff capacity from different dimensions.

In terms of remuneration management, our Bank improved the job value-based and performance-oriented remuneration allocation system to fully reflect the insuring and incentive functions of remuneration. In addition to basic insurance, we steadily promoted the enterprise annuity system and complement the medical insurance system to improve our middle and long term incentive system.

Discussion and Analysis

Employees

At the end of the reporting period, our Bank had a total of 169,735 full-time employees.

Bank's employees by business function

Items	Number of employees	Percentage (%)
Management	5,918	3.49
Personal banking	63,586	37.45
Corporate banking	11,944	7.04
Treasury business	1,443	0.85
Financial and accounting	17,084	10.07
Risk management and internal control	11,079	6.53
Others ⁽¹⁾	58,681	34.57
Total	169,735	100.00

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

Bank's employees by age

Items	Number of employees	Percentage (%)
Under 30 (inclusive)	67,512	39.77
31–40	53,850	31.73
41–50	39,834	23.47
Over 51 (inclusive)	8,539	5.03
Total	169,735	100.00

Discussion and Analysis

Bank's employees by education level

Items	Number of employees	Percentage (%)
Master's degree and above	8,259	4.87
Bachelor's degree	97,665	57.54
Associate degree	52,860	31.14
Others	10,951	6.45
Total	169,735	100.00

Bank's employees by geographical region

Items	Number of employees	Percentage (%)
Head Office	1,528	0.90
Yangtze River Delta	18,847	11.11
Pearl River Delta	18,077	10.65
Bohai Rim	27,365	16.12
Central region	43,919	25.88
Western region	38,979	22.96
Northeastern region	21,020	12.38
Total	169,735	100.00

Institution management

Our bank-wide management and operation is directed by our head office located in Beijing. We have established tier-1 branches in the capital cities of provinces and autonomous regions, municipalities and cities with independent planning status. As the operation management center within the corresponding regions, tier-1 branches are responsible for managing all branches and sub-branches in their responsible areas and directly report to our head office. Tier-2 branches are generally set up in the prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-2 branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-1 branches in their respective regions. Our tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. Our tier-2 sub-branches primarily undertake the function of business operation. The table below sets forth the number of our branches and sub-branches as of the date indicated.

Discussion and Analysis

Number of Branches and Sub-branches of our Bank

Items	December 31, 2016	
	Number	Percentage (%)
Tier-1 branches	36	0.43
Tier-2 branches	322	3.79
Tier-1 sub-branches	2,107	24.82
Tier-2 sub-branches and others	6,024	70.96
Total	8,489⁽¹⁾	100.00

(1) Includes 8,163 outlets.

Subsidiary

The Bank currently has one subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015 with registered capital of RMB1 billion, of which our Bank holds 61.5%. During the reporting period, PSBC Consumer Finance developed well with the balance of loans of approximately RMB4 billion at the end of the reporting period.

Consumer Interests Protection

During the reporting period, our Bank further strengthened the construction of management system for consumer interests protection and established the social responsibility committee of the Board of Directors, which is responsible for supervising and evaluating the comprehensiveness, timeliness and effectiveness of the protection of consumer interests throughout our Bank. Also, we diversified roles for complaint management and handling processes, and established a unified complaint management system. We continued to carry out activities to promote financial consumer interests protection and legal knowledge. By leveraging promotional advantage generated by approximately 40,000 outlets of our Bank, we have timely provided basic financial knowledge, financial security awareness and basic legal knowledge to the public and our employees, which has enhanced their financial risk alertness.

Discussion and Analysis

RISK MANAGEMENT

Comprehensive Risk Management System

During the reporting period, our Bank continued to improve the comprehensive risk management system. We proactively implemented the requirements on the supervision of the construction of the comprehensive risk management system, optimized the mechanism for risk governance, enhanced the policy guidance of risk appetite and strengthened the construction of the risk management institution. With the objective, further enhancing the level of risk management in a comprehensive manner, our bank proactively reinforced the implementation of the New Capital Accord, continued its efforts in strengthening the risk control over key areas.

Risk Management Organizational Structure

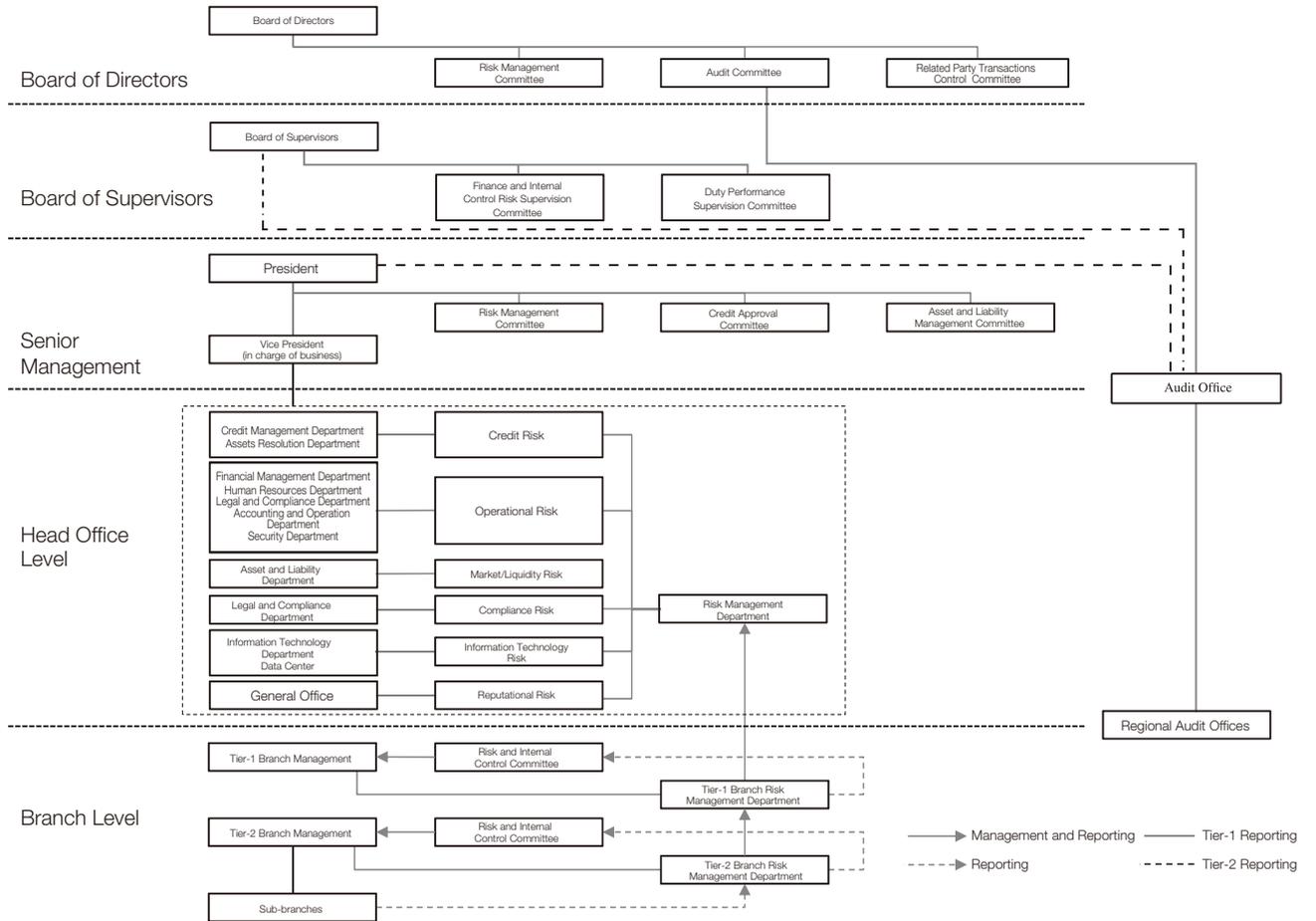
The Board undertakes the ultimate responsibilities and exercises its power in relation to risk management through risk management committee to consider the significant matters of risk management and supervise the operation of risk management system and our risk profile.

As the internal supervising institution, the Board of Supervisors is responsible for supervising the Board in respect of the formulation of our risk management strategies, policies and procedures, and supervising and assessing the performance of the Directors, Supervisors and senior management in carrying out their risk management duties.

Under the Articles of Association and the authorization of the Board, the senior management execute risk management responsibilities, to ensure that the implementation of risk management strategy, risk appetite, risk management policies and procedures formulated and approved by the Board, is in line with our operation and management. The Risk Management Committee under senior management is responsible for considering the basic policies and systems of risk management, assessing the risk management profile of the Bank and reviewing the standards, methods and processes to manage various kind of risks.

Discussion and Analysis

Risk Management Organizational Chart



Discussion and Analysis

Credit Risk

Credit risk is the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or its reduced capability to fulfill its contractual obligations. Our Bank is exposed to credit risk primarily through our loan portfolio, treasury business (including amounts due from banks and other financial institutions, financial assets held under resale agreements and investments in enterprise bonds and financial bonds) and off-balance sheet credit business (including collateral and commitments).

Credit Risk Management

In full compliance with the principle of “duties segregated and controlled internally”, the Bank established the credit risk management system and built the risk management process by separating the work of the credit business into front, middle and back offices with independent and separate functions and mutual restrictions.

During the reporting period, our Bank continued to adopt prudent and sound credit risk management policies and strengthen the credit risk management system. The Bank timely adjusted various credit policies, optimized the criteria for risk rating standards for customers, improved credit risk limit management in view of the operation strategic objectives of the Bank and the changes in conditions inside and outside the Bank. We established an internal rating system for SMEs customer, initiated the construction of an internal rating system for non-retail credit and unified the management of rating of the retail credit business. Meanwhile, the new generation of retail credit factory model has been established, which supports the transformation and upgrade of various businesses. Working processes for credit approval have been optimized and the fundamental system for credit management has been improved. Our Bank promoted the construction of new functions within the credit system with a view to expand the variety of tools for risk management. We strengthened post-loan management and the monitoring and alert of risks, adopted dynamic alert management of the risk limits of institutions and products. In order to enhance the control of our asset quality and risk compensation capabilities and strengthen the effectiveness of our credit risk management in a comprehensive manner, the Bank performed inspection on the key potential risks, focusing on key product, industry and geographical area, accelerating the disposal of non-performing loans, and prudently and fully accrued the impairment allowance to improve asset quality management results, boost risk resilience, enhance credit risk management effects comprehensively.

Discussion and Analysis

Credit Risk Management for Corporate Loans

During the Reporting Period, the Bank continued to strengthen the risk management and control of corporate loan services and improve the risk control system. By closely following the key national strategic positioning in light of the macroeconomic development and the guideline of the industry policy, our Bank continued to improve the credit extension policies, customers' admission standards and credit business structure. Risk monitoring, warning, management and control in key areas were further strengthened. In addition, we carried out risk inspections on industries with high pollution, high energy consumption and over-capacity as well as the real estate industry, and prevented and resolved risks in those key industries through strict control of the total amount of risks taken under quota management. We continued to improve the business institution and systematic functions, sort out the product portfolios, optimize the working processes and strengthen compliance management. Our Bank orderly carried out special inspections on the corporate loan business. In light of the frequent emergence of risks within the bills market in the banking industry, we conducted more vigorous checks on our bills business, carried out inspections on and undertook preventive and control measures on potential risks in a timely manner.

In respect of small enterprise financial services, our Bank continuously improved the risk control system and optimized the industry structure. We inspected the availability of repayment funds in advance, reported post-loan problems identified and organized monthly post-loan inspection meetings on a regular basis in order to control risks on a timely basis. We fully leveraged the institutional advantages and the function of the visit system of the managers of our branches and sub-branches as well as the pre-loan consultation system. Meanwhile, we reinforced the management of key customers and the monitoring and analysis of their risks and increased the risk handling capabilities in a continuous manner. We conducted warning management of asset quality in full. A matrix formatted management structure was adopted to prevent risks relating to our products, under which, authorization adjustment was dynamically promoted and continuous guidance was provided to branches to reduce our risk exposure and phase-out risky products on a timely basis.

Discussion and Analysis

Credit Risk Management for Personal Loans

During the Reporting Period, the Bank continuously explored new ways to provide guarantee for personal operation loans including micro loans and personal business loans, continuously improved the guarantee system, and responded actively to the national policy to promote the pilot program of loans secured against the “two rights” (rights of contracted rural land and farmers’ housing property rights). The Bank proactively explored into various forms of cooperation with the “top five” platforms, namely governments, industry associations, corporations, guarantee companies and insurance companies to enhance the quality of our loan customers, reduce the risk exposure of loans and effectively increase the asset quality. By adopting relationship lending technology, the Bank conducted comprehensive assessments as to the operation management capabilities of personal customers. Cross-checking technique was adopted to ensure the rationality, authenticity and accuracy of the loan information obtained in loan investigation and determine credit limits in a scientific manner. The Bank implemented the refined management to optimize the business processes. The Bank continued to upgrade its business model and enhance customer experience and efficiency of business processing through big data technology, internet technology, mobile integrated technology and online business processing. Our bank implemented risk management in a comprehensive manner conducted prior to, during, post credit extend investigation mechanism for segregation of duties and layered management towards customers, conducted monitoring in real time and employed various measures on asset disposal and risk mitigation, which ensured the risk management.

We continued to refine risk management on personal consumer loans and optimizing the management system to strengthen risk management. Through differentiated management, we focused on managing key institutions and key products with higher potential risks. A routine warning mechanism was established to provide timely risk warning to branches on potential risks. The Bank enhanced customer admission management and lowered potential credit risks by strengthening the on-boarding process of our cooperative institutions and personal customers. We refined the post-loan management mechanism, enhanced the efficiency of post-loan management through adapting innovative post-loan management and piloting the centralized post-loan process method.

Discussion and Analysis

Credit Risk Management for Credit Card

During the Reporting Period, our Bank focused on client structure management. We optimized the client structure in a continuous manner during the process of card issuing by policy adjustment and the application of quantitative risk management tools. In terms of existing customer management, we raised the proportion of assets from high-quality clients and further enhances the quality of clients and the credit extension structure through measures including limit adjustment and conversion of assets with low efficiencies. We continued to improve the fraud detection system and the transaction monitoring rules, increase monitoring approaches, perfect the risk alert and supervision mechanism and further enhance our capabilities in the prevention of fraud risks. We improved the asset quality supervision mechanism in relation to credit cards and conducted regular risk supervision to enhance the overall management capability of credit card risks.

Credit Risk Management for Treasury Business

During the Reporting Period, the Bank further strengthened the supervision and analysis mechanism of credit risks in the treasury business in order to address the changes in the financial market in a proactive manner and took the initiative to refine the investment portfolio.

With a view to enhancing the risk prevention and maintaining risk at an expectable and controllable level, the Bank strengthened the daily investment transaction management and reinforced supervision and inspection according to the characteristics of various business risks. Pre-investment investigation, investment review and approval and post-investment management were vigorously carried out in order to accomplish all-round business management in every step. We sorted out the regulations and formatted rules for the treasury business in a comprehensive manner by refining the existing institution design, amending and making addendum to the demonstrative documents for interbank investments and reinforcing the standardization of contractual documents. The Bank further improved the work of risk warning, risk monitoring, risk self-checking and risk reporting, conducted regular special risk inspections and on-site inspections.

Discussion and Analysis

Credit Risk Analysis

We consistently adhere to prudent and stable risk management principle and fully comply with regulatory requirements. We formulated differentiated but stricter risk identification and classification standard for red flag region, product and industry, and maintain sufficient risk compensation capacity.

Maximum Credit Risk Exposure without Considering Collaterals or Other Credit Enhancements

In millions of RMB

Items	December 31, 2016	December 31, 2015
Deposits with central bank	1,259,035	1,085,043
Deposits with banks and other financial institutions	175,776	324,137
Placements with banks and other financial institutions	193,287	200,485
Financial assets at fair value through profit or loss	68,976	27,719
Derivative financial assets	6,179	1,073
Financial assets held under resale agreements	73,131	148,868
Loans and advances to customers	2,939,217	2,412,595
Available-for-sale financial assets – debt instruments	237,932	127,021
Held-to-maturity investments	736,154	684,767
Investment classified as receivables	1,498,524	1,883,498
Other financial assets	36,490	32,481
Total of on-balance-sheet items	7,224,701	6,927,687
Credit commitments	524,909	317,690
Total	7,749,610	7,245,377

Discussion and Analysis

Non-performing Loan Structure by Collateral

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	Amount	Percentage (%) ⁽¹⁾	Amount	Percentage (%) ⁽¹⁾
Unsecured loans	1,374	5.23	866	4.36
Guaranteed loans ⁽²⁾	5,571	21.19	6,634	33.38
Loans secured by pledges ^{(2), (3)}	4,671	17.77	926	4.66
Loans secured by mortgages ^{(2), (4)}	14,674	55.81	11,449	57.60
Discounted Bills	1	0.00	—	—
Total	26,291	100.00	19,875	100.00

During the reporting period, the increase in non-performing loan balances was mainly due to loans secured by mortgages and pledges. During the economy slowed-down and shifted-gear period, the operation and financial condition of certain enterprises and individuals deteriorated, and credit misconduct from more customers showed up, which both resulted in the increase in the amount of non-performing loans.

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

Discussion and Analysis

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	8,352	0.28	7,721	0.31
Overdue for 91 days to 1 year	11,462	0.38	11,536	0.47
Overdue for 1 to 3 years	8,660	0.29	5,040	0.20
Overdue for over 3 years	526	0.02	208	0.01
Total	29,000	0.96	24,505	0.99

As of the end of the reporting period, our balances of overdue loans amounted to RMB29,000 million, representing an increase of RMB4,495 million as compared to the end of the previous year. The increase in overdue loan balances was contributed primarily by small enterprise loans and personal business loans. It was, to a large extent, due to weaker repayment ability of small and micro enterprises and individual entrepreneurs, who were relatively vulnerable to risks under the impact of the economic structural reform.

Discussion and Analysis

Loan Concentration

In millions of RMB, except for percentages

Ten largest single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital (%) ⁽¹⁾
Borrower A ⁽²⁾	Transportation, storage and postal services	197,263	6.55	44.34
Borrower B	Production and supply of electricity and heating	15,922	0.53	3.58
Borrower C	Production and supply of electricity and heating	15,892	0.53	3.57
Borrower D	Management of water conservancy	15,000	0.50	3.37
Borrower E	Production and supply of electricity and heating	14,676	0.49	3.30
Borrower F	Production and supply of electricity and heating	14,234	0.47	3.20
Borrower G	Production and supply of electricity and heating	13,259	0.44	2.98
Borrower H	Production and supply of electricity and heating	10,308	0.34	2.32
Borrower I	Production and supply of electricity and heating	10,182	0.34	2.29
Borrower J	Exploitation of petroleum and natural gas	10,165	0.34	2.28

(1) Represents credit exposure as a percentage of our net capital, calculated in accordance with the requirements of the Capital Administrative Measures (Provisional).

(2) China Railway Corporation was our largest single borrower. As of December 31, 2016, the outstanding loan with China Railway Corporation, our largest single borrower, was RMB197,263 million, representing 44.34% of our net capital. The credit we extended to China Railway Corporation includes RMB240.0 billion which we historically provided to it and was approved by the CBRC. As of December 31, 2016, the outstanding loan under such credit approved by the CBRC for China Railway Corporation was RMB190.0 billion and after the deduction of RMB190.0 billion, our loan balance with China Railway Corporation represented 1.63% of our net capital.

Discussion and Analysis

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Normal	2,960,105	98.32	2,414,984	97.70
Special mention	24,252	0.81	36,994	1.50
Non-performing loans	26,291	0.87	19,875	0.80
Substandard	7,728	0.26	4,126	0.17
Doubtful	6,965	0.23	6,976	0.28
Loss	11,598	0.39	8,773	0.35
Total	3,010,648	100.00	2,471,853	100.00

Due to the structural reform of economy, our Bank enhanced credit risk management, strengthened risk prevention and control measures, adjusted credit policies in a timely manner, and responded effectively to adapt the external economic and financial condition, ensuring a sound asset quality. As of the end of the reporting period, our Bank's balance of non-performing loans amounted to RMB26,291 million, representing an increase of RMB6,416 million as compared to the end of the previous year. Non-performing loan ratio was 0.87%, representing an increase of 0.07 percentage point as compared to the end of the previous year. The balance of special mention loans amounted to RMB24,252 million, representing a decrease of RMB12,742 million as compared to the end of the previous year. Special mention loans ratio was 0.81%, representing a decrease of 0.69 percentage point as compared to the end of the previous year.

Discussion and Analysis

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Items	December 31, 2016			December 31, 2015		
	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	7,109	27.04	1.78	5,911	29.74	1.79
Fixed asset loans	114	0.43	0.02	108	0.54	0.02
Trade finance loans	917	3.49	0.55	1,118	5.63	1.13
Others ⁽²⁾	37	0.14	4.67	2	0.01	0.21
Subtotal	8,177	31.10	0.76	7,139	35.92	0.73
Discounted bills	1	0.00	0.00	—	—	—
Personal loans						
Consumer loans:						
Residential mortgage loans	1,711	6.51	0.19	1,287	6.48	0.22
Other consumer loans	983	3.74	0.50	516	2.60	0.32
Personal business loans	10,027	38.14	3.48	4,580	23.04	1.50
Micro loans	4,468	16.99	3.21	5,744	28.90	4.22
Credit card overdrafts and others	924	3.51	1.75	609	3.06	1.37
Subtotal	18,113	68.89	1.14	12,736	64.08	1.04
Total	26,291	100.00	0.87	19,875	100.00	0.80

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

(2) Consists of a loan asset portfolio our Bank purchased from a PRC commercial bank in 2010.

During the reporting period, the increase in the balance of our non-performing corporate loans was mainly due to concentrated in working capital loans to small enterprises. Over-capacity and traditional industries were depressed due to structural reform of the economy. Small and medium enterprises in such industries were adversely affected by the external environment due to their smaller scale. Their credit conditions were vulnerable, which gave rise to non-performing loans.

Discussion and Analysis

During the reporting period, the increase in the balance of our Bank's non-performing personal loans was mainly due to non-performing personal business loans. In the current background of structural reform of economy, small and micro enterprises and individual businesses borrowers with small scale and weak risks resilience faced tightened cash flow and operational difficulties, which led to further deterioration in their repayment ability.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Head office	926	3.52	609	3.06
Yangtze River Delta	2,869	10.91	2,711	13.64
Pearl River Delta	2,119	8.06	1,914	9.63
Bohai Rim	2,966	11.28	2,478	12.47
Central China	4,518	17.18	3,647	18.35
Western China	9,755	37.10	4,868	24.49
Northeastern China	3,138	11.94	3,648	18.36
Total	26,291	100.00	19,875	100.00

During the reporting period, Western China experienced a greater increase in our Bank's balance of non-performing loans by RMB4,887 million, as compared to the end of the previous year, primarily due to the adverse financial condition of small and micro enterprise borrowers attributable to the structural reform of economy and the deterioration of regional economy and financial environment.

Discussion and Analysis

Structure of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	93	1.14	122	1.71
Manufacturing	3,879	47.44	3,294	46.14
Production and supply of electricity, heating, gas and water	4	0.05	24	0.34
Financial services	2	0.02	0	0.00
Wholesale and retail	2,867	35.06	2,498	34.99
Construction	399	4.88	324	4.54
Real estate	11	0.14	9	0.13
Mining	96	1.17	107	1.50
Management of water conservancy, environmental and public facilities	49	0.60	26	0.36
Leasing and commercial services	120	1.47	65	0.90
Agriculture, forestry, animal husbandry and fishery	316	3.87	291	4.08
Information transmission, computer services and software	50	0.61	57	0.80
Hotels and catering	184	2.25	200	2.80
Residential services and other services	67	0.82	54	0.76
Culture, sports and entertainment	26	0.32	43	0.60
Others ⁽¹⁾	13	0.16	25	0.35
Total	8,177	100.00	7,139	100.00

(1) Consists primarily of public administration and social organizations, education, scientific studies and technical services, health, social security and social welfare.

During the reporting period, the manufacturing industry and the wholesale and retail industry experienced a greater increase in our Bank's balance of non-performing loans by RMB585 million and RMB369 million, respectively, as compared to the end of the previous year.

In the background of structural reform of economy, the resource-based industry was depressed, and the small and micro enterprises in low-end manufacturing industry related to real estate and mining faced significant challenges, resulting in business downsize, lengthened turnover day's of receivables and tightened cash flows, giving rise to the formation of non-performing loans.

Discussion and Analysis

Enterprises in wholesale and retail industries had a relatively weak risk resilience because of their asset-light nature. In the background of structural reform of economy, borrowers in bulk commodities trading industry were vulnerable to industry risks and faced with operation difficulties and adverse financial condition.

Movements of Allowance for Impairment Losses

In millions of RMB

Items	Loans and advances not identified as impaired and assessed collectively	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As of January 1, 2016	43,927	13,835	1,496	59,258
Net provision in current year	6,857	11,824	1,630	20,311
Write-off and transfer out	—	(8,871)	(700)	(9,571)
Recovery of loans and advances written off	—	1,779	49	1,828
Unwinding of discount on allowance	—	(359)	(36)	(395)
As of December 31, 2016	50,784	18,208	2,439	71,431

Market Risk

Market risk (including interest rate risk, exchange rate risk, stock price risk and commodity price risk) refers to the risk of losses to the on- and off-balance sheet businesses of the Bank as a result of unfavorable changes in the market prices.

The principal market risks that our Bank is exposed to include interest rate risk and exchange rate (including gold) risk. During the Reporting Period, our Bank has established a market risk management system covering market risk identification, measurement, monitoring and control, which manages market risk by exercising daily monitoring and risk limit management, thereby controlling the potential losses arising from market risk within an acceptable range and striving to increase the risk-adjusted capital return.

During the reporting period, our Bank actively responded to the challenges arising from changes in the market environment and expansion of business line in the industry, formulated annual market risk management policies and satisfied limit requirements, continued to strengthen limit management and risk monitoring and reporting, as well as proactively carried out stress testing. With sound limit implementation of key risks, we maintained various types of risk exposures within a controllable range with ever-improving market risk management abilities.

Discussion and Analysis

Separation of Trading Book and Banking Book

Our Bank classifies all the on- and off-balance sheet assets and liabilities into either the trading book or the banking book. The trading book includes financial instruments and commodities positions held by our Bank for trading or hedging purposes. Any other positions are classified into the banking book.

Market Risk Management of Trading Book

The trading book risk arises from price fluctuations of products in the trading book due to changes of market interest rates and exchange rates, which affects our current profit or loss. We utilize limit management, sensitivity analysis, duration analysis, exposure analysis and stress test to manage the market risk of trading book and keep the risk exposure within a controllable range. During the reporting period, our Bank actively tracked the market changes, controlled the risk exposure of the trading book on a reasonable basis, actively followed the new trend of regulation and proactively carried out stress testing.

Market Risk Management of Banking Book

Market risk of the banking book of our Bank refers to the risk of loss incurred on the overall revenue and economic value of the banking book due to adverse changes in essential factors such as interest rates, exchange rates and maturity structure. Risk in our Bank's banking book arises primarily from the mismatch in the maturity or re-pricing dates of our interest rate-sensitive assets and liabilities in the banking book and inconsistencies in the change of the benchmark interest rates on which our assets and liabilities are based. Our Bank managed the market risk of banking book by the integrated application of various technical methods including limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Our Bank actively responded to the negative impact and challenges brought by the interest rate liberalization by properly managing re-pricing cycle, building up a dynamic FTP adjustment mechanism, improving the evaluation mechanism of interest risk management abilities and emphasizing research in short term and mid to long term interest rates trend. Through measures including duration gap and limit management on long term fixed rate asset, we adjusted the maturity structure of our general balance sheet and reduced the loss on our general net interest income and market value resulting from interest rate fluctuations in due course. We also facilitated the optimization of the maturity structure of assets and liabilities to ensure the overall interest rate risk to be within a controllable range.

Discussion and Analysis

Exchange Rate Risk Management

Exchange rate risk refers to the risk of loss in foreign exchange exposure arising from unbalanced currency structure of the foreign exchange assets and liabilities due to adverse changes of exchange rates.

The objective of exchange rate risk management is to manage the impact of exchange rate changes on our financial position and shareholders' equity within a controllable range. We avert exchange rate risk primarily by measures such as limit management and we submit risk reports to senior management on a quarterly basis.

In 2016, our Bank closely followed the changes of external markets and the trend of exchange rates, performed exchange rate risk exposure monitoring and sensitivity analysis on regular basis, flexibly adjusted the risk exposure of trading exchange rate and reasonably adjusted the structure of assets and liabilities. As a result, the risk exposure of exchange rate of our Bank remained within a controllable range.

Interest Rate Risk Analysis

Interest Rate Risk Gap

	<i>In millions of RMB</i>					
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
December 31, 2016	(499,618)	(12,894)	(711,864)	101,374	526,430	887,050
December 31, 2015	(554,486)	(221,769)	43,586	267,332	467,722	223,542

Interest Rate Sensitivity Analysis

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant yield curves on the Bank's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Bank's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements and the actions that would be taken by management to mitigate the impact of interest rate risk.

	<i>In millions of RMB</i>	
Items	December 31, 2016	December 31, 2015
Movements in yield rate basis points	Movements in net interest income	Movements in net interest income
Increased by 100 basis points	(7,695)	(7,112)
Decreased by 100 basis points	7,695	7,112

Exchange Rate Risk Analysis

For analysis of our exchange rate risk, please refer to "Notes to the Consolidated Financial Statements — 44.5 Market Risk".

Discussion and Analysis

Liquidity Risk

Liquidity risk refers to the risk of failure to obtain sufficient funds at a reasonable cost in a timely manner to repay maturing debts, fulfill other payment obligations and meet other financial needs in our ordinary course of business despite our solvency.

Liquidity risks include financing liquidity risk and market liquidity risk. Financing liquidity risk refers to the risk of failure to satisfy the funding needs in a timely and effective manner without affecting the daily operation or financial position of the Bank, while market liquidity risk refers to the risk of failure to raise funds through the disposal of assets at a reasonable market price as a result of market illiquidity or volatility.

Liquidity risk of our Bank may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, over-mismatch of maturity between assets and liabilities, difficulties in asset realization, operating losses, derivatives trading risk and risk associated with its affiliates.

Liquidity Risk Management

The objective of liquidity risk management of our Bank 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.

Our Bank formulated management strategies and policies based on changes in the market and the objective of liquidity risk management to timely adjust and optimize the structure of assets and liabilities, stabilize the source of capital, ensure an open market financing channel and maintain the proportion of high-quality liquidity reserve assets, and strengthen the management of capital position in ordinary course. The information system was also optimized to support limit monitoring and reporting. Additionally, stress testing was conducted on a regular basis to gauge our Bank's risk tolerance ability under extremely adverse circumstances in case of small probability events.

Liquidity gap analysis

Net position of liquidity

In millions of RMB

Items	Overdue	Payable					Over 5 years	Undated	Total
		on demand	Within 1 month	1-3 months	3 months -1 year	1-5 years			
December 31, 2016	10,167	(2,958,929)	(239,961)	(639,401)	(353,294)	1,093,857	2,177,654	1,200,385	290,478
December 31, 2015	9,274	(2,466,965)	(251,361)	(524,760)	(648,265)	1,143,161	1,897,028	1,067,815	225,927

Discussion and Analysis

As at the end of the reporting period, the negative gap in liquidity of on demand deposit increased as compared to the end of the previous year, mainly due to the increase in on demand liabilities as a result of the increase in total deposit. Meanwhile, the negative gap in liquidity of deposit due in one year decreased by RMB191,730 million, primarily due to the increase of available-for-sale financial assets of such period, the positive gap in liquidity of deposit due in one to five years remained at the same level and the positive gap in liquidity of deposit due in over five years increased by RMB280,626 million as compared to the end of the previous year, primarily due to the increase of loans of such period.

For details of the liquidity coverage ratio of the Bank as of the end of the reporting period, please refer to Appendix II.

Operational Risk

Operational risk refers to the risk arising from inadequate or defective internal procedures, personnel misconduct and malfunction of information technology systems, or external events. The operational risks which we may be exposed to mainly includes internal and external fraud, employment system and workplace safety, customer, product and business activities, damage of physical assets, malfunction of information technology system, and execution, delivery and process management.

During the reporting period, our Bank fully complied with relevant regulatory requirements including the Guidelines on the Operational Risk Management of Commercial Banks (《商業銀行操作風險管理指引》) promulgated by the CBRC to cope with the requirements for large contemporary commercial banks by strengthening the operational risk management system as well as the internal control management system, enhancing the long-term mechanism for prevention and control of non-compliance incidents and implementing administrative measures for inspections on risks of non-compliance incidents. Each business line had actively implemented trainings related to operational risk to foster a culture and awareness as well as the right concept of operational risk management and to maintain our Bank's operational risks and operational risk losses at a low level.

Legal and Compliance Risk

Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights of others or otherwise in connection with any contract or business activity in which our Bank is involved.

Discussion and Analysis

During the reporting period, based on the objective to ensure legal and compliant operation, our Bank continuously improved the legal risk management system and procedures and built a legal risk prevention mechanism with full coverage throughout the process to prevent and resolve various legal risks as well as improve its support for business transformation and innovative development. Moreover, standardization of business contracts was further adopted, and the standards of legal inspection of specific business were further improved to effectively enhance the refined management level of legal inspection within our Bank. In addition, we optimized the litigation management process, improved work efficiency and focused on prevention and management of litigations, especially those where our Bank was the defendant. Besides, our Bank actively collected non-performing loans through legal means and improved the effectiveness of legal collection. Furthermore, our Bank continued to optimize authorization management procedures and improve authorization standardization of branches to ensure compliance of its operations with laws and regulations.

During the reporting period, our Bank fully complied with the decision and deployment of the State Council as well as the regulatory requirements of the CBRC by organizing the reexamination work of “two reinforcements and two containments (兩個加強、兩個遏制)” to enhance the awareness of responsibility and rules to enhance risk control in key aspects. The compliance management system was successfully launched to increase efforts in problem rectification and responsibility accountability in order to strengthen the internal control and compliance management on a continuous basis.

Anti-Money laundering

During the reporting period, our Bank improved the basic requirements for anti-money laundering work, strengthened the organizational structure and responsibilities and brought the reform of centralized processing of anti-money laundering into full play. We also upgraded the anti-money laundering system, launched 120 new supervising models for suspicious transactions, optimized the models for assessment of risks of money laundering of clients, developed a quality cross check mechanism and enhanced the quality of analysis on suspicious transactions. Promotion and training on anti-money laundering were also conducted on a continuous basis in order to increase the awareness of anti-money laundering of our employees and the public, improve the compliance management level of anti-money laundering and anti-terrorism financing, as well as enhance employees' professional quality and their capabilities.

Discussion and Analysis

Information Technology Risk

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural or human factors, technical loopholes and management failures arising from our use of information technology. During the reporting period, our Bank significantly increased its ability to control technology risks by various means including planning of technology risk control, reinforcement of the security system as well as on-site and off-site assessment and inspection. The operation of our information system was stable and all monitoring indicators of information technology risk were within normal range.

Reputational Risk

Reputational risk refers to the risk incurred by negative reports or evaluation in relation to our operation, management, human resources and other actions that we take, as well as external events relating to us. During the reporting period, we continued to improve the development of reputational risk system and identified, monitored, assessed and reported reputational risk-related events on a 24-hour basis. We also checked the abilities to handle media-related issues of all branches and effectively enhance the management and control capabilities of reputational risk, so as to enhance our social influence and promote our brand image continuously.

Consolidated Risk Management

Consolidated management refers to the comprehensive and continuous management and control of corporate governance, capital and finance of the Group and its affiliates and the effective identification, measurement, monitoring and control of the overall risk of the Group. During the reporting period, we actively pushed forward the development of the consolidated risk management of the Group as well as consolidated capital management system, by incorporating PSBC Consumer Finance into the scope of consolidated risk and capital management after clarifying its strategy and business position. In addition, we continuously enhanced our consolidated risk and consolidated capital management level through improving the structure of corporate governance of the Group, strengthening consolidated risk and capital management, the firewall, risk prevention mechanism and risk information reporting system.

Capital Management

During the reporting period, we aimed to maintain our capital, risk profile and income at a level commensurate with each other, continuously developed a capital management system and capital constraint mechanism, and proactively explored a capital-based business model by optimizing assets structure, improving capital utilization, thus we realized the efficient development of low capital consumption and intensification. We also emphasized the capital plan and the management of capital adequacy planning, capital limit control and daily monitoring of capital adequacy ratios to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements.

Discussion and Analysis

During the reporting period, we actively improved the overall planning and implementation of the New Capital Accord, promoted the implementation of risk data mart, RWA system and internal assessment system, and established and refined the comprehensive assessment process on internal capital adequacy on a continuous basis to increase the comprehensiveness and rigorousness of our risk assessment. In addition, we promoted the optimized business structure and refined capital management as well as reduced the inefficient uses of capital so as to continuously improve the capital utilization efficiency and capital management capacity. We also disclosed capital management information according to the regulatory requirements in order to meet the requirements of regulatory compliance of capital continuously.

Economic Capital Management

During the reporting period, our Bank continuously improved economic capital management in respect of measurement, deployment, monitoring and assessment. We made significant improvement in our economic capital management, by optimizing the economic capital deployment mechanism, promoting the development of economic capital management system and identifying examinee for economic capital through the improvement of the requirements for rigid capital constraint and promoting the ideas of capital constraint and returns management.

Capital Adequacy Ratio

As of the end of the reporting period, PSBC Consumer Finance is the only subsidiary within the scope of consolidated capital management of our Bank.

Pursuant to the requirements of the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and coupled with our Bank's development, the weighted approach was practically adopted for the measurement of credit risk weighted assets, the standardized approach was adopted for the measurement of market risk weighted assets, the basic indicator approach was adopted for the measurement of operational risk weighted assets, and our Bank had strictly complied with the threshold requirements of capital adequacy. During the reporting period, we continued to carry out our financing work in domestic and foreign markets stably. We successfully raised HKD59.15 billion for our capital by listing in Hong Kong and issued tier 2 capital instruments of RMB30 billion in capital market at a perfect time point, so as to supplement our net capital and strengthen our capital base. As of the end of the reporting period, our Bank's capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.13%, 8.63% and 8.63%, respectively.

Discussion and Analysis

Capital Adequacy

In millions of RMB, except for percentages

Items	December 31, 2016		December 31, 2015	
	The Group	The Bank	The Group	The Bank
Net core tier 1 capital	344,817	344,852	269,008	269,001
Net tier 1 capital	344,823	344,852	269,009	269,001
Net capital	444,919	444,861	329,848	329,834
Total risk-weighted assets	3,995,908	3,995,120	3,153,015	3,153,352
Credit risk-weighted assets	3,718,006	3,717,288	2,902,153	2,902,490
Market risk-weighted assets	35,037	35,037	22,072	22,072
Operational risk-weighted assets	242,865	242,795	228,790	228,790
Core tier 1 capital adequacy ratio (%)	8.63	8.63	8.53	8.53
Tier 1 capital adequacy ratio (%)	8.63	8.63	8.53	8.53
Capital adequacy ratio (%)	11.13	11.14	10.46	10.46

Market Risk Capital Requirements

In millions of RMB

Items	December 31,	December 31,
	2016	2015
Interest rate risk	943	365
Exchange rate risk	1,860	1,401

Leverage Ratio

Please refer to Appendix III for details of our leverage ratio.

Composition of Capital

Please refer to Appendix IV for details of composition of our capital.

Directors, Supervisors and Senior Management

Basic Information

Name	Title	Gender	Age	Date of Appointment
Directors				
Li Guohua	Chairman of the Board of Directors	Male	57	December 2011
	Non-executive Director			March 2007
Lyu Jiajin	Executive Director	Male	49	March 2007
	President			December 2012
Zhang Xuewen	Executive Director	Male	55	December 2012
	Vice President			December 2012
Yao Hong	Executive Director	Female	51	May 2016
	Vice President			March 2007
Tang Jian	Non-executive Director	Male	57	December 2012
Chin Hung I David	Non-executive Director	Male	49	May 2016
Ma Weihua	Independent Non-executive Director	Male	69	December 2013
Bi Zhonghua	Independent Non-executive Director	Female	65	December 2013
Fu Tingmei	Independent Non-executive Director	Male	51	May 2016
Gan Peizhong	Independent Non-executive Director	Male	61	May 2016
Supervisors				
Chen Yuejun	Chairman of the Board of Supervisors	Male	52	December 2012
Li Yujie	Shareholders Representative Supervisor	Male	56	May 2016
Zhao Yongxiang	Shareholders Representative Supervisor	Male	53	May 2016
Zeng Kanglin	External Supervisor	Male	79	May 2016
Guo Tianyong	External Supervisor	Male	49	December 2013
Wu Yu	External Supervisor	Male	51	May 2016
Dang Junzhang	Employee Supervisor	Male	54	March 2016
Li Yue	Employee Supervisor	Male	45	December 2012
Song Changlin	Employee Supervisor	Male	52	March 2016
Senior Management				
Lyu Jiajin	See "Directors" above			
Zhang Xuewen	See "Directors" above			
Yao Hong	See "Directors" above			
Qu Jiawen	Vice President	Male	54	December 2012
Xu Xueming	Vice President	Male	50	December 2012
	Secretary to the Board of Directors			December 2012
Shao Zhibao	Vice President	Male	55	December 2012
Du Chunye	Secretary to the Board of Directors (pending approval)	Male	40	January 2017
	Company Secretary			

For information on remunerations of Directors and Supervisors, see "Notes to the Consolidated Financial Statements – 10 Emoluments of directors and supervisors" in this report.

Directors, Supervisors and Senior Management

Resumes of Directors, Supervisors and Senior Management

Profiles of Directors

Li Guohua, Chairman of the Board of Directors, Non-executive Director

Li Guohua, male, obtained an MBA degree from Nanchang University and University of Poitiers, France and is qualified as a senior economist. He was appointed as a non-executive Director in March 2007 and the Chairman of the Board of Directors in December 2011. He served successively as a deputy chief of the Jiangxi Posts and Telecommunications Administration Bureau, a deputy chief (presiding over work) and the chief of the Jiangxi Post Bureau, a deputy post master general of the State Post Bureau, and a deputy president of China Post Group. Mr. Li currently works as the president of China Post Group.

Lyu Jiajin, Executive Director, President

Lyu Jiajin, male, obtained a doctor's degree in economics from Southwestern University of Finance and Economics and is qualified as a senior economist, and he has also been entitled to special government allowance granted by the State Council. Mr. Lyu was appointed as an executive Director in March 2007 and the president in December 2012. He served successively as a deputy section chief and the chief of Henan Postal Savings and Remittance Bureau, the chief of the Henan Xinxiang Municipal Post Bureau, a deputy chief of the Henan Post Bureau, a deputy chief of the Liaoning Post Bureau, and a deputy director general at the Postal Savings and Remittance Bureau of the State Post Bureau. Mr. Lyu has been serving as a deputy president of China Post Group, a deputy chairman of the Standing Council of the China Banking Association, the standing director of the China Finance 40 Forum, an industry mentor of the PBC School of Finance, University of Tsinghua and a vice president of the World Savings and Retail Banking Institute.

Zhang Xuewen, Executive Director, Vice President

Zhang Xuewen, male, obtained a doctor's degree in economics from Dongbei University of Finance and Economics and is qualified as a senior economist. Mr. Zhang was appointed as an executive Director and a vice president in December 2012. He served successively as a deputy director of the internal trade division II of the trade finance department of the MOF, a deputy director of the grain division of the economy and trade department of the MOF and a deputy director and the director of the grain division of the economic development department of the MOF. Mr. Zhang has also been serving as a deputy chairman of the Rural Social Insurance Commission of China Social Insurance Association and a deputy chairman of the Banking Accounting Society of China.

Directors, Supervisors and Senior Management

Yao Hong, Executive Director, Vice President

Yao Hong, female, obtained a master's degree in management from Hunan University and is qualified as a senior economist. Ms. Yao was appointed as a vice president in March 2007 and an executive Director in May 2016. She served successively as a cadre and a deputy director of the savings business division under the postal savings and remittance bureau of the Ministry of Posts and Telecommunications, the director of the savings business division and an associate director general of the postal savings and remittance bureau of the State Post Bureau. Ms. Yao has also been a director of China Post Life Insurance Company Limited and a director of China UnionPay Co., Ltd.

Tang Jian, Non-executive Director

Tang Jian, male, obtained a master's degree in economics from Dongbei University of Finance and Economics and is qualified as a senior economist. Mr. Tang was appointed as a non-executive Director in December 2012. He served successively as a deputy director of the general business division and a deputy director of the management division II of the financial institution of foreign capital regulatory department under the PBOC, an associate consultant and a deputy director of the policy bank regulatory division, a deputy director of the policy bank regulatory division I, a deputy director and a consultant of the postal savings institutions supervision division of the bank regulatory department I of the PBOC, the director of the postal savings institution supervision division of the banking regulatory department III, the director of the postal savings institution on-site supervision division of the banking regulatory department IV, the director of the on-site supervision division of the banking regulatory department IV and an associate counsel of the banking regulatory department IV of the CBRC.

Chin Hung I David, Non-executive Director

Chin Hung I David, male, graduated from University of Cambridge with a master's degree of arts, and is qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales. Mr. Chin was appointed as a non-executive Director of the Bank in May 2016. He has successively served at UBS Investment Bank as the head of financial institutions group Asia, the head of investment banking Asia, and the head of corporate client solutions Asia, an alternate chief executive officer of UBS Hong Kong Branch, a member of the UBS Asia Pacific Executive Committee and a senior advisor at Corporate Client Solutions of UBS in Asia.

Directors, Supervisors and Senior Management

Ma Weihua, Independent Non-executive Director

Ma Weihua, male, graduated from the Southwestern University of Finance and Economics with a doctor's degree in economics. Mr. Ma was appointed as an independent non-executive Director in December 2013. He has successively served as the president, chief executive officer and executive director of China Merchants Bank, chairman of China Merchant Signa Life Insurance Co., Ltd., chairman of China Merchants Fund (CMF) Management Co., Ltd., chairman of Wing Lung Bank Ltd., independent non-executive director of China Petroleum & Chemical Corporation, independent non-executive director of Winox Holdings Limited, and independent director of Guotai Junan Securities Co., Ltd. Currently, he works as an executive director of China Society for Finance and Banking, independent non-executive director of China Resources Land Limited, independent non-executive director of China Eastern Airlines Corporation Ltd., independent director of China International Trade Center Co. Ltd., and independent non-executive director of Legend Holdings Corporation.

Directors, Supervisors and Senior Management

Bi Zhonghua, Independent Non-executive Director

Bi Zhonghua, female, graduated from Xiamen University and is qualified as a senior economist. Ms. Bi was appointed as an independent non-executive Director in December 2013. She has successively served as the section chief and a deputy director at Fuzhou branch of Bank of China Limited, a deputy general manager and the general manager of international business department, the general manager of the operations department, an associate president and a vice president, and the chairwoman of the board of supervisors of Industrial Bank Co.,Ltd., and a deputy director (serving temporary position) of the research office under the Central Financial Work Commission of the Communist Party of China. She currently works as an independent director of COFCO Trust Co., Ltd.

Fu Tingmei, Independent Non-executive Director

Fu Tingmei, male, graduated from University of London with a doctor's degree in philosophy. He was appointed as an independent non-executive Director in May 2016. He has successively served as a director of Peregrine Capital Limited, a managing director of BNP Paribas Peregrine Capital Limited, and a part time member to the Central Policy Unit of the Government of the Hong Kong Special Administrative Region. Currently Mr. Fu is an independent non-executive director of CPMC Holdings Limited, Beijing Enterprises Holdings Limited, Guotai Junan International Holdings Limited, China Resources Pharmaceutical Group Limited and COFCO Meat Holdings Limited.

Gan Peizhong, Independent Non-executive Director

Gan Peizhong, male, graduated from Peking University with a doctor's degree in law. Mr. Gan was appointed as an independent non-executive Director in May 2016. He has successively served as an independent director of Beijing North Star Co., Ltd., Chuying Agro-pastoral Group Co., Ltd., Foxit Software Incorporated, and Hebei Xiaojin Machinery Manufacturing Inc. Mr. Gan currently works as a professor at the Law School of Peking University, and an independent director of Beijing Tongtech Co.,Ltd., Beijing Thunisoft Corporation Limited, Beijing Beyondsoft Corporation and Inly Media Co., Ltd., a deputy chairman of the PRC Securities Law Research Association, a member of the Expert Advisory Commission of the Second Branch of People's Procuratorate of Beijing Municipality, an arbitrator at South China International Economic and Trade Arbitration Commission, a member of the Case Guidance Expert Commission of the Supreme People's Court of the People's Republic of China, an arbitrator at China International Economic and Trade Arbitration Commission, a fourth-term special advisor to the Supreme People's Court of China and a member and an adjunct professor of the "Expert Consultation Commission" of the Second Intermediate People's Court of Beijing Municipality.

Directors, Supervisors and Senior Management

Profiles of Supervisors

Chen Yuejun, Chairman of the Board of Supervisors

Chen Yuejun, male, graduated from the Southwestern University of Finance and Economics with a doctor's degree in economics and is qualified as a senior economist. Mr. Chen was appointed as the Chairman of the Board of Supervisors in December 2012. He has successively served as a deputy director of the bank division I of the auditing supervision bureau, a deputy director and the director of the policy bank supervision division, the director of the policy bank supervision division I, the director of policy bank supervision division II of bank supervision division I of the PBOC, the chief of policy bank supervision division II of bank regulatory department III, a deputy chief of the Sichuan regulatory bureau and a deputy director of the banking regulatory department IV of the CBRC, and the director of the finance department (department level) of the People's Government of Sichuan Province.

Li Yujie, Shareholders Representative Supervisor

Li Yujie, male, graduated from Henan University and is qualified as a senior accountant. Mr. Li was appointed as a shareholder representative Supervisor in May 2016. He has successively served as a deputy director of the audit division of Henan Posts and Telecommunications Administration Bureau, a deputy director and the director of the audit office and the director of the audit division of the Henan Post Bureau, the chief of Henan Kaifeng Municipal Post Bureau, the director of the planning and finance division of the Henan Post Bureau, the manager of the planning and finance department and a deputy general manager of the Henan Post Company, the general manager of Shanxi Post Company and the chairman of Shanxi Postal Express & Logistics Company. He currently serves as the general manager of the finance department of China Post Group.

Zhao Yongxiang, Shareholders Representative Supervisor

Zhao Yongxiang, male, graduated from Beijing University of Posts and Telecommunications with a master's degree in engineering and is qualified as a senior economist. He was appointed as a shareholder representative Supervisor in May 2016. He has successively served as a deputy chief of Hebei Shijiazhuang Municipal Post Bureau, a deputy director (secondment) of the planning and finance department of the State Post Bureau, a deputy chief (presiding over the work) and the chief of Hebei Shijiazhuang Municipal Post Bureau, an associate counsel of Hebei Post Bureau and Hebei Post Company, and a deputy general manager of the finance department of China Post Group. He is currently the director general of the audit bureau of China Post Group.

Directors, Supervisors and Senior Management

Zeng Kanglin, External Supervisor

Zeng Kanglin, male, graduated from Sichuan Finance and Economics College. He was appointed as an external Supervisor in May 2016. He has successively served as doctoral tutor, dean of the finance department, director of financial research institute and the chairman of academic committee at Southwestern University of Finance and Economics. Mr. Zeng is currently the honorary chairman of Institute of Chinese Financial Studies, Southwestern University of Finance and Economics.

Guo Tianyong, External Supervisor

Guo Tianyong, male, graduated from the Financial Research Institute of the PBOC with a doctor's degree in economics. Mr. Guo was appointed as an external Supervisor in December 2013. Mr. Guo is currently a professor and doctoral tutor of the School of Finance of the Central University of Finance and Economics, and an independent non-executive director of Bank of Tianjin Co., Ltd.

Wu Yu, External Supervisor

Wu Yu, male, graduated from Renmin University of China with a bachelor's degree in law and is qualified as a senior editor. He was appointed as an external Supervisor in May 2016. He has successively served as the chief editor of entrepreneurship weekly publication, a deputy director of chief editor office and the director of the finance news department (deputy chief level) at Economic Daily Society. He currently serves as a senior vice president of China National Chemical Assets Corporation, the Chairman of Zhongan Runxin (Beijing) Venture Capital Investment Limited, deputy chairman of Beijing Central Enterprise Investment Association, and a director of Sichuan Tianyi Science & Technology Co., Ltd.

Dang Junzhang, Employee Supervisor

Dang Junzhang, male, graduated from Shaanxi Normal University with a bachelor's degree in arts and is qualified as a senior economist. Mr. Dang was appointed as an employee Supervisor in March 2016 and the general manager of financial market department of the Bank since in March 2013. He has successively served as the president of Lanzhou Municipal Commercial Bank and the general manager of our risk management department.

Directors, Supervisors and Senior Management

Li Yue, Employee Supervisor

Li Yue, male, graduated from Heilongjiang University with a bachelor's degree in arts and is qualified as a senior corporate culture officer. Mr. Li was appointed as an employee Supervisor in December 2012, the director of party-masses work department (later renamed as party construction and party committee work department) in May 2011 and chairman of the institutional labor union in May 2013. He has successively served as a deputy director and director of Beijing liaison office of Jiangsu Nantong Economic & Technological Development Area, a deputy director of Beijing Liaison Office of Jiangsu Nantong Municipal People's Government, a deputy director (presiding over work) of party-mass work department and a deputy director of inspection department of the Bank.

Song Changlin, Employee Supervisor

Song Changlin, male, graduated from Party School of Beijing Municipal Committee of the Communist Party with a diploma of undergraduate. He was appointed as an employee Supervisor in March 2016 and the general manager of office of the Board of Supervisors in November 2015. He has successively served as a deputy director of the remittance business management division, the director of the audit division of the postal savings and remittance bureau of the State Post Bureau, general manager of the audit department and chief of audit office of the Bank. Mr. Song concurrently serves as a Director of PSBC Consumer Finance.

Profiles of Senior Management

See "Profiles of Directors" for resumes of Lyu Jiajin, Zhang Xuwen and Yao Hong. Resumes of other senior management personnel are set out below:

Qu Jiawen, Vice President

Qu Jiawen, male, graduated from Harbin Institute of Technology with a doctor's degree in engineering, and he is qualified as a senior engineer of professor-level and entitled to special government allowance granted by the State Council. Mr. Qu was appointed as the Bank's Vice President in December 2012. He has successively served as a deputy director of planning and construction division under the Heilongjiang Posts and Telecommunications Administration Bureau, a deputy director and the director of engineering construction division, the director of the network planning and cooperation division, the director of science & technology division, an associate chief and a deputy chief of the Heilongjiang Post Bureau, a deputy general manager of Heilongjiang Post Company, and the president of Heilongjiang Branch of the Bank. He is concurrently a deputy chairman of the Internet Society of China and an executive council member of the Payment & Clearing Association of China.

Directors, Supervisors and Senior Management

Xu Xueming, Vice President, Secretary to the Board of Directors

Xu Xueming, male, obtained an executive master of business administration degree from Peking University and is qualified as a senior economist. Mr. Xu was appointed as a vice president and the Secretary to the Board of Directors of the Bank in December 2012. He has successively served as a deputy chief of the Beijing Postal Savings and Remittance Bureau, the director of the public service division of the Beijing Postal Administration Bureau, the chief of Beijing Western Post Bureau, a deputy chief of Beijing Postal Administration Bureau, a deputy general manager of Beijing Post Company and the president of Beijing Branch of the Bank. Mr. Xu is concurrently a director of China Post Securities Company Limited.

Shao Zhibao, Vice President

Shao Zhibao, male, graduated from Jinan University with an executive master of business administration degree and is qualified as a senior accountant. Mr. Shao was appointed as a vice president in December 2012 and the president of the Sannong Finance Department in September 2016. He has successively served as an associate general manager and a deputy general manager of Guangdong Southern Communication Group Company, a deputy director and the director of the planning and finance division, an associate chief and a deputy chief of Guangdong Post Bureau, a deputy general manager of Guangdong Post Company and the president of Guangdong Branch of the Bank.

Du Chunye, Secretary to the Board of Directors (pending approval), Company Secretary

Du Chunye, male, graduated from Beijing University of Posts and Telecommunications with an MBA degree, and is qualified as a senior economist. Mr. Du was appointed as the Secretary to the Board of Directors of the Bank (the qualification pending CBRC approval) and company secretary in January 2017. He has successively served as a vice manager and manager of the general manager's office of China Post Group, the general manager of the bank's general office, a vice president of Beijing Branch of the Bank and the president of Shenzhen Branch of the Bank.

Directors, Supervisors and Senior Management

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On May 31, 2016, the 2015 annual general meeting elected Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong as executive Directors, elected Mr. Yang Songtang, Mr. Tang Jian and Mr. Chin Hung I David as non-executive Directors, elected Mr. Fu Tingmei and Mr. Gan Peizhong as independent non-executive Directors.

Mr. Lai Weiwen and Mr. Yang Songtang resigned as non-executive Directors on January 12, 2017 and January 23, 2017, respectively due to change of job. For further details, please refer to the announcements of the Bank dated January 12, 2017 and January 23, 2017 regarding the resignation of the Directors.

On March 2, 2017, our first extraordinary shareholders' general meeting of 2017 elected Mr. Han Wenbo and Mr. Liu Yaogong as non-executive Directors, and elected Mr. Ma Weihua and Ms. Bi Zhonghua as independent non-executive Directors.

Changes in Supervisors

On March 18, 2016, our first employee representative general meeting of 2016 elected Mr. Dang Junzhang, Mr. Li Yue and Mr. Song Changlin as employee Supervisors.

On May 31, 2016, the 2015 annual general meeting elected Mr. Chen Yuejun, Mr. Li Yujie and Mr. Zhao Yongxiang as Shareholder representative Supervisors, and elected Mr. Zeng Kanglin and Mr. Wu Yu as external Supervisors.

On March 2, 2017, our first extraordinary shareholders' general meeting of 2017 elected Mr. Guo Tianyong as external Supervisor.

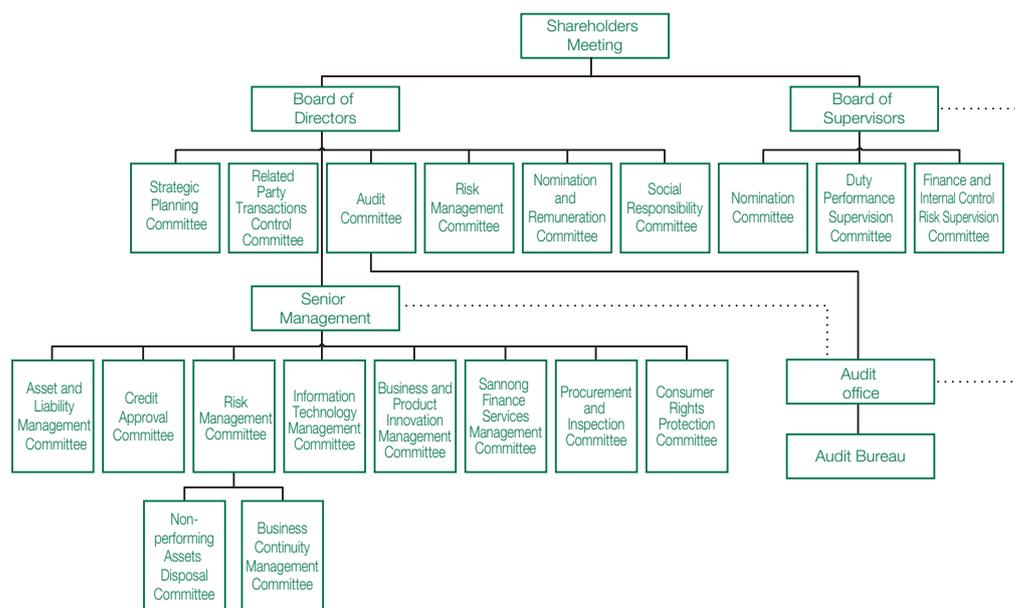
Changes in Senior Management

During the reporting period, there were no changes in the senior management of the Bank.

In January 2017, the Board appointed Mr. Du Chunye as the Secretary to the Board of Directors and the Company Secretary of the Bank replacing Mr. Xu Xueming. The appointment of Mr. Du Chunye as the Secretary to the Board of Directors and the Company Secretary of the Bank shall be effective from the date of approval by CBRC and the date of the relevant waiver granted by the Hong Kong Stock Exchange, respectively. On March 21, 2017, the Bank was granted with the waiver by the Hong Kong Stock Exchange. For further details, please refer to the announcement of the Bank dated March 21, 2017 regarding the change of joint company secretary.

Corporate Governance

We consider a well performed corporate governance as the core component of the stable operation and sustainable development of a commercial bank. Adhering to the principles of a modern commercial bank, we strive to optimize and improve our corporate governance structure and enhance our corporate governance mechanism as well as its standardization and effectiveness, so as to further refine our corporate governance.



Corporate Governance Code

During the reporting period, the Bank complied with the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules, except for the specific code provisions as set out below. The Board of Directors has actively performed the function of corporate governance, responsible for amending the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting and the Rules of Procedure for the Board of Directors. The Board of Directors has also established corporate governance system and assessed and improved the Bank's corporate governance on an ongoing basis. We have set up special committees under the Board of Directors, and operated strictly under the various corporate governance requirements.

Board of Directors and Its Special Committees

Composition of the Board of Directors

As of the end of the reporting period, the Board of Directors consists of 12 directors in total, including one Chairman and non-executive Director, namely Mr. Li Guohua, three executive Directors, namely Mr. Lyu Jiajin, Mr. Zhang Xuwen and Ms. Yao Hong; four non-executive Directors, namely Mr. Yang Songtang, Mr. Tang Jian, Mr. Lai Weiwen and Mr. Chin Hung I David; four independent non-executive Directors, namely Mr. Ma Weihua, Ms. Bi Zhonghua, Mr. Fu Tingmei and Mr. Gan Peizhong. See "Directors, Supervisors and Senior Management" for details on the incumbent directors.

Corporate Governance

Duties and Powers of the Board of Directors

The Board of Directors is the policy-making body of the Bank and reports to the Shareholders' general meeting. The Board shall perform the following duties and powers:

- (1) to convene and report its performance at the Shareholders' general meetings;
- (2) to implement resolutions adopted at the Shareholders' general meetings;
- (3) to make decisions on the Bank's development strategies, business plans and investment plans;
- (4) to consider and approve capital management plans and risk-based capital allocation plans of the Bank;
- (5) to formulate the Bank's annual financial budgets and final account; the Bank's profit distribution plans and loss recovery plans; proposals on the increase or reduction of the Bank's registered capital; the Bank's plans of issuance of bonds or other marketable securities and listing plans; plans for merger, division, dissolution, liquidation or other changes in the corporate form of the Bank; plans for repurchase of the Bank's shares; plans for material change in equity interest or financial reorganization; capital replenishment plans;
- (6) to formulate the general management policies, risk management and internal control policies of the Bank and supervise the implementation of such policies; to consider and approve the internal audit rules of the Bank;
- (7) to review the risk management report presented by the senior management and evaluate the effectiveness of risk management in the Bank in order to improve the Bank's risk management;
- (8) to formulate proposals for amendments to the Articles of Association, rules of procedures of Shareholders' general meeting and rules of procedures of the Board meetings;
- (9) to consider and approve the terms of reference proposed by the president;
- (10) to decide on matters, including the establishment of major legal entities of the Bank, major corporate mergers and acquisitions, major external investments, major asset acquisitions, major asset disposals, major asset write-offs and major external guarantees within the scope authorized by the Shareholders' general meeting;

Corporate Governance

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- (11) to decide on or authorize the president to decide on matters within the terms of reference of the Board, including other external investments of the Bank, asset acquisitions, asset disposals, asset write-offs and external guarantees;
 - (12) to appoint and dismiss the president and the secretary to the Board according to the proposals of the chairman of the Board;
 - (13) to appoint and dismiss the vice president and other members of senior management according to the nomination of the president;
 - (14) to elect the chairman and members of the Nomination and Remuneration Committee proposed by Requesting Shareholders, the chairman of the Board, and one-third or more of Directors or half or more (at least two) of the independent Directors; to elect the chairman and members of other Board committees (excluding the chairman of Strategic Planning Committee) proposed by the Nomination and Remuneration Committee;
 - (15) to propose the performance appraisal system for Directors and remuneration packages for Directors and Supervisors (opinions of the Board of Supervisors on the remuneration packages for Supervisors shall be sought) to the Shareholders' general meeting for approval;
 - (16) to decide on the remuneration, performance appraisal, incentive and punishment of members of senior management;
 - (17) to decide on the establishment of internal departments, tier-one domestic and overseas branches, other branches and divisions directly under the head office and any overseas entities of the Bank;
 - (18) to evaluate and improve the Bank's corporate governance regularly;
 - (19) to formulate stock incentive schemes;
 - (20) to manage the Bank's information disclosure;
 - (21) to propose the engagement, dismissal and discontinuance of engagement of accounting firm for approval by the Shareholders' general meeting;

Corporate Governance

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- (22) to consider and approve the proposals submitted by the Board committees;
 - (23) to consider and approve or to authorize the Related Party Transactions Control Committee of the Board to approve related party transactions (other than those which shall be considered and approved by the Shareholders' general meeting as required by laws), and report to the Shareholders' general meeting on the implementation status of related party transactions management systems and the particulars of related party transactions;
 - (24) to listen to the work reports of the president of the Bank in accordance with the relevant regulatory requirements to ensure that all Directors are timely and fully informed of relevant information for the performance of their duties, and to examine the work of the senior management to monitor and ensure the effective performance of their management responsibilities;
 - (25) to consider execution and rectification of regulatory suggestions from the banking regulatory authority of the State Council to the Bank;
 - (26) to perform other duties required by laws, administrative regulations, departmental rules and the Articles of Association or authorized by the Shareholders' general meeting.

Meetings of the Board of Directors

During the reporting period, the Board of Directors convened a total of ten meetings, at which 74 proposals were considered and approved, including the initial public issuance of offshore listing shares (H Shares) and the listing plan, annual operation plans and annual plans for allocation of economic capital; and five reports were debriefed, including the rectification and implementation status regarding regulatory opinions and the rectification status of issues spotted during on-site inspection for case prevention and control by the CBRC. Due to short interval between the date of the Bank's initial public offering and the cutoff date of the report, the Bank was unable to timely convene meetings attended only by the Chairman and non-executive Directors (including independent non-executive Directors) during the reporting period. However, the Bank convened such meetings on January 9, 2017, in order to facilitate effective contribution of non-executive Directors (including independent non-executive Directors) to the Board of Directors. In the following financial years, we will strictly comply with code provision A.2.7 of the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, which requires the Chairman to hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present at least annually.

Corporate Governance

Meetings of the Board of Directors and Its Committees

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

Directors	Number of attendance in person [*] /meetings requiring attendance								
	Meetings of the Board Committees								
	Shareholders' general meeting	Board of Directors	Strategic Planning Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management Committee	Nomination and Remuneration Committee	Social Responsibility Committee	
Chairman and Non-executive Director									
Li Guohua	5/5	9/10	4/4	–	–	–	–	–	–
Executive Directors									
Lyu Jiajin	5/5	10/10	4/4	–	–	2/3	4/4	2/2	
Zhang Xuewen	5/5	10/10	4/4	2/2	–	–	3/3	–	
Yao Hong	1/1	2/2	–	1/1	–	–	–	1/1	
Non-executive Directors									
Yang Songtang	5/5	10/10	4/4	–	–	3/3	–	–	
Tang Jian	5/5	10/10	–	–	4/4	3/3	–	2/2	
Lai Weiwen	4/4	8/8	–	–	3/3	1/1	–	–	
Chin Hung I David	1/1	2/2	–	–	2/2	–	–	1/1	
Independent Non-executive Directors									
Ma Weihua	5/5	8/10	4/4	1/2	3/5	–	3/3	–	
Bi Zhonghua	5/5	10/10	–	2/2	7/7	–	2/2	2/2	
Fu Tingmei	1/1	2/2	–	1/1	–	–	1/1	–	
Gan Peizhong	1/1	2/2	–	–	2/2	–	1/1	–	

* Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference. During the reporting period, Directors who did not attend the meetings of the Board of Directors or special committees thereof in person had appointed other Directors as proxies to attend and to vote at the meetings.

Corporate Governance

Independence and Performance of Duties by Independent Non-executive Directors

Since the listing of the Bank, the qualification, number and proportion of our independent non-executive Directors were in compliance with the requirements of regulatory authority. Independent non-executive Directors are not involved in any business or financial interests of the Bank and do not take any managerial position in the Bank. We have received annual independence confirmations from all independent non-executive Directors and confirmed their independence.

During the reporting period, our independent non-executive Directors duly attended the meetings of the Board of Directors and the Board committees, and provided independent and objective advice on various material decisions (including the profit distribution plan and the nomination of our Directors) by taking advantage of their professional capabilities and industrial experiences. Our independent non-executive Directors strengthened the communication with the senior management, specialized departments and external auditors and thoroughly studied the operation and management of the Bank by attending meetings on important matters of the Bank, listening to special reports and attending seminars with external auditors. They diligently fulfilled their obligations and performed their duties, complied with the Work Measures for Independent non-executive Directors, provided strong support to the Board of Directors for making rational decisions and protected the Interests of the Bank and the Shareholders as a whole. We highly valued the relevant opinions and advice from the independent non-executive Directors and adopted such opinions and advice based on our actual situation.

During the reporting period, independent non-executive Directors did not provide dissenting opinions to the resolution of the Board and the Board Committees.

The Board Committees and Meetings

As of the end of the reporting period, six Board committees have been established under the Board of Directors, namely the Strategic Planning Committee, Related Party Transactions Control Committee, Audit Committee, Risk Management Committee, Nomination and Remuneration Committee and Social Responsibility Committee. During the reporting period, the Board of Directors made the following adjustments to the composition of the Board committees of the Board of Directors:

On January 22, 2016, the Board of Directors convened the first meeting in 2016, at which the Proposal of Establishing the Social Responsibility Committee under the Board of Directors was considered and approved, and the personnel structure of the Social Responsibility Committee was determined. Accordingly, the Board of Directors appointed Mr. Lyu Jiajin as the chairman and Mr. Tang Jian and Ms. Bi Zhonghua as members of the Social Responsibility Committee.

Corporate Governance

On March 2, 2016, the Board of Directors convened the second meeting in 2016, at which the Proposal of Adjusting the Personnel Structure of the Board Committees under the Board of Directors was considered and approved. Accordingly, the Board of Directors appointed Mr. Ma Weihua as a member and the chairman of the Audit Committee, and Mr. Tang Jian no longer served as the chairman of the Audit Committee; appointed Mr. Ma Weihua as a member of the Related Party Transactions Control Committee; appointed Ms. Bi Zhonghua as a member of the Nomination and Remuneration Committee, and Mr. Zhang Xuewen serves no longer as a member of the Nomination and Remuneration Committee.

On May 31, 2016, the Board of Directors convened the fifth meeting in 2016, at which the Proposal of Adjusting the Members of the Board Committees under the Board of Directors was considered and approved. Accordingly, the Board of Directors appointed each of Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Yao Hong, Mr. Ma Weihua and Mr. Yang Songtang as a member of the Strategic Planning Committee; appointed Mr. Ma Weihua as the chairman and each of Mr. Zhang Xuewen, Ms. Yao Hong, Ms. Bi Zhonghua and Mr. Fu Tingmei as a member of the Related Party Transactions Control Committee; appointed Ms. Bi Zhonghua as the chairman and each of Mr. Ma Weihua, Mr. Gan Peizhong, Mr. Lai Weiwen and Mr. Chin Hung I David as a member of the Audit Committee; appointed Mr. Yang Songtang as the chairman and each of Mr. Lyu Jiajin, Mr. Gan Peizhong, Mr. Tang Jian and Mr. Lai Weiwen as a member of the Risk Management Committee; appointed Mr. Gan Peizhong as the chairman and each of Mr. Lyu Jiajin, Mr. Zhang Xuewen, Ms. Bi Zhonghua and Mr. Fu Tingmei as a member of the Nomination and Remuneration Committee; appointed Mr. Lyu Jiajin as the chairman and each of Ms. Yao Hong, Ms. Bi Zhonghua, Mr. Tang Jian and Mr. Chin Hung I David as a member of the Social Responsibility Committee.

Strategic Planning Committee

As of the end of the reporting period, our Strategic Planning Committee comprised of six Directors, including Mr. Li Guohua as the Chairman of Board of Directors, Mr. Lyu Jiajin, Mr. Zhang Xuewen and Ms. Yao Hong as executive Directors, Mr. Yang Songtang as non-executive Director and Mr. Ma Weihua as independent non-executive Director. The Strategic Planning Committee is chaired by Mr. Li Guohua. The Strategic Planning Committee primarily performs such duties as considering the Bank's business objectives, overall strategic development plan, major investment and financing plans and other matters significant to the development of the Bank, assessing the Bank's corporate governance status, and making recommendations to the Board.

Corporate Governance

During the reporting period, the Strategic Planning Committee convened 4 meetings and considered 10 proposals, including the annual operation plans, fixed assets investment budget as well as assets and liabilities business plan. The Strategic Planning Committee provided constructive opinions and recommendations on studying such issues as the annual operation plans and arrangements, assets and liabilities business plans, and fixed asset investment budget.

Related Party Transactions Control Committee

As of the end of the reporting period, our Related Party Transactions Control Committee comprised of five Directors, including Mr. Ma Weihua, Ms. Bi Zhonghua and Mr. Fu Tingmei as independent non-executive Directors, and Mr. Zhang Xuewen and Ms. Yao Hong as executive Directors. The Related Party Transactions Control Committee is chaired by Mr. Ma Weihua. The Related Party Transactions Control Committee primarily performs such duties as verifying our related parties, reviewing and filing the related party transactions, reviewing the management system for related party transactions, supervising its implementation and making recommendations to the Board.

During the reporting period, the Related Party Transactions Control Committee convened 2 meetings, considered 5 proposals, including the Bank's list of related parties, special report on related party transactions and measures of related party transactions management. The Related Party Transactions Control Committee considered the Bank's list of related parties, and provided constructive opinions and recommendations on strengthening the management over the Bank's related parties and related party transactions.

Audit Committee

As of the end of the reporting period, our Audit Committee comprised of five Directors, including Ms. Bi Zhonghua, Mr. Ma Weihua and Mr. Gan Peizhong as independent non-executive Directors, and Mr. Lai Weiwen and Mr. Chin Hung I David as non-executive Directors. The Audit Committee is chaired by Ms. Bi Zhonghua. The Audit Committee primarily performs such duties as supervising the Bank's internal control, considering the Bank's basic audit management institution, supervising and evaluating the work of our internal audit department, reviewing the annual audit report, annual financial statements and other financial information to be disclosed, proposing the engagement or dismissal of the accounting firm, and facilitating communications between our internal audit department and the accounting firm.

Corporate Governance

During the reporting period, the Audit Committee convened 7 meetings, considered 9 proposals, including special measures of audit management for anti-money laundering, annual financial statements and audit report, and listened to two work reports including enhancement of the Bank's internal control and amendments to the working rules for the Audit Committee under the Board of Directors. The Audit Committee liaised closely with our auditor in respect of the auditing of our financial statements and reviewed our financial statements in conjunction with our auditor, exercising judgments on the authenticity, completeness and accuracy of the audited financial statements, supervising and assessing the work of the internal audit department, and communicating sufficiently with the external auditor, to ensure the independence of the external auditor and review the effectiveness of the Bank's internal control measures.

The Audit Committee reviewed the financial statements and audit reports five times a year and reviewed relevant report on internal control twice a year.

Risk Management Committee

As of the end of the reporting period, the Risk Management Committee comprised of five Directors, including Mr. Yang Songtang, Mr. Tang Jian and Mr. Lai Weiwen as non-executive Directors, Mr. Lyu Jiajin as Executive Director and Mr. Gan Peizhong as independent non-executive Director. The Risk Management Committee is chaired by Mr. Yang Songtang. The Risk Management Committee primarily performs such duties as reviewing our risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management system and principal procedures and systems for risk management, listening to the risk management reports, considering plans for risk capital allocation, supervising and assessing the risk management work of the senior management and risk management department, and making recommendations to the Board.

During the reporting period, the Risk Management Committee convened 3 meetings, considered 7 proposals including risk appetite and capital adequacy management plan, and listened to five work reports including conclusion and plans for case control work, the Bank's risk management and internal control and compliance management work. The Risk Management Committee investigated on the effectiveness of the overall risk management system on regular basis, and provided suggestions on the risk policies, enhancement of overall risk management and case control.

During the reporting period the Risk Management Committee considered the comprehensive risk profile report of the Bank twice a year and reviewed the work report on internal control and compliance administration once.

On January 23, 2017, Mr. Yang Songtang resigned as a non-executive Director and the Chairman of the Risk Management Committee. The new chairman of the Risk Management Committee of the Bank is still pending appointment.

Corporate Governance

Nomination and Remuneration Committee

As of the end of the reporting period, our Nomination and Remuneration Committee comprised of five Directors, including Mr. Gan Peizhong, Ms. Bi Zhonghua and Mr. Fu Tingmei as independent non-executive Directors, and Mr. Lyu Jiajin and Mr. Zhang Xuewen as executive Directors. The Nomination and Remuneration Committee is chaired by Mr. Gan Peizhong. The Nomination and Remuneration Committee primarily performs such duties as conducting annual review on the structure, size and composition of the Board, and making suggestions in respect of the size and composition of the Board, developing the standards and procedures for the appointment of Directors, chairman and members of each Board committee and of senior management members, performing preliminary review on the qualifications and conditions of candidates for Directors and senior management, making suggestions to the Board, formulating remuneration policies for Directors, Supervisors and senior management personnel, making suggestions on allocation of remuneration and submitting proposals to the Board.

The Articles of Association set out the procedures and methods of nomination of Directors and have specific requirements for the appointment of independent non-executive Directors.

When reviewing the qualification of candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications as Directors, compliance with laws, administrative regulations, departmental rules and the Articles of Association, fiduciary duty, understanding of our operation and management and willingness to accept supervision of their performance by the Board of Supervisors and the diversity requirement of the Board of Directors. The quorum of the meeting of the Nomination and Remuneration Committee shall be more than half of all its members, and any resolution at such meeting shall be passed by more than half of votes of all its members.

During the reporting period, the Nomination and Remuneration Committee convened four meetings, considered 16 proposals including the remuneration settlement plan for Directors, Supervisors, senior management personnel and internal audit executives, and review of the professional qualifications and conditions of eight Directors.

The Nomination and Remuneration Committee studied such matters as the adjustment of remuneration system, personnel structural adjustment and optimization plan for Board committees under the Board of Directors, and review and approval of the qualifications and conditions of the newly appointed and reappointed Directors, and provided opinions and advice to the Board of Directors in relation to issues such as the personnel structural optimization for Board committees and the remuneration of senior management.

Corporate Governance

Social Responsibility Committee

As of the end of the reporting period, our Social Responsibility Committee comprised of five Directors, including Mr. Lyu Jiajin and Ms. Yao Hong as executive Directors, Mr. Tang Jian and Mr. Chin Hung I David as non-executive Directors, and Ms. Bi Zhonghua as independent non-executive Directors. The Social Responsibility Committee is chaired by Mr. Lyu Jiajin. The Social Responsibility Committee primarily performs such duties as developing our social responsibility strategies and policies that are consistent with our development strategies and actual situation, developing our basic management systems for social responsibility, supervising, inspecting and evaluating the implementation and effectiveness of our strategies, policies, and basic management systems for social responsibility, reviewing our credit extension policies relating to environment and sustainable development, supervising and evaluating the comprehensiveness, promptness and effectiveness of our consumer interests protection work as well as duty performance of senior management, and approving matters in relation to external donation, as authorized by the Board.

During the reporting period, the Social Responsibility Committee convened two meetings, considered two proposals including management of preparation of social responsibility reports and report on consumer interests protection work. The Social Responsibility Committee considered and approved the work report on consumer interests protection, providing important guidance on the work of consumer interests protection.

Responsibilities of Directors on Financial Statements

The Directors are responsible for supervising the preparation of financial statements of each accounting period so that financial statements can give a true and fair view of the financial position, operating results and cash flows of the Bank. In the course of preparation for the financial statements for the year ended December 31, 2016, the Directors have adopted and applied appropriate accounting policies consistently, and made judgment and estimation prudently and reasonably.

During the reporting period, the Bank complied with relevant laws and regulations and the requirements of the Hong Kong Listing Rules, and published the interim report of 2016.

Corporate Governance

Training of Directors and Company Secretary

Training of Directors

During the reporting period, our Directors actively participated in trainings organized by external professional advisors on laws and regulations applicable to directors of issuers listed on Hong Kong Stock Exchange, as required by the Hong Kong Listing Rules. The trainings cover a wide variety of subjects, including duties of directors, the statutory mechanism for disclosure of inside information, and rules governing related party transactions, disclosable transactions, securities transactions by Directors and Supervisors, disclosure of interests and market misconducts under Hong Kong legislations, Hong Kong Listing Rules and other laws and regulations. All Directors participated in the trainings organized by the Bank.

During the reporting period, Mr. Tang Jian attended the training held by the Canada Pension Plan Investment Board on the Bank's corporate governance and risk management, covering the establishment, implementation and supervision of governance and risk management frameworks, the effective operation of the Board of Directors and enhancement of the effectiveness of the Board of Directors.

During the reporting period, Mr. Ma Weihua attended the training held by China Resources Land Limited on matters in the disclosure of interests by directors and directors' conflict of interests.

During the reporting period, Mr. Fu Tingmei attended the training held by The Hong Kong Institute of Directors on the interpretation of Consultation Conclusions on Risk Management and Internal Control: Review of The Corporate Governance Code and Corporate Governance Report, and training on the board of directors and its effectiveness.

During the reporting period, Mr. Gan Peizhong attended the subsequent training for independent directors organized by Shenzhen Stock Exchange.

Training of Company Secretary

As of the end of the reporting period, Mr. Xu Xueming and Dr. Ngai Wai Fung as the director and chief executive officer of SW Corporate Services Group Limited were joint company secretaries of the Bank. During the reporting period, they took no less than 15 hours of relevant professional training in accordance with code Rule 3.29 of the Hong Kong Listing Rules. The primary contact of Mr. Ngai Wai Fung at the Bank is Mr. Xu Xueming.

Corporate Governance

Board of Supervisors and special committees

Composition of Board of Supervisors

As at the end of the reporting period, the Board of Supervisors of the Bank has nine Supervisors in total, namely Mr. Chen Yuejun the Chairman, Shareholders representative Supervisors Mr. Li Yujie and Mr. Zhao Yongxiang; external Supervisors Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; employee representative Supervisors Mr. Dang Junzhang, Mr. Li Yue and Mr. Song Changlin.

Meetings of Board of Supervisors

During the reporting period, meetings were held by the Board of Supervisors and its special committees in strict accordance with the relevant laws and regulations, the Articles and Supervisor meeting rules. Ten Board of Supervisors meetings were held with 30 resolutions reviewed and 10 reports heard. Two meetings were held by the Nomination Committee, four meetings were held by Duty Performance Supervision Committee, and eight meetings were held by the Finance and Internal Control and Risk Monitoring Committee. The meetings mainly reviewed the resolutions regarding the adjustment to composition of the special committees under the Board of Supervisors, the amendment to “Rules of Procedure of the Board of Supervisors of the Postal Savings Bank of China Co., Ltd.”, the “Work Details of the Nomination Committee of the Board of Supervisors of the Postal Savings Bank of China Co., Ltd.”, the amendment to “Work Details of the Duty Performance Supervision Committee of the Board of Supervisors of the Postal Savings Bank of China Co., Ltd.”, the “Work Details of the Finance and Internal Control and Risk Monitoring Committee of the Board of Supervisors of the Postal Savings Bank of China Co., Ltd.”, the “2015 Performance Appraisal Report of the Board of Directors, Senior Management and Their Members by the Board of Supervisors of the Postal Savings Bank of China Co., Ltd.”, the “2015 Annual Report of the Postal Savings Bank of China Co., Ltd.”, etc.

Corporate Governance

Meetings of the Board of Supervisors and its special committees

Supervisors	Board of Supervisors	Nomination Committee	Duty Performance Supervision Committee	Finance and Internal Control and Risk Monitoring Committee
Chen Yuejun	10/10	—	—	—
Li Yujie	10/10	2/2	—	—
Zhao Yongxiang	10/10	—	4/4	—
Zeng Kanglin	9/10	2/2	—	—
Guo Tianyong	10/10	—	4/4	—
Wu Yu	10/10	—	—	8/8
Dang Junzhang	9/10	—	—	8/8
Li Yue	10/10	—	4/4	8/8
Song Changlin	10/10	2/2	4/4	8/8

Duties, Status and Operation of the Special Committees under the Board of Supervisors

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

The Nomination Committee is responsible for the formulation of procedures and standards for the election of Shareholders representative Supervisor and external Supervisors and the preliminary vetting of their eligibility for appointments and qualifications, as well as other matters authorized by the Board of Supervisors. The Nomination Committee consists of three committee members, namely Mr. Zeng Kanglin, Mr. Li Yujie and Mr. Songchanglin, chaired by Mr. Zeng Kanglin.

The Duty Performance Supervision Committee is responsible for supervising and evaluating the performance of duties of the Board of Directors, senior management and its members, and providing advice to the Board of Supervisors, as well as other matters authorized by the Board of Supervisors. The Duty Performance Supervision Committee consists of four committee members, namely Mr. Guo Tianyong, Mr. Zhao Yongxiang, Mr. Li Yue and Mr. Song Changlin, chaired by Mr. Guo Tianyong.

Corporate Governance

The Finance and Internal Control Risk Supervision Committee is responsible for the checking and supervision of financial activities of the Bank, and offers advice to the Board of Supervisors. The Committee is also responsible for the supervision of matters such as operation decisions, risk management and internal control, and offers advice to the Board of Supervisors and handles other matters authorized by them. The Finance and Internal Control Risk Supervision Committee consists of four committee members, namely Mr. Dang Junzhang, Mr. Wu Yu, Mr. Li Yue and Mr. Song Changlin, chaired by the Supervisor, Mr. Dang Junzhang.

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors conscientiously performed various supervisory duties as required by national laws and regulations and the Articles of Association, and continuously innovated on supervision methods, extended the coverage of supervision and explored supervision duties. The Board of Supervisors succeeded in upholding the interests of Shareholders, the Bank, creditors and other vested interests, significantly contributing to the continuous improvement of corporate governance and steady development of the Bank.

Duty Supervision and Evaluation

The Board of Supervisors focused on the implementation of national macro policies by the Bank and pays continuous attention to the formulation and execution of mid- and long-term strategies in the Bank, with a view to enhance the supervision of matters that may materially affect the operation and development of the Bank. Based on robust routine supervision, the Board of Supervisors carries out yearly duty evaluation in a strictly systematic manner according to the supervision requirements. The Board of Supervisors strives to improve the duty supervision mechanism and extensively collect job performance data. The Board of Supervisors prepares the annual duty evaluation report on the Board, senior management and its members based on self evaluation, research seminars, supervision tests, consultation feedback, etc. The report is reported to the Shareholders' general meeting and regulatory authorities according to regulatory requirements.

Financial Supervision

The Board of Supervisors focused on important financial decisions, important income and expense activities as well as financial control measures. The Board of Supervisors regularly receives report on these matters and reviews regular reports, annual financial accounts, profit distribution plans and other matters, and expresses independent opinions, organizes special supervision researches and studies, in order to facilitate continuous improvement in the Bank's financial management capabilities.

Corporate Governance

Risk Supervision

The Board of Supervisors pays close attention to any changes of business development and risk conditions in the Bank as a whole. The Board of Supervisors will also strengthen specific supervision of key aspects and products and keeps monitoring changes in key supervision indicators. The Board of Supervisors will develop specific research procedures for new loan strategies, residential mortgage loans, personal business loans, new agricultural operation entity loans, wholesale loans, non-fiscal financial debentures, etc. The Board of Supervisors will strengthen regulatory indicators monitoring, analyze capital adequacy ratios, liquidity and other indicative changes on a timely basis, and continuously enhance the relevance and effectiveness of risk supervision measures.

Internal Control and Supervision

The Board of Supervisors accords high priority to establishment of internal control system, enhancing supervision over the effectiveness of internal control and internal supervision system, operations in compliance, behavior risk management and system support, etc.. Meanwhile, the Board of Supervisors reviewed the 2015 Internal Control and Assessment Report of the Bank, promptly followed up incident prevention and control, conducted specific study on internal control compliance management, social media public platform and management system, reviewed special reports from internal audit department, risk compliance department, etc., and liaised with external auditors pertaining to internal control management recommendations of the Bank, for the purpose of promoting continuous improvement of internal control system of the Bank.

Work Status of External Supervisors

During the reporting period, the external Supervisors, namely Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu, acted in strict compliance with the provisions of the Articles of Association, performed their duties diligently, discussed in the meeting in due course, fully studied and considered all proposals, actively participated in all investigations conducted by the Board of Supervisors, attended meetings of the Board of Supervisors and special committees in person, issued professional, stringent and independent opinions and viewpoints, with a view to improve the Bank's corporate governance regime and operational management capabilities.

Corporate Governance

Independent Opinions Issued by the Board of Supervisors

Lawful Operations

During the reporting period, the Bank's corporate governance regime complies with the provisions of laws, regulations and the Articles of Association. The Directors, Supervisors and senior management performed their duties conscientiously, complied with the rules of procedure, as well as convened Meetings, made resolutions, disclosed information and executed documents in a lawful and compliant manner.

Performance Report

The preparation and review procedures of the performance report comply with laws, administrative regulations and regulatory provisions. The said report duly reflects the Bank's financial status and operating results.

Use of Proceeds

During the reporting period, the use of funds raised by the Bank was in line with the purposes as stated in the prospectus.

Acquisition and Sale of Assets

During the reporting period, there was no insider dealing, or any other activity which impair the Shareholders' interests or result in loss of assets arising from the acquisition and sale of assets of the Bank.

Related Party Transactions

During the reporting period, there were no activities which impaired the interests of the Bank in related party transactions.

Performance Appraisal Results of Directors and Senior Management

Current Directors and senior management are rated as competent in 2016 performance appraisal.

Corporate Governance

Responsibility of Senior Management

The Senior Management is our executive body, which shall be accountable to the Board of Directors and is supervised by the Board of Supervisors. The division of authority between the Senior Management and the Board of Directors is clearly prescribed under the Articles of Association and other corporate governance documents of the Bank.

According to the Articles of Association, the president shall exercise the following duties and powers:

- (1) to take charge of the operation and management of the Bank, to make arrangements to implement Board resolutions, and to report his or her work to the Board;
- (2) to establish specific rules and regulations of the Bank (other than internal audit rules and regulations);
- (3) to formulate operational plans and investment plans of the Bank, and to make arrangements for their implementation upon approval by the Board;
- (4) to formulate policies and basic management systems of the Bank, and to make proposals to the Board;
- (5) to formulate annual financial budget plans and annual accounts, capital management plans, risk capital allocation plans, profit distribution plans, loss recovery plans, plans for increase or reduction of registered capital, plans for issuance of bonds or other marketable securities and listing plans, and share repurchase plans of the Bank, and to make proposals to the Board;
- (6) to formulate plans for establishing internal organization of the Bank, and plans for establishing domestic and overseas tier-one branches, other branches and divisions directly under the head of file and any overseas institutes of the Bank, and make recommendations to the Board;
- (7) to propose the appointment or dismissal of vice presidents or other members of the senior management (other than secretary to the Board) to the Board;
- (8) to appoint or dismiss officers-in-charge of internal organization of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the tier-one domestic and overseas branches directly under the head office, and overseas institutions of the Bank;

Corporate Governance

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- (9) within the scope of authority granted by the Board, to authorize vice presidents and other members of the senior management, and the officers-in-charge of the internal organization and the officers-in-charge of the tier-one domestic and overseas branches, other branches and divisions directly under the head office and overseas institutions of the Bank to carry out day-to-day management and operation activities;
 - (10) to decide on plans for the remuneration and performance appraisal of the officers in-charge of internal departments of the Bank (other than the officer-in-charge of the internal audit department) and the officers-in-charge of the domestic and overseas branches, other branches and divisions directly under the head office and overseas institutions of the Bank, and to appraise the levels of their remuneration and performance;
 - (11) to decide on or authorize lower-level managers to appoint or dismiss the staff of the Bank;
 - (12) to decide on plans for the wages, welfare and punishment of the staff of the Bank;
 - (13) to propose to convene an extraordinary Board meeting;
 - (14) to take contingency measures in the interests of the Bank where there is a bank run or any other material emergencies relating to the business operation of the Bank, and to immediately report to the banking regulatory authority under the State Council, the Board and the Board of Supervisors;
 - (15) other duties and powers to be exercised by the president, as prescribed in laws, administrative regulations, departmental rules and the Articles of Association or determined by the Shareholders' general meeting or the Board.

Shareholders' General Meeting

During the reporting period, we held one annual general meeting and four extraordinary general meetings at which 35 proposals were considered and approved. These general meetings of the Bank were convened and held in accordance with relevant laws and regulations, ensuring the Shareholders' rights to attend and exercise their rights at the meeting. After the Bank's listing, on March 2, 2017, the Bank convened the first extraordinary Shareholders' general meeting of 2017, and announcement on the resolutions thereof were published. Save for the above, the Bank has not convened Shareholders' general meetings after our listing, and thus no announcement on the resolutions thereof were published. The Bank's auditor attended the 2015 annual general meeting, to answer questions in relation to the auditing work and the preparation of auditor's report.

Corporate Governance

Division of Responsibilities Between the Chairman and the President

Pursuant to code provision A.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the roles of Chairman and president of the Bank are separate with clear division of responsibilities.

Mr. Li Guohua, as the Chairman of the Bank, is responsible for material matters such as overall strategic development of the Bank.

Mr. Lyu Jiajin, as the president of the Bank, is responsible for the daily management of business operation of the Bank. The president shall be appointed by, and is accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted a code of conduct for securities transactions by Directors, Supervisors and senior management on terms no less exacting 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, the Supervisors and the senior management of the Bank confirm that they have complied with such code of conduct during the reporting period.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules and the Articles of Association, and the Directors shall be elected by the Shareholders' general meetings with a term of three years. A Director may serve consecutive terms if re-elected upon the expiration of the term of office, and the consecutive term shall commence from the date of approval by the Shareholders' general meetings. The term of office of the independent non-executive Directors shall be no more than six years.

Appraisal and Incentive Mechanisms for Senior Management

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

Corporate Governance

Auditors' Engagement and Remuneration

Pursuant to the proposal approved by the Shareholders' general meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2016, respectively. We did not change auditor in any of the preceding three years.

In 2016, the fee payable to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for services provided to the Bank amounted to RMB59.69 million in total, including the audit services to the Bank in relation to our initial public offering and other services including audit of regular reports. Save for this, the fee payable to PricewaterhouseCoopers Zhong Tian LLP for other services provided to us amounted to RMB0.67 million in total during the reporting period.

Shareholders' Rights

Convening of Extraordinary General Meetings

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

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

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

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

Corporate Governance

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

Enquiries to the Board of Directors

Shareholders of the Bank may put enquiries to the Board of Directors and have the right to obtain the relevant information pursuant to the Articles of Association. Shareholders may inspect copies of the meeting minutes during the Bank's business hours free of charge. If any Shareholder requests for a copy of such meeting minutes from the Bank, the Bank shall send the copy within seven days upon receipt of payment of reasonable charges. Where a Shareholder requests to inspect the relevant information or obtains such materials, such Shareholder shall provide the Bank with written documents evidencing the class and number of shares held by them in the Bank, and the Bank shall provide the Shareholder with such information or materials according to their requirements after verifying his/her identity. The office of the Board shall be responsible for the daily matters of the Board. If Shareholders have any enquiries, please contact the Office of the Board of Directors.

Proposals to the Shareholders' General Meetings

Pursuant to the Articles of Association, Shareholders who individually or jointly hold more than 3% of the total voting shares of the Bank (the "Proposing Shareholders") shall have the right to submit interim proposals in writing ten days before the Shareholders' general meeting to the convener. The convener shall within two days upon receiving such proposals give supplemental notice of the Shareholders' general meeting. The office of the Board of Directors is responsible for organizing Shareholders' general meetings, preparing documents and taking minutes of the meetings.

Significant Changes to The Articles of Association During the Reporting Period

The Bank was listed on the Hong Kong Stock Exchange on September 28, 2016. We amended the Articles of Association in accordance with the Hong Kong Listing Rules and the PRC laws and regulations in the course of preparation of our listing and adjusted the articles in relation to our share capital based on offering.

The Articles of Association was published on the websites of Hong Kong Stock Exchange and the Bank, on September 27, 2016 and October 27, 2016, respectively.

Corporate Governance

Risk Management and Internal Monitoring

The Board of Directors supervises the Bank's risk management and internal monitoring systems on an ongoing basis, and reviews annually the effectiveness of the risk management and internal monitoring systems of the Bank and its subsidiaries.

The Bank has established internal audit mechanism, and reviewed the Bank's risk management and internal monitoring systems during the reporting period. The Bank believes that its risk management and internal monitoring systems are sufficient to effectively reduce various risks in the Bank's operations within a reasonable range. For details of our risk management and internal control and the operation of the system during the reporting period, please refer to "Discussion and Analysis – Risk Management".

The Board of Directors acknowledges that it shall be accountable to the risk management and internal monitoring systems, and shall be liable for reviewing the effectiveness of such systems. However, such systems are designed to manage but not eliminate the risk of failing to achieve the business objectives, and can only provide reasonable but not absolute assurance against non-material misrepresentation or loss.

Policy for Board Member Diversification

The Nomination and Remuneration Committee has adopted the policy of diversification of Board members in accordance with the code provision A.5.6 of the Corporate Governance Code. The Bank believes that the diversification of Board members is a key factor to maintain the Bank's sound corporate governance, achieving sustainable development and reach the strategic goals. While determining the composition of Board members, the Bank takes into account various factors for the diversification of the Board, including but not limited to gender, age, cultural and education background, region, professional experiences, skills, knowledge and term of services of the Directors and other regulatory requirements. The Board members are appointed based on skills and experiences required for the Board's overall sound operation under the talent-oriented principle, with full consideration of the purposes and requirements for the Board diversification as mentioned above.

The Nomination and Remuneration Committee supervises the implementation of the policy for diversification of Board members, and will review such policy where appropriate, to ensure it is effective. The Nomination and Remuneration Committee will discuss any revisions where necessary, and provide revision suggestions to the Board for the Board to consider and approve and then implement it.

Corporate Governance

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank faithfully and diligently performed its duty of disclosure, and accomplished disclosure in a authentic, accurate, complete and timely manner according to regulatory requirements. The Bank disclosed periodic reports and temporary reports in compliance with laws and regulations. With focus on the concerns of the market and investors, the Bank enhanced its voluntary information disclosure.

The Bank continues to strengthen the management of inside information and enhance the compliance awareness of insiders. The Bank has formulated the Administrative Measures on the Information Disclosure by Postal Savings Bank of China Co., Ltd., defining the responsibilities of the Board of Directors, the Board of Supervisors, the senior management and each department on information disclosure, and prescribed information disclosure processes, disciplines and requirements. The Bank strictly controlled the confidentiality of inside information and insiders.

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

Investor Relationship

Since the listing on September 28, 2016, our Bank has been maintaining close communication with the capital market and expanding the channels of communication and exchanges. The Bank held conference calls on interim results announcement twice, arranged and accepted 15 times of research with investors and analysts by call or onsite, held a capital market open day, and has received over 150 investors and analysts in aggregate and participated in three investors' summits. Through the increased communication with parties across the capital market, the positive and proactive image of Postal Savings Bank of China has been built up, enhancing investors' confidence in us.

On the basis of maintaining frequent communication with capital market, investors and analysts, our Bank provided timely feedbacks to the management on the key focuses of the capital market through mutual communication which conducted in various levels and forms, demonstrating the bridging role of investor relations management between the management and capital market.

If investors have any enquiries of relevant questions, or Shareholders have any aforesaid proposals, enquiries or resolutions, please contact:

The Board Office of Postal Savings Bank of China Co., Ltd.
Address: No. 3 Financial Street, Xicheng District, Beijing, PRC
Telephone: 86-10-68858158
Fax: 86-10-68858165
Email: ir@psbc.com

Report of the Board of Directors

Principal Business and Business Review

The principal business of the Bank and its subsidiary is to provide banking and related financial services. The Bank's business operation and business review as required by Schedule 5 of the Hong Kong Companies Ordinance are set out in relevant sections including "President's Statement", "Discussion and Analysis", "Corporate Governance", "Significant Events", "Notes to the Consolidated Financial Statements" and this "Report of the Board of Directors".

Profits and Dividends Distribution

The Bank's profits and financial profile for the reporting period are set out in the section "Financial Summary".

During the reporting period, according to the relevant provisions in the share subscription agreements between the Bank and its strategic investors and as determined by the 2016 first extraordinary general meeting of the Bank, the Bank distributed a special dividend of RMB9 billion to China Post Group in respect of profits for the period from January 1, 2015 to December 17, 2015. Save for this, no other profit and dividend has been distributed during the reporting period. The Bank's profits for the reporting period are set out in "Discussion and Analysis – Financial Statements Analysis".

The Board of Directors proposed the distribution of cash dividend of RMB0.737 (tax included) for ten shares of 81,030,574,000 ordinary Shares for 2016, totaling approximately RMB5,972 million (tax included). The dividend distribution plan is subject to the approval of the 2016 annual general meeting.

Implementation of the Cash Dividend Policy

The formulation and implementation of the Bank's cash dividend policy complies with the Articles of Association and the resolutions of the Shareholders' general meetings. The relevant decision making procedure and system are complete while the distribution standards and proportion are clearly stated. Independent non-executive Directors fulfilled their part by carrying out their obligations diligently and expressed their opinions.

Report of the Board of Directors

Reserves

For details of the changes of reserves for the Bank during the reporting period, please refer to “Consolidated Statement of Changes in Equity”.

Financial Summary

The summary of operating results, assets and liabilities for the four years ended December 31, 2016 is set out in the section headed “Financial Summary”.

Donations

During the reporting period, the Bank made external donations (domestically) of RMB6.30 million.

Fixed Assets

Details of the changes in fixed assets for the reporting period are set out in “Note 23 Property and equipment to the Consolidated Financial statements”.

Subsidiaries

The Bank currently has one subsidiary, namely PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015 with registered capital of RMB1 billion, in which we own a 61.5% equity interest. During the reporting period, PSBC Consumer Finance developed well with the balance of loans as of the end of the reporting period approaching RMB4 billion.

Share Capital and Public Float

As of the end of the reporting period, the Bank’s total share capital of ordinary shares amounted to 81,030,574,000 Shares, including 19,856,167,000 H Shares and 61,174,407,000 domestic Shares. The Bank maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank’s listing.

Report of the Board of Directors

Interests and Short Positions held by Substantial Shareholders and Other Persons

As of 31 December 2016, the Bank received notifications from the following persons regarding their interests or short positions in the Shares and underlying Shares of the Bank. Such interests or short positions were recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance, details of which are set out below:

Name	Capacity	Class of shares	Number of shares held	Nature	Percentage of total issued shares (%)	Percentage of issued class shares (%)
China Post Group	Legal and beneficial owner	Domestic Shares	55,847,933,782	Long position	68.92	91.29
UBS Group AG ⁽¹⁾	Guaranteed interests and interests of a controlled corporation	H Shares	5,078,048,000	Long position	6.27	25.57
	Interests of a controlled corporation	H Shares	3,353,540,000	Short position	4.14	16.89
CSIC Investment One Limited ⁽²⁾	Legal and beneficial owner	H Shares	3,423,340,000	Long position	4.22	17.24
Shanghai International Port Group (HK) Co., Limited ⁽³⁾	Legal and beneficial owner	H Shares	3,349,490,000	Long position	4.13	16.87
Li Ka-shing ⁽⁴⁾	Interests of a controlled corporation	H Shares	2,267,364,000	Long position	2.80	11.42
Li Tzar Kuoi, Victor ⁽⁴⁾	Interests of a controlled corporation	H Shares	2,267,364,000	Long position	2.80	11.42
Li Ka Shing (Canada) Foundation ⁽⁴⁾	Legal and beneficial owner	H Shares	1,108,228,000	Long position	1.37	5.58
China Life Insurance Company Limited ⁽⁵⁾	Legal and beneficial owner	Domestic Shares	3,341,900,000	Long position	4.12	5.46
Hainan Province CiHang Foundation ⁽⁶⁾	Interests of a controlled corporation	H Shares	1,703,004,000	Long position	2.10	8.58
Victory Global Group Limited ⁽⁶⁾	Legal and beneficial owner	H Shares	1,629,579,000	Long position	2.01	8.21
China National Tobacco Corporation	Legal and beneficial owner	H Shares	1,296,000,000	Long position	1.60	6.53

Report of the Board of Directors

- (1) UBS Group AG holds 100% shares of UBS and UBS Securities LLC, and is therefore deemed to be interested in the H Shares held by UBS and UBS Securities LLC under the SFO.
- (2) China Shipbuilding Capital Limited and China Shipbuilding & Offshore International (H.K.) Co., Limited holds 60% and 40% of the interests of CSIC Investment One Limited, respectively. China Shipbuilding & Offshore International Co., Ltd. holds 100% of the interests of China Shipbuilding & Offshore International (H.K.) Co., Limited, and China Shipbuilding Industry Corporation directly holds 53.41% of the interests of China Shipbuilding & Offshore International Co., Ltd. and 100% of the interests of China Shipbuilding Capital Limited. They are therefore deemed to be interested in the H Shares held by CSIC Investment One Limited under the SFO.
- (3) Shanghai International Port (Group) Co., Ltd. holds 100% of the equity interest in Shanghai International Port Group (HK) Co., Limited, and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Shanghai International Port Group (HK) Co., Limited under the SFO.
- (4) 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.
- (5) China Life Insurance (Group) Company, an enterprise owned by the whole people, holds approximately 68.37% shares of China Life Insurance Company Limited and is therefore deemed to be interested in the Domestic Shares held by China Life Insurance Company Limited under the SFO.
- (6) HNA Capital (Hong Kong) Holdings Company Limited holds 100% of the equity interests in Victory Global Group Limited and BL Capital Holdings Limited. HNA Capital Group Co., Ltd holds 100% of the equity interests in HNA Capital (Hong Kong) Holdings Company Limited. HNA Group Co., Ltd holds 100% of the interests of HNA Capital Group Co., Ltd. Hainan Traffic Administration Holding Co., Ltd. holds 70% of the interests of HNA Group Co., Ltd. Shengtang Development (Yangpu) Co., Ltd. holds 50% of the interests of Hainan Traffic Administration Holding Co., Ltd., Hainan Province CiHang Foundation holds 65% of the interests of Shengtang Development (Yangpu) Co., Ltd. They are therefore deemed to be interested in the H Shares held by Victory Global Group Limited.

Purchase, Sale or Redemption of the Bank's Shares

During the reporting period, save for our initial public offering, the Bank and its subsidiaries did not purchase, sell or redeem any of its listed shares.

Report of the Board of Directors

Pre-emptive Rights

Pursuant to the PRC laws and the Articles of Association, the Bank made no arrangements in relation to pre-emptive rights. According to the Articles of Association, the Bank is entitled to increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing Shareholders, placing new shares to the existing Shareholders, transferring the capital reserve funds to increase share capital and other methods as permitted by laws, administrative regulations and relevant authorities.

Major Customers

During the reporting period, the five largest customers accounted for no more than 30% of the interest income and other operating income of the Bank for the year. For further details on the major customers of the Bank, please refer to “Discussion and Analysis — Risk Management — Credit Risk — Credit Risk Analysis — Loan Concentration”.

Use of Proceeds

The proceeds raised from our initial public offering and tier 2 capital bonds were utilized to strengthen the Bank’s capital base to support the ongoing growth of its business.

Please refer to the relevant announcements of the Bank published on the website of Hong Kong Stock Exchange and the Bank.

Major Projects Invested by Non-raised Capital

For the reporting period, the Bank had no significant projects invested by non-raised capital.

Directors’ and Supervisors’ Interests in Contracts of Significance

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

Interests of Directors and Supervisors in Competing Businesses

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

Report of the Board of Directors

Directors' and Supervisors' Rights to Acquire Shares or Debentures

During the reporting period, the Bank did not grant any rights to subscribe Shares or debentures to any of the Directors or Supervisors, nor were any of such rights exercised by any of the Directors or Supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

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

As at the end of the reporting period, none of the Directors or Supervisors held any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which were 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 (including interests and short positions in which they are deemed to have under such provisions of the SFO), or any interests or short positions which were required to be recorded in the registrar referred to in Section 352 of the SFO, or any interests or short positions which were required 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 of the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "Interests and Short Positions Held by Substantial Shareholders and Other Persons".

Connected Transactions

During the reporting period, the Bank followed the regulatory laws and rules to promote the management of connected transactions by refining management mechanism, optimizing approval and filing procedures, organizing trainings, and cultivating compliance culture continuously, to further strengthen the management of connected transactions. During the reporting period, the Bank's connected transactions were in compliance with relevant laws, and no impairment of the interest of the Bank and of the minority Shareholders was found.

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

Report of the Board of Directors

For the related party transactions defined under accounting standards, please refer to “Notes to the Consolidated Financial Statements – 39 Transactions with related parties”. Save for the connected transactions disclosed in the “Connected Transactions and Implementation of the Management System for Connected Transactions”, these related party transaction do not constitute a discloseable connected transactions as defined under the Hong Kong Listing Rules.

Remuneration of Directors, Supervisors and Senior Management

Remuneration of senior management shall be considered and approved by the Board of Directors while that of Directors and Supervisors shall be considered and approved by the Shareholders’ general meetings. For the details of the specific remuneration standards, please refer to “Notes to the Consolidated Financial Statements – 10 Emoluments of directors and supervisors”. The Bank did not formulate any share incentive plan for Directors, Supervisors and senior management.

Permitted Indemnity Provisions

According to the Articles of Association, the Bank will undertake the civil liability arising from the discharge of the duties of Directors, Supervisors and senior management subject to or without prejudice against the laws and administrative regulations, unless our Directors, Supervisors and senior management were proven to have failed to perform their duties honestly or in good faith. The Bank has maintained liability insurance for Directors for the potential liabilities that may arise from the discharge of the duties of Directors, Supervisors and senior management.

Financial, Business and Family Relationship among Directors

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

Employee Benefit Plans

We have pension plan for the employees according to applicable PRC laws. For details of employee benefit plans of the Bank, please refer to “Notes to the Consolidated Financial Statements – 33(1) Employee benefits payable”.

Management Contracts

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

Report of the Board of Directors

Auditors

The consolidated financial statements of the Bank for 2016, prepared in accordance with China Accounting Standard and IFRS, were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with the Auditing Standards of China and International Standards on Auditing, respectively. With respect to each, an unqualified audit opinion was issued.

Environmental Policy

The Bank strictly abided by relevant laws and regulations of China on environmental protection and there were no major environmental issues during the reporting period. The Bank actively advocated environmental protection in the course of business and practiced low-carbon and green office. The Bank also encouraged paperless office and called for saving water and cherishing office supplies. With these, the Bank contributed to saving resources for the company and the society and constructing environment-friendly society.

Compliance with Important Laws, Regulations and Rules

During the reporting period, the Bank complied with the laws, regulations and regulatory requirements of the place where it operates in all material respects. For further details on the relevant laws and regulations, please see the prospectus of the Bank. During the reporting period, there was no investigation, administrative penalty, criticism or public denunciation from the CSRC or the CBRC, in relation to the Bank or Directors, Supervisors and senior management, or penalty of other regulatory authorities which would have material effect on our operation.

For details of the compliance with important laws, regulations and rules by the Bank during the reporting period, please refer to “Discussion and Analysis — Risk Management — Legal and Compliance Risk”.

Significant Events

For other matters significant to the Bank for the knowledge of Shareholders, please refer to “Significant Events”.

By Order of the Board of Directors
Chairman Li Guohua
March 24, 2017

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

Connected Transactions

China Post Group holds approximately 68.92% of the total issued share capital of the Bank, and is our controlling shareholder. According to the Hong Kong Listing Rules, China Post Group and its associates are our connected persons. During the reporting period, the Bank entered into the following transactions with China Post Group and its associates in the ordinary course of business on normal business terms or better.

Land Use Rights and Properties Leasing

On September 2, 2016, we and China Post Group entered into a land use rights and properties leasing framework agreement (the “Land Use Rights and Properties Leasing Framework Agreement”), pursuant to which we and China Post Group and/or its associates lease certain of each other’s properties and ancillary equipment. The Land Use Rights and Properties Leasing Framework Agreement shall become effective from September 28, 2016 and expire on December 31, 2018. The Land Use Rights and Properties Leasing Framework Agreement shall be automatically renewed for a further term of three years upon expiry if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed.

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, we have agreed to lease certain of our land use rights, properties and ancillary equipment to China Post Group and/or its associates. China Post Group and/or its associates lease certain of our properties and ancillary equipment for their outlets or office purposes. During the reporting period, the aggregate amount of the leases for the properties and ancillary equipment leased by us to China Post Group and/or its associates was RMB137 million.

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement, China Post Group and/or its associates have agreed to lease certain of their land use rights, properties and ancillary equipment to us. We lease certain of the properties and ancillary equipment of China Post Group and/or its associates mainly for our outlets or office purposes. During the reporting period, the aggregate amount of the leases for the properties and ancillary equipment leased by China Post Group and/or its associates to us was RMB1,090 million.

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

Comprehensive Services

On September 6, 2016, we and China Post Group entered into a comprehensive services framework agreement (the “Comprehensive Services Framework Agreement”), pursuant to which we and China Post Group provide a number of comprehensive services to each other. The Comprehensive Services Framework Agreement shall become effective from September 28, 2016 and expire on December 31, 2018. If neither party to the agreement raises any objection and subject to the regulatory requirements in the place where our Shares are listed, the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry.

Marketing Services of Deposits and Other Businesses

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide marketing services of deposits and other businesses to us. Since the agency outlets are not permitted to conduct corporate deposits businesses under the relevant rules, agency outlets will direct corporate clients to our directly-operated outlets. During the reporting period, the aggregate amount paid for the marketing services of deposits and other businesses provided by China Post Group and/or its associates to us was RMB474 million.

Banking Related Labor Services and Other General Business Services

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide various banking related labor services and other general business services to us. In particular, banking related labor services include transportation and storage of cash and equipment maintenance services, and general commercial services include property management, advertising and training and other services, of which the banknotes transportation and cash storage services are provided by China Post Group and/or its associates or through independent third parties engaged by it/them. Certain services are procured by China Post Group and/or its associates from independent third parties for use by China Post Group and/or its associates and us to leverage on stronger bargaining power resulting from bulk purchase. Continuous use of the labor services provided by China Post Group and/or its associates will be beneficial to us in light of the quality, cost, efficiency and convenience of such services. During the reporting period, the aggregate amount paid for the labor services provided by China Post Group and/or its associates to us was RMB625 million.

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

Agency Banking Businesses

On September 7, 2016, according to the Measures for the Administration of Agency Business Institutions and with an aim to leverage on the respective strengths of China Post Group and us and to promote the long-term and stable growth of our businesses, we and China Post Group entered into an agency banking businesses framework agreement (the “Agency Banking Businesses Framework Agreement”) in relation to our entrustment of China Post Group to conduct part of our commercial banking businesses through agency outlets (the “Agency Banking Businesses”). The Agency Banking Businesses Framework Agreement shall become effective from September 7, 2016 with an indefinite term. Under the national policies, neither we nor China Post Group is entitled to terminate the agency arrangement. In the event that there is any change in national policy in the future permitting the termination of the agency arrangement between us and China Post Group and we elect to terminate the Agency Banking Businesses Framework Agreement (the “Termination Right”) following discussion between us and China Post Group, the independent non-executive Directors shall express their written opinions and the Board shall then make the decision. We shall follow the filing and approval procedures (if required) under relevant laws and regulations. The Agency Banking Businesses Framework Agreement (which includes the Termination Right) is required to be filed with the CBRC.

Agency Deposit Taking Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides Renminbi personal deposit taking business (the “Agency Renminbi Deposit Taking Business”) and foreign currency personal deposit taking business (the “Agency Foreign Currency Deposit Taking Business”) conducted by the agency outlets. The Agency Renminbi Deposit Taking Business and the Agency Foreign Currency Deposit Taking Business are collectively referred to as the agency deposit taking business (the “Agency Deposit Taking Business”).

Agency RMB Deposit Taking Business

Currently, we calculate the deposit agency fee costs for the Agency Renminbi Deposit Taking Business according to the principle of “Fixed Rate, Scaled Fees Based on Deposit Type* (固定費率、分檔計費),” i.e., different deposit agency fee costs rates are applicable to deposits with different maturities (the “Scaled Fee Rate”), and calculate the actual weighted average deposit agency fee costs rate (the “Composite Rate”) based on the Scaled Fee Rate and the daily average balance of agency deposits with different maturities. The Composite Rate shall be no more than 1.50%.

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

During the reporting period, the aggregate amount of the deposit agency fee costs we paid for the Agency Renminbi Deposit Taking Business was RMB61,446 million, and the Composite Rate was 1.42%. The table below sets forth the daily average balances, Scaled Fee Rate and the corresponding deposit agency fee costs paid to China Post Group in respect of the Agency Renminbi Deposit Taking Business during the reporting period:

In millions of RMB, except for percentages

For the year ended December 31, 2016			
	Daily average balance	Scaled Fee Rate (%)	Deposit agency fee costs
Demand	1,469,573	2.30	33,800
Demand or time	13,470	1.50	202
Call deposits	18,799	1.70	320
3-month time deposit	131,399	1.25	1,642
Half-year time deposit	160,439	1.15	1,845
1-year time deposit	2,044,610	1.08	22,082
2-year time deposit	171,924	0.50	860
3-year time deposit	270,111	0.30	810
5-year time deposit	44,038	0.20	88
Daily aggregate cash (including cash in transit)	13,555	(1.50)	(203)
Total	4,324,363	—	61,446

Agency Foreign Currency Deposit Taking Business

During the reporting period, we calculated the deposit agency fee costs rate on the short term foreign currency deposits (i.e., with a term of less than 12 months) and the long term foreign currency deposits (i.e., with a term of 12 months or more), respectively, pursuant to the market conventions.

For short term foreign currency deposits, the deposit agency fee rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the PRC interbank foreign currency market quoted on Bloomberg, deducting the composite rate of interests payable to customers on the foreign currency deposit with corresponding term.

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

For long term foreign currency deposits, the deposit agency fee costs rate shall be calculated based on the composite interest rate of foreign currency with corresponding term in the global interest rate swap market quoted on Bloomberg (adjusted by the differences between overnight interest rate in the PRC interbank foreign currency market and London Interbank Offered Rate), deducting the composite rate of interest payable to customers on the foreign currency deposits with corresponding term.

During the reporting period, the amount of deposit agency fee costs for the foreign currency deposits was insignificant.

Agency Intermediary Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides financial settlement services, financial agency services and other services provided by agency outlets. The financial settlement services primarily include cross-region transactions, cross-bank transactions, personal remittance, management on accounts with small balances, short message services (SMS) and other settlement businesses, whereas financial agency services and other services primarily include bancassurance, agency sales of government bonds and funds, collection and payment agency services and other services.

As the principal of the Agency Banking Intermediary Businesses and pursuant to the requirement of accounting standards, the revenue arising from the Agency Banking Intermediary Businesses shall initially be recognized by us, and the fee and commission will then be payable by us to Postal Affiliates following the principle of “fee payable to the entity providing the service (誰辦理誰受益)”. The Bank does not set any cap for Agency Banking Intermediary Businesses.

During the reporting period, the fee payable for the Agency Banking Intermediary Businesses was RMB7,282 million, of which the fee payable in respect of provision of financial settlement services by agency outlets was RMB4,177 million, and fee payable in respect of provision of financial agency and other services by agency outlets was RMB3,105 million.

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

Hong Kong Listing Rules Implications

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

The Agency Banking Businesses are connected transactions as defined in the Hong Kong Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of Hong Kong Listing Rules.

The Bank applied to Hong Kong Stock Exchange at the time of its public offering, and Hong Kong Stock Exchange approved the Bank's exemption from strict compliance with the requirements for announcement (if applicable) and independent shareholders' approval under the Listing Rules in terms of the above-mentioned continuing connected transactions. Save for the above, we have applied for, and the Hong Kong Stock Exchange has granted us, in respect of Agency Banking Businesses Framework Agreement, a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Hong Kong Listing Rules; and for Agency Deposit Taking Business and Agency Banking Intermediary Businesses, a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Hong Kong Listing Rules. During the reporting period, the Bank fully complied with the relevant rules for the connected transactions under the Hong Kong Listing Rules.

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions were:

- (1) conducted in the daily business of the Bank;
- (2) carried out in accordance with normal commercial terms or better; and
- (3) conducted based on the agreement of relevant transactions, with fair and reasonable terms in the interests of the Bank's shareholders as a whole.

The independent non-executive Directors also confirmed that:

- (1) the methods and procedures established by the Bank are sufficient to ensure that the transactions are conducted on normal commercial terms and bring no harms to the interests of the Bank and minority shareholders; and

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

- (2) the Bank has set up appropriate internal monitoring procedures, and internal auditors will review these transactions.

The Bank has appointed PricewaterhouseCoopers to report continuing connected transactions. PricewaterhouseCoopers has written to the Board of Directors to confirm that it has not noticed anything that could make them consider that the continuing connected transactions:

- (1) have not been approved by the Board of Directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (4) exceeded the cap (if applicable).

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

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

Implementation of the Management System for Related Party Transactions

In 2016, with the advancement of the reform and development process of the Bank and in order to meet the requirements of the internal and external environment on the management of the Bank's related party transactions, Measures for the Administration of Related Party Transactions of Postal Savings Bank of China (revised in 2016) was adopted after considerable research and discussion and has been strictly enforced, to ensure that the related party transactions of the Bank are conducted legally and in compliance with relevant regulations. The following four measures have been adopted: First, reviewing related regulatory requirements, we determined the identification standard for related party after listing in Hong Kong and prepared the list of related parties of the Bank, and carried out dynamic update maintenance. Second, based on the requirements of listing in Hong Kong, the Bank and China Post Group officially entered into the four agreements concerning related party transactions, including Agency Banking Businesses Framework Agreement, Trademark Licensing Agreement, Land Use Rights and Properties Leasing Framework Agreement and Comprehensive Services Framework Agreement. Third, the filing and approval work of related party transactions have been further standardized to build the management system and operating mechanism for related party transactions with "scientific management and effective control"; the process management mechanisms for the identification and reporting of related parties and the examination, approval, filing and reporting of related party transactions have been improved, ensuring the effective control for the risk of related party transactions. Fourth, the consulting work for the construction of the management system of related party transactions have been conducted in depth; by organizing the related party transactions of the Bank, a unified management standard has been established to promote the management informationization of related party transactions.

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

Significant Events

Implementation of the Commitments of the Controlling Shareholder

In order to avoid potential competition, China Post Group made a non-competing commitment on September 7, 2016 in favor of the Bank, under which China Post Group made the commitment that it will not engage in any competing commercial banking business within or outside China. China Post Group confirmed that there had been no breach of the non-competing commitment during the reporting period.

Material Legal Proceedings and Arbitration

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

As of December 31, 2016, we were the defendant or arbitration respondent in several pending and material litigations or arbitrations each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB1,509 million. The Bank considers that these pending cases will not have any material adverse impact on the business, financial position or results of operations of the Bank.

Major Asset Acquisition, Disposal and Merger

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

Pledge of Assets

For information relating to the pledge of assets of the Bank, see “Notes to the Consolidated Financial Statements — 41.5 Collaterals”.

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

During the reporting period, there was no investigation, administrative penalty, criticism or public denunciation from the CSRC or CBRC in relation to the Bank or Directors, Supervisors and senior management. None of the Bank or Directors, Supervisors and senior management was subject to any penalty of other regulatory authorities which would have material impact on our operation.

Independent Auditor's Report

To the Shareholders of Postal Savings Bank of China Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 152 to 293, which comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Independent Auditor's Report

Key Audit Matters

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

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

- Allowance for impairment losses on loans and advances
- Classification of other debt instruments
- Agency Banking Transactions with China Post Group

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Allowance for impairment losses on loans and advances</p> <p>Refer to Note 3.1 to the Consolidated Financial Statements "Provision for impairment on loans and advances to customers" in critical accounting estimates and judgements in applying accounting policies, and Note 20 "Loans and Advances to Customers".</p> <p>As at December 31, 2016, the balance of loans and advances to customers amounted to RMB3,010,648 million, with impairment allowance of RMB71,431 million.</p> <p>Allowance for impairment losses is estimated using either individual or collective assessment.</p> <p>Loans and advances which are considered individually significant are assessed individually for impairment. Homogeneous groups of loans and advances not considered individually significant and those individually assessed with no objective evidence of impairment on an individual basis are assessed for impairment on a collective basis.</p>	<p>Our procedures in relation to impairment allowance of loans and advances to customers included:</p> <p>Individual assessment</p> <p>We performed credit reviews on individually significant loans and advances balances, on sampling basis, with particular focus on overdue but not impaired loans and advances to assess whether the impairment was identified on a timely basis by management.</p> <p>In addition, for the impaired loans and advances from our sample, based on the supporting evidence obtained internally and externally, we tested the expected future cash flows through reviewing the latest-available financial information of the borrowers, considering the realisable value of mortgaged and pledged assets, and support from guarantors, as appropriate and discounted rates.</p>

Independent Auditor's Report

Key Audit Matter

Allowance for impairment losses on loans and advances (cont'd)

Because of the size of the loans and advances and judgement involved in estimating impairment losses, allowance for impairment losses of loans and advances was our key audit focus. We particularly focused on the following aspects:

- Whether impaired loans and advances were identified on a timely basis and the discounted future cash flows relating to loans and advances applying individual assessment were estimated reasonably by management; and
- Whether the model, parameters and assumptions employed were reasonable for collective assessment.

Classification of other debt instruments

Refer to Note 2.8 to the Consolidated Financial Statements "financial instruments" in significant accounting policies, and Note 21.3 "Investment classified as receivables".

Other debt instruments were non-derivative investments in structured entities. As at December 31, 2016, the balance of other debt instruments amounted to RMB306,251 million, which were classified in "investment classified as receivables".

The Group would recognize and classify these other debt instruments which are mainly subject to credit risk, with fixed or determinable payments and not quoted in an active market as "investment classified as receivables".

How our audit addressed the Key Audit Matter

Collective assessment

Loans and advances subject to collective assessment were assessed for impairment on a collective basis with the relevant data taken from the loan system, using models, parameters and assumptions determined by management.

We assessed whether the parameters and assumptions used in the loan loss provision models properly reflected the credit risks. We also independently performed recalculation of the allowance for impairment losses on loans and advances collectively assessed.

Based on the evidence obtained, we found management's judgement exercised in identifying the impaired loans for individual assessment and in estimating the individual and collective allowance for impairment losses on loans and advances to customers to be reasonable.

Our procedures in relation to the classification of other debt instruments include:

- Evaluated the rationale, applicability and consistency of the management's accounting policies for other debt instruments;
- Selected and reviewed, on a sample basis, the investment contracts and offering circulars of other debt instruments to analyze whether the cash flows were fixed or determinable, whether there were no other residual values from the investments and whether these other debt instruments were subject to any contractual restriction for trading or whether they were quoted in an active markets; and
- On a sample basis, independently sent confirmations to verify significant terms in the investment contracts.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>The classification of other debt instruments (cont'd)</p> <p>During the process of determining the classification, the certainty of cash flow, the distribution of residual interests and existence of active market quotes, all require significant management judgements and given the size of other debt instruments the Group has invested in, we identify it as a key audit matter.</p>	<p>Based on the audit evidences obtained, we found the management's judgement on the classification of other debt investments were supportable.</p>
<p>Agency Banking Transactions with China Post Group</p> <p>Refer to Note 39.3(1) Agency banking services from China Post Group.</p> <p>The Group operates its business through both directly-operated outlets and agency outlets owned by China Post Group (the Group's holding company). In accordance with the Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets ("Framework Agreement") signed between the Group and China Post Group, agency outlets can provide deposits taking, financial settlement, financial agency and other services under the name of the Group, and the Group pays agency fees to China Post Group for these services ("Agency Banking Transactions").</p> <p>In 2016, deposit agency fee costs amounted to RMB61,446 million, representing 47.35% of total operating expenses of the Group; fees for agency savings settlement, and fees for agency sales and other commissions amounted to RMB4,177 million and RMB3,105 million respectively, representing 76.52% of total fee and commission expenses.</p> <p>We focus on the Agency Banking Transactions due to the unique features, the size of transactions, and the importance of disclosures in the financial statements to facilitate understanding of the financial position and operating performance of the Group.</p>	<p>Our procedures in relation to Services from China Post Group include:</p> <ul style="list-style-type: none"> • Understood and tested the controls designed and applied in the Agency Banking Transactions with China Post Group; • Tested the IT systems and controls applied by the Group in capturing data for calculation of agency fees; • Inspected the Framework Agreement, evaluated whether the transactions had been appropriately authorized and approved in accordance with specific terms and conditions of the agreement; • On a sample basis, inspected evidence of payments and receipts of transactions, recalculated the settlement amounts based on the Framework Agreement, and sent confirmations to China Post Group to confirm the transaction amounts and balances; and • Evaluated if the Agency Banking Transactions with China Post Group were properly disclosed in the consolidated financial statements. <p>We found no significant exceptions from our above procedures.</p>

Independent Auditor's Report

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2017

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	2016	2015
Interest income	4	278,198	300,561
Interest expense	4	(120,612)	(121,302)
Net interest income	4	157,586	179,259
Fee and commission income	5	21,015	16,272
Fee and commission expense	5	(9,517)	(7,600)
Net fee and commission income	5	11,498	8,672
Net trading gains	6	664	275
Net gains on investment securities	7	15,479	946
Other operating income	8	4,375	1,481
Operating income		189,602	190,633
Operating expenses	9	(129,772)	(123,610)
Impairment losses on assets	11	(16,902)	(25,635)
Profit before tax		42,928	41,388
Income tax expenses	12	(3,152)	(6,531)
Net profit		39,776	34,857
Net profit attributable to			
Shareholders of the Bank		39,801	34,859
Non-controlling interests		(25)	(2)

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	2016	2015
Profit for the year		39,776	34,857
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		24	(97)
Subtotal		24	(97)
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of available-for-sale financial assets		(6,364)	3,613
Amortization of unrealized fair value changes after reclassification to held-to-maturity investments		(96)	(97)
Less: related income tax impact		1,615	(879)
Subtotal		(4,845)	2,637
Total comprehensive income for the year		34,955	37,397
Total comprehensive income attributable to:			
Shareholders of the Bank		34,980	37,399
Non-controlling interests		(25)	(2)
		34,955	37,397
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	13	0.55	0.61

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

Consolidated Statement of Financial Position

As at December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	As at December 31	
		2016	2015
Assets			
Cash and deposits with central bank	14	1,310,273	1,131,231
Deposits with banks and other financial institutions	15	175,776	324,137
Placements with banks and other financial institutions	16	193,287	200,485
Financial assets at fair value through profit or loss	17	68,976	27,719
Derivative financial assets	18	6,179	1,073
Financial assets held under resale agreements	19	73,131	148,868
Loans and advances to customers	20	2,939,217	2,412,595
Investment instruments			
Available-for-sale financial assets	21.1	1,160,187	390,683
Held-to-maturity investments	21.2	736,154	684,767
Investment classified as receivables	21.3	1,498,524	1,883,498
Property and equipment	23	39,282	36,546
Deferred tax assets	24	13,465	9,199
Other assets	25	51,171	45,563
Total assets		8,265,622	7,296,364

Consolidated Statement of Financial Position

As at December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	As at December 31	
		2016	2015
Liabilities			
Deposits from banks and other financial institutions	27	281,687	91,351
Placements from banks and other financial institutions	28	14,158	70,859
Financial liabilities at fair value through profit or loss	29	10,623	4,139
Derivative financial liabilities	18	6,404	1,039
Financial assets sold under repurchase agreements	30	129,789	394,817
Customer deposits	31	7,286,311	6,305,014
Debt securities issued	32	54,943	24,973
Other liabilities	33	134,819	133,341
Total liabilities		7,918,734	7,025,533
Equity			
Share capital	34	81,031	68,604
Capital reserve	35	74,586	36,887
Other reserves	36	114,341	106,153
Retained earnings		76,572	58,804
Equity attributable to shareholders of the Bank		346,530	270,448
Non-controlling interests		358	383
Total equity		346,888	270,831
Total equity and liabilities		8,265,622	7,296,364

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

Approved and authorized for issue by the Board of Directors on March 24, 2017.

李國華

(On behalf of Board of Directors)

呂家進

(On behalf of Board of Directors)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	Attributable to shareholders of the Bank							Non-controlling interests	Total equity
		Share capital	Capital reserve	Other reserves			Retained earnings	Total		
				Surplus reserve	General reserve	Investment revaluation reserve				
As at January 1, 2016		68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831
Profit for the year		—	—	—	—	—	39,801	39,801	(25)	39,776
Other comprehensive income		—	24	—	—	(4,845)	—	(4,821)	—	(4,821)
Total comprehensive income for the year		—	24	—	—	(4,845)	39,801	34,980	(25)	34,955
Appropriations to surplus reserve	36.1	—	—	3,984	—	—	(3,984)	—	—	—
Appropriations to general reserve	36.2	—	—	—	9,049	—	(9,049)	—	—	—
Share issuance	34	12,427	37,675	—	—	—	—	50,102	—	50,102
Dividends	37	—	—	—	—	—	(9,000)	(9,000)	—	(9,000)
As at December 31, 2016		81,031	74,586	20,395	93,803	143	76,572	346,530	358	346,888

	Note	Attributable to shareholders of the Bank							Non-controlling interests	Total equity
		Share capital	Capital reserve	Other reserves			Retained earnings	Total		
				Surplus reserve	General reserve	Investment revaluation reserve				
As at January 1, 2015		57,000	3,448	12,925	66,887	2,351	45,298	187,909	—	187,909
Profit for the year		—	—	—	—	—	34,859	34,859	(2)	34,857
Other comprehensive income		—	(97)	—	—	2,637	—	2,540	—	2,540
Total comprehensive income for the year		—	(97)	—	—	2,637	34,859	37,399	(2)	37,397
Appropriations to surplus reserve	36.1	—	—	3,486	—	—	(3,486)	—	—	—
Appropriations to general reserve	36.2	—	—	—	17,867	—	(17,867)	—	—	—
Share issuance	34	11,604	33,536	—	—	—	—	45,140	—	45,140
Capital injection by non-controlling interest in setting up a subsidiary	34	—	—	—	—	—	—	—	385	385
As at December 31, 2015		68,604	36,887	16,411	84,754	4,988	58,804	270,448	383	270,831

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Year ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	42,928	41,388
Adjustment for:		
Amortization of intangible assets and other assets	898	1,477
Depreciation of property and equipment and investment properties	3,792	3,340
Impairment losses on assets	16,902	25,635
Interest income arising from investment instruments	(97,887)	(81,430)
Interest expense arising from debt securities issued	1,302	348
Net gains on investment securities	(15,479)	(946)
Net losses from disposal of property, equipment and other assets	13	14
	(47,531)	(10,174)
NET CHANGES IN OPERATING ASSETS AND OPERATING LIABILITIES		
Net decrease in deposits with central bank, banks and other financial institutions	23,614	514,951
Net increase in placements with banks and other financial institutions	(18,195)	(55,786)
Net (decrease)/increase in placements from banks and other financial institutions	(56,701)	52,596
Net decrease in financial assets held under resale agreements	5,938	216,437
Net (decrease)/increase in financial assets sold under repurchase agreements	(265,028)	278,899
Net increase in loans and advances to customers	(546,636)	(603,191)
Net increase in customer deposits and deposits from banks and other financial institutions	1,171,633	552,801
Net increase in other operating assets	(47,002)	(8,411)
Net increase in other operating liabilities	8,027	1,519
Cash from operations	228,119	939,641
Income tax paid	(7,662)	(10,224)
NET CASH FROM OPERATING ACTIVITIES	220,457	929,417
Net cash flows from operating activities include:		
Interest received	179,427	224,900
Interest paid	(121,244)	(116,180)

Consolidated Statement of Cash Flows

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

	Note	Year ended December 31	
		2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal of investment instruments		1,944,244	584,112
Cash received from interest income arising from investment instruments and gains on investment securities		111,912	81,089
Cash paid for purchase of investment instruments		(2,384,263)	(1,971,452)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		(7,405)	(5,710)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		156	518
NET CASH USED IN INVESTING ACTIVITIES		(335,356)	(1,311,443)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from share issuance		50,102	45,140
Cash received from non-controlling interests		—	385
Dividends paid		(9,000)	—
Interests paid on debt securities issued		(1,127)	—
Cash received from issuing debt securities		29,970	24,972
Cash paid relating to other financing activities		(34)	(74)
NET CASH INFLOW GENERATED FROM FINANCING ACTIVITIES		69,911	70,423
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Balance of cash and cash equivalents as at January 1		227,361	537,941
Effect of foreign exchange rate changes		2,520	1,023
BALANCE OF CASH AND CASH EQUIVALENTS AS AT DECEMBER 31	38	184,893	227,361

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

1 General information

Postal Savings Bank of China Co., Ltd. (hereinafter referred to as the “Bank” or “PSBC”) is a joint-stock commercial bank controlled by China Post Group. The Bank, originally known as Postal Savings Bank of China Company Limited (hereinafter referred to as 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 (hereinafter referred to as the “MOF”) and China Banking Regulatory Commission (hereinafter referred to as the “CBRC”), the Company was restructured into a joint-stock bank, with China Post Group as the sole sponsor. On January 21, 2012, the Bank officially changed its name to Postal Savings Bank of China Co., Ltd.

The Bank, as approved by the CBRC, holds a financial institution license of the People’s Republic of China (No. B0018H111000001) and obtained its business license (No.100000000040768) with unified social credit code 9111000071093465XC from the State Administration for Industry and Commerce. The address of the Bank’s registered office is No. 3 Jinrong Street, Xicheng District, Beijing.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. Details of the share issuance are included in Note 34. As at December 31, 2016, the number of issued ordinary shares of the Bank were 81,031 million, RMB1 each.

The Bank and its subsidiary (hereinafter referred to as the “Group”) conduct their operating activities in the People’s Republic of China (“China” or “PRC”), and the principal activities include: personal and corporate financial services, treasury operations and other business activities as approved by the CBRC.

As at December 31, 2016, the Bank had a total of 36 tier-one branches and 322 tier-two branches across China.

These consolidated financial statements were authorized for issue by the Board of Directors of the Bank on March 24, 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the relevant periods presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”), which collectively include International Accounting Standards (“IASs”) and related interpretations issued by the International Accounting Standards Board (the “IASB”). The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap.622) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss (including derivative instruments).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out in Note 3.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations

New and revised IFRSs effective by January 1, 2016 adopted by the Group

		Effective date
Amendment to IAS 1	Amendment to disclosure initiative	January 1, 2016
Amendment to IFRS 5	Non-current assets held for sale and discontinued operations — clarification of methods of disposal	January 1, 2016
Amendment to IFRS 7	Financial instruments: disclosures — clarification regarding servicing contracts and interim financial statements	January 1, 2016
Amendment to IFRS 10 and Amendment to IAS 28	On the sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016
IFRS 11 (revised)	Accounting for acquisition of interests in joint operations	January 1, 2016
IFRS 14	Regulatory deferral accounts	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016
IAS 19	Employee benefits — clarification of determination of discount rates for retirement benefit obligations	January 1, 2016
Amendment to IAS 27	Equity method in separate financial statements	January 1, 2016
IAS 34	Interim financial reporting — clarification of information disclosed elsewhere in the interim financial report	January 1, 2016

The application of these new and revised IFRSs do not have significant impacts on the Group's operating results, comprehensive income and financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

		Effective for accounting periods beginning on or after
Amendment to IAS 7	Statement of cash flows	January 1, 2017
Amendment to IAS 12	Income taxes	January 1, 2017
Amendment to IFRS 2	Share — based payment	January 1, 2018
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The effective date has now been deferred indefinitely

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9 that are relevant to the Group are:

All recognized financial assets that are within the scope of IAS 39 are subsequently measured at amortized cost or fair value under IFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognized in profit or loss. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under IFRS 9 that will change the way the Group classifies and measures its financial assets in 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' and 'available-for-sale financial assets' under the existing IAS 39.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 9 Financial Instruments (Continued)

IFRS 9 will have an impact on the Group's financial statements. The Group has set up a project team to carry out preparatory work in phases. Preparatory work mainly includes establishing new financial asset classification standards, revising the financial asset impairment model, preparing related financial statements disclosures, updating policies and procedures, as well as upgrading the relevant IT systems. The Group anticipates the overall implementation preparation to be completed by the end of 2017.

Currently the Group is carrying out the preparatory work as planned. The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impact on the Group's operating results and financial position has not yet been quantified.

IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation transferred to customers. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required under IFRS 15.

The Group assesses that adopting IFRS 15 would not have a material impact to the Group's financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations (continued)

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

IFRS 16 Leases

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

As at December 31, 2016, the Group has non-cancellable operating lease commitments of RMB13,944 million, see Note 41.4. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

For the lessors, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, there will be no significant impact on the financial statements.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Bank, a subsidiary and all structured entities under the Bank's control (Note 40).

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Consolidation (continued)

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities (“SEs”) in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as scope of the asset manager’s decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group. Inter-group transactions, balances and unrealized profits on transactions between companies of the Group are eliminated in the consolidated financial statements.

2.4 Revenue recognition

(1) Interest income

Interest income for all interest-bearing instruments is recognized in the consolidated statement of comprehensive income based on the effective interest method. Interest income includes the amortization of a discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(2) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.5 Foreign currency translation

The functional currency and presentation currency of the Group is Renminbi (“RMB”).

Foreign currency transactions are recorded in accordance with the prevailing rates at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognized in profit or loss.

Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the prevailing rates at the date of the transactions. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from re-translation of non-monetary items in respect of financial assets classified as available-for-sale are recognized in other comprehensive income; other exchange differences are recognized directly in profit and loss.

2.6 Taxation

Income tax expense comprises current and deferred tax.

Current tax

The current income tax charge is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax charge is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current income tax includes the expected tax payable on the taxable income for the period at applicable tax rates, and any adjustments to tax payable in respect of prior periods.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.6 Taxation (continued)

Deferred tax

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated statement of comprehensive income, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.7 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, retirement benefits and early retirement benefits.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.7 Employee benefits (continued)

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated statement of comprehensive income.

(b) Retirement benefits

The Group's retirement benefits include defined contribution plans and defined benefit plans. Under defined contribution plans, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods. All other retirement plans are classified as defined benefit plans.

The Group's retirement benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, annuity scheme and supplementary retirement benefits, among which, social welfare program and annuity scheme are defined contribution plans and supplementary retirement benefits is defined benefit plan.

Basic pensions

Basic pensions refers to payments related to government mandated social welfare programs, including social insurance, medical insurance, housing funds and other social welfare contributions. Contributions are recognized in the consolidated statement of comprehensive income for the period in which the related payment obligation is incurred.

Annuity Scheme

In addition to the statutory pension schemes, the Group's employees also participate in the annuity scheme set up by the Group under *Annuity Scheme of Postal Savings Bank of China Co., Ltd.* (the "Annuity Scheme") in accordance with the state's corporate annuity regulations. The annuity contributions are paid by the Group in proportion to its employees' gross salaries, and are expensed in the consolidated statement of comprehensive income of the current period. The Group has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.7 Employee benefits (continued)

(b) Retirement benefits (continued)

Supplementary retirement benefit

The Group gives supplementary retirement benefits to retired staff who are qualified before December 31, 2010. The supplementary retirement benefits include supplementary pensions and supplementary medical benefits. The retirement benefits plan attributed to defined benefit plan, and is usually determined by one or several factors such as age, length of service and compensation.

The liabilities recognized in relation to the above defined benefit pension plan in the consolidated statement of financial position are the present values of defined benefit liabilities at the end of reporting period. The present value of defined benefit liability is based on the expected future cash outflow which is discounted by the government debt interest rate similar to employee benefit liability. The estimate of future cash outflows is affected by various assumed conditions, including inflation rate of pension, inflation rate of medical benefits and other factors. Gains and losses adjusted in accordance with historical experience and assumed movements are included in other comprehensive income when incurred.

(c) Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the Group's early retirement benefits is in accordance with termination benefits in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated statement of comprehensive income. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

2.8 Financial instruments

Financial assets and liabilities are recognized in the consolidated statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated statement of comprehensive income.

(1) Financial assets

The Group's financial assets are classified into four categories — financial assets at fair value through profit or loss (“FVTPL”), held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

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

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of comprehensive income in the period in which they arise.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed maturities and fixed or determinable payments that Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

When the Group sells or reclassifies a significant amount of financial assets classified as held-to-maturity during the reporting period due to reasons other than the exceptions allowed by accounting standards, the remaining held-to-maturity assets are reclassified as available-for-sale financial assets and no financial assets will be classified as held-to-maturity assets for the reporting period and the subsequent two full financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets refer to the designated or not classified as the financial assets at fair value through profit or loss, loans and receivables, or non-derivative financial assets of held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Available-for-sale financial assets (continued)

Equity investment classified as available-for-sale that do not have a quoted price in an active market and whose fair value cannot be reliably determined are measured at cost, less any impairment losses, at the end of each reporting period.

Interest income related to financial assets classified as available-for-sale debt instruments is calculated using the effective interest method and recorded as an element of Interest Income in the consolidated statement of comprehensive income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive such payments is established.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the financial assets have been adversely affected.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
 - a breach of contract, such as a default or delinquency in interest or principal payments;
 - the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider previously;
 - it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - the disappearance of an active market for that financial asset because of significant financial difficulties;
- or

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Impairment of financial assets (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio, and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

(a) Impairment of financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment exists, the amount of loss is recognized in the income statement. For financial assets that are not individually significant, and for individually assessed financial assets (whether significant or not) that the Group determines that no objective evidence of impairment exists, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

If there is objective evidence that financial assets carried at amortized cost are impaired, an impairment loss is recognized in the consolidated statement of comprehensive income. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are expected to result from foreclosure, less the cash flow of the expenses of obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of comprehensive income. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(1) Financial assets (continued)

Impairment of financial assets (continued)

(a) Impairment of financial assets carried at amortized cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as an improvement in the debtor's credit rating, the previously recognized impairment loss is reversed through the consolidated statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(b) Impairment of financial assets classified as available-for-sale

At the end of each reporting period, the Group assesses whether there is objective evidence shows that a financial asset or a financial asset group is impaired. For debt securities, the standards above are applicable. For investment classified as available-for-sale equity, it is also an impairment evidence if the fair value of the debt securities is significantly or prolonged lower than the cost. If the evidence exists for available-for-sale financial assets, the accumulated loss of investment revaluation reserve which was originally included in other comprehensive income shall be reclassified into the consolidated statement of comprehensive income for the period impairment incurred.

An impairment loss on an equity investment classified as available-for-sale, and carried at fair value, is not reversed through the consolidated statement of comprehensive income in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. An impairment loss on an equity investment classified as available-for-sale equity investment, and carried at cost, is not reversed. An impairment loss on a debt investment classified as available-for-sale is subsequently reversed through the consolidated statement of comprehensive income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(2) Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities carried at amortized cost.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(3) Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gains or losses are recognized in the consolidated statement of comprehensive income. The derivative financial instruments are held by the Group for managing risk exposures.

(4) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or a significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(5) Derecognition

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when the Group becomes a party of related financial instrument contractual terms.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(5) Derecognition (continued)

A financial asset is derecognized when any of the following criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expired; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to another entity, or; (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss for the current period.

Where the Group has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset, or transferred control of the financial assets, the asset are recognized to the extent of the Group's continuing involvement of the financial asset. The financial asset is derecognized if the Group has not retained control. The rights and obligations arising from transfer are separately recognized as assets or liabilities.

A financial liability is derecognized when any of the following criteria is met: (i) the current obligation has been discharged, cancelled or expired, or (ii) the Group enters into an agreement with creditor so as to replace the current financial liabilities in the way of taking new financial liabilities, and the contractual terms of new financial liabilities and current financial liabilities are substantially different. If the terms for the current liabilities have significant modifications, the replacement or adjusted items shall be handled as the derecognition of the original financial liabilities and initial recognition of a new financial liability.

The difference between the carrying amount of the derecognized part and the consideration is recognized in profit or loss.

(6) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied:

- (i) the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable; and
- (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.8 Financial instruments (continued)

(7) Repurchase agreements and agreements to resell

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as held-to-maturity investments, available-for-sale financial assets, investment classified as receivables or loans and advances to customers as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are disclosed in Note 41.5 “Contingent Liabilities and Commitments — Collateral”.

Consideration paid for financial assets held under agreements to resell are recorded as financial assets held under resale agreements. The difference between purchase and sale price is recognized as interest expense or income in the consolidated statement of comprehensive income for that year over the term of the agreements using effective interest method.

2.9 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of buildings and recorded in property and equipment.

Depreciation is recognized as a component of operating expenses in the consolidated statement of comprehensive income so as to recognize the consumption of the economic value of property and equipment (other than construction in progress), less their estimated residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each category of property and equipment are as follows:

Categories	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	5%	4.75%
Electronic equipment	3 years	5%	31.67%
Motor vehicles	4 years	5%	23.75%
Office equipment and others	5 years	5%	19.00%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.9 Property and equipment (continued)

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. The costs comprise construction cost, installation cost, borrowing costs that are eligible for capitalisation and other costs necessary for preparing the property and equipment for their intended use. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continuing use. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other operating income in the consolidated statement of comprehensive income. Property and equipment's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

2.10 Land use rights

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

2.11 Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

Investment property is subsequently measured at cost. Depreciation is recognized on a straight-line basis based on estimated useful life and net residual rate. The estimated useful life is 20 years and the estimated residual rate is 5% of the investment property.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.11 Investment property (continued)

At the end of the reporting period, the Group reviews the carrying amounts of its investment properties to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount (the higher of fair value less costs to sell and value in use) of the property is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the property is reduced to its recoverable amount. An impairment loss is recognized in the consolidated statement of comprehensive income. The accounting policies of impairment of investment property are included in Note 2.14 “Impairment of non-financial assets”.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of comprehensive income for the current period.

2.12 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group’s property and equipment. Rental income from operating leases is recognized as other operating income in the consolidated statement of comprehensive income on a straight-line basis over the term of the related lease.

The Group as lessee

When the Group is a lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

When the Group is a lessee under finance leases, the leased assets are capitalized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated statement of comprehensive income. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.13 Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are subject to annual impairment assessment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income.

2.14 Impairment of non-financial assets

Fixed assets, investment properties, construction in progress and intangible assets with finite useful lives, among others, are tested for impairment if there is any indication that the assets may be impaired as at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Non-financial assets that are suffered an impairment, are reviewed for possible reversal of impairment at each reporting date.

2.15 Cash and cash equivalents

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements and short-term debt securities.

2.16 Dividend distribution

Dividend distribution to the Bank's shareholders is recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.18 Fiduciary activities

The Group acts as a custodian or a trustee to hold and manage assets for securities investment fund companies, insurance companies and other institutions. The assets and their repayment obligations related to these activities are not included in the consolidated statement of financial position of the Group.

2.19 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but disclosed. The Group's contingent liabilities are disclosed in Note 41 "Contingent Liabilities and Commitments".

A provision is recognized when it meets the criteria as set forth in Note 2.17 "Provisions".

2.20 Segment Analysis

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Relevant committees led by presidents allocate resources to and assesses the performance of the operating segments based on periodically reviewing this analysis. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.20 Segment Analysis (continued)

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3 Critical accounting estimates and judgements in applying accounting policies

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The critical accounting estimates and key assumptions below may lead to material adjustments to the carrying amounts of assets and liabilities within the next accounting year.

3.1 Provision for impairment on loans and advances to customers

Except for the individually-significant impaired loans identified that are individually assessed for impairment losses, the Group reviews loan portfolios to assess impairment on a periodic basis. In determining whether provisions of impairment on loans are to be recognized, the Group makes judgements as to whether there is indication of impairment which will have a decrease in the estimated future cash flows from portfolios composed of loans which are found to have no decrease in cash flows individually. Indications of impairment resulting in the decrease in estimated cash flows include deterioration in borrower's repayment abilities to the loan portfolios, or a breach of contract by the borrower of the loan portfolio due to the adverse changes in the borrower's economic position. Based on the historical loss experience from a group of assets having the similar credit risk characteristics, the Group makes impairment estimation to the loan portfolios that have indications of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2 Fair value of financial instruments

The fair value of financial instruments that are quoted in an active market is determined by the Group through market inquiry; the fair value of financial instruments that are not quoted in an active market is determined by the Group through valuation technique. Valuation techniques include the use of recent prices of transaction between knowledgeable, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are commonly used in the market. To the extent practical, models for the valuation of derivative and other financial instruments use observable market data, such as interest yield curves and foreign exchange rate. Fair values calculated through valuation techniques are verified based on the industry practice and currently observable prices of same or similar financial instruments in the market.

The Group, through regular review and approval procedures, reviews the assumptions and market expectations adopted by the valuation technique, including the examination of assumptions and pricing factors of models, changes in assumption conditions of models, properties of market parameters, whether the market is active or not, adjustment factors of fair values which are not covered by models, and the consistency of valuation techniques between periods. Valuation techniques are regularly reviewed through validity tests and updated to reflect the market conditions at the balance sheet date where appropriate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Actuarial valuation of early retirement benefits and supplementary retirement benefits liabilities

The Group has recognized early retirement benefits and supplementary retirement benefits as liabilities, and performed actuarial valuation of the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits using various assumptions. The assumptions include discount rates, growth rates of expenses, and mortality rates, etc. Any differences between the actual results and assumptions are accounted for in the current period in accordance with relevant accounting policies. The assumptions used are reasonable to the best knowledge of the Group's management, but the actual experience or changes in assumptions will affect the amounts of expenses and liabilities in connection with the early retirement benefits and supplementary retirement benefits.

3.4 Income taxes

In the ordinary course of the Group's business, there are certain transactions and activities for which there are uncertainties concerning their ultimate tax treatment. In accordance with the current tax laws and regulations as well as the policies applicable to the Group from competent government authorities in the previous years, the Group makes tax estimates on the implementation of new tax laws and regulations as well as events involving uncertainties in tax treatment. In calculating its income tax liabilities, the Group makes significant judgements. Where the final outcome of these tax matters is different from the amounts initially recorded, such differences will affect the current income tax and deferred income tax provisions in the period during which such a determination is made.

3.5 Control over structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it controls the structured entities. The principle of control includes three factors: (i) power over investees; (ii) exposure or right to the variable returns of investees, and (iii) ability to affect those returns through its power over the investees. If evidence shows that the factors of the control change, the Group shall reassess whether it has control on the investees. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (such as direct investment) that it holds in the structured entities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31	
	2016	2015
Interest income		
Deposits with central bank	19,322	23,963
Deposits with banks and other financial institutions	8,096	33,806
Placements with banks and other financial institutions	10,772	9,147
Financial assets at fair value through profit or loss	328	312
Financial assets held under resale agreements	6,888	12,486
Loans and advances to customers	134,905	139,417
Including: Corporate loans and advances	56,874	60,181
Personal loans and advances	78,031	79,236
Available-for-sale financial assets	6,520	5,499
Held-to-maturity investments	26,164	25,399
Investment classified as receivables	65,203	50,532
Subtotal	278,198	300,561
Interest expense		
Deposits from banks and other financial institutions	(6,437)	(943)
Placements from banks and other financial institutions	(1,814)	(293)
Financial assets sold under repurchase agreements	(8,862)	(2,534)
Customer deposits	(102,197)	(117,184)
Debt securities issued	(1,302)	(348)
Subtotal	(120,612)	(121,302)
Net interest income	157,586	179,259
Including:		
Interest income accrued on impaired financial assets	395	593
Included in interest income		
Interest income from listed investments	36,607	23,805
Interest income from unlisted investments	61,608	57,937

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

	Note	Year ended December 31	
		2016	2015
Settlement and clearing fee income	(1)	5,640	5,525
Bank cards and POS fee income		5,041	4,634
Wealth management fee income		4,390	2,161
Agency service fee income	(2)	3,599	2,260
Custodian business fee income		957	506
Others		1,388	1,186
Fee and commission income		21,015	16,272
Fee and commission expense	(3)	(9,517)	(7,600)
Net fee and commission income		11,498	8,672

- (1) Settlement and clearing fee income refers to income derived from settlement services provided for institutional and individual customers, mainly includes fee and commission derived from cross-region and cross-bank transactions and remittance services.
- (2) Agency service fee income mainly refers to fee and commission income from various agency services, including sales of insurance, funds, government bonds underwriting and collection and payment service.
- (3) Fee and commission expense were mainly expenses incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 39.3 (1) for expenses paid by the Group to China Post Group.

6 Net trading gains

	Year ended December 31	
	2016	2015
Debt securities	919	214
Derivative financial instruments	(255)	61
Total	664	275

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

7 Net gains on investment securities

	Year ended December 31	
	2016	2015
Net gains from available-for-sale financial assets	14,413	547
Net re-valuation gains reclassified from other comprehensive income	903	213
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	96	97
Net losses from held-to-maturity investments	—	(8)
Net gains from investment classified as receivables	67	97
Total	15,479	946

8 Other operating income

	Year ended December 31	
	2016	2015
Net exchange gains	2,987	165
Government subsidies	565	641
Precious metal sales income	342	181
Leasing income	169	154
Others	312	340
Total	4,375	1,481

9 Operating expenses

	Note	Year ended December 31	
		2016	2015
Staff costs (including emoluments of directors, supervisors and senior management)	(1)	36,579	34,172
Deposit agency fee costs	(2)	61,446	54,397
Other general operating and administrative expenses		20,175	19,392
Taxes and surcharges	(3)	3,794	7,886
Depreciation and amortization		4,690	4,817
Auditor's remuneration	(4)	60	21
Others		3,028	2,925
Total		129,772	123,610

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses (continued)

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

	Year ended December 31	
	2016	2015
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	26,085	25,726
Staff welfare	1,490	1,257
Social security contributions	1,577	1,184
Including: Medical insurance	1,447	1,053
Work injury insurance	50	61
Maternity insurance	80	70
Housing funds	2,309	1,881
Labour union funds and employee education funds	902	796
Subtotal	32,363	30,844
Defined contribution benefits		
Basic pensions	3,319	2,594
Unemployment insurance	145	148
Annuity scheme	732	575
Subtotal	4,196	3,317
Supplementary retirement benefits (Note 33(1))	20	11
Total	36,579	34,172

- (2) Deposit agency fee costs are payments by the Group to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group (Note 39.3(1)).
- (3) Taxes and surcharges mainly include urban construction tax, educational surcharges, property tax, land use tax, vehicle and vessel use tax, stamp duty, etc.

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Tax Reform"(Cai Shui [2016] No. 36)(財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知) issued by the MOF and the State Administration of Taxation, the Group is required to pay value added tax instead of business tax from May 1, 2016. According to different types of business, tax rates are 6%, 11% and 17%.

- (4) For the year ended December 31, 2016, auditor's remunerations included the service of the Initial Public Offering and the periodical reports.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

10. Emoluments of directors and supervisors

(1) Details of the directors and supervisors' emoluments are as follows:

Name	Note	Year ended December 31, 2016					Total (x) RMB thousand
		Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand		
Chairman							
Li Guohua (李國華)	(i)	—	—	—	—	—	
Executive directors							
Lyu Jiajin (呂家進)	(ii)	—	373	69	54	496	
Zhang Xuewen (張學文)		—	850	97	130	1,077	
Yao Hong (姚紅)	(iii)	—	806	95	127	1,028	
Non-executive directors							
Yang Songtang (楊松堂)		—	728	47	126	901	
Tang Jian (唐健)		—	728	47	132	907	
Lai Weiwen (賴偉文)		—	728	47	106	881	
Chin Hung I David (金弘毅)	(iv)	—	425	—	—	425	
Independent non-executive directors							
Ma Weihua (馬蔚華)		450	—	—	—	450	
Bi Zhonghua (畢仲華)		300	—	—	—	300	
Fu Tingmei (傅廷美)	(v)	175	—	—	—	175	
Gan Peizhong (甘培忠)	(v)	175	—	—	—	175	
Supervisors							
Chen Yuejun (陳躍軍)		—	852	98	129	1,079	
Li Yujie (李玉杰)	(vi)	—	—	—	—	—	
Zhao Yongxiang (趙永祥)	(vi)	—	—	—	—	—	
Zeng Kanglin (曾康霖)	(vii)	146	—	—	—	146	
Guo Tianyong (郭田勇)		250	—	—	—	250	
Wu Yu (吳昱)	(vii)	146	—	—	—	146	
Dang Junzhang (黨均章)	(viii)	—	—	—	—	—	
Li Yue (李躍)	(ix)	—	—	—	—	—	
Song Changlin (宋長林)	(viii)	—	—	—	—	—	
Total		1,642	5,490	500	804	8,436	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

10. Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

- (i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.
- (ii) Mr. Lyu Jiajin, executive director of the Bank, serves as deputy president and receives emolument from China Post Group since May 2016, and does not receive emolument from the Bank since June 2016.
- (iii) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Ms. Yao Hong was appointed as executive director of the Bank, and her appointment was approved by CBRC in August 2016.
- (iv) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Chin Hung I David was appointed as non-executive director of the Bank, and his appointment was approved by CBRC in August 2016.
- (v) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Fu Tingmei and Mr. Gan Peizhong were appointed as independent non-executive directors of the Bank, and their appointments were approved by CBRC in August 2016.
- (vi) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Li Yujie and Mr. Zhao Yongxiang were appointed as shareholder representative supervisors of the Bank, and they do not receive emolument from the Bank.
- (vii) At the Bank's Shareholders' General Meeting for the year of 2015 held in May 2016, Mr. Zeng Kanglin and Mr. Wu Yu were appointed as external supervisors.
- (viii) Mr. Dang Junzhang and Mr. Song Changlin were elected employee supervisors effective in March 2016, and the compensation due to them as employees of the Bank is not included here.
- (ix) The compensation due to employee supervisor Mr. Li Yue as employee of the Bank is not included here.
- (x) The total compensation packages for certain directors and supervisors for the year ended December 31, 2016 have not yet been finalized. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended December 31, 2016. The final compensation will be disclosed when determined.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

10. Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

Name	Note	Year ended December 31, 2015					Total (v) RMB thousand
		Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand		
Chairman							
Li Guohua (李國華)	(i)	—	—	—	—	—	
Executive directors							
Lyu Jiajin (呂家進)		—	1,061	83	123	1,267	
Zhang Xuewen (張學文)		—	1,008	83	114	1,205	
Non-executive directors							
Yang Songtang (楊松堂)		—	839	44	114	997	
Tang Jian (唐健)		—	841	44	117	1,002	
Lai Weiwen (賴偉文)	(ii)	—	136	8	17	161	
Independent non-executive directors							
Ma Weihua (馬蔚華)		450	—	—	—	450	
Bi Zhonghua (畢仲華)		300	—	—	—	300	
Supervisors							
Chen Yuejun (陳躍軍)		—	1,009	84	113	1,206	
Guo Tianyong (郭田勇)		250	—	—	—	250	
Li Yue (李躍)	(iii)	—	—	—	—	—	
Non-executive directors resigned							
Zhang Lixian (張立憲)	(iv)	—	636	29	69	734	
Total		1,000	5,530	375	667	7,572	

(i) Mr. Li Guohua, the Chairman, holds his office at and receives emolument from China Post Group, and does not receive emolument from the Bank.

(ii) Mr. Lai Weiwen was elected non-executive director effective in November 2015.

(iii) The compensation due to employee supervisor Mr. Li Yue as employee of the Bank is not included here.

(iv) Mr. Zhang Lixian ceased to be non-executive director in September 2015.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

10. Emoluments of directors and supervisors (continued)

(1) Details of the directors and supervisors' emoluments are as follows (continued):

- (v) The total compensation packages for the directors and supervisors for the year 2015 have not yet been finalized as of the announcement date of 2015 consolidated financial statements. The compensation amounts for these directors and supervisors for the year ended December 31, 2015 were restated based on the finalised amounts as approved in the Bank's Shareholders' General Meeting dated September 22, 2016.

(2) Five highest paid individuals

For the years ended December 31, 2016 and 2015, the five highest paid individuals did not include any member of the directors or supervisors.

The emoluments of the five highest paid individuals in the Group are as follows:

	Year ended December 31	
	2016	2015
	RMB thousand	RMB thousand
Remunerations paid	6,801	6,859
Contribution to pension schemes	386	203
Benefits in kind	488	280

The number of these individuals, other than directors, whose emoluments fell within the following bands, is as follows:

	Year ended December 31	
	2016	2015
	Headcount	Headcount
RMB500,001–RMB1,000,000	—	—
RMB1,000,001–RMB1,500,000	2	3
RMB1,500,001–RMB2,000,000	3	2

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

10. Emoluments of directors and supervisors (continued)

(3) Benefits and interests of directors and connected entities

- (i) The Group enters into credit transactions with the directors, supervisors or certain corporates and connected entities controlled by the directors or supervisors in general commercial terms in the ordinary course of business. For the years ended December 31, 2016 and 2015, the balance of loans and advances from the Group to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors was not significant. The Group did not provide any guarantee or security to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.
- (ii) For the years ended December 31, 2016 and 2015, no emolument was paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the annuity scheme and pension scheme, other retirement benefits for directors or supervisors were not significant, and there were no consideration provided to third parties for making available directors' or supervisors' services; and none of the directors or supervisors waived any emolument, or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended December 31, 2016 and 2015.

11 Impairment losses on assets

	Year ended December 31	
	2016	2015
Loans and advances to customers	20,311	23,186
Placements with banks and other financial institutions	(1,502)	549
Investment classified as receivables	(2,119)	1,668
Others	212	232
Total	16,902	25,635

12 Income tax expenses

	Year ended December 31	
	2016	2015
Current income tax	5,803	9,611
Deferred income tax (Note 24)	(2,651)	(3,080)
Total	3,152	6,531

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

12 Income tax expenses (continued)

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

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

	Note	Year ended December 31	
		2016	2015
Profit before tax		42,928	41,388
Income tax expenses calculated at the statutory tax rate of 25%		10,731	10,347
Tax effect of non-taxable income	(1)	(7,748)	(4,000)
Tax effect of items not deductible for tax purpose	(2)	169	184
Income tax expenses		3,152	6,531

- (1) Interest income from government bonds, local government bonds and micro loans to farmers is not subject to income tax; and interest income from railway construction bonds and long term special financial bonds enjoys tax reduction in accordance with the relevant PRC tax regulations.
- (2) Non-deductible expenses primarily include losses resulting from write-off of loans, staff costs and entertainment expenses in excess of deduction allowed under the relevant PRC tax regulations.

13 Basic and diluted earnings per share

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

	Year ended December 31	
	2016	2015
Net profit attributable to shareholders of the Bank (in RMB millions)	39,801	34,859
Weighted average number of ordinary shares in issue (in millions)	71,810	57,318
Basic earnings per share (in RMB Yuan)	0.55	0.61

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

13 Basic and diluted earnings per share (continued)

- (2) Diluted earnings per share

For the years ended December 31, 2016 and 2015, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

14 Cash and deposits with central bank

	Note	As at December 31	
		2016	2015
Cash on hand		51,238	46,188
Statutory reserve with central bank	(1)	1,198,987	1,066,727
Surplus reserve with central bank	(2)	58,716	17,294
Fiscal deposits with central bank		1,332	1,022
Total		1,310,273	1,131,231

- (1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at December 31, 2016 and 2015, the ratio for RMB deposits statutory reserve was 16.5% and 17%, respectively, whereas the ratio for foreign currency deposits remain 5%.
- (2) Surplus reserve with central bank represents deposits placed with central bank for settlement and clearing of interbank transactions.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

15 Deposits with banks and other financial institutions

	As at December 31	
	2016	2015
Deposits with:		
Domestic banks	165,239	320,445
Other domestic financial institutions	69	3
Overseas banks	10,468	3,689
Total	175,776	324,137

16 Placements with banks and other financial institutions

	As at December 31	
	2016	2015
Placements with:		
Domestic banks	20,462	37,459
Other domestic financial institutions	169,536	164,668
Overseas banks	3,429	—
Gross amount	193,427	202,127
Allowance for impairment losses	(140)	(1,642)
Carrying amounts	193,287	200,485

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

17 Financial assets at fair value through profit or loss

	Note	As at December 31	
		2016	2015
Financial assets held for trading			
Debt securities:			
— Listed in Hong Kong		1,106	149
— Listed outside Hong Kong		11,062	6,944
— Unlisted		56	33
Subtotal		12,224	7,126
Certificates of deposits			
— Listed outside Hong Kong		46,128	16,454
Subtotal	(1)	58,352	23,580
Designated at fair value through profit or loss financial assets			
Asset management plans			
— Unlisted		6,576	4,139
Beneficiary certificates			
— Unlisted		4,048	—
Subtotal	(2)	10,624	4,139
Total		68,976	27,719

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

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

Analyzed by types of issuers:

	Note	As at December 31	
		2016	2015
Financial assets held for trading			
Debt securities:			
Issuers from Hong Kong			
— Financial institutions		48	—
Issuers from Mainland China			
— Government		539	120
— Financial institutions		6,640	1,949
— Corporates		4,664	5,057
Subtotal		11,843	7,126
Issuers from other countries and regions			
— Government		100	—
— Financial institutions		233	—
Subtotal		333	—
Subtotal		12,224	7,126
Certificates of deposits			
— Financial institutions from Mainland China		46,128	16,454
Subtotal	(1)	58,352	23,580
Designated at fair value through profit or loss			
Assets management plans			
— Financial institutions from Mainland China		6,576	4,139
Beneficiary certificates			
— Financial institutions from Mainland China		4,048	—
Subtotal	(2)	10,624	4,139
Total		68,976	27,719

(1) There are no significant constraints on the ability of the Group and the Bank to convert its financial assets held for trading into cash.

(2) As at December 31, 2016 and 2015, the fair value of the Group's financial assets designated at fair value through profit or loss had no significant changes due to changes arising from their credit risk exposures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

18 Derivative financial assets and liabilities

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

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as of balance sheet dates are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

By types of contracts

	As at December 31, 2016		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	498,317	6,098	(6,346)
Interest rate contracts	17,126	81	(58)
Total	515,443	6,179	(6,404)

	As at December 31, 2015		
	Contractual/ Notional amounts	Fair Value	
		Assets	Liabilities
Exchange rate contracts	156,699	1,044	(1,009)
Interest rate contracts	52,374	29	(30)
Total	209,073	1,073	(1,039)

As at December 31, 2016 and 2015, the Group did not have any netting arrangements or similar agreements with counterparties.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

18 Derivative financial assets and liabilities (continued)

Analyzed by credit-risk-weighted amount for counterparty :

	As at December 31	
	2016	2015
Credit-risk-weighted amount for counterparty		
Exchange rate contracts	2,435	525
Interest rate contracts	27	14
Subtotal	2,462	539
Credit value adjustments	1,234	265
Total	3,696	804

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

19 Financial assets held under resale agreements

	As at December 31	
	2016	2015
By collaterals:		
Bills	50,227	32,796
Debt securities	21,904	113,072
Loans and others	1,000	3,000
Total	73,131	148,868

The collateral received in connection with the purchase of financial assets under resale agreements is disclosed in Note 41.5 "Contingent liabilities and commitments — Collateral". As at December 31, 2016 and 2015, the Group did not have any netting arrangements or similar agreements with counterparties.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers

20.1 Loans and advances by types

	As at December 31	
	2016	2015
Corporate loans and advances		
— Loans	1,079,392	980,980
— Discounted bills	349,081	268,303
Subtotal	1,428,473	1,249,283
Personal loans and advances		
Consumer loans	1,101,662	736,939
— Residential mortgage loans	903,967	577,256
— Other consumer loans	197,695	159,683
Personal business loans	288,370	304,930
Micro loans	139,239	136,207
Credit cards overdrafts and others	52,904	44,494
Subtotal	1,582,175	1,222,570
Gross loans and advances	3,010,648	2,471,853
Less: Allowance for impairment losses		
— Individual assessment	(2,439)	(1,496)
— Collective assessment	(68,992)	(57,762)
Net loans and advances	2,939,217	2,412,595

20.2 Detail information regarding loans and advances to customers by geographical distribution, industries, types of collateral and overdue situation are set out in Note 44.3(5), Note 44.3(6) and Note 44.3(7).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.3 Loans and advances by assessment results

	Loans and advances not identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed collectively	Loans and advances identified as impaired and assessed individually	Total	Those identified as impaired as a percentage of total loans and advances
As at December 31, 2016					
Gross loans and advances	2,984,357	23,424	2,867	3,010,648	0.87%
Allowance for impairment losses	(50,784)	(18,208)	(2,439)	(71,431)	
Loans and advances to customers, net	2,933,573	5,216	428	2,939,217	
As at December 31, 2015					
Gross loans and advances	2,451,978	17,815	2,060	2,471,853	0.80%
Allowance for impairment losses	(43,927)	(13,835)	(1,496)	(59,258)	
Loans and advances to customers, net	2,408,051	3,980	564	2,412,595	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.4 Movements of the allowance for impairment losses by assessment results

	Allowance for loans and advances not identified impaired which are collectively assessed	Allowance for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at January 1, 2016	43,927	13,835	1,496	59,258
Net provision in current year	6,857	11,824	1,630	20,311
Write-off and transfer out	—	(8,871)	(700)	(9,571)
Recovery of loans and advances written off	—	1,779	49	1,828
Unwinding of discount on allowance	—	(359)	(36)	(395)
As at December 31, 2016	50,784	18,208	2,439	71,431

	Allowance for loans and advances not identified impaired which are collectively assessed	Allowance for impaired loans and advances		Total
		Which are collectively assessed	Which are individually assessed	
As at January 1, 2015	34,244	8,859	578	43,681
Net provision in current year	9,683	12,085	1,418	23,186
Write-off and transfer out	—	(7,114)	(467)	(7,581)
Recovery of loans and advances written off	—	565	—	565
Unwinding of discount on allowance	—	(560)	(33)	(593)
As at December 31, 2015	43,927	13,835	1,496	59,258

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.5 Movement of allowance for impairment losses by borrower types

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2016	28,643	30,615	59,258
Net provision in current year	8,663	11,648	20,311
Write-off and transfer out	(3,634)	(5,937)	(9,571)
Recovery of loans and advances written off	524	1,304	1,828
Unwinding of discount on allowance	(197)	(198)	(395)
As at December 31, 2016	33,999	37,432	71,431

	Corporate loans and advances	Personal loans and advances	Total
As at January 1, 2015	20,942	22,739	43,681
Net provision in current year	10,493	12,693	23,186
Write-off and transfer out	(2,489)	(5,092)	(7,581)
Recovery of loans and advances written off	53	512	565
Unwinding of discount on allowance	(356)	(237)	(593)
As at December 31, 2015	28,643	30,615	59,258

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments

21.1 Available-for-sale financial assets

	Note	As at December 31	
		2016	2015
Debt securities			
— Listed in Hong Kong		7,245	338
— Listed outside Hong Kong		198,128	103,238
— Unlisted		839	165
Subtotal		206,212	103,741
Asset-backed securities			
— Listed outside Hong Kong		30,549	23,280
— Unlisted		1,171	—
Subtotal		31,720	23,280
Equity instruments	(i)		
— Unlisted		922,255	263,662
Total		1,160,187	390,683

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.1 Available-for-sale financial assets (continued)

Analyzed by types of issuers:

	As at December 31	
	2016	2015
Debt securities		
Issuers from Hong Kong		
— Financial institutions	852	—
Issuers from Mainland China		
— Government	91,688	36,901
— Financial institutions	96,751	55,186
— Corporates	15,481	11,654
Subtotal	203,920	103,741
Issuers from other countries and regions		
— Financial institutions	1,440	—
Subtotal	206,212	103,741
Asset-backed securities		
— Financial institutions from Mainland China	31,720	23,280
Equity instruments		
— Financial institutions from Mainland China	922,255	263,662
Total	1,160,187	390,683

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.1 Available-for-sale financial assets (continued)

Movement of available-for-sale financial assets:

	January 1, 2016	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	December 31, 2016
Amortized cost	385,340	2,419,547	(1,643,679)	—	—	1,161,208
Fair value	5,343	—	—	(903)	(5,461)	(1,021)
Total	390,683					1,160,187

	January 1, 2015	Increase	Decrease	Recognized in the profit and loss	Recognized in equity	December 31, 2015
Amortized cost	136,601	441,544	(192,805)	—	—	385,340
Fair value	1,730	—	—	(213)	3,826	5,343
Total	138,331					390,683

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.2 Held-to-maturity investments

	As at December 31	
	2016	2015
Debt securities		
— Listed in Hong Kong	1,381	721
— Listed outside Hong Kong	732,057	679,536
— Unlisted	416	195
Subtotal	733,854	680,452
Certificates of deposits		
— Listed outside Hong Kong	—	2,072
Asset-backed securities		
— Listed outside Hong Kong	2,300	2,243
Total	736,154	684,767
Fair value of listed held-to-maturity investments	750,261	710,865

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

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.2 Held-to-maturity investments (continued)

Analyzed by types of issuers:

	As at December 31	
	2016	2015
Debt securities		
Issuers from Mainland China		
— Government	451,082	357,101
— Public institutions and quasi-government	570	570
— Financial institutions	232,930	274,937
— Corporates	48,825	47,844
Subtotal	733,407	680,452
Issuers from other countries and regions		
— Financial institutions	447	—
Subtotal	733,854	680,452
Certificates of deposits		
— Financial institutions from Mainland China	—	2,072
Asset-backed securities		
— Financial institutions from Mainland China	2,300	2,243
Total	736,154	684,767

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.3 Investment classified as receivables

	As at December 31	
	2016	2015
Debt securities		
— Listed outside Hong Kong	113,007	107,406
— Unlisted (i)	1,034,086	976,127
Subtotal	1,147,093	1,083,533
Asset-backed securities		
— Unlisted	47,001	48,598
Other debt instruments		
— Unlisted (ii)	306,251	755,307
Allowance for impairment losses	(1,821)	(3,940)
Carrying amounts	1,498,524	1,883,498

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

- (i) Debt securities included RMB778 billion long-term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.
- (ii) Other debt instruments primarily comprise trust investment plans, asset management plans and wealth management products.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.3 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at December 31	
	2016	2015
Debt securities		
Issuers from Mainland China		
— Government	8,813	2,217
— Financial institutions	1,134,030	1,076,413
— Corporates	4,250	4,903
Subtotal	1,147,093	1,083,533
Asset-backed securities		
— Financial institutions from Mainland China	47,001	48,598
Other debt instruments		
— Financial institutions from Mainland China	306,251	755,307
Allowance for impairment losses	(1,821)	(3,940)
Carrying amounts	1,498,524	1,883,498

22 Investment in subsidiary

	As at December 31	
	2016	2015
Investment cost	615	615

On November 20, 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). Registered in Guangzhou with a registered capital of RMB1 billion, PSBC Consumer Finance mainly engages in personal consumer loans; consumer financing advisory and agency services; agency sales of consumer loans related insurance products; borrowing from domestic financial institutions; authorized issuance of financial bonds; lending to domestic financial institutions; and fixed income securities investments. All service offerings are restricted to consumer financing only.

The Bank owns 61.50% in the equity interest and voting rights of PSBC Consumer Finance.

Notes to the Consolidated Financial Statements

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23 Property and equipment

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2016	32,380	8,569	931	4,522	7,520	53,922
Add: Additions	598	502	329	257	5,743	7,429
Transfer-in from investment properties	17	—	—	—	—	17
Transfer-in from construction in progress	3,329	873	2	276	(4,480)	—
Less: Disposals	(188)	(196)	(3)	(28)	—	(415)
Transfer-out to investment properties	(202)	—	—	—	—	(202)
Transfer-out from construction in progress	—	—	—	—	(695)	(695)
As at December 31, 2016	35,934	9,748	1,259	5,027	8,088	60,056
Accumulated depreciation						
As at January 1, 2016	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Add: Charge for the year	(1,664)	(1,016)	(366)	(677)	—	(3,723)
Transfer-in from investment properties	(5)	—	—	—	—	(5)
Less: Disposals	59	183	2	26	—	270
Transfer out to investment properties	60	—	—	—	—	60
As at December 31, 2016	(9,414)	(7,139)	(1,180)	(3,041)	—	(20,774)
Carrying value						
As at December 31, 2016	26,520	2,609	79	1,986	8,088	39,282
As at January 1, 2016	24,516	2,263	115	2,132	7,520	36,546

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

23 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2015	30,910	7,583	912	3,889	7,472	50,766
Add: Additions	820	627	32	589	2,813	4,881
Transfer-in from investment properties	33	—	—	—	—	33
Transfer-in from construction in progress	1,169	618	—	127	(1,914)	—
Less: Disposals	(539)	(259)	(13)	(83)	—	(894)
Transfer-out to investment properties	(13)	—	—	—	—	(13)
Transfer-out from construction in progress	—	—	—	—	(851)	(851)
As at December 31, 2015	32,380	8,569	931	4,522	7,520	53,922
Accumulated depreciation						
As at January 1, 2015	(6,300)	(5,636)	(738)	(1,761)	—	(14,435)
Add: Charge for the year	(1,583)	(936)	(90)	(676)	—	(3,285)
Transfer-in from investment properties	(6)	—	—	—	—	(6)
Less: Disposals	21	266	12	47	—	346
Transfer out to investment properties	4	—	—	—	—	4
As at December 31, 2015	(7,864)	(6,306)	(816)	(2,390)	—	(17,376)
Carrying value						
As at December 31, 2015	24,516	2,263	115	2,132	7,520	36,546
As at January 1, 2015	24,610	1,947	174	2,128	7,472	36,331

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

23 Property and equipment (continued)

Upon the Bank's establishment and restructuring, China Post Group injected certain property and equipment to the Bank as its capital contribution. Parts of the properties were still in the process of renewing ownership certificates, with the net book value amounted to RMB0.6 billion and RMB1.1 billion as at December 31, 2016 and 2015, respectively.

In addition, as at December 31, 2016 and 2015, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with net book value of RMB1.8 billion and RMB1.7 billion, respectively.

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

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

Property and equipment held under finance leases are as follows:

As at December 31, 2016	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	8	(7)	1
Motor vehicles	7	(7)	—
Total	15	(14)	1

As at December 31, 2015	Cost	Accumulated depreciation	Carrying amount
Electronic equipment	16	(12)	4
Motor vehicles	7	(5)	2
Office equipment and others	7	(6)	1
Total	30	(23)	7

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24 Deferred taxation

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

	As at December 31	
	2016	2015
Deferred tax assets	13,465	9,199

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

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Deductible losses	Total
January 1, 2016	10,725	128	(1,656)	2	9,199
Credit to consolidated comprehensive income	2,595	2	32	22	2,651
Credit to other comprehensive income	—	—	1,615	—	1,615
December 31, 2016	13,320	130	(9)	24	13,465

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Deductible losses	Total
January 1, 2015	7,143	642	(787)	—	6,998
Credit/(Charge) to consolidated comprehensive income	3,582	(514)	10	2	3,080
Charge to other comprehensive income	—	—	(879)	—	(879)
December 31, 2015	10,725	128	(1,656)	2	9,199

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

24 Deferred taxation (continued)

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

	As at December 31			
	2016		2015	
	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	53,282	13,320	42,901	10,725
Fair value changes of financial instruments	174	43	44	11
Staff cost accrued but not paid	517	130	510	128
Deductible losses	96	24	7	2
Total	54,069	13,517	43,462	10,866
Deferred tax liabilities				
Fair value changes of financial instruments	(208)	(52)	(6,669)	(1,667)
Total	(208)	(52)	(6,669)	(1,667)
Net	53,861	13,465	36,793	9,199

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

25 Other assets

	Note	As at December 31	
		2016	2015
Interest receivable		33,448	30,837
Accounts receivable and temporary payments		5,343	3,977
Land use rights	(1)	1,822	1,901
Intangible assets	(2)	1,744	1,475
Long-term prepaid expenses	(3)	1,252	1,555
Investment properties	(4)	816	755
Low-value consumables		542	521
Others		6,540	4,773
Gross amount		51,507	45,794
Allowance for impairment losses		(336)	(231)
Net value		51,171	45,563

- (1) Land use rights are classified in other assets and amortized over a straight-line basis over the respective lease periods, which range from 10 to 40 years.
- (2) Intangible assets of the Group mainly include computer software which is amortized over 10 years.
- (3) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating lease and prepaid rental fees.

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

25 Other assets (continued)

(4) Investment properties

	As at December 31	
	2016	2015
Cost		
Balance at beginning of year	1,132	1,152
Add: Transfer-in from property and equipment	202	13
Less: Transfer-out to property and equipment	(17)	(33)
At end of year	1,317	1,132
Accumulated depreciation		
Balance at beginning of year	(377)	(324)
Add: Provision in current year	(69)	(55)
Transfer-in from property and equipment	(60)	(4)
Less: Transfer-out to property and equipment	5	6
At end of year	(501)	(377)
Net book value	816	755

All investment properties from China Post Group had completed ownership transfer as at December 31, 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

26 Movements of allowance for impairment losses

	Balance at beginning of the year	Current year provision/ (write-back)	2016 Increase/(Decrease) in current year		Balance at end of the year
			Transferred in	Written off	
Allowance for impairment losses of placements with banks and other financial institutions	1,642	(1,502)	—	—	140
Allowance for impairment losses of investment classified as receivables	3,940	(2,119)	—	—	1,821
Allowance for impairment losses of loans and advances to customers	59,258	20,311	1,433	(9,571)	71,431
Allowance for impairment losses of other assets	231	170	—	(65)	336
Total	65,071	16,860	1,433	(9,636)	73,728

	Balance at beginning of the year	Current year provision	2015 Increase/(Decrease) in current year		Balance at end of the year
			Transferred (out)	Written off	
Allowance for impairment losses of placements with banks and other financial institutions	1,093	549	—	—	1,642
Allowance for impairment losses of investment classified as receivables	2,272	1,668	—	—	3,940
Allowance for impairment losses of loans and advances to customers	43,681	23,186	(28)	(7,581)	59,258
Allowance for impairment losses of other assets	447	197	—	(413)	231
Total	47,493	25,600	(28)	(7,994)	65,071

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

27 Deposits from banks and other financial institutions

	As at December 31	
	2016	2015
Deposits from:		
Domestic banks	183,382	60,215
Other domestic financial institutions	98,305	31,136
Total	281,687	91,351

28 Placements from banks and other financial institutions

	As at December 31	
	2016	2015
Placements from:		
Domestic banks	9,770	69,039
Other domestic financial institutions	400	500
Overseas banks	3,988	1,320
Total	14,158	70,859

29 Financial liabilities at fair value through profit or loss

	As at December 31	
	2016	2015
Principal-guaranteed wealth management products	10,623	4,139

The Group designates its principal-guaranteed wealth management products as financial liabilities at fair value through profit or loss, and designates its investments made with proceeds from these wealth management products as financial assets at fair value through profit or loss. As at December 31, 2016 and 2015, there was no significant discrepancy between the fair value of the Group's wealth management products and the contractual amount payable to the holders of these products upon maturity. During the years ended December 31, 2016 and 2015, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in the Group's own credit risks.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

30 Financial assets sold under repurchase agreements

	As at December 31	
	2016	2015
Analyzed by type of collateral:		
Debt securities	123,712	386,767
Bills	6,077	8,050
Total	129,789	394,817

The collaterals pledged under repurchase agreements are disclosed in Note 41.5 “Contingent liabilities and commitments – Collateral”.

31 Customer deposits

	As at December 31	
	2016	2015
Demand deposits		
Corporates	742,380	616,251
Personal	2,347,795	2,051,015
Subtotal	3,090,175	2,667,266
Time deposits		
Corporates	332,644	301,356
Personal	3,862,371	3,335,615
Subtotal	4,195,015	3,636,971
Other deposits	1,121	777
Total	7,286,311	6,305,014

As at December 31, 2016 and 2015, customer deposits received by the Group included pledged deposits of RMB33.9 billion and RMB22.7 billion, respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

32 Debt securities issued

	As at December 31	
	2016	2015
Subordinated debts	54,943	24,973

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

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

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

33 Other liabilities

	Note	As at December 31	
		2016	2015
Interest payable		89,558	91,317
Payables for agency services		18,520	15,828
Employee benefits payable	(1)	5,996	6,219
Settlement and clearance payables		4,203	4,221
Corporate income tax payable		1,717	3,576
Value added tax payable		1,305	—
Business tax and other taxes payable		681	2,484
Payables to China Post Group		1,711	1,309
Exchange transaction payables		1,198	1,229
Payable for construction cost		743	604
Others		9,187	6,554
Total		134,819	133,341

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

(1) Employee benefits payable

	Note	As at December 31	
		2016	2015
Short-term employee benefits	(i)	4,601	4,963
Defined contribution benefits	(ii)	914	741
Supplementary retirement benefits	(iii)	481	515
Total		5,996	6,219

(i) Short-term employee benefits

	2016			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Wages and salaries, bonus, allowance and subsidies	4,517	26,085	(26,601)	4,001
Staff welfare	4	1,490	(1,494)	—
Social security contributions	25	1,577	(1,547)	55
Including: Medical insurance	22	1,447	(1,417)	52
Work injury insurance	1	50	(50)	1
Maternity insurance	2	80	(80)	2
Housing funds	16	2,309	(2,300)	25
Labour union funds and employee education funds	401	902	(783)	520
Total	4,963	32,363	(32,725)	4,601

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

- (1) Employee benefits payable (continued)
 (i) Short-term employee benefits (continued)

	2015			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Wages and salaries, bonus, allowance and subsidies	2,131	25,726	(23,340)	4,517
Staff welfare	4	1,257	(1,257)	4
Social security contributions	33	1,184	(1,192)	25
Including: Medical insurance	30	1,053	(1,061)	22
Work injury insurance	1	61	(61)	1
Maternity insurance	2	70	(70)	2
Housing funds	16	1,881	(1,881)	16
Labour union funds and employee education funds	213	796	(608)	401
Total	2,397	30,844	(28,278)	4,963

- (ii) Defined contribution benefits

	2016			Balance at the end of year
	Balance at beginning of year	Increase in current year	Decrease in current year	
Basic pensions	66	3,319	(3,318)	67
Unemployment insurance	5	145	(145)	5
Annuity scheme	670	732	(560)	842
Total	741	4,196	(4,023)	914

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

- (1) Employee benefits payable (continued)
 (ii) Defined contribution benefits (continued)

	Balance at beginning of year	2015		Balance at the end of year
		Increase in current year	Decrease in current year	
Basic pensions	66	2,594	(2,594)	66
Unemployment insurance	5	148	(148)	5
Annuity scheme	518	575	(423)	670
Total	589	3,317	(3,165)	741

- (iii) Supplementary retirement benefits

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

	2016	2015
Balance at the beginning of year	515	437
Interest expenses	16	16
Gain or loss from actuarial calculation	(20)	92
Changed to profit or losses	4	(5)
Changed to other comprehensive income	(24)	97
Benefits paid	(30)	(30)
Balance at the end of year	481	515

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

33 Other liabilities (continued)

- (1) Employee benefits payable (continued)
 (iii) Supplementary retirement benefits (continued)

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

	2016	2015
Discount rate-retirement benefit plan	3.50%	3.25%
Discount rate-early retirement benefit plan	3.00%	2.75%
Annual growth rate of average medical expenses	8%	8%
Annual growth rates of retiree expenses	3% and 0%	3% and 0%
Annual growth rates of early-retiree expenses	6%, 3% and 0%	6%, 3% and 0%
Normal retirement age		
— Male	60	60
— Female	55, 50	55, 50

Assumption for future mortality rate is based on the China Life Insurance Mortality Table (2000–2003), which is the statistical information publicly available in China. China Insurance Regulatory Commission released the China Life Insurance Mortality Table (2010–2013) which is to be effective from January 1, 2017.

As at December 31, 2016 and 2015, the Group has no default on the staff costs payable above.

34 Share capital

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

	As at December 31, 2016	As at December 31, 2015
Number of shares, issued and fully paid at par value (in millions)		
At beginning of year	68,604	57,000
Addition in current year	12,427	11,604
At end of year	81,031	68,604

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

34 Share capital (continued)

In December 2015, CBRC approved the Bank's application for private placement of RMB11,604 million new shares to certain strategic investors. After the share issuance, the Bank's total share capital increased to RMB68,604 million, and China Post Group holds 83.08% interest in the Bank. As at December 31, 2015, the Bank received share contributions of approximately RMB4,514 million from the strategic investors, including share capital of RMB11,604 million and share premium of RMB33,536 million. No single strategic investor holds more than 5% interest in the Bank. The Bank completed the business registration update in March 2016.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited and issued a total of 12,426,574,000 H shares (including an over-allotment) with par value of RMB1 each at an offer price of HKD4.76 per share. Gross proceeds from the share issuance amounted to HKD59,150,492,240.00. Share premium (net of issuance expenses) in the amount of RMB37,675,425,775.91 was recorded in capital reserve.

As at December 31, 2016, all unlisted foreign shares amounted to RMB6,254,480,000 had been converted into H shares. In accordance with the relevant PRC regulations regarding the reduction of state-owned shares, domestic shares of RMB1,175,113,000 had been transferred to the National Council for Social Security Fund of the PRC and converted into H Shares.

35 Capital reserve

	As at December 31	
	2016	2015
Asset revaluation appreciation from the Bank's joint stock restructuring	3,448	3,448
Capital premium	33,536	33,536
Share premium arising from the Bank's initial public offering of H shares (net of listing expenses)	37,675	—
Remeasurement of retirement benefits	(73)	(97)
Total	74,586	36,887

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

36 Other reserves

36.1 Surplus reserve

	2016	2015
At the beginning of the year	16,411	12,925
Appropriations	3,984	3,486
At the end of the year	20,395	16,411

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

36.2 General reserve

	2016	2015
At the beginning of the year	84,754	66,887
Appropriations	9,049	17,867
At the end of the year	93,803	84,754

In accordance with the “*Administrative Measures for Provisioning of Financial Enterprises*” (金融企業準備金計提管理辦法) issued by the MOF on March 30, 2012, the balance of general risk reserve should be no less than 1.5% of risk assets at the end of each year. Banks are required to make full provisions to its general risk reserve within 5 years from July 1, 2012.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

36 Other reserves (continued)

36.3 Investment revaluation reserve

	Gross amount	2016 Taxation effect	Net carrying amount
January 1, 2016	6,649	(1,661)	4,988
Changes in fair value of available-for-sale financial assets	(5,461)	1,365	(4,096)
Transferred to profit or loss			
— Upon disposal of available-for-sale financial assets	(903)	226	(677)
— Others	(96)	24	(72)
December 31, 2016	189	(46)	143

	Gross amount	2015 Taxation effect	Net carrying amount
January 1, 2015	3,133	(782)	2,351
Changes in fair value of available-for-sale financial assets	3,826	(956)	2,870
Transferred to profit or loss			
— Upon disposal of available-for-sale financial assets	(213)	53	(160)
— Others	(97)	24	(73)
December 31, 2015	6,649	(1,661)	4,988

37 Dividends

The Bank's first extraordinary shareholders' meeting on March 3, 2016 approved the Bank's distribution of RMB9 billion cash dividends attributable to the profits for the period between January 1, 2015 and December 17, 2015 to China Post Group with RMB0.158 per share, and the Bank paid RMB5 billion and RMB4 billion of the dividends to China Post Group on March 14, 2016 and April 28, 2016, respectively.

On March 24, 2017, the Board of Directors proposed the following profit distribution scheme for the year ended December 31, 2016: appropriation of RMB3,984 million, representing 10% of the net profit of the Bank to statutory surplus reserve; appropriation of RMB9,049 million to general reserve, declaration of cash dividend of RMB0.737 per ten shares, totally RMB5,972 million to ordinary shareholders. The proposed profit distribution scheme is subject to the approval by the shareholders in the forthcoming Annual General Meeting.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

38 Cash and cash equivalents

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

	As at December 31	
	2016	2015
Cash	51,238	46,188
Surplus reserve with central bank	58,716	17,294
Deposits with banks and other financial institutions	14,165	6,342
Placements with banks and other financial institutions	9,214	36,109
Financial assets held under resale agreements	51,560	121,359
Short-term debt securities	—	69
Total	184,893	227,361

39 Transactions with related parties

39.1 Information of the parent company

- (1) General information of the parent company

	Place of registration	Nature of business
China Post Group	Beijing	Domestic and international mail delivery, distribution of publications, stamps issuance, postal remittance, confidential correspondence communication, postal financial, postal express delivery and postal logistics, etc.

China Post Group is wholly-owned by MOF.

- (2) As at December 31, 2016, China Post Group held 68.92% of the equity shares and voting rights in the Group (December 31, 2015: 83.08%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.2 Information of major related parties

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

39.3 Related party transactions

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

In addition to conducting commercial banking services at its owned business locations, the Group also engages China Post Group and its provincial branches as agents to provide certain commercial banking services at China Post Group's business locations where financial operating licenses have been obtained. These commercial banking services mainly include: deposits taking; bank card (debit card) services, repayment of credit cards; electronic banking business; agency underwriting and redemption of government bonds; certification of personal deposits; agency sales of fund products and personal wealth management products, and other agency services. In accordance with the Interim Administrative Measures for Institutional Agency of Postal Savings Bank of China (中國郵政儲蓄銀行代理營業機構管理暫行辦法) issued by CBRC, all agency operations were provided by China Post Group under bases of fees determined in accordance with the Framework Agreement on Entrusted and Agency Banking Services of agency outlets (代理營業機構委託代理銀行業務框架協定) entered into between the Bank and China Post Group and its provincial branches.

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

Monthly deposit agency fee costs at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month times the number of days of deposit X the respective deposit agency fee costs rate of the relevant type of deposit/365) – aggregate cash times the number of days at the relevant branch X 1.5%/365

The Group pays deposit agency fee costs for agency savings deposits received, net of cash reserves held by agency outlets and deposits in transit.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

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

The agency fee rates range from 0.2% to 2.3%.

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

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

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

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

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

	Year ended December 31	
	2016	2015
Deposit agency fee costs	61,446	54,397
Fees for agency savings settlement	4,177	4,334
Fees for agency sales and other commissions	3,105	1,208
Total	68,728	59,939

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(2) Operating lease with related parties

The Group and the related parties lease buildings, ancillary equipment and other properties from each other mutually under operating lease during the course of operation.

As lessor

	Year ended December 31	
	2016	2015
Buildings	89	51
Others	48	51
Total	137	102

As lessee

	Year ended December 31	
	2016	2015
Buildings	1,030	790
Others	60	64
Total	1,090	854

(3) Comprehensive services and goods transactions with related parties

Rendering services and selling general office materials to related parties

	Year ended December 31	
	2016	2015
Comprehensive services rendered to related parties (i)	43	35
General office materials sold to related parties	3	2
Total	46	37

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

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

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

Receiving services or purchasing products from related parties

	Year ended December 31	
	2016	2015
Comprehensive services received from related parties (ii)	681	746
Marketing services received from related parties (iii)	857	448
Goods purchased from related parties	50	95
Total	1,588	1,289

- (ii) Comprehensive services received from related parties include property services, advertising, mail and other services.
- (iii) In 2016, the marketing services received from related parties included an one-off service from China Post Group for personal deposit promotion activities which occurred during the period from January 2016 to May 2016.

(4) Credit facilities granted to related parties

- (i) As at December 31, 2016, no loans and advance was granted to related parties by the Group (as at December 31, 2015, nil).
- (ii) As at December 31, 2016, no performance guarantee was provided by the Group to related parties (as at December 31, 2015, nil).
- (iii) As at December 31, 2016, no acceptance credit was provided by the Group to related parties (as at December 31, 2015: RMB2 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(5) Deposits from related parties

	As at December 31	
	2016	2015
China Post Group	10,593	10,816
China Postal Express & Logistics Company Limited and its subsidiaries	1,644	1,601
Other related parties	2,997	857
Total	15,234	13,274
Interest rates per annum	0.30%–3.42%	0.30%–3.75%

During each of years ended December 31, 2016 and 2015, interest expenses on deposits paid to related parties were not significant.

(6) Income from agency services provided to related parties

	Year ended December 31	
	2016	2015
Insurance agency sales for China Post Life Insurance Company Limited	60	47
Fund agency sales for China Post & Capital Fund Management Co., Ltd.	24	42

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.4 Balance with related parties

(1) Accounts receivable

	As at December 31	
	2016	2015
China Post Group	295	233

(2) Accounts payable

	As at December 31	
	2016	2015
China Post Group (Note 33)	1,711	1,309

39.5 Commitments

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

	As at December 31	
	2016	2015
China Post Group	1,172	517

39.6 The Group and other government related entities

Other than disclosed above and also in other relevant notes in this financial statements, part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.7 Key management personnel compensation

Key management of the Group are persons who have rights and responsibility to plan, execute and control the Group's operating activities. These personnel include Directors of the Board, Supervisors of the Supervisory Board and senior management.

	Year ended December 31	
	2016	2015
Key management personnel compensation	12	12

40 Structured entities

40.1 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 ("WMPs"), which are not subject to any guarantee by the Group in respect the principal invested or interest to be paid. The WMP vehicles invest in a range of fixed-rate assets, including money market instruments, debt securities and loan assets. As the manager of the WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income. The variable return earned by the Group under the WMPs is not significant; therefore, the WMP vehicles are not consolidated by the Group.

As at December 31, 2016 and 2015, the Group's maximum risk exposure to these wealth management products was its fee and commission income from these products. The Group earned fee and commission of RMB4.4 billion and RMB2.1 billion from these WMPs for the years ended December 31, 2016 and 2015, respectively. As at December 31, 2016 and 2015, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB809.3 billion and RMB470.4 billion, respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

40 Structured entities (continued)

40.1 Unconsolidated structured entities managed by the Group (continued)

As at December 31, 2016 and 2015, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. The WMP vehicles did not incur any losses, or experience any difficulty in financing their activities.

40.2 Unconsolidated structured entities held by the Group

Unconsolidated structured entities invested by the Group comprise trust investment plans, fund investment, asset-backed securities, asset management plans and WMPs held by the Groups as investments, and the Group records trading gains or losses and interest income therefrom. As at December 31, 2016 and 2015, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below.

	As at December 31, 2016			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Equity instruments	922,255	—	—	922,255
Asset-backed securities	31,720	2,300	46,766	80,786
Other debt instruments	—	—	304,665	304,665
Total	953,975	2,300	351,431	1,307,706

	As at December 31, 2015			Total
	Available-for-sale financial assets	Held-to-maturity investments	Investment classified as receivables	
Equity instruments	263,662	—	—	263,662
Asset-backed securities	23,280	2,243	48,358	73,881
Other debt instruments	—	—	751,607	751,607
Total	286,942	2,243	799,965	1,089,150

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

40 Structured entities (continued)

40.2 Unconsolidated structured entities held by the Group (continued)

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

For the years ended December 31, 2016 and 2015, income from these unconsolidated structured entities earned by the Group was as follows:

	Year ended December 31	
	2016	2015
Interest income	30,718	35,531
Net gain arising from investment securities	15,285	594
Other comprehensive income	(435)	41
Total	45,568	36,166

In 2016 and 2015, the Group did not experience any losses related to above structured entities.

40.3 Consolidated structured entities held by the Group

The Group's consolidated structured entities consist principally of WMP vehicles that issue and distribute WMPs with respect to which the Group has guaranteed the investors' principal investment and/or return upon maturity of the WMPs, regardless of its actual performance; and a special purpose trust founded by a third party trust company for issuing asset-backed securities by the Group. During the years ended December 31, 2016 and 2015, the Group did not provide any financial support to any of these WMP vehicles and the special purpose trust.

41 Contingent liabilities and commitments

41.1 Lawsuits and claims

The Group was involved in a number of lawsuits and claims during its normal business operations. Based on consultation with its legal advisors, management has made relevant provision based on the current facts and circumstance. The Group expects that the final outcome of these lawsuits and claims would not have a significant impact on the financial position and operating performance of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.2 Capital commitments

	As at December 31	
	2016	2015
Contracts signed but not executed	1,842	828

41.3 Credit commitments

	As at December 31	
	2016	2015
Loan commitments		
— With an original maturity of less than 1 year	6,191	7,279
— With an original maturity of 1 year or above	279,981	159,926
Subtotal	286,172	167,205
Bank acceptance	41,327	20,739
Guarantee and letters of guarantee	25,230	12,653
Letters of credit	7,438	2,960
Unused credit card commitments	164,742	114,133
Total	524,909	317,690

Loan commitments mainly include unused limits for credit cards issued to customers and general credit facilities. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptance.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.4 Operating lease commitments

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at December 31	
	2016	2015
Within 1 year	3,846	3,029
1 to 2 years	3,126	2,500
2 to 3 years	2,421	2,186
3 to 5 years	2,969	3,187
Over 5 years	1,582	2,045
Total	13,944	12,947

41.5 Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	As at December 31	
	2016	2015
Debt securities	123,894	386,319
Bills	6,151	8,104
Total	130,045	394,423

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collateral. As at December 31, 2016 and 2015, the carrying amount of debt securities pledged as collateral amounted to RMB36.1 billion and RMB30.5 billion, respectively. The pledged debt securities are mainly classified as held-to-maturity investments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.5 Collateral (continued)

Collateral received

Collateral under loans and advances mainly includes land use rights, buildings, vehicles and certificate of time deposits. The Group has not resold or re-pledged these collateral.

As at December 31, 2016, the Group obtained debt securities from counterparties which could be resold or re-pledged as collaterals for financial assets held under resale agreements (as at December 31, 2015: the fair value of these collateral amounted to RMB65 million).

41.6 Redemption commitment for government bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of the treasury bonds have the right to redeem the bonds at any time prior to maturity and the Group is committed to honour such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bond underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at December 31, 2016 and 2015, the nominal value of treasury bonds the Group was obligated to redeem was RMB94.7 billion and RMB91.7 billion, respectively. 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.

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

	As at December 31	
	2016	2015
Financial guarantees and credit commitments	190,427	111,347

The credit-risk-weighted figures are amounts calculated in accordance with the CBRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities. Risk weights applied to contingent liabilities and credit commitments may vary from 0% to 100%.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

42 Transfer of financial assets

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

42.1 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.

	As at December 31	
	2016	2015
	Held-to-maturity investments	Held-to-maturity investments
Carrying amount of the collateral	2,081	2,100
Financial assets sold under repurchase agreements	(2,001)	(2,002)

42.2 Securitization transactions

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

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

As at December 31, 2016 and 2015, the Group had continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at December 31	
	2016	2015
ABS issued, face value	6,800	6,800
Assets retained by the Group, net	273	273

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis

43.1 Business segment

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

Personal banking

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

Corporate banking

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

Treasury

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

Others

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	82,387	60,807	135,004	—	278,198
Interest expense to external customers	(90,040)	(12,156)	(18,416)	—	(120,612)
Intersegment net interest income/(expense)	134,834	(14,033)	(120,801)	—	—
Net interest income	127,181	34,618	(4,213)	—	157,586
Net fee and commission income	8,558	1,380	1,560	—	11,498
Net trading gains	—	—	664	—	664
Net gains from investment securities	—	—	15,479	—	15,479
Other operating income	1,262	250	2,461	402	4,375
Operating expenses	(104,166)	(13,345)	(12,064)	(197)	(129,772)
Impairment losses on assets	(11,788)	(8,735)	3,621	—	(16,902)
Profit before income tax	21,047	14,168	7,508	205	42,928

	As at December 31, 2016				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,931,129	1,665,926	4,655,102	—	8,252,157
Deferred tax assets					13,465
Total assets					8,265,622
Segment liabilities	(6,316,949)	(1,098,593)	(503,192)	—	(7,918,734)
Supplementary information					
Depreciation and amortization	3,675	928	87	—	4,690
Capital expenditures	5,802	1,465	138	—	7,405
Credit commitments	164,742	360,167	—	—	524,909

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	82,349	62,900	155,312	—	300,561
Interest expense to external customers	(105,193)	(11,874)	(4,235)	—	(121,302)
Intersegment net interest income/(expense)	142,371	(17,783)	(124,588)	—	—
Net interest income	119,527	33,243	26,489	—	179,259
Net fee and commission income	7,636	405	631	—	8,672
Net trading gains	—	—	275	—	275
Net gains from investment securities	—	—	946	—	946
Other operating income	1,041	—	—	440	1,481
Operating expenses	(96,590)	(13,790)	(12,941)	(289)	(123,610)
Impairment losses on assets	(12,567)	(10,851)	(2,217)	—	(25,635)
Profit before income tax	19,047	9,007	13,183	151	41,388

	As at December 31 2015				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	1,498,528	1,452,727	4,335,910	—	7,287,165
Deferred tax assets					9,199
Total assets					7,296,364
Segment liabilities	(5,495,764)	(938,612)	(591,157)	—	(7,025,533)
Supplementary information					
Depreciation and amortization	3,774	953	90	—	4,817
Capital expenditures	4,474	1,130	106	—	5,710
Credit commitments	114,133	203,557	—	—	317,690

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment

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

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

	Year ended December 31, 2016								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Interest income from external customers	157,806	20,913	14,285	17,631	30,966	26,471	10,126	—	278,198
Interest expense to external customers	(22,118)	(15,881)	(7,235)	(15,391)	(30,930)	(21,209)	(7,848)	—	(120,612)
Intersegment net interest income/(expense)	(143,858)	19,238	11,791	22,159	47,147	31,798	11,725	—	—
Net interest income	(8,170)	24,270	18,841	24,399	47,183	37,060	14,003	—	157,586
Net fee and commission income	462	1,731	1,660	1,775	2,518	2,279	1,073	—	11,498
Net trading gains	660	—	—	4	—	—	—	—	664
Net gains from investment securities	15,479	—	—	—	—	—	—	—	15,479
Other operating income	2,843	205	208	145	331	543	100	—	4,375
Operating expenses	(6,155)	(17,891)	(14,290)	(17,216)	(34,150)	(28,133)	(11,937)	—	(129,772)
Impairment losses on assets	1,022	(1,981)	(1,483)	(2,548)	(4,424)	(6,313)	(1,175)	—	(16,902)
Profit before income tax	6,141	6,334	4,936	6,559	11,458	5,436	2,064	—	42,928

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	As at December 31 2016								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	7,974,481	1,146,868	742,914	1,359,200	2,285,513	1,660,562	615,355	(7,532,736)	8,252,157
Deferred tax assets									13,465
Total assets									8,265,622
Segment liabilities	(7,668,552)	(1,141,605)	(737,587)	(1,355,714)	(2,276,294)	(1,656,999)	(614,719)	7,532,736	(7,918,734)
Supplementary information									
Depreciation and amortization	683	690	437	548	928	992	412	—	4,690
Capital expenditures	978	1,286	460	1,240	1,684	1,310	447	—	7,405
Credit commitments	164,742	64,915	62,370	68,439	85,311	65,314	13,818	—	524,909

	Year ended December 31, 2015								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	164,060	23,942	16,773	20,841	33,564	29,707	11,674	—	300,561
Interest expense to external customers	(2,646)	(19,708)	(9,072)	(19,071)	(35,857)	(24,987)	(9,961)	—	(121,302)
Intersegment net interest income/(expense)	(140,451)	19,309	10,574	21,281	46,307	30,530	12,450	—	—
Net interest income	20,963	23,543	18,275	23,051	44,014	35,250	14,163	—	179,259
Net fee and commission income	1,368	1,047	1,172	1,007	1,689	1,521	868	—	8,672
Net trading gains	275	—	—	—	—	—	—	—	275
Net gains from investment securities	946	—	—	—	—	—	—	—	946
Other operating income	109	134	154	180	367	447	90	—	1,481
Operating expenses	(5,422)	(16,990)	(13,768)	(16,283)	(32,229)	(27,232)	(11,686)	—	(123,610)
Impairment losses on assets	(6,843)	(2,632)	(1,910)	(2,321)	(4,825)	(4,640)	(2,464)	—	(25,635)
Profit before income tax	11,396	5,102	3,923	5,634	9,016	5,346	971	—	41,388

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	As at December 31, 2015								Total
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	
Segment assets	8,048,947	975,576	657,830	1,227,283	1,963,876	1,477,689	595,761	(7,659,797)	7,287,165
Deferred tax assets									9,199
Total assets									7,296,364
Segment liabilities	(7,806,743)	(971,774)	(654,551)	(1,224,758)	(1,957,142)	(1,473,935)	(596,427)	7,659,797	(7,025,533)
Supplementary information									
Depreciation and amortization	440	716	494	579	937	1,175	476	—	4,817
Capital expenditures	687	1,325	394	642	944	1,202	516	—	5,710
Credit commitments	879	47,462	45,216	45,441	70,810	83,480	24,402	—	317,690

44 Financial risk management

44.1 Overview

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a general risk preference of “appropriate risk-taking, appropriate returns and prudent operations”, and achieves a modest return through prudent operation and appropriate risk-taking with consideration of size, growth and quality of its businesses.

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.2 Framework of financial risk management

The Group manages its risks at four levels, i.e., Board of Directors, senior management, risk management departments at the head office and the branches.

The Group's Board of Directors, the ultimate owner of the Group's risk management, is responsible for determining the Group's risk appetites and risk strategies. The Board of Directors oversees senior management's risk control through its Risk Management Committee and proposes requests and advices for the improvement of risk management and internal risk control. The Risk Management Committee meets regularly to remain current with the Group's risk position and risk management across the Group, makes strategic decisions and streamlines resource allocation, determines the direction and requirements for major risk decisions concerning business transformation and development of the Group, and provides guidance and support to risk management across the Group.

Senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, developing risk management measures and policies, and approving internal rules and procedures for risk management. The Risk Management Committee under the senior management is responsible for reviewing implementation plans for enterprise-wide risk management strategies and basic policies and rules and procedures for risk management, regularly reviewing risk management status and performance across the Group, and evaluating significant risk issues and discussing solutions.

Under the oversight and guidance of the senior management and its Risk Management Committee, the Risk Management Department at the head office has overall responsibility for the identification, measurement, monitoring, reporting and control of risks across the Group. The Risk Management Department is responsible for centrally managing and coordinating risk management activities across the Group, developing and organising the implementation of risk management framework, policies and relevant rules, leading the building of enterprise-wide risk management, assessing the risk management position of relevant departments and branches. Other risk management departments and relevant functional departments perform their respective responsibilities under the enterprise-wide risk management framework by consistently implementing risk management policies, procedures and processes.

Risk management and internal control committees under the management of tier-one branches and tier-two branches are responsible for decision-making within their respective authority limits, organizing plans and procedures to meet their risk management objectives and assessing the risk position and organizing risk management activities within their respective jurisdictions. Meanwhile, risk management departments in tier-one branches and tier-two branches are responsible for developing risk management rules and measures at their level and overseeing the implementation of risk management policies.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.2 Framework of financial risk management (continued)

The subsidiary and structured entities consolidated by the Group are not material, in terms of amount and size. All the analysis in this section is for financial risks of the Group as a whole.

44.3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to fulfil an obligation.

Credit risk exposure mainly arises from loans and investments, and off-balance sheet credit activities.

To effectively recognize, measure, monitor, control and report the credit risk, the Group has designed the organisation structure for risk management and established credit granting policies and procedures. The Board and its Risk Management Committee are responsible for determining credit risk strategy and risk appetite, supervising the implementation of the risk appetite and credit risk policies. Senior management and its risk management committee are responsible for considering the methodology and standards of credit rating, examining the strategy and quota of credit risk management, implementing risk strategy and risk appetite determined by the Board. The Risk Management Department is responsible for establishing credit risk management policies, directing credit operations, and examining and monitoring the implementation policies and framework. Each business department and credit granting department is responsible for implementing daily credit risk management policies and standards in their respective function, conducting specific risk controls in pre-lending assessment, loan review, drawn-down approval and post-lending management.

In order to adapt to the changing macroeconomic environment in the related financial period, the Group refined its credit risk management policy and credit risk quota management based on its appetite of prudent and steady risk management. The Group further enhanced its credit risk management system and the entire process of credit risk controls including pre-lending assessment, credit rating evaluation, credit review and approval, loan drawn-down authorization and post-lending supervision. In addition, in order to strengthen its credit risk management, the Group focused on identifying, monitoring, analysing and predicting credit exposures to strictly control the associated significant risks, as well as accelerating the disposal of non-performing loans and the upgrading of its system.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(1) Credit risk measurement

(a) *Loans and advances to customers*

The risk on its loan portfolio refers to the risk of uncertain income or loan losses from non-performing loans due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered a principal credit risk.

The Group measures and manages the quality of corporate and personal loans and advances in accordance with the CBRC's Guidelines on Risk-based Loan Classification ("the CBRC Guidelines"). The CBRC Guidelines require classification of corporate and personal loans into five categories, namely pass, special mention, sub-standard, doubtful and loss, of which the sub-standard, doubtful and loss categories are non-performing loans.

The five categories are defined as follows:

Pass: There is no doubt on the borrower's ability to repay the scheduled principal and interest payments on time.

Special mention: Although there is no doubt on the borrower's ability to repay at this point in time, there exists potential indications that may affect its ability to repay in the future.

Sub-standard: The borrower's repayment ability is apparently in question. It cannot depend on its normal operating revenue to repay in full the principal and interest. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of some loss.

Doubtful: The borrower cannot repay the principal and interest in full. Even when the Group executes the guarantee or forecloses the collateral, there is possibility of substantial loss.

Loss: After exhausting all possible means of recovery actions or taking the necessary legal actions, there is still no possibility for recovery of principal and interest, or the recovery is negligible.

In order to improve recovery and disposal of non-performing loans, the Group has set up asset recovery department at various levels to focus on the recovery of non-performing assets, mitigating risks, minimizing losses and improving asset quality.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(1) Credit risk measurement (continued)

(b) *Debt securities and other debt instruments*

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly wealth management products issued by financial institutions, trust investment plans and assets management plans. The Group maintains its overall credit risk exposure on debt securities and other debt instruments at a low level.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

(c) *Deposits and placements with banks and other financial institutions*

The Group manages the credit quality of deposits from, placements with banks and other financial institutions by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

(2) Credit risk limit control and mitigation policies

In accordance with the risk management policies and limits for risk control parameters, the Group's management departments and business departments formulate specific risk management measures, streamline the business process, and decompose and monitor the implementation of the risk control parameters.

For the purpose of minimising risks, the Group requires its borrowers to provide collateral or guarantees where appropriate. The Group has defined rules for the quality of certain collateral by establishing controls and procedures on collateral management. At the same time, the Group reviews the value, structure and legal documentation of collateral on a regular basis to ensure they can meet their intended purposes and market conventions.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(3) Impairment and provision policies

The impairment losses of loans are assessed based on the credit risk classification of the loans.

The Group's policy requires that financial assets that are individually significant are reviewed on a regular basis. All assets that are individually significant are assessed for impairment losses on an individual basis at the balance sheet date to determine their impairment provisions. These assessments often take into account collateral held by the Group (including re-assessment of their realisability) and expected recoverable amount of individual assets.

Collective assessment includes: (i) Groups of assets that are not individually significant but share similar characteristics; and (ii) losses that have already been incurred but not identified with individual assets, and these assets are assessed using historical experience, empirical judgements and statistical techniques. In view of the short history of the Group and limited historical experience on portfolio losses, the Group will also consider loss experience of other banks, regulatory requirements and guidelines, and the risk characteristics of the Group's loan portfolio in making collective assessment for allowance for impairment losses.

(4) Maximum credit risk exposures before considering collaterals or other credit enhancements

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

	As at December 31	
	2016	2015
Deposits with central bank	1,259,035	1,085,043
Deposits with banks and other financial institutions	175,776	324,137
Placements with banks and other financial institutions	193,287	200,485
Financial assets at fair value through profit or loss	68,976	27,719
Derivative financial assets	6,179	1,073
Financial assets held under resale agreements	73,131	148,868
Loans and advances to customers	2,939,217	2,412,595
Available-for-sale financial assets-debt instruments	237,932	127,021
Held-to-maturity investments	736,154	684,767
Investment classified as receivables	1,498,524	1,883,498
Other financial assets	36,490	32,481
Subtotal	7,224,701	6,927,687
Credit commitments	524,909	317,690
Total	7,749,610	7,245,377

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(4) Maximum credit risk exposures before considering collaterals or other credit enhancements (continued)

The table above presents the Group's maximum credit risk exposures before considering any collateral, netting agreements or other credit enhancements as at December 31, 2016 and 2015. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

(5) Loans and advances to customers

(a) Loans and advances by geographical region:

	As at December 31			
	2016		2015	
	Amount	Proportion	Amount	Proportion
Head Office	246,633	8%	287,598	12%
Central China	676,974	23%	508,398	20%
Western China	540,762	18%	458,173	18%
Yangtze River Delta	540,236	18%	396,183	16%
Bohai Rim	460,587	15%	363,593	15%
Pearl River Delta	321,097	11%	271,485	11%
North-eastern China	224,359	7%	186,423	8%
Total	3,010,648	100%	2,471,853	100%

(b) Loans and advances by types:

	As at December 31			
	2016		2015	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances Including:				
Corporate loans	1,079,392	36%	980,980	40%
Discounted bills	349,081	12%	268,303	11%
Personal loans and advances	1,582,175	52%	1,222,570	49%
Total	3,010,648	100%	2,471,853	100%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(5) Loans and advances to customers (continued)

(c) Loans and advances by industries:

	As at December 31			
	2016		2015	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Transportation*, storage and postal services	317,722	10%	356,956	14%
Manufacturing	181,917	6%	152,310	6%
Financial services	161,012	5%	86,576	4%
Production and supply of electricity, heating, gas and water	132,157	4%	134,484	5%
Wholesale and retail	56,937	2%	58,722	2%
Construction	54,450	2%	40,255	2%
Mining	47,631	2%	41,712	2%
Real estate	39,881	1%	41,113	2%
Management of water conservancy, environmental and public facilities	36,751	1%	31,727	1%
Other industries	50,934	2%	37,125	2%
Subtotal	1,079,392	35%	980,980	40%
Discounted bills	349,081	12%	268,303	11%
Personal loans and advances				
Consumer loans				
— Residential mortgage loans	903,967	29%	577,256	23%
— Other consumer loans	197,695	7%	159,683	6%
Personal business loans	288,370	10%	304,930	12%
Micro loans	139,239	5%	136,207	6%
Credit cards overdrafts and others	52,904	2%	44,494	2%
Subtotal	1,582,175	53%	1,222,570	49%
Total	3,010,648	100%	2,471,853	100%

* As at December 31, 2016, balance included loans to China Railway Corporation of RMB197,263 million (December 31, 2015: RMB243,104 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(5) Loans and advances to customers (continued)

(d) Loans and advances by types of collateral:

	As at December 31			
	2016		2015	
	Amount	Proportion	Amount	Proportion
Unsecured loans	729,884	24%	658,159	26%
Guaranteed loans	227,942	8%	217,566	9%
Loans secured by mortgages	1,507,326	49%	1,183,088	48%
Loans secured by pledges	196,415	7%	144,737	6%
Discounted bills	349,081	12%	268,303	11%
Total	3,010,648	100%	2,471,853	100%

(6) Loans and advances by overdue and impairment status:

	As at December 31	
	2016	2015
Corporate loans and advances		
— Neither overdue nor impaired	1,418,971	1,240,130
— Overdue but not impaired	1,324	2,014
— Impaired	8,178	7,139
Subtotal	1,428,473	1,249,283
Personal loans and advances		
— Neither overdue nor impaired	1,560,143	1,206,295
— Overdue but not impaired	3,919	3,539
— Impaired	18,113	12,736
Subtotal	1,582,175	1,222,570
Total	3,010,648	2,471,853

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) Loans and advances by overdue and impairment status (continued):

(a) Loans and advances neither overdue nor impaired

The Group classifies its credit assets in accordance with regulatory requirements and criteria, including the CBRC Guidelines. Loans and advances neither overdue nor impaired are classified as follows as per these regulatory requirements and criteria:

	As at December 31, 2016		
	Pass	Special mention	Total
Corporate loans and advances	1,404,277	14,694	1,418,971
Personal loans and advances	1,555,802	4,341	1,560,143
Total	2,960,079	19,035	2,979,114

	As at December 31, 2015		
	Pass	Special mention	Total
Corporate loans and advances	1,214,054	26,076	1,240,130
Personal loans and advances	1,200,757	5,538	1,206,295
Total	2,414,811	31,614	2,446,425

(b) Loans and advances overdue but not impaired

The overdue status are as follows:

	As at December 31, 2016			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	615	709	—	1,324
Personal loans and advances	2,251	1,668	—	3,919
Total	2,866	2,377	—	5,243

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) Loans and advances by overdue and impairment status (continued):

(b) Loans and advances overdue but not impaired (continued)

	As at December 31, 2015			Total
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	
Corporate loans and advances	881	1,133	—	2,014
Personal loans and advances	2,044	1,495	—	3,539
Total	2,925	2,628	—	5,553

(c) Impaired loans and advances

Impaired loans and advances by geographical region are as follows:

	As at December 31					
	2016			2015		
	Amount	Proportion	NPL Ratio	Amount	Proportion	NPL Ratio
Head Office	926	4%	0.38%	609	3%	0.21%
Central China	4,518	17%	0.67%	3,647	18%	0.72%
Western China	9,755	37%	1.80%	4,868	25%	1.06%
Yangtze River Delta	2,869	11%	0.53%	2,711	14%	0.68%
Bohai Rim	2,966	11%	0.64%	2,478	12%	0.68%
Pearl River Delta	2,119	8%	0.66%	1,914	10%	0.71%
North-eastern China	3,138	12%	1.40%	3,648	18%	1.96%
Total	26,291	100%	0.87%	19,875	100%	0.80%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(6) Loans and advances by overdue and impairment status (continued):

(c) Impaired loans and advances (continued)

Concentration of impaired loans and advances are as follows:

	As at December 31					
	2016			2015		
	Amount	Proportion	NPL Ratio	Amount	Proportion	NPL Ratio
Corporate loans and advances	8,178	31%	0.57%	7,139	36%	0.57%
Personal loans and advances						
Consumer loans						
— Residential mortgage loans	1,711	6%	0.19%	1,287	6%	0.22%
— Other consumer loans	983	4%	0.50%	516	3%	0.32%
Personal business loans	10,027	38%	3.48%	4,580	23%	1.50%
Micro loans	4,468	17%	3.21%	5,744	29%	4.22%
Credit cards overdrafts and others	924	4%	1.75%	609	3%	1.37%
Total	26,291	100%	0.87%	19,875	100%	0.80%

Collectively assessed impairment allowance are provided on loans and advances that are neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC Guidelines, as well as additional information on industry and portfolio exposure.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(7) Overdue loans and advances

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

	As at December 31, 2016					Total
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years		
Unsecured loans	519	645	335	23	1,522	
Guaranteed loans	1,235	2,160	1,908	307	5,610	
Loans secured by mortgages	5,275	7,629	5,829	156	18,889	
Loans secured by pledges	1,296	1,028	588	40	2,952	
Discounted bills	27	—	—	—	27	
Total	8,352	11,462	8,660	526	29,000	

	As at December 31, 2015					Total
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years		
Unsecured loans	425	441	215	20	1,101	
Guaranteed loans	1,598	3,083	1,857	115	6,653	
Loans secured by mortgages	5,619	7,672	2,525	73	15,889	
Loans secured by pledges	49	340	443	—	832	
Discounted bills	30	—	—	—	30	
Total	7,721	11,536	5,040	208	24,505	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(8) Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. As at December 31, 2016, rescheduled loans and advances of the Group was RMB1,012 million (December 31, 2015: RMB381 million).

(9) Deposits and placements with banks and other financial institutions

The counterparties for deposits and placements with banks and other financial institutions include banks and other financial institutions in Mainland China, Hong Kong and other countries and regions.

The Group collects and analyzes information of its counterparties to determine the total credit limit for these counterparties, and monitors their credit risks mainly based on their nature, size and credit rating, and to monitor their credit risks.

As at December 31, 2016 and 2015, the counterparties for deposits and placements with banks and other financial institutions were mainly domestic banks, including policy banks and large and medium-size commercial banks.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments

Credit quality of debt instruments

(a) Debt instruments neither overdue nor impaired

	As at December 31, 2016				Total
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Investment classified as receivables	
Government bonds	639	91,688	451,082	8,813	552,222
Public sector and quasi- government bonds	—	—	570	—	570
Financial institution bonds	6,921	99,043	233,377	1,134,030	1,473,371
Corporate bonds	4,664	15,481	48,825	4,250	73,220
Certificates of deposit	46,128	—	—	—	46,128
Asset-backed securities	—	31,720	2,300	47,001	81,021
Asset management plans	6,576	—	—	—	6,576
Beneficiary certificates	4,048	—	—	—	4,048
Other debt instruments	—	—	—	306,251	306,251
Total	68,976	237,932	736,154	1,500,345	2,543,407

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments (continued)

Credit quality of debt instruments (continued)

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

	As at December 31, 2015				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Investment classified as receivables	Total
Government bonds	120	36,901	357,101	2,217	396,339
Public sector and quasi-government bonds	—	—	570	—	570
Financial institution bonds	1,949	55,186	274,937	1,076,413	1,408,485
Corporate bonds	5,057	11,654	47,844	4,903	69,458
Certificates of deposit	16,454	—	2,072	—	18,526
Asset-backed securities	—	23,280	2,243	48,598	74,121
Asset management plans	4,139	—	—	—	4,139
Other debt instruments	—	—	—	755,307	755,307
Total	27,719	127,021	684,767	1,887,438	2,726,945

As at December 31, 2016 and 2015, the Group did not have any debt instruments assessed as impaired individually. As at December 31, 2016 and 2015, the allowance for impairment losses assessed collectively for investment classified as receivables amounted to RMB1.8 billion and RMB3.9 billion, respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments (continued)

Credit quality of debt instruments (continued)

(b) Debt instruments analyzed by credit rating

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

	As at December 31, 2016					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	417,557	134,631	—	34	—	552,222
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,444,008	16,433	3,901	5,055	3,974	1,473,371
Corporate bonds	9,227	58,829	2,585	1,823	756	73,220
Certificates of deposit	46,128	—	—	—	—	46,128
Asset-backed securities	48,350	24,984	7,687	—	—	81,021
Asset management plans	6,576	—	—	—	—	6,576
Beneficiary certificates	4,048	—	—	—	—	4,048
Other debt instruments	306,251	—	—	—	—	306,251
Total	2,282,715	234,877	14,173	6,912	4,730	2,543,407

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

(10) Debt instruments (continued)

Credit quality of debt instruments (continued)

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

	As at December 31, 2015					Total
	Unrated (i)	AAA	AA	A	Below A	
Government bonds	302,035	94,304	—	—	—	396,339
Public sector and quasi-government bonds	570	—	—	—	—	570
Financial institution bonds	1,388,316	12,393	6,030	951	795	1,408,485
Corporate bonds	9,925	54,982	4,422	119	10	69,458
Certificates of deposit	18,526	—	—	—	—	18,526
Asset-backed securities	48,798	19,147	6,176	—	—	74,121
Asset management plans	4,139	—	—	—	—	4,139
Other debt instruments	755,307	—	—	—	—	755,307
Total	2,527,616	180,826	16,628	1,070	805	2,726,945

- (i) Unrated debt instruments held by the Group are bonds issued by policy banks and the Chinese government, and other debt instruments such as trust investment plans, asset management plans and wealth management plans issued by financial institutions, which the principal and income are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

(11) Concentration of credit risk

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain adequate funds in time or obtain at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio, even though the Group is solvent. In managing its liquidity risk, the Group aims to maintain sufficient liquidity in accordance with its business development strategies to ensure it is able to meet its obligations when they fall due and meet the needs of its business development, and ensure the availability of sufficient realisable assets and ability to raise funds to manage emergencies.

The Group is exposed to liquidity risk in funding credit activities, transactions and investments, and in managing liquidity positions. The Group's liquidity is mainly subject to the maturity structure of its assets and liabilities and changes in banking policies, e.g., changes in loan-to-deposit ratio and statutory reserve ratio requirements.

The Group manages its liquidity risk in accordance with regulatory requirements and by adopting a prudent approach. The Asset and Liability Management Department and Risk Management Department, among others, are responsible for formulating and driving the implementation of liquidity risk management policies, monitoring the changes to the Group's working capital, measuring and assessing liquidity risk, estimating the trend of liquidity risk, and recommending adjustments to its working capital structure, so as to ensure that its liquidity and liquidity ratios are maintained at proper levels and that the Group is able to meet its funding needs.

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 cash and deposits with banks and other financial institutions, government bonds, policy banks bonds. Management considers the Group's overall liquidity risk is low.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

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

The table below summarizes the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period.

	As at December 31, 2016								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	–	109,954	–	–	–	–	–	1,200,319	1,310,273
Deposits with banks and other financial institutions	–	13,415	12,903	23,010	69,800	56,648	–	–	175,776
Placements with banks and other financial institutions	–	–	4,754	22,912	84,468	81,153	–	–	193,287
Financial assets at fair value through profit or loss	–	–	8,903	19,934	33,530	5,410	1,199	–	68,976
Derivative financial assets	–	–	881	1,273	3,929	96	–	–	6,179
Financial assets held under resale agreements	–	–	25,699	41,897	5,535	–	–	–	73,131
Loans and advances to customers	9,482	–	157,396	295,282	879,417	565,183	1,032,457	–	2,939,217
Available-for-sale financial assets	–	172,696	55,391	243,278	430,446	166,153	92,157	66	1,160,187
Held-to-maturity investments	–	–	10,200	4,249	94,953	299,709	327,043	–	736,154
Investment classified as receivables	–	–	21,837	17,628	179,448	499,870	779,741	–	1,498,524
Other financial assets	685	64	9,905	11,932	13,545	359	–	–	36,490
Total financial assets	10,167	296,129	307,869	681,395	1,795,071	1,674,581	2,232,597	1,200,385	8,198,194

	As at December 31, 2016								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Deposits from banks and other financial institutions	–	103,233	26,406	84,134	66,280	1,634	–	–	281,687
Placements from banks and other financial institutions	–	–	4,450	275	9,433	–	–	–	14,158
Derivative financial liabilities	–	–	888	1,084	4,358	74	–	–	6,404
Financial assets sold under repurchase agreements	–	–	107,351	14,334	8,104	–	–	–	129,789
Financial liabilities at fair value through profit or loss	–	–	3,559	5,657	1,407	–	–	–	10,623
Customer deposits	–	3,133,204	380,193	1,188,601	2,026,764	557,549	–	–	7,286,311
Debt securities issued	–	–	–	–	–	–	54,943	–	54,943
Other financial liabilities	–	18,621	24,983	26,711	32,019	21,467	–	–	123,801
Total financial liabilities	–	3,255,058	547,830	1,320,796	2,148,365	580,724	54,943	–	7,907,716
Net liquidity	10,167	(2,958,929)	(239,961)	(639,401)	(353,294)	1,093,857	2,177,654	1,200,385	290,478

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2015								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Cash and deposits with central bank	—	63,482	—	—	—	—	—	1,067,749	1,131,231
Deposits with banks and other financial institutions	—	6,487	78,553	61,810	82,806	94,481	—	—	324,137
Placements with banks and other financial institutions	—	—	34,043	3,805	38,638	123,999	—	—	200,485
Financial assets at fair value through profit or loss	—	—	9,143	6,572	11,822	182	—	—	27,719
Derivative financial assets	—	—	207	172	662	32	—	—	1,073
Financial assets held under resale agreements	—	—	112,729	20,764	14,375	1,000	—	—	148,868
Loans and advances to customers	8,826	—	111,184	245,813	785,932	513,034	747,806	—	2,412,595
Available-for-sale financial assets	—	246,204	546	3,172	40,944	81,394	18,357	66	390,683
Held-to-maturity investments	—	—	837	26,944	47,094	306,899	302,993	—	684,767
Investment classified as receivables	—	—	16,641	191,562	308,834	513,616	852,845	—	1,883,498
Other financial assets	448	110	9,172	10,652	11,811	288	—	—	32,481
Total financial assets	9,274	316,283	373,055	571,266	1,342,918	1,634,925	1,922,001	1,067,815	7,237,537

	As at December 31, 2015								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Deposits from banks and other financial institutions	—	41,759	40	7,037	41,957	558	—	—	91,351
Placements from banks and other financial institutions	—	—	29,151	1,872	39,836	—	—	—	70,859
Derivative financial liabilities	—	—	237	167	598	37	—	—	1,039
Financial assets sold under repurchase agreements	—	—	182,062	50,619	162,136	—	—	—	394,817
Financial liabilities at fair value through profit or loss	—	—	142	418	3,579	—	—	—	4,139
Customer deposits	—	2,728,957	388,150	1,008,528	1,713,012	466,367	—	—	6,305,014
Debt securities issued	—	—	—	—	—	—	24,973	—	24,973
Other financial liabilities	—	12,532	24,634	27,385	30,065	24,802	—	—	119,418
Total financial liabilities	—	2,783,248	624,416	1,096,026	1,991,183	491,764	24,973	—	7,011,610
Net liquidity	9,274	(2,466,965)	(251,361)	(524,760)	(648,265)	1,143,161	1,897,028	1,067,815	225,927

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

The table below presents the cash flows of the Group's financial assets and financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the undiscounted contractual cash flows. The Group manages its inherent liquidity risk in the short term based on the expected undiscounted cash flows.

	As at December 31, 2016								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial assets									
Cash and deposits with central bank	—	109,954	—	609	—	—	—	1,200,319	1,310,882
Deposits with banks and other financial institutions	—	13,434	12,973	24,592	73,358	58,129	—	—	182,486
Placements with banks and other financial institutions	—	—	4,783	25,157	89,328	85,133	—	—	204,401
Financial assets at fair value through profit or loss	—	—	8,969	20,146	34,553	6,015	1,749	—	71,432
Financial assets held under resale agreements	—	—	25,805	42,254	5,731	—	—	—	73,790
Loans and advances to customers	10,175	—	141,009	316,535	955,558	813,498	1,388,078	—	3,624,853
Available-for-sale financial assets	—	172,696	56,071	244,521	436,835	186,254	101,722	66	1,198,165
Held-to-maturity investments	—	—	11,775	7,317	117,072	377,107	421,798	—	935,069
Investment classified as receivables	—	—	23,786	28,446	223,667	660,053	937,390	—	1,873,342
Other financial assets	—	45	—	1,294	1,541	162	—	—	3,042
Total non-derivative financial assets	10,175	296,129	285,171	710,871	1,937,643	2,186,351	2,850,737	1,200,385	9,477,462

	As at December 31, 2016								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	103,232	27,258	85,405	68,382	1,795	—	—	286,072
Placements from banks and other financial institutions	—	—	4,484	275	9,556	—	—	—	14,315
Financial assets sold under repurchase agreements	—	—	108,233	14,716	8,335	—	—	—	131,284
Financial liabilities at fair value through profit or loss	—	—	3,560	5,683	1,431	—	—	—	10,674
Customer deposits	—	3,135,540	388,124	1,216,833	2,082,448	615,589	—	—	7,438,534
Debt securities issued	—	—	—	—	2,115	8,460	64,450	—	75,025
Other financial liabilities	—	16,285	15,704	1,051	745	458	—	—	34,243
Total non-derivative financial liabilities	—	3,255,057	547,363	1,323,963	2,173,012	626,302	64,450	—	7,990,147
Net liquidity	10,175	(2,958,928)	(262,192)	(613,092)	(235,369)	1,560,049	2,786,287	1,200,385	1,487,315

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2015								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial assets									
Cash and deposits with central bank	—	63,482	—	532	—	—	—	1,067,749	1,131,763
Deposits with banks and other financial institutions	—	6,506	79,723	62,659	84,034	95,632	—	—	328,554
Placements with banks and other financial institutions	—	—	34,071	6,236	45,529	132,200	—	—	218,036
Financial assets at fair value through profit or loss	—	—	9,265	6,696	12,127	207	—	—	28,295
Financial assets held under resale agreements	—	—	112,850	21,025	14,734	1,005	—	—	149,614
Loans and advances to customers	9,207	—	121,573	265,942	859,694	731,591	1,030,851	—	3,018,858
Available-for-sale financial assets	—	246,204	890	3,800	44,954	89,627	20,062	66	405,603
Held-to-maturity investments	—	—	2,505	30,225	67,528	382,376	401,395	—	884,029
Investment classified as receivables	—	—	18,395	206,748	359,618	689,091	1,030,693	—	2,304,545
Other financial assets	—	91	—	525	870	158	—	—	1,644
Total non-derivative financial assets	9,207	316,283	379,272	604,388	1,489,088	2,121,887	2,483,001	1,067,815	8,470,941

	As at December 31, 2015								Total
	Overdue	Payable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	—	41,773	43	7,096	43,286	602	—	—	92,800
Placements from banks and other financial institutions	—	—	29,163	1,881	41,133	—	—	—	72,177
Financial assets sold under repurchase agreements	—	—	182,205	51,021	167,234	—	—	—	400,460
Financial liabilities at fair value through profit or loss	—	—	142	421	3,638	—	—	—	4,201
Customer deposits	—	2,731,602	397,718	1,040,178	1,769,311	529,486	—	—	6,468,295
Debt securities issued	—	—	—	—	1,125	4,500	30,625	—	36,250
Other financial liabilities	—	9,873	15,930	1,015	779	543	—	—	28,140
Total non-derivative financial liabilities	—	2,783,248	625,201	1,101,612	2,026,506	535,131	30,625	—	7,102,323
Net liquidity	9,207	(2,466,965)	(245,929)	(497,224)	(537,418)	1,586,756	2,452,376	1,067,815	1,368,618

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 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 for exchange rates and interest rate. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	As at December 31, 2016					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	2	2	9	21	—	34

	As at December 31, 2015					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Interest rate derivative financial instruments	(1)	—	(2)	(2)	—	(5)

Derivative financial instruments settled on a gross basis

The fair values of the Group's derivative financial instrument that will be settled on a gross basis are primarily related to changes in foreign exchange rates and interest rate. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	As at December 31, 2016					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Derivative financial instruments settled on a gross basis						
— Cash inflow	154,836	74,444	267,645	2,671	—	499,596
— Cash outflow	(154,844)	(74,255)	(268,085)	(2,671)	—	(499,855)
Total	(8)	189	(440)	—	—	(259)

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Cash flow of derivative financial instruments (continued)

Derivative financial instruments settled on a gross basis (continued)

	As at December 31, 2015					Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Derivative financial instruments settled on a gross basis						
— Cash inflow	55,214	32,263	63,927	5,139	—	156,543
— Cash outflow	(55,200)	(32,263)	(63,849)	(5,108)	—	(156,420)
Total	14	—	78	31	—	123

Credit commitments

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

	As at December 31, 2016			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	58,835	206,762	20,575	286,172
Bank acceptance	41,327	—	—	41,327
Guarantee and letters of guarantee	18,104	7,121	5	25,230
Letters of credit	7,438	—	—	7,438
Unused credit card commitments	164,742	—	—	164,742
Total	290,446	213,883	20,580	524,909

	As at December 31, 2015			Total
	Within 1 year	1 to 5 years	Over 5 years	
Loan commitments	48,453	92,370	26,382	167,205
Bank acceptance	20,739	—	—	20,739
Guarantee and letters of guarantee	9,555	3,098	—	12,653
Letters of credit	2,916	44	—	2,960
Unused credit card commitments	114,133	—	—	114,133
Total	195,796	95,512	26,382	317,690

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk

Market risk refers to the risk of losses to the Group's on- and off-balance sheet activities arising from unfavourable changes on market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The Group is primarily exposed to interest rate risk and exchange rate risk in the course of business. In managing its market risks, the Group aims to build a sound market risk management system, drive the effective and appropriate adjustments of its maturity, currency and interest rate structures, ensure the Group operates within an acceptable level of market risk, and achieve the steady and sustainable improvements to spread income and shareholders' value.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books based on the purpose of transactions, and valuation of financial assets. The Group applies appropriate measures and methods to identify, measure, monitor and control market risks on its banking book and trading book. Financial assets are revalued and their risks re-measured on a regular basis in accordance with the Group's financial asset valuation rules and market risk measurement criteria. The middle office monitors transactions on a real-time basis, including the implementation of trading strategies and compliance with the trading procedures and standards.

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Underlying assets of money market funds include notice deposits, short-term bills, time deposits within 1 year, certificates of deposits and other financial instrument with high liquidity tradeable in money markets permitted by China Securities Regulatory Commission ("CSRC") and PBOC. Fair value of money market funds becomes favourable or unfavourable as a result of fluctuation in market price of invested financial instruments.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from the changes in value of financial products in the trading book due to changes of market interest rates and exchange rates.

The Group assesses, measures and monitors the interest rate risk on its trading book using a variety of techniques, including duration, present value of a basic point, stress testing and scenario analysis, and makes improvement where appropriate according to the assessment results to its management of interest rate risk on the financial instruments in the trading book. In addition, the Group enforces strict segregation between trading and non-trading roles, and has set up a risk management middle office in investment and trading departments such as Financial Market Department to monitor the limits on various transactions, including re-valuation of market value of the trading book, and monitoring and reporting interest rate risk on the trading book.

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Techniques for measuring and limits for market risks (continued)

Banking book

Interest rate risk on the Banking book arises from the risk of impact on the Group's income due to unfavourable changes in market interest rates or statutory interest rates, mainly including risks arising from repricing.

The Group monitors the interest rate sensitivity gap mainly through repricing gap analysis. The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

Meanwhile, the Group closely monitors the trends of interest rates in RMB and foreign currencies and makes adjustments to its deposit and lending interest rates in RMB and foreign currencies in a timely manner in accordance with the market interest rate changes to minimize its interest rate risk.

Sensitivity analysis on net interest income

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that all interest rates move by the same margin and the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, benchmark interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes to net interest income of the current year and monitors the changes in net interest income against its annual budget for net interest income.

The table below shows the potential impact on the Group's net interest income by an upward and 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 differ from the actual outcome.

	Increase/(Decrease) in net interest income	
	As at December 31	
	2016	2015
Upward parallel shift of 100 bps for yield curves	(7,695)	(7,112)
Downward parallel shift of 100 bps for yield curves	7,695	7,112

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities are stated at their carrying amounts based on the earlier of their contractual repricing date or maturity date.

	As at December 31, 2016						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	
Cash and deposits with central bank	1,256,826	—	—	—	—	53,447	1,310,273
Deposits with banks and other financial institutions	26,318	74,880	60,730	13,848	—	—	175,776
Placements with banks and other financial institutions	4,754	54,105	81,161	53,267	—	—	193,287
Financial assets at fair value through profit or loss	9,303	21,902	32,342	4,185	1,199	45	68,976
Derivative financial assets	—	—	—	—	—	6,179	6,179
Financial assets held under resale agreements	25,699	41,897	5,535	—	—	—	73,131
Loans and advances to customers	1,749,147	419,111	720,080	39,751	11,128	—	2,939,217
Available-for-sale financial assets	12,690	15,348	22,694	122,197	65,003	922,255	1,160,187
Held-to-maturity investments	13,751	31,120	108,577	261,783	320,923	—	736,154
Investment classified as receivables	159,148	621,727	369,003	165,526	183,120	—	1,498,524
Other financial assets	—	—	—	—	—	36,490	36,490
Total financial assets	3,257,636	1,280,090	1,400,122	660,557	581,373	1,018,416	8,198,194

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2016						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	
Deposits from banks and other financial institutions	129,639	84,134	66,280	1,634	—	—	281,687
Placements from banks and other financial institutions	4,450	275	9,433	—	—	—	14,158
Derivative financial liabilities	—	—	—	—	—	6,404	6,404
Financial assets sold under repurchase agreements	107,351	14,334	8,104	—	—	—	129,789
Financial liabilities at fair value through profit or loss	3,538	5,638	1,403	—	—	44	10,623
Customer deposits	3,512,276	1,188,601	2,026,764	557,549	—	1,121	7,286,311
Debt securities issued	—	—	—	—	54,943	—	54,943
Other financial liabilities	—	2	2	—	—	123,797	123,801
Total financial liabilities	3,757,254	1,292,984	2,111,986	559,183	54,943	131,366	7,907,716
Interest rate risk gap	(499,618)	(12,894)	(711,864)	101,374	526,430	887,050	290,478

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2015						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Cash and deposits with central bank	1,083,704	—	—	—	—	47,527	1,131,231	
Deposits with banks and other financial institutions	135,540	99,960	51,126	37,511	—	—	324,137	
Placements with banks and other financial institutions	34,043	41,995	32,351	92,096	—	—	200,485	
Financial assets at fair value through profit or loss	9,146	6,573	11,818	182	—	—	27,719	
Derivative financial assets	—	—	—	—	—	1,073	1,073	
Financial assets held under resale agreements	112,729	20,764	14,375	1,000	—	—	148,868	
Loans and advances to customers	1,377,140	315,372	662,416	45,970	11,697	—	2,412,595	
Available-for-sale financial assets	14,002	9,268	21,225	65,844	16,682	263,662	390,683	
Held-to-maturity investments	14,971	56,594	82,082	236,344	294,776	—	684,767	
Investment classified as receivables	33,728	296,184	1,128,726	255,320	169,540	—	1,883,498	
Other financial assets	—	—	—	—	—	32,481	32,481	
Total financial assets	2,815,003	846,710	2,004,119	734,267	492,695	344,743	7,237,537	

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2015						Non-interest bearing	Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Deposits from banks and other financial institutions	41,799	7,037	41,957	558	—	—	91,351	
Placements from banks and other financial institutions	29,151	1,872	39,836	—	—	—	70,859	
Derivative financial liabilities	—	—	—	—	—	1,039	1,039	
Financial assets sold under repurchase agreements	182,062	50,619	162,136	—	—	—	394,817	
Financial liabilities at fair value through profit or loss	142	418	3,579	—	—	—	4,139	
Customer deposits	3,116,330	1,008,528	1,713,012	466,367	—	777	6,305,014	
Debt securities issued	—	—	—	—	24,973	—	24,973	
Other financial liabilities	5	5	13	10	—	119,385	119,418	
Total financial liabilities	3,369,489	1,068,479	1,960,533	466,935	24,973	121,201	7,011,610	
Interest rate risk gap	(554,486)	(221,769)	43,586	267,332	467,722	223,542	225,927	

Foreign exchange risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2016 and 2015. 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), and Hong Kong Dollars (HKD).

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2016			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,309,142	1,065	66	1,310,273
Deposits with banks and other financial institutions	163,422	8,984	3,370	175,776
Placements with banks and other financial institutions	173,470	19,817	—	193,287
Financial assets at fair value through profit or loss	67,537	1,439	—	68,976
Derivative financial assets	63	6,112	4	6,179
Financial assets held under resale agreements	73,131	—	—	73,131
Loans and advances to customers	2,927,732	11,211	274	2,939,217
Available-for-sale financial assets	1,146,427	13,760	—	1,160,187
Held-to-maturity investments	733,870	2,284	—	736,154
Investment classified as receivables	1,498,524	—	—	1,498,524
Other financial assets	36,279	211	—	36,490
Total financial assets	8,129,597	64,883	3,714	8,198,194
Deposits from banks and other financial institutions	278,213	3,474	—	281,687
Placements from banks and other financial institutions	8,330	5,828	—	14,158
Financial liabilities at fair value through profit or loss	10,623	—	—	10,623
Derivative financial liabilities	56	6,345	3	6,404
Financial assets sold under repurchase agreements	129,789	—	—	129,789
Customer deposits	7,270,222	15,562	527	7,286,311
Debt securities issued	54,943	—	—	54,943
Other financial liabilities	123,700	100	1	123,801
Total financial liabilities	7,875,876	31,309	531	7,907,716
Net on-balance sheet position	253,721	33,574	3,183	290,478
Net notional amount of derivative financial instruments	(473)	1,019	(808)	(262)
Credit commitments	506,299	14,326	4,284	524,909

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange risk (continued)

	As at December 31, 2015			Total
	RMB	USD (in RMB equivalent)	Other foreign currencies (in RMB equivalent)	
Cash and deposits with central bank	1,130,700	491	40	1,131,231
Deposits with banks and other financial institutions	319,433	4,066	638	324,137
Placements with banks and other financial institutions	178,561	21,924	—	200,485
Financial assets at fair value through profit or loss	27,527	192	—	27,719
Derivative financial assets	36	1,030	7	1,073
Financial assets held under resale agreements	148,803	65	—	148,868
Loans and advances to customers	2,408,181	3,908	506	2,412,595
Available-for-sale financial assets	390,102	581	—	390,683
Held-to-maturity investments	683,851	916	—	684,767
Investment classified as receivables	1,883,498	—	—	1,883,498
Other financial assets	32,450	30	1	32,481
Total financial assets	7,203,142	33,203	1,192	7,237,537
Deposits from banks and other financial institutions	87,847	3,504	—	91,351
Placements from banks and other financial institutions	68,240	2,515	104	70,859
Financial liabilities at fair value through profit or loss	4,139	—	—	4,139
Derivative financial liabilities	36	1,000	3	1,039
Financial assets sold under repurchase agreements	394,817	—	—	394,817
Customer deposits	6,297,570	6,824	620	6,305,014
Debt securities issued	24,973	—	—	24,973
Other financial liabilities	119,373	44	1	119,418
Total financial liabilities	6,996,995	13,887	728	7,011,610
Net on-balance sheet position	206,147	19,316	464	225,927
Net notional amount of derivative financial instruments	(1,611)	2,231	(660)	(40)
Credit commitments	312,191	5,008	491	317,690

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange risk (continued)

Exchange Rate Sensitivity Analysis

The table below indicates the potential effect of an appreciation or depreciation of USD spot and forward exchange rate against RMB by 1% on net profit.

Exchange rate changes	As at December 31	
	2016	2015
1% of appreciation of USD against RMB	142	137
1% of depreciation of USD against RMB	(142)	(137)

The impact on the net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities. The effect on the net profit is based on the assumption that the Group's net foreign currency at the end of the reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ to the actual situation.

44.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, inadequate personnel controls and flawed systems or from external events. Events of losses caused by operational risks mainly arise from internal and external frauds; unreasonable employment rules and procedures, work-place security flaws, inadequate controls on customer products and business activities; damages to physical assets; information system flaws; failure in delivery and settlement and process management, etc.

Guided by the operational risk preference approved by the Board of Directors, the Group's senior management is mainly responsible for building and implementing the operational risk management policies and limitations. The policies aim to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, improve the information technology capability, enrich the basis of operation management, intensify monitoring report, regulate staff behaviour, foster risk management culture and initiative awareness to regulations and ensure the security of business operation.

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments

The majority of the assets and liabilities of the Group as presented in its consolidated statement of financial position are financial assets and financial liabilities. The changes in fair value of non-financial assets and non-financial liabilities have insignificant impact on the financial results of the Group.

(1) Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions, traded in active, liquid markets are determined with reference to quoted market prices.
- The fair value of non-option derivatives is determined through analysis of discounted future cash flows based on the instrument's yield curve.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there are no available observable current market transactions prices for similar instruments, the fair value of net assets is used for the valuations, and management performs analysis on this valuation.

The Group has established an independent valuation process for financial assets and financial liabilities. The relevant departments are responsible for performing valuation, verifying valuation model and accounting of valuation results.

During the years ended December 31, 2016 and 2015, there was no significant change in the valuation techniques or inputs used to determine fair value measurements as compared to those used in the financial statements.

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

(2) Fair value hierarchy

Financial instruments measured 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.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread, and are all observable parameters available from open markets.

The Group uses fair value to measure financial instruments classified as Level 3 in the measurement hierarchy, which primarily include equity investments in industrial funds of the Group and its assets and liabilities designated as at fair value through profit or loss. The fair value of equity investments is determined using the equity method, where the significant non-observable data are the net assets of the invested funds and the changes in these data cause their fair value to change in the same direction; the fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant non-observable data are the yield curves of similar financial instruments to be used as discount rates and the changes in these data cause their fair value to move in the opposite direction. The Group has put in place relevant internal control procedures to monitor its exposure to these financial instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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, held-to-maturity investments and investment classified as receivables, 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.

	As at December 31, 2016				
	Carrying amounts	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	736,154	750,681	2,293	748,388	—
Investment classified as receivables	1,498,524	1,486,383	—	58,632	1,427,751
Total	2,234,678	2,237,064	2,293	807,020	1,427,751
Financial liabilities					
Debt securities issued	54,943	53,637	—	53,637	—

	As at December 31, 2015				
	Carrying amounts	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	684,767	711,061	925	710,136	—
Investment classified as receivables	1,883,498	1,985,754	—	100,805	1,884,949
Total	2,568,265	2,696,815	925	810,941	1,884,949
Financial liabilities					
Debt securities issued	24,973	25,277	—	25,277	—

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

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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 December 31, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
— Debt securities	1,439	10,785	—	12,224
— Certificates of deposits	—	46,128	—	46,128
— Asset management plans	—	—	6,576	6,576
— Beneficiary certificates	—	—	4,048	4,048
Subtotal	1,439	56,913	10,624	68,976
Derivative financial assets				
— Exchange rate derivatives	—	6,098	—	6,098
— Interest rate derivatives	—	81	—	81
Subtotal	—	6,179	—	6,179
Available-for-sale financial assets				
— Debt securities	10,283	195,929	—	206,212
— Assets-backed securities	—	31,720	—	31,720
— Equity instruments	—	184,130	1,746	185,876
Subtotal	10,283	411,779	1,746	423,808
Total	11,722	474,871	12,370	498,963
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(10,623)	(10,623)
Derivative financial liabilities				
— Exchange rate derivatives	—	(6,346)	—	(6,346)
— Interest rate derivatives	—	(58)	—	(58)
Subtotal	—	(6,404)	—	(6,404)
Total	—	(6,404)	(10,623)	(17,027)

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For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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, 2015			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
— Debt securities	159	6,967	—	7,126
— Certificates of deposits	—	16,454	—	16,454
— Asset management plans	—	—	4,139	4,139
Subtotal	159	23,421	4,139	27,719
Derivative financial assets				
— Exchange rate derivatives	—	1,044	—	1,044
— Interest rate derivatives	—	29	—	29
Subtotal	—	1,073	—	1,073
Available-for-sale financial assets				
— Debt securities	581	103,160	—	103,741
— Assets-backed securities	—	23,280	—	23,280
— Equity instruments	—	260,939	2,657	263,596
Subtotal	581	387,379	2,657	390,617
Total	740	411,873	6,796	419,409
Financial liabilities at fair value through profit or loss				
— Principal guaranteed wealth management products	—	—	(4,139)	(4,139)
Derivative financial liabilities				
— Exchange rate derivatives	—	(1,009)	—	(1,009)
— Interest rate derivatives	—	(30)	—	(30)
Subtotal	—	(1,039)	—	(1,039)
Total	—	(1,039)	(4,139)	(5,178)

There were no significant movements among levels of the fair value hierarchy for each years ended December 31, 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.7 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 financial assets are analyzed below:

	2016	2015
Balance at beginning of year	6,796	1,891
Increased	27,084	9,048
Settled	(21,567)	(5,153)
Total gains or losses recognized in		
— Profit or loss	697	143
— Other comprehensive income	(640)	867
Balance at end of year	12,370	6,796

Changes in Level 3 financial liabilities are analyzed below:

	2016	2015
Balance at beginning of year	(4,139)	—
Increased	(26,566)	(9,153)
Settled	20,232	5,100
Total gains or losses recognized in		
— Profit or loss	(150)	(86)
— Other comprehensive income	—	—
Balance at end of year	(10,623)	(4,139)

44.8 Capital management

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to deliver its management objectives, including performance assessment against plans and budgets and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; help drive risk management across the Group; ensure a disciplinary expansion of its assets; and improve its business structure and operating models.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.8 Capital management (continued)

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the utilisation of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximises returns to shareholders without compromising its risk control, the Group makes strong efforts to promote the establishment of capital constraints system, strengthen the control of total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through comprehensively using several measures such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

In accordance with *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《商業銀行資本管理辦法(試行)》promulgated by CBRC and the related provisions, as from January 1, 2013, CBRC requires commercial banks to maintain a minimum capital adequacy ratio, where core tier 1 capital adequacy ratio not lower than 5%, tier 1 capital adequacy ratio not lower than 6%, and capital adequacy ratio not lower than 8%. Meanwhile, in accordance with the *Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《中國銀監會關於實施〈商業銀行資本管理辦法(試行)〉過渡期安排相關事項的通知》, capital reserve requirement will be gradually introduced within the transitional period, and is to be satisfied by the core tier 1 capital of commercial banks. In accordance with this provision, as at December 31, 2016, the Group's core tier 1 capital adequacy ratio should be 6.70%, tier 1 capital adequacy ratio should be 7.70%, and capital adequacy ratio should be 9.70% (as at December 31, 2015: 6.30%, 7.30% and 9.30%, respectively). The Group continuously intensifies the monitoring, analysing and reporting of capital adequacy ratios, constantly optimises 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.8 Capital management (continued)

The Group's regulatory capital as calculated according to *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《商業銀行資本管理辦法(試行)》 promulgated by CBRC and Accounting Standards for Business Enterprises as at December 31, 2016 is as follows:

	Note	As at December 31	
		2016	2015
Core tier 1 capital adequacy ratio	(i)	8.63%	8.53%
Tier 1 capital adequacy ratio	(i)	8.63%	8.53%
Capital adequacy ratio	(i)	11.13%	10.46%
Core tier 1 capital		346,574	270,459
Deductions of core tier 1 capital	(ii)	(1,757)	(1,451)
Core tier 1 capital — net		344,817	269,008
Other tier 1 capital		6	1
Tier 1 capital — net		344,823	269,009
Tier 2 capital			
— Excess provision for loan loss		45,084	35,836
— Directly issued qualifying tier 2 instruments including related stock surplus		55,000	25,000
— Non-controlling interest given recognition in tier 2 capital		12	3
Net capital	(iii)	444,919	329,848
Risk-weighted assets	(iv)	3,995,908	3,153,015

(i) 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.

(ii) Deductions from core tier 1 capital include other intangible assets (not including land use rights).

(iii) Net capital is equal to total capital net of deductions from total capital.

(iv) 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

45 Events after the Balance Sheet Date

On March 22, 2017, the Bank issued RMB20 billion tier-2 capital bonds in the China Domestic Interbank Bond Market, with a term of 10 years and pays interest at 4.5% per annum.

46 Statement of Financial Position of the Bank

	As at December 31	
	2016	2015
Assets		
Cash and deposits with central bank	1,310,221	1,131,231
Deposits with banks and other financial institutions	176,526	323,517
Placements with banks and other financial institutions	193,737	200,485
Financial assets at fair value through profit or loss	68,976	27,719
Derivative financial assets	6,179	1,073
Financial assets held under resale agreements	73,131	148,868
Loans and advances to customers	2,935,043	2,412,235
Investment instruments		
Available-for-sale financial assets	1,160,187	390,583
Held-to-maturity investments	736,154	684,767
Investment classified as receivables	1,498,798	1,883,741
Investment in subsidiary	615	615
Property and equipment	39,269	36,531
Deferred tax assets	13,441	9,197
Other assets	51,109	45,526
Total assets	8,263,386	7,296,088

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

46 Statement of Financial Position of the Bank (continued)

	As at December 31	
	2016	2015
Liabilities		
Deposits from banks and other financial institutions	281,757	91,492
Placements from banks and other financial institutions	12,278	70,859
Financial liabilities at fair value through profit or loss	10,623	4,139
Derivative financial liabilities	6,404	1,039
Financial assets sold under repurchase agreements	129,789	394,817
Customer deposits	7,286,311	6,305,014
Debt securities issued	54,943	24,973
Other liabilities	134,708	133,303
Total liabilities	7,916,813	7,025,636
Equity		
Share capital	81,031	68,604
Capital reserve	74,586	36,887
Other reserves	114,341	106,153
Retained earnings	76,615	58,808
Total equity	346,573	270,452
Total equity and liabilities	8,263,386	7,296,088

Approved and authorized for issue by the Board of Directors on March 24, 2017.

李國華

(On behalf of Board of Directors)

呂家進

(On behalf of Board of Directors)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

47 Statement of Changes in Equity of the Bank

	Other reserves						Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	
As at January 1, 2016	68,604	36,887	16,411	84,754	4,988	58,808	270,452
Profit for the year	—	—	—	—	—	39,840	39,840
Other comprehensive income	—	24	—	—	(4,845)	—	(4,821)
Total comprehensive income for the year	—	24	—	—	(4,845)	39,840	35,019
Appropriations to surplus reserve	—	—	3,984	—	—	(3,984)	—
Appropriations to general reserve	—	—	—	9,049	—	(9,049)	—
Share issuance	12,427	37,675	—	—	—	—	50,102
Dividends	—	—	—	—	—	(9,000)	(9,000)
As at December 31, 2016	81,031	74,586	20,395	93,803	143	76,615	346,573

	Other reserves						Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Retained earnings	
As at January 1, 2015	57,000	3,448	12,925	66,887	2,351	45,298	187,909
Profit for the year	—	—	—	—	—	34,863	34,863
Other comprehensive income	—	(97)	—	—	2,637	—	2,540
Total comprehensive income for the year	—	(97)	—	—	2,637	34,863	37,403
Appropriations to surplus reserve	—	—	3,486	—	—	(3,486)	—
Appropriations to general reserve	—	—	—	17,867	—	(17,867)	—
Share issuance	11,604	33,536	—	—	—	—	45,140
As at December 31, 2015	68,604	36,887	16,411	84,754	4,988	58,808	270,452

Unaudited Supplementary Financial Information

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

1 Liquidity ratios and leverage ratio

(1) Liquidity ratios

	Average for the year ended December 31, 2016	Average for the year ended December 31, 2015
Liquidity ratios (RMB and foreign currency)	44.63%	44.78%

	As at December 31, 2016	As at December 31, 2015
Liquidity ratios (RMB and foreign currency)	38.37%	33.96%

(2) Leverage ratio

	As at December 31, 2016	As at December 31, 2015
Leverage ratio	4.05%	3.62%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Amended) (商業銀行槓桿率管理辦法(修訂)) issued by the CBRC since April 1, 2015 (effective date of the Measures). The above liquidity ratios and leverage ratio were calculated in accordance with the formulas promulgated by the CBRC, and based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

Unaudited Supplementary Financial Information

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

2 Currency concentrations

	As at December 31, 2016			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	70,253	2,790	1,595	74,638
Spot liabilities	(35,062)	(1,498)	(1,031)	(37,591)
Forward purchases	255,714	27	923	256,664
Forward sales	(255,416)	(9)	(1,742)	(257,167)
Net long/(short) position	35,489	1,310	(255)	36,544

	As at December 31, 2015			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	36,808	(944)	1,680	37,544
Spot liabilities	(16,792)	1,001	(1,284)	(17,075)
Forward purchases	76,657	17	1,237	77,911
Forward sales	(74,636)	(181)	(1,750)	(76,567)
Net long/(short) position	22,037	(107)	(117)	21,813

The Group has no structural position at the reporting periods.

3 International claims

The Bank regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

Unaudited Supplementary Financial Information

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

3 International claims (continued)

	As at December 31, 2016			Total
	Official Sector	Banks and other financial institutions	Non-bank private sectors	
Asia Pacific	878	33,387	8,728	42,993
of which attributed to Hong Kong	—	4,146	2,484	6,630
North and South America	—	3,752	5,029	8,781
Europe	—	8,236	—	8,236
	878	45,375	13,757	60,010

	As at December 31, 2015			Total
	Official Sector	Banks and other financial institutions	Non-bank private sectors	
Asia Pacific	100	24,975	4,648	29,723
of which attributed to Hong Kong	—	11,378	37	11,415
North and South America	—	2,384	1	2,385
Europe	—	761	—	761
	100	28,120	4,649	32,869

Unaudited Supplementary Financial Information

For the year ended December 31, 2016 (All amounts in millions of RMB unless otherwise stated)

4 Gross amount of overdue loans and advances to customers

	As at December 31	
	2016	2015
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of		
Within 3 months (inclusive)	8,352	7,721
Between 3 months and 6 months (inclusive)	4,700	4,885
Between 6 months and 12 months (inclusive)	6,762	6,651
Over 12 months	9,186	5,248
Total	29,000	24,505
As a percentage of total gross loans and advances to customers		
Within 3 months (inclusive)	0.28%	0.31%
Between 3 months and 6 months (inclusive)	0.16%	0.20%
Between 6 months and 12 months (inclusive)	0.22%	0.27%
Over 12 months	0.30%	0.21%
Total	0.96%	0.99%

Overdue loans and advances to customers by geographical areas:

	As at December 31	
	2016	2015
Head office	1,056	857
Yangtze River Delta	3,346	3,391
Pearl River Delta	2,555	2,362
Bohai Rim	3,354	2,871
Central China	5,785	4,984
Western China	9,470	6,344
North-eastern China	3,434	3,696
Total	29,000	24,505

Appendix II

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	December 31, 2016 After adjustment	December 31, 2015 After adjustment
Qualified quality liquid assets	1,080,184	962,753
Net cash outflow	842,675	786,114
Liquidity Coverage Ratio (%)	128.19	122.47

Appendix III

Leverage Ratio

In millions of RMB, except for percentages

Item	December 31, 2016	December 31, 2015
Net tier-1 capital	344,823	269,008
Adjusted asset balance on- and off-the balance sheet	8,518,775	7,433,833
Leverage Ratio (%)	4.05	3.62

Appendix III

Details of Leverage Ratio Information

In millions of RMB, except for percentage

No.	Item	December 31, 2016
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	8,237,547
2	Less: tier-1 capital deduction items	1,757
3	Adjusted asset balance on-balance sheet (excluding derivatives and securities financing transactions)	8,235,790
4	Replacement costs of various derivatives (net of qualified deposits)	6,175
5	Potential risk exposures of various derivatives	11,595
6	Aggregative secured and pledged items deducted from balance sheet	—
7	Less: Receivables resulting from the provision of qualified deposits	—
8	Less: asset balances of derivatives from transacting with central counterparties in providing clearing service for customers	—
9	Notional principal of sold credit derivatives	—
10	Less: deductible asset balance of sold credit derivatives	—
11	Asset balance of derivatives	17,770
12	Accounting asset balance of securities financing transactions	21,904
13	Less: deductible asset balance of securities financing transactions	—
14	Credit risk exposures of counterparties in securities financing transactions	—
15	Asset balance of securities financing transactions resulting from agency securities financing transactions	—
16	Asset balance of securities financing transactions	—
17	Balance of off-balance sheet items	538,910
18	Less: Balance of off-balance sheet items decreased because of credit conversion	295,599
19	Adjusted balance of off-balance sheet items	243,311
20	Net Tier-1 capital	344,823
21	Adjusted asset balance on- and off-the balance sheet	8,518,775
22	Leverage ratio (%)	4.05

Appendix IV

Composition of Capital

In millions of RMB, except for percentage

		Amounts
Core tier-1 capital:		
1	Paid-in capital	81,031
2	Retained earnings	190,770
2a	Surplus reserves	20,395
2b	General reserve	93,803
2c	Retained profits	76,572
3	Accumulated other comprehensive income (and other public reserves)	74,729
3a	Capital reserve	74,659
3b	Others	70
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 interest	44
6	Core tier-1 capital before regulatory adjustments	346,574
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)	1,744
10	Deferred tax assets that rely on future profitability and arising from operating loss	13
11	Reserves that relate to the cash flow hedging of items that are not fair valued on the balance sheet	—
12	Shortfall of provision for loan impairment	—
13	Gain on sale related to asset securitization	—
14	Unrealized gains and losses due to changes in fair value of liabilities self credit risk caused by changes in self credit risk	—
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	—
16	Directly or indirectly holding the Banks ordinary shares	—
17	Reciprocal cross-holdings in core tier-1 capital between banks or between banks and other financial institutions	—
18	Deductible amount of insignificant minority investment in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation	—
19	Deductible amount of significant minority investment in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation	—
20	Mortgage servicing rights	Not applicable
21	Other deductible amount in deferred tax dependent on future profitability	—

Appendix IV

Composition of Capital (Continued)

In millions of RMB, except for percentage

	Amounts
22 Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences	—
23 Including: Deductible amount of significant minority investments in core tier-1 capital instruments issued by financial institutions	—
24 Including: Deductible amount of mortgage servicing rights	Not applicable
25 Including: Deductible amount in deferred tax assets arising from temporary differences	—
26a Investment 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 Others 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	1,757
29 Core tier-1 capital	344,817
Additional tier-1 capital:	
30 Additional tier-1 capital instruments and related premium	—
31 Including: Portion classified as equity	—
32 Including: Portion classified as liabilities	—
33 Invalid instruments to additional tier-1 capital after the transition period	—
34 Qualifying non-controlling interests	6
35 Including: invalid portion to additional tier-1 capital excluded after the transition period	—
36 Additional tier-1 capital before regulatory adjustments	—
Additional tier-1 capital: Regulatory adjustments	
37 Directly or indirectly holding additional tier-1 capital of the Bank	—
38 Reciprocal cross-holdings in additional tier-1 capital between banks or between banks and other financial institutions	—
39 Deductible amount of non-significant minority investment in additional tier-1 capital instruments issued by financial institutions that are not subject to consolidation	—
40 Significant minority investments in additional tier-1 capital instruments issued by financial institutions that are not subject to consolidation	—
41a Investment 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 Others 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	6
45 Tier-1 capital (core tier 1 capital + additional tier-1 capital)	344,823

Appendix IV

Composition of Capital (Continued)

In millions of RMB, except for percentage

	Amounts
Tier 2 capital:	
46 Capital instruments and related premium	55,000
47 Invalid tier 2 instruments to capital after the transition period	—
48 Valid portion of minority interests	12
49 Including: Invalid portion to tier 2 capital after the transition period	—
50 Valid portion of surplus provision for loan impairment	45,084
51 Tier 2 capital before regulatory adjustments	100,096
Capital: Regulatory adjustments	
52 Directly or indirectly holding tier 2 capital of the Bank	—
53 Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	—
54 Deductible portion of non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	—
55 Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	—
56a Investment 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 Others that should be deducted from tier 2 capital	—
57 Total regulatory adjustments to tier 2 capital	—
58 Tier 2 capital	100,096
59 Total capital (tier 1 capital + tier 2 capital)	444,919
60 Total risk-weighted assets	3,995,908
Requirements for capital adequacy ratio and reserve capital (%)	
61 Core tier 1 capital adequacy ratio	8.63
62 Tier 1 capital adequacy ratio	8.63
63 Capital adequacy ratio	11.13
64 Institution specific capital requirement	1.70
65 Including: Capital conservation buffer requirement	1.70
66 Including: Counter cyclical buffer requirement	—
67 Including: Additional buffer requirement of global systematically important banks	—
68 Percentage of core tier 1 capital meeting buffers to risk-weighted assets	1.93

Appendix IV

Composition of Capital (Continued)

In millions of RMB, except for percentage

	Amounts
Domestic minimum requirements for regulatory capital (%)	
69 Core tier 1 capital adequacy ratio	6.70
70 Tier 1 capital adequacy ratio	7.70
71 Capital adequacy ratio	9.70
Amounts below the thresholds for deduction	
72 Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	11,598
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)	Not applicable
75 Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	13,464
Valid caps of surplus provision for loan impairment to tier 2 capital	
76 Provision for loan impairment under the weighted approach	45,084
77 Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	45,084
78 Surplus provision for loan impairment under the internal ratings-based approach	—
79 Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	—
Capital instruments subject to phase-out arrangements	
80 Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	—
81 Excluded from core tier 1 capital due to phase-out arrangements	—
82 Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	—
83 Excluded from additional tier 1 capital due to phase-out arrangements	—
84 Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	—
85 Excluded from tier 2 capital for the current period due to phase-out arrangements	—

Detailed Description of Related Items

In millions of RMB

	The regulatory consolidated balance sheet	Code
Goodwill	—	a
Deferred income tax liabilities	(52)	b
Including: Deferred tax liabilities related to goodwill	—	c
Including: Deferred tax liabilities related to other intangible assets other than land use rights	—	d
Paid-in capital	81,031	
Including: Amount included in core tier-1 capital	81,301	e
Including: Amount included in additional tier-1 capital	—	f
Capital reserve	74,659	g
Surplus reserve	20,395	h
General reserve	93,803	i
Undistributed profits	76,572	j
Other comprehensive income	70	k

Corresponding Relationship Between the Capital Items under Regulatory Parameter And the Items under the Balance Sheet

In millions of RMB

	Amount	Code
Core tier 1 capital:		
1 Paid-in capital	81,031	e
2 Retained earnings	190,770	h+i+j
2a Surplus reserve	20,395	h
2b General reserve	93,803	i
2c Undistributed profits	76,572	j
3 Accumulated other comprehensive income and disclosed reserve	74,729	g+k
3a Capital reserve	74,659	g
3b Others	70	k

Main Features of Qualified Capital Instruments

	Ordinary shares (H Shares)	Tier 2 capital instruments	Tier 2 capital instruments
1 Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.
2 Identification code	1658.HK	1528007.IB	1628016.IB
3 Applicable laws	The SFO	PRC laws	PRC laws
Regulatory process			
4 Including: Applicable to rules for the transitional period of Measures for Capital Management of Commercial Bank (Trial) are applicable	Core tier 1 capital	Tier 2 capital	Tier 2 capital
5 Including: Applicable to rules after the transitional period of Measures for Capital Management of Commercial Bank (Trial) are applicable	Core tier 1 capital	Tier 2 capital	Tier 2 capital
6 Including: Applicable to legal representatives/groups	Legal representatives and groups	Legal representatives and groups	Legal representatives and groups
7 Instrument type	Ordinary shares	Tier 2 capital instruments	Tier 2 capital instruments
8 Amount that can be included in regulatory capital (in RMB millions; on the latest reporting date)	50,102	25,000	30,000
9 Instrument book value	RMB1 yuan	RMB100 yuan	RMB100 yuan
10 Accounting treatment	Equity and capital reserve	Debt securities issued	Debt securities issued
11 Initial issuance date	September 28, 2016	September 7, 2015	October 26, 2016
12 Whether there is a deadline (terminable or continuous)	Continuous	Terminable	Terminable
13 Including: Original deadline	No expiration date	September 9, 2025	October 28, 2026
14 Redeemed by issuer (to be approved by regulators)	No	Yes	Yes
15 Including: Redemption date (or convenient redemption date) and limit	Not applicable	September 9, 2020 Partial or full	October 28, 2021 Partial or full
16 Including: Subsequent redemption date (if any bonuses or dividends)	Not applicable	Not applicable	Not applicable

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital instruments	Tier 2 capital instruments
17 Including: Fixed or floating bonuses/ dividends	Floating	Fixed	Fixed
18 Including: Book interest rate and relevant indices	Not applicable	4.50%	3.30%
19 Including: Whether there is a dividend brake mechanism	Not applicable	No	No
20 Including: Whether bonuses or dividends can be cancelled independently	Complete discretion right	No	No
21 Including: Whether there is a redemption incentive mechanism	No	No	No
22 Including: Accumulation or non- accumulation	Non-accumulation	Not applicable	Not applicable
23 Whether shares are transferable	No	No	No
24 Including: Clarifying trigger events for transferring if shares are transferable	Not applicable	Not applicable	Not applicable
25 Including: Clarifying whether shares are wholly or partially transferable if shares are transferable	Not applicable	Not applicable	Not applicable
26 Including: Clarifying how to confirm the transfer price if shares are transferable	Not applicable	Not applicable	Not applicable
27 Including: Clarifying whether shares are compulsorily transferred if shares are transferable	Not applicable	Not applicable	Not applicable
28 Including: Clarifying instrument type after transferring if shares are transferable	Not applicable	Not applicable	Not applicable
29 Including: Clarifying instrument issuer after transferring if shares are transferable	Not applicable	Not applicable	Not applicable
30 Whether write-down shall be committed	No	Yes	Yes

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital instruments	Tier 2 capital instruments
31 Including: Clarifying write-down trigger points if write-down shall be committed	Not applicable	Trigger events refer to the following two events whichever is earlier: 1. the CBRC has determined that, if there is no write-down, the issuers will not be able to survive, or 2. relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the issuers will not be able to survive.	Trigger events refer to the following two events whichever is earlier: 1. the CBRC has determined that, if there is no write-down, the issuers will not be able to survive, or 2. relevant departments have determined that, if there is no capital injection or equivalent support from the public departments, the issuers will not be able to survive.
32 Including: Clarifying whether it is partially or wholly written down if write-down shall be committed	Not applicable	Wholly	Wholly
33 Including: Clarifying whether the write-down is permanent or temporary if write-down shall be committed	Not applicable	Permanent	Permanent
34 Including: Clarifying book value recovery mechanism if the write-down is temporary	Not applicable	Not applicable	Not applicable

Main Features of Qualified Capital Instruments (Continued)

	Ordinary shares (H Shares)	Tier 2 capital instruments	Tier 2 capital instruments
35 Liquidation priority during settlement (clarifying instrument type with higher liquidation priority)	Ranking after depositors, general creditors, and subordinated creditors	The liquidation order of the principal of the bonds and the payment order of the interest are after depositors and general creditors and before equity capital, other tier-1 capital instruments and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds, and are in the same repayment order as other subordinated debts which may be issued in the future and in the same repayment order as current bonds.	The liquidation order of the principal of the bonds and the payment order of the interest are after depositors and general creditors and before equity capital, other tier-1 capital instruments and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds, and are in the same repayment order as other subordinated debts which may be issued in the future and in the same repayment order as current bonds.
36 Whether there are temporary ineligible features	No	No	No
Including: Clarifying such features if they exist	Not applicable	Not applicable	Not applicable