中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

2018 ANNUAL REPORT

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

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

Stock Code: 1658
Stock Code of Preference Shares: 4612

Together we make it better

Contents

Company Profile

Postal Savings Bank of China (hereinafter referred to as “PSBC”) is a leading large-scale retail commercial 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, the Bank actively serves key 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 578 million individual customers, PSBC 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, and WeChat banking etc., forming a financial service landscape in which electronic banking connects with physical network and offline physical banking keeps pace with online virtual banking. In 2015, we introduced ten domestic and foreign strategic investors, which further improved our comprehensive strength. In 2016, we completed the initial public offering on the Main Board of the Hong Kong Stock Exchange and gained access to international capital markets, representing a successful implementation of the three-step reform, namely “joint stock reform, introduction of strategic investors and initial public offering”. In 2017, we issued offshore preference shares, further optimizing our capital structure and expanding our capital replenishment channels.

Against the background of transformation and upgrade of China’s economy, deepening advancement of financial reform and thriving development of information technology, PSBC will seize new strategic opportunities, give full play to its advantages, keep enriching business varieties, expand service channels and improve service capabilities so as to provide more comprehensive and convenient financial services to customers and become the most trusted and valuable first-tier large retail commercial bank.

Definitions

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

"Articles of Association"	the Articles of Association of Postal Savings Bank of China Co., Ltd., as amended, supplemented and otherwise modified from time to time
"Bank/us/we/PSBC/Postal Savings Bank of China"	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, including its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets' operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiary (where the context so requires)
"basis point(s)"	a unit for measuring changes in interest rate or exchange rate (BP), equal to 1% of one percentage point, namely 0.01%
"CBIRC"	China Banking and Insurance Regulatory Commission or its predecessors, the former China Banking Regulatory Commission and the former China Insurance Regulatory Commission, within the context requires, mean the former China Banking Regulatory Commission or the former China Insurance Regulatory Commission
"central bank/PBOC"	the People's Bank of China
"China Post Group"	China Post Group Corporation, an enterprise owned by the whole people established in the PRC on October 4, 1995, and our controlling shareholder
"corporate loans to small and micro enterprises"	the loans to small and micro-sized enterprises which comply with the calculation method of the CBIRC, including the loans to small-sized enterprises, loans to micro-sized enterprises, loans to self-employed traders and loans to small and micro-sized business owners; the classification standards of enterprises strictly follow the Classification Standards of Small and Medium Enterprises
"corporate loans to small enterprises"	the loans provided by the Bank to the enterprises classified as small, micro, and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises

"County Area(s)"	areas designated as counties or county-level cities under China's administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include more economically developed county centers, towns and the vast rural areas within their administrative jurisdictions
"CSRC"	China Securities Regulatory Commission
"Domestic Shares"	ordinary shares we issued with a nominal value of RMB1.00 each, which are subscribed for in Renminbi
"Group"	our Bank and our subsidiary
"H Shares"	our ordinary shares with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	the Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards, the related amendments and interpretations issued by the International Accounting Standards Board
"industries with high pollution, high energy consumption and overcapacity"	industries with high pollution, high energy consumption and overcapacity
"Latest Practicable Date"	April 12, 2019, being the latest practicable date prior to the printing of this report for ascertaining certain information contained herein
"MOF"	Ministry of Finance of the PRC
"new financial instrument standards"	IFRS 9 Financial instruments

"PSBC Consumer Finance"	PSBC Consumer Finance Company Limited, a limited liability company incorporated and conducting business in China since November 19, 2015.
"Sannong"	a short-hand reference to the Chinese pronunciation of the phrase "agriculture, rural areas and farmers"
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"SMEs"	the enterprises classified as small, micro and medium-sized enterprises under the Classification Standards of Small and Medium Enterprises
"VIP customers"	our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively "consolidated assets"). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers

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

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

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

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

Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and the senior management of the Bank undertake that the information in this report does not contain any false record, misleading statement or material omission, and assume individual and joint and several liabilities for the truthfulness, accuracy and completeness of the information in this report.

The 2018 results announcement and Annual Report have been reviewed and approved at the meeting of the Board of Directors of the Bank held on March 26, 2019. The Bank has 13 directors in total, among which 13 directors attended the meeting in person. The attendance was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association.

The Board of Directors of the Bank proposed the distribution of cash dividends of RMB1.937 (tax inclusive) for each ten shares of 81,030,574,000 ordinary shares for the year 2018 ended December 31, 2018 to all holders of ordinary shares, totaling approximately RMB15,696 million (tax inclusive). The aforesaid proposed distribution of the 2018 annual dividends is still subject to the consideration and approval of the 2018 Annual General Meeting of the Bank. Upon consideration and approval of the 2018 profit distribution proposal of the Bank by the Annual General Meeting, it is expected that cash dividends will be distributed on July 19, 2019 (Friday). The Bank's profits for the reporting period are set out in "Discussion and Analysis — Analysis of Financial Statements".

The 2018 financial statements prepared by the Bank in accordance with IFRSs have been audited by PricewaterhouseCoopers in accordance with international auditing standards, with a standard unqualified auditor's report issued.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
March 26, 2019

Zhang Xuewen, Legal Representative and the person in charge of finance of the Bank, and Liu Yucheng, General Manager of the Financial Management Department of the Bank, hereby represent and warrant that the financial statements contained in this report are true, accurate and complete.

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

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

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

Corporate Information

Legal name in Chinese:	中國郵政儲蓄銀行股份有限公司(“中國郵政儲蓄銀行”)
Legal name in English:	“POSTAL SAVINGS BANK OF CHINA CO., LTD.” (“POSTAL SAVINGS BANK OF CHINA”)
Legal representative:	Zhang Xuewen[1]
Chairman:	Zhang Xuewen[1]
President:	Zhang Xuewen[1]
Authorized representatives:	Yao Hong, Du Chunye
Registered address and place of business in the PRC:	No. 3 Financial Street, Xicheng District, Beijing
Principal place of business in Hong Kong:	40/F, Sunlight Tower, 248 Queen’s Road East, Wan Chai, Hong Kong
Postal code:	100808
Contact telephone number:	86-10-68858158
Fax:	86-10-68858165
E-mail:	ir@psbc.com
Hotline for customer services and complaints:	86-95580
Website:	www.psbc.com

1 On August 17, 2018, Mr. Li Guohua resigned from the positions of Chairman and Legal Representative of the Bank due to change of job. Upon the approval of the Board of Directors, Mr. Lyu Jiajin started to perform the duties on behalf of the Chairman and the Legal Representative, with effect from August 17, 2018. On January 4, 2019, Mr. Lyu Jiajin resigned from the position of President as well as his duties on behalf of the Chairman and the Legal Representative due to change of job. Upon the approval of the Board of Directors, Mr. Zhang Xuewen, Executive Director and Vice President of the Bank, started to perform the duties on behalf of the Chairman, President and the Legal Representative, with effect from January 4, 2019. For details, please refer to “Changes in Directors, Supervisors and Senior Management” of this report.

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

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

Financial Highlights

Financial Data and Indicators

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

Key Financial Data

In millions of RMB

Item	2018	2017	2016	2015	2014
Annual operating results					
Operating income	**261,245**	224,864	189,602	190,633	173,875
Net interest income	**234,122**	188,115	157,586	179,259	167,816
Net fee and commission income	**14,434**	12,737	11,498	8,672	6,479
Operating expenses	**152,324**	147,016	129,772	123,610	114,126
Impairment losses on assets	**55,434**	26,737	16,902	25,635	20,412
Profit before tax	**53,487**	51,111	42,928	41,388	39,337
Net profit	**52,384**	47,709	39,776	34,857	32,567
Net profit attributable to shareholders of the Bank	**52,311**	47,683	39,801	34,859	32,567
Net cash flow from operating activities	**184,505**	(399,348)	220,457	929,417	680,953

In millions of RMB, unless otherwise stated

Item	December[4] 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Data as at the end of the reporting period					
Total assets	**9,516,211**	9,012,551	8,265,622	7,296,364	6,298,325
Total loans to customers[1]	**4,276,865**	3,630,135	3,010,648	2,471,853	1,875,748
Allowance for impairment losses on loans to customers	**127,327**	88,564	71,431	59,258	43,681
Loans to customers, net	**4,149,538**	3,541,571	2,939,217	2,412,595	1,832,067
Investments instruments[2]	**3,387,487**	3,167,033	3,463,841	2,986,667	1,580,222
Cash and deposits with central bank	**1,202,935**	1,411,962	1,310,273	1,131,231	1,389,759
Total liabilities	**9,040,898**	8,581,194	7,918,734	7,025,533	6,110,416
Customer deposits[1]	**8,627,440**	8,062,659	7,286,311	6,305,014	5,802,946
Equity attributable to shareholders of the Bank	**474,404**	430,973	346,530	270,448	187,909
Net assets per share[3] (in RMB)	**5.26**	4.73	4.28	—	—
Net capital	**593,729**	555,445	444,919	329,848	211,744
Core tier 1 capital, net	**421,678**	381,673	344,817	269,008	186,975
Additional tier 1 capital, net	**47,927**	47,887	6	1	—
Risk-weighted assets	**4,316,219**	4,440,497	3,995,908	3,153,015	2,214,818

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

(2) 2018 data consists of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income-debt instruments, financial assets at fair value through other comprehensive income-equity instruments and financial assets at amortized cost; 2014-2017 data consists of financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments and investment classified as receivables.

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

(4) In accordance with the relevant regulations under the "Notice on Amending the Format of Financial Statements for Business Enterprises in 2018" (Caikuai [2018] No.36) issued by the Ministry of Finance, the book balance of each financial instrument in 2018 consists of the corresponding assets and liabilities interest, and interest receivable and interest payable are no longer shown separately. The balance of interest receivable or interest payable shown in other assets or other liabilities are only interests due on relevant financial instruments or interest payable but not received nor paid on the date of the balance sheet. The comparison for year 2017 does not need to be adjusted.

Financial Indicators

Item	2018	2017	2016	2015	2014
Profitability (%)					
Return on average total assets[1]	**0.57**	0.55	0.51	0.51	0.55
Return on weighted average net assets[2]	**12.31**	13.07	13.44	16.98	20.70
Net interest margin[3]	**2.67**	2.40	2.24	2.78	2.92
Net interest spread[4]	**2.64**	2.46	2.34	2.71	2.87
Net fee and commission income to operating income ratio	**5.53**	5.66	6.06	4.55	3.73
Cost-to-income ratio[5]	**57.60**	64.64	66.44	60.71	60.95
Per share data (in RMB)					
Basic earnings per share[2]	**0.62**	0.59	0.55	0.61	0.69
Diluted earnings per share[2][6]	**0.62**	0.59	0.55	0.61	0.69

Item	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Asset quality (%)					
Non-performing loan ratio[7]	**0.86**	0.75	0.87	0.80	0.64
Allowance coverage ratio[8]	**346.80**	324.77	271.69	298.15	364.10
Allowance to loan ratio[9]	**2.99**	2.44	2.37	2.40	2.33
Capital adequacy ratio (%)					
Core tier 1 capital adequacy ratio[10]	**9.77**	8.60	8.63	8.53	8.44
Tier 1 capital adequacy ratio[11]	**10.88**	9.67	8.63	8.53	8.44
Capital adequacy ratio[12]	**13.76**	12.51	11.13	10.46	9.56
Risk-weighted assets to total assets ratio[13]	**45.36**	49.27	48.34	43.21	35.17
Total equity to total assets ratio	**4.99**	4.79	4.20	3.71	2.98

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

(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 taxes and surcharges) by operating income.

(6) There were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

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

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

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

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

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

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

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

Other Major Indicators

Item		Regulatory Criteria	**December 31, 2018**	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Liquidity ratio (%)[1]	RMB and foreign currency	≥25	**61.17**	42.10	38.37	33.96	43.66
Percentage of loans to the largest single customer (%)[2]		≤10	**29.78**	35.04	44.34	73.70	114.87

Item		December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Loan migration ratio (%)	Normal	**1.24**	1.61	1.58	2.15	1.83
	Special mention	**25.01**	21.39	12.95	6.53	3.84
	Substandard	**75.09**	92.74	88.37	87.94	92.66
	Doubtful	**83.55**	88.95	80.28	81.94	91.45

(1) Liquidity ratio = current assets/current liabilities × 100%. Current assets include cash, gold, surplus deposit reserve, net placements and deposits with banks and other financial institutions due within one month, interest receivables and other payment receivables due within one month, eligible loans due within one month, bond investments due within one month, bond investments able to be liquidated at any time in domestic or international secondary markets and other assets able to be liquidated within one month (excluding non-performing portion of such assets). Current liabilities include demand deposits (excluding fiscal deposits), fixed time deposits due within one month (excluding fiscal deposits), net placement and deposits from banks and other financial institutions due within one month, issued bonds due within one month, interests payables and all kinds of payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(2) Percentage of loans to the largest single customer = total loans to the largest customer/net capital × 100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2018, China Railway Corporation was the Bank's largest single borrower, and the outstanding loan balance with China Railway Corporation was RMB176,803 million, accounting for 29.78% of the Bank's net capital. The credit the Bank extended to China Railway Corporation includes RMB240.0 billion which the Bank historically provided to it and was approved by the CBIRC. As of December 31, 2018, the outstanding loan balance under such credit approved by the CBIRC for China Railway Corporation was RMB165.0 billion. After deduction of this RMB165.0 billion, the Bank's balance of loans to China Railway Corporation represented 1.99% of the Bank's net capital.

Item		2018	2017	2016	2015	2014
Credit Rating	Standard & Poor's	**A(stable)**	A(stable)	–	–	–
	Moody's Investors Service	**A1(stable)**	A2(positive)	–	–	–
	Fitch Ratings	**A+(stable)**	A+(stable)	–	–	–
	CCXI	**AAA**	AAA	AAA	AAA	–

Ranking

The Banker

Ranked 21st in terms of total assets among Top 1000 World Banks 2018

Forbes

Ranked 56th among the World's 2000 Biggest Public Companies 2018

The Fortune

Ranked 37th in terms of operating income among The Fortune's China Top 500 Companies

Awards

Awards	Issued by
"Compliance Management System" was awarded the second prize of 2017 Bank Technology Development Award	People's Bank of China
The "Research on the applied studies on the application of Autonomous and Controllable Open Source PostgreSQL Distributed Database in financial industry" was awarded A Class Achievement of 2018 Banking Information and Technology Risk Management Research Project.	CBIRC
25 Years of Informatization Development Award of State Golden Card Project	State Golden Card Project Coordination Leading Group Office
China Banking Association Best Intermediate Businesses Social Contribution Award	China Banking Association
Best Livelihood Finance Award of 2017	China Banking Association
Excellent Proprietary Trading Institution Award	China Central Depository & Clearing Co. Ltd.
Excellent Comprehensive Market Making Institution on Interbank Bond Market of 2017	National Association of Financial Market Institutional Investors
Excellent Unsecured Bond Market Maker on Interbank Bond Market of 2017	National Association of Financial Market Institutional Investors
Excellent Enterprise for Sustainable Information Disclosure	The Chinese Institute of Business Administration Beijing Rongzhi Institute of Corporate Social Responsibility

Awards	Issued by
"Postal Savings Bank of China Mobile Banking 4.0" was awarded the Annual Excellent Financial Product Award	China International Exhibition on Financial Banking Technology & Equipment Organizing Committee of China International Financial Service Exhibition
Best Listed Company Award	China Financial Market Magazine
Best Retail Bank	International Finance Magazine
Best Retail Bank for Inclusive Finance	Asiamoney
Best Transaction Bank for Electronic Banking Services	Asiamoney
Listed Company with the Best Brand Value	China Securities Golden Bauhinia Awards Committee
Professional Retail Banking Service Award	Hong Kong Commercial Daily
Best Risk Management Bank of the Year	Financial Times
Best Green Financial Service Bank of the Year	Financial Times
Best Community Service Bank of the Year 2017	The Chinese Banker
Golden Financial Management Award for Excellent Asset Management Bank of the Year	Shanghai Securities News
2018 Junding Award for Excellent Bank Wealth Management Brand in China	Securities Times
2018 Evergreen Award for Credit Card Bank with the Most Growth Potential of the Year	Caijing Magazine
Bank of Inclusive Finance of the Year	The Economic Observer
Consumer Finance Bank Award of the Year 2018	21st Century Media

Awards	Issued by
Asian Excellent Retail Bank of the Year 2018	21st Century Media
Excellent Bank Wealth Management Brand of the Year	National Business Daily
Best Enterprise of Sustainable Development of the Year 2018	Southern Weekly
Outstanding State-owned Commercial Bank with Competitiveness	China Business Journal
Best Contribution Award for Financial Poverty Alleviation	Sina Finance
2017 Most Influential Commercial Bank	Ifeng.com
Best Bank in Social Responsibility Performance	Eastmoney.com
Outstanding Asset Custody Bank Award	JRJ.com
Outstanding Chinese-funded Bank Brand Award	JRJ.com
Outstanding Mobile Bank Award	JRJ.com
Outstanding Small and Micro Scale Enterprises Financial Services Award	JRJ.com

Message from the Board of Directors and Senior Management

"Great things are started with dreams, built on innovation and achieved with action". The year of 2018 marks the first year for the implementation of the spirit of the 19th National Congress of the Communist Party of China and also the 40th anniversary of reform and opening up. It is also a critical year for securing a decisive victory in building a moderately prosperous society in all respects, and for further implementation of the "13th Five-Year Plan". Faced with the complex operating environment during the year, PSBC adhered to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. By keeping the main responsibility of serving the real economy in mind, sticking to the main focus of fighting against the "three critical battles", and staying on the main route of promoting supply-side structural reform, the Bank worked hard with unity to deliver excellent results.

The year of 2018 was a year for great success in operating efficiency. The size of total assets and the size of total liabilities of the Bank reached RMB9.52 trillion and RMB9.04 trillion respectively; operating income amounted to RMB261,245 million, a year-on-year growth of 16.18%; and the net profit was RMB52,384 million, a year-on-year growth of 9.80%. The Bank attached great importance to the return on shareholders' value. The indicators such as return on total assets, net interest margin, capital adequacy ratio and cost to income ratio were further enhanced, indicating better profitability and stronger value creation capability. The Bank has been awarded outstanding ratings by the three major international rating agencies. It ranked 21st among the The Banker's list of "Top 1000 World Banks 2018" in terms of total assets, playing an increasingly important role in the reform and development of China's financial industry.

The year of 2018 was a remarkable year for serving the real economy. Following the national strategies, the Bank has continuously improved its capacity for financial services provision and steadily developed its businesses according to the general requirements of "serving the real economy via financial services". Total loans to customers amounted to RMB4.28 trillion, representing an increase of RMB646,730 million compared with the prior year-end. We are devoted to supporting the strategy of rural vitalization. The balance of agriculture-related loans was RMB1.16 trillion, representing an increase of RMB107,286 million compared with the prior year-end. We actively supported the development of private enterprises and small and micro enterprises. The number of inclusive corporate loans to small and micro enterprises was 1,457,700, with a balance of RMB544,992 million, ranking among the highest in the industry. We helped to win the targeted battle against poverty. The balance of poverty alleviation loans (including loans to those already out of poverty) was RMB93,858 million, representing an increase of RMB32,294 million or 52.46% compared with the prior year-end. In order to satisfy the demand for financial services of the masses of the people, our loan officers traveled house-to-house to provide funding support to those striving for an entrepreneurial dream. The balance of personal operational loans amounted to RMB557,126 million while the average size of each micro loan was RMB78,100, showing our sincere support to farmers and micro businesses. We helped to realize the dream of better lives for the hard-working people. The balance of residential mortgage loans of the Bank was RMB1.42 trillion. The number of residential loans provided was 850,000 in 2018, with the average size of each loan amounting to RMB470,000, serving the rigid housing demand effectively. The Bank supported the coordinated development of Beijing-Tianjin-Hebei region, the Belt and Road Initiative and the development of the Yangtze River Economic Belt, with loans exceeding RMB650,000 million. We continued to promote the development of green finance. The proportion of green credit balance of the Bank was higher than the average of the industry.

The year of 2018 was a year with significantly enhanced risk control ability. We resolutely implemented the decisions and arrangements of the Party Central Committee and the State Council on prevention and defusion of financial risks. We effectively consolidated the foundation of internal control and compliance management, established and improved the risk monitoring and early warning working mechanism, and formulated a three-year plan on preventing and mitigating major risks. We intensively carried out rectification of irregularities in the banking industry, paid close attention to asset quality control, obtained a clear and comprehensive picture of the risk profile, and handled and resolved major risks in timely manner. As of the end of the reporting period, the Bank's balance of non-performing loans was RMB36,888 million, the non-performing loan ratio was 0.86% and the allowance coverage ratio was 346.80%. The asset quality of the Bank maintained an industrial leading position. The capital adequacy ratio reached 13.76%, representing an increase of 1.25 percentage points from the prior year-end, and the ability of risk offsetting was further enhanced.

Looking back on the 40 years of reform and opening up, China has been the most important engine for the growth of the world economy. Looking forward to the future with both opportunities and challenges, China is recognized as the world leader in the world economy. At present, the uncertainty of the international economic and financial situation has increased, and the domestic economic structure has been deeply adjusted. The entire banking industry is undergoing an unprecedented and profound transformation. China's financial development is facing a lot of risks and challenges. The smart observes the trend, the wise follows the trend. Those who can follow the law of historical progress and grasp the development trend of the era are the ones who can dance in the wind of reform while going with the flow.

A momentous change was made after 10 years of development and decades of experience. The postal remittance services were introduced in 1898, and then the postal savings business in 1919. After all these years, from the philosophy of "working on the trivial work even others despise; working towards stability rather than big profits" to "serving the real economy and improving people's life", the genes of inclusive finance are deeply rooted in the Bank. We will always remember our original aspirations. The year of 2019 is the 100th anniversary of our postal savings business. While striving to realize the Chinese Dream of great rejuvenation of the Chinese nation, PSBC is growing into the backbone of China's financial system and has become one of the large state-owned commercial banks. In the new year, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will adhere to the main route of transformation and development, consolidate the advantages of county-level outlets and create a strategic pattern with urban and rural areas as the two wheels driving development. We will adhere to the three major positionings of serving the community, small and medium-sized enterprises and Sannong customers, strengthen the four pillars of headquarters leadership, risk management, information technology and talent team, promote five transformations of specialized, comprehensive, light, intelligent and intensive management transformations, and strive to become "the most trusted and valuable large-scale retail commercial bank".

We will adhere to the foundation of serving the real economy. The Bank will promote the supply-side structural reform, utilize the advantages of our funds and channels, and continuously increase its support for the national economy. We will bear in mind the central government's instruction of fully supporting the strategy of rural vitalization, and accelerate the exploration of a distinctive and commercially-sustainable Sannong finance development path. With the help of nearly 40,000 outlets throughout the urban and rural areas, we will seize the market opportunity of consumption upgrading in County Areas, allocate more financial resources to the key areas and weak links of economic and social development, and provide basic financial services with quality to one-third of China's population. In accordance with the idea of "increasing quantity and reducing costs", we will increase support for private and small and micro enterprises, and increase the proportion of credit for private and small and micro enterprises.

We will continue to regard risk prevention as the lifeblood of business development. The Bank will stick to a prudent risk appetite and provide guarantee for the sustainable growth of shareholder value. We will adhere to the bottom-line thinking, enhance the awareness of unexpected development, deepen the full range, whole process and all staff risk management system, improve the “three lines of defense” consisting of business management, risk compliance and internal audit, strengthen the internal control system of the tier-2 branches or below and tighten the internal control network to its maximum level. We will strengthen the construction of a long-term mechanism for risk management and control, pay close attention to financial technology, and strengthen intelligent risk control. We will focus on key industries, regions, products and customers, strengthen risk prevention and control in key areas and firmly hold the bottom line of systemic risks.

We will stick to the reform and innovation as the source of sustainable development. With intelligent, light and digitized transformation becoming the direction of financial industry transformation, the Bank is aware that time and tide wait for no man and embarks on a fast lane of reform. As technology empowers us with inexhaustible force, we will understand the changes, respond to them and even seek for them actively. We will consolidate our advantages, strengthen points of weakness and realize “connected, shared, intelligent, and innovative” development. We will accelerate the pace of digitization, increase investment in information technology, increase the proportion of independently researched and developed software, and achieve rapid improvement of information technology application capabilities. The Bank will deepen the application of big data, build an integrated information technology system, promote the development of science and technology and improve the level of information technology management. With the goal of improving customer experience and increasing outlet capacity, we will make systemic and forward-looking plan for the network transformation, increase the promotion and application of smart devices and new technologies and support the transformation and upgrading of outlets.

We will insist on creating a distinctive competitiveness in an open and collaborative way. The Bank has the largest physical network. In the era of mobile internet, only openness and collaboration will enable co-existence and common prosperity. The Bank will leverage the resource advantages of the China Post Group to promote efficient synergy and achieve the three-in-one effect of information, goods and capital flow. With an open mind and cooperation with all parties, we will continue to deepen cooperation with strategic investors, innovate a new model of cooperation with Internet enterprises, and carry out “head-to-head” cooperation with large-scale and high-quality core enterprises to create open banking and realize seamless integration between online and offline channels and between financial products and the actual scenarios, effectively transforming the network advantage into a competitive advantage.

We will adhere to the professional value to achieve long-term success. Our employees are the builders and pioneers of the business of PSBC. They are our most valuable assets and the fundamental guarantee for the long-term success of the PSBC. The Bank will aim at high quality and professionalism, firmly establish the philosophy of gathering, motivating and empowering our employees, and build a career development platform that allows employees to contribute with their talents, improve themselves and be well motivated. We will strengthen the capacity building of the headquarters from two aspects: organizational structure optimization and the improvement in the quality, quantity and structure of employees. We will improve the incentive system based on job value assessment and performance appraisal with market competitiveness, and create a good atmosphere for attracting, retaining, utilizing and creating talents, so that the vitality of talents can be fully realized.

A new chapter of the century-old PSBC is about to unfold. The Bank will adhere to the new development concept, bear the responsibility as a large state-owned bank, open up a new situation of high-quality development, make due contributions to deepening the supply-side structural reform of the financial industry, and present our outstanding achievements as a gift for the 70th anniversary of the founding of the People’s Republic of China.

Environment and Prospect

In 2018, the momentum of global economic recovery weakened and the performance of economies was diverging. The US economy was relatively strong, with slightly-rising inflation and low unemployment rate; the Eurozone economic recovery slowed down but the employment situation continued to improve; Japan's economic growth slowed down and then stabilized, but the investment willingness of enterprises was insufficient and inflation remained weak; emerging market economies were characterized by an overall rapid growth and a continuation of internal differentiation, while financial markets in some emerging market economies once again went turbulent. Looking forward to 2019, protectionism and unilateralism are mounting and there are drastic fluctuations in the prices of commodities on the international market. Instability and uncertainty are increasing significantly, and the downside risk to the global economy is increasing as well. In January 2019, the International Monetary Fund (IMF) adjusted its forecast for world economic growth for 2019 from 3.7% to 3.5%, the lowest in three years.

In 2018, the Chinese economy achieved generally stable growth, the three critical battles got off to a good start, the supply-side structural reform was further advanced, the Sino-US economic and trade frictions were handled prudently, and the economic operational resilience was strong. Economic structure was further improved, consumption continued to play a bigger role in driving economic growth, investment in manufacturing and private investment rebounded markedly, employment achieved stable and positive performance, consumer prices remained stable, and new breakthroughs were made in reform and opening up. The prudent monetary policy resulted in better effectiveness, with the liquidity in the banking system being reasonable and sufficient, and the one-year fixed interest rate of the money market traveling downward in general. Macro leverage ratio tended to be stabilized. Rectification of irregularities in the banking market was further deepened. Major potential risks were effectively managed and controlled. The risk compensation and offsetting ability of the banking industry was enhanced.

Looking forward to 2019, the long-term upward trend of economy in China will remain unchanged. New urbanization, rural revitalization, high-end manufacturing and domestic demand expansion still have a greater space for development, which will provide a great development opportunity for the banking industry. The prudent monetary policy with an appropriate amount of intensity will be adopted with appropriate money supply and improved transmission mechanism via the flexible use of monetary tools, which will provide reasonable and sufficient liquidity for the banking system to serve the real economy while supporting structural deleveraging, and preventing and mitigating financial risks. The regulatory authorities will further rectify financial market irregularities, and promote business compliance and positive development of the banking industry. At the same time, facing the complex and severe external environment and downward pressure on the Chinese economy, the banking industry is required to deepen the supply-side reform, enhance the capabilities of financial support for the real economy, in order to form a virtuous cycle between finance and real economy.

In 2019, PSBC will be guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, continue to adhere to the general principle of "making progress while maintaining stability" and implement the decisions and plans made by the Party Central Committee and the State Council comprehensively. It will adhere to the new development concept, unwaveringly serve the real economy, prevent risks in financial sector, promote transformation and upgrading, and continue to deepen reforms and improve the quality of development.

First, we will stay committed to serving the real economy and shoulder the political responsibilities of a large state-owned bank. We will step up support for Sannong, small and micro businesses and private economy, fully achieve national strategies and contribute to the targeted poverty alleviation and anti-pollution campaigns. Second, we will accelerate business transformation and upgrading as well as improve the quality of development. We will accelerate the transformation of our retail business into an intelligent, intensive and comprehensive one, explore the potentials of corporate business, promote higher refinement in our treasury business, and strengthen the innovation of our fee-and-commission-based services. Third, we will accelerate technological empowerment and build a digitalized bank. Under the guidance of IT planning and taking the next generation of information technology applications as a starting point, we will accelerate the digital transformation and improve the capabilities of technology in supporting operations and management. Fourth, we will strengthen risk management and resolutely fight against material risks. We will improve the comprehensive, full-process risk management that covers all employees, strengthen the development of "three lines of defense", enhance the building of the accountability and compliance culture, push forward with the intelligent risk control and improve the capability of risk management and control.

Analysis of Financial Statements

Analysis of Comprehensive Income Statement

In 2018, under a complex and ever-changing economic and financial environment, the Bank stuck to the strategic positioning of a large retail commercial bank, supported the real economy, fulfilled the regulatory requirements, deepened reform and strictly controlled risks with sound overall development. In 2018, the earnings of the Bank grew stably, recording a net profit of RMB52,384 million, representing an increase of RMB4,675 million, or 9.80% compared with the same period of the prior year; operating income totaled RMB261,245 million, representing an increase of RMB36,381 million, or 16.18% compared with the same period of the prior year.

Changes of Principal Components in the Comprehensive Income Statement

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Change (%)
Net interest income	**234,122**	188,115	46,007	24.46
Net fee and commission income	**14,434**	12,737	1,697	13.32
Other non-interest income	**12,689**	24,012	(11,323)	(47.16)
Operating income	**261,245**	224,864	36,381	16.18
Less: Operating expenses	**152,324**	147,016	5,308	3.61
Impairment losses on assets	**55,434**	26,737	28,697	107.33
Profit before income tax	**53,487**	51,111	2,376	4.65
Less: Income tax expenses	**1,103**	3,402	(2,299)	(67.58)
Net profit	**52,384**	47,709	4,675	9.80
Attributable to shareholders of the Bank	**52,311**	47,683	4,628	9.71
Attributable to non-controlling interests	**73**	26	47	180.77
Other comprehensive income	**3,979**	(5,114)	9,093	–
Total comprehensive income	**56,363**	42,595	13,768	32.32

Net interest income

During the reporting period, the Bank's net interest income was RMB234,122 million, representing an increase of RMB46,007 million, or 24.46% compared with the same period of the prior year. The Bank’s net interest margin and net interest spread were 2.67% and 2.64% respectively, representing an increase of 27 basis points and 18 basis points compared with the same period of the prior year. The Bank continued to optimize its asset and liability structure, strengthened interest rate control, and further increased the proportion of high-yield assets. The yield of interest-earning assets increased steadily, and the cost of interest-bearing liabilities was well controlled.

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

In millions of RMB, except for percentages

Item	2018 Average balance	2018 Interest income/ expense	2018 Average yield/ cost (%)	2017 Average balance	2017 Interest income/ expense	2017 Average yield/ cost (%)
Assets						
Total loans to customers	3,990,665	197,752	4.96	3,283,007	160,981	4.90
Investment(1)	2,783,229	110,185	3.96	2,567,565	95,259	3.71
Deposits with central bank(2)	1,212,556	19,643	1.62	1,313,179	21,258	1.62
Deposits and placements with banks and other financial institutions(3)	788,905	32,586	4.13	673,594	27,787	4.13
Total interest-earning assets	8,775,355	360,166	4.10	7,837,345	305,285	3.90
Allowance for impairment losses on assets	(115,022)	–	–	(59,583)	–	–
Non-interest earning assets(4)	579,069	–	–	818,652	–	–
Total assets	9,239,402	–	–	8,596,414	–	–
Liabilities						
Customer Deposits	8,337,560	117,836	1.41	7,806,534	107,797	1.38
Deposits and placements from banks and other financial institutions(5)	215,010	5,149	2.39	274,339	6,549	2.39
Debt securities issued(6)	75,911	3,059	4.03	70,479	2,824	4.01
Total interest-bearing liabilities	8,628,481	126,044	1.46	8,151,352	117,170	1.44
Non-interest bearing liabilities(7)	168,485	–	–	180,630	–	–
Total liabilities	8,796,966	–	–	8,331,982	–	–
Net interest income	–	234,122	–	–	188,115	–
Net interest spread(8)	–	–	2.64	–	–	2.46
Net interest margin(9)	–	–	2.67	–	–	2.40

(1) 2018 data consists of interest-earning assets in financial assets at fair value through other comprehensive income and financial assets at amortized cost; 2017 data consists of interest-earning assets in 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 and surplus deposit reserves.

(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) 2018 data consists of financial assets at fair value through profit or loss, cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred income tax assets and other assets; 2017 data consists of financial assets at fair value through profit or loss and non-interest earning assets from available-for-sale financial assets, cash, property and equipment, derivative financial assets, interest receivables, receivables and temporary payments, deferred income 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 and interbank certificates of deposits.

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

(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.

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

In millions of RMB

Item	2018 vs 2017 Increase/(decrease) Volume[1]	Interest Rates[2]	Total[3]
Assets			
Total loans to customers	35,067	1,704	36,771
Investment	8,538	6,388	14,926
Deposits with central bank	(1,630)	15	(1,615)
Deposits and placements with banks and other financial institutions	4,763	36	4,799
Changes in interest income	46,738	8,143	54,881
Liabilities			
Customer Deposits	7,505	2,534	10,039
Deposits and placements from banks and other financial institutions	(1,421)	21	(1,400)
Debt securities issued	219	16	235
Changes in interest expense	6,303	2,571	8,874
Changes in net interest income	40,435	5,572	46,007

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

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

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

Interest Income

During the reporting period, the Bank's interest income amounted to RMB360,166 million, representing an increase of RMB54,881 million, or 17.98% compared with the same period of the prior year, primarily due to the increase in the average balance of interest-earning assets such as total loans to customers, bond investments and amounts due from banks and other financial institutions as well as the increase in the yield.

Interest Income from Loans to Customers

During the reporting period, the Bank's interest income from loans to customers amounted to RMB197,752 million, representing an increase of RMB36,771 million, or 22.84% compared with the same period of the prior year.

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	2018 Average balance	2018 Interest Income	2018 Average yield (%)	2017 Average balance	2017 Interest Income	2017 Average yield (%)
Corporate loans	1,532,947	68,746	4.48	1,256,050	55,170	4.39
Discounted bills	307,981	13,849	4.50	297,877	11,934	4.01
Personal loans	2,149,737	115,157	5.36	1,729,080	93,877	5.43
Total loans to customers	3,990,665	197,752	4.96	3,283,007	160,981	4.90

During the reporting period, the Bank's interest income from corporate loans amounted to RMB68,746 million, representing an increase of RMB13,576 million, or 24.61%, compared with the same period of the prior year. Interest income from personal loans amounted to RMB115,157 million, representing an increase of RMB21,280 million, or 22.67% compared with the same period of the prior year. The Bank kept optimizing its asset structure, prioritized the growth demand of credit assets, actively served the country's major strategies, increased credit support for the real economy, infrastructure construction and emerging strategic industries, and assisted in the transformation and upgrading of household consumption. The average balances of both corporate loans and personal loans rose rapidly.

Interest Income from Investment

During the reporting period, the Bank's interest income from investment amounted to RMB110,185 million, representing an increase of RMB14,926 million or 15.67% compared with the same period of the prior year. The Bank actively implemented regulatory requirements, continued to promote the transformation of business standardization, further reduced the scale of non-standardized business and increased bond investment. The average balance of investment increased by RMB215,664 million and the average yield of investment increased by 25 basis points.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB19,643 million, representing a decrease of RMB1,615 million, or 7.60% compared with the same period of the prior year, primarily due to a decrease of RMB100,623 million in the average balance of deposits with central bank caused by the central bank's cutting to the reserve requirement ratio in 2018.

Interest Income from Amounts Due from Banks and Other Financial Institutions

During the reporting period, the Bank's interest income from amounts due from banks and other financial institutions amounted to RMB32,586 million, representing an increase of RMB4,799 million, or 17.27% compared with the same period of the prior year. The Bank seized market opportunities to carry out the interbank financing business such as deposits and placements with banks, and the average balance of amounts due from banks and other financial institutions increased by RMB115,311 million.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB126,044 million, representing an increase of RMB8,874 million, or 7.57% compared with the same period of the prior year, primarily due to an increase in the average balance and interest rate of customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Bank's interest expense on customer deposits amounted to RMB117,836 million, accounting for 93.49% of total interest expense and representing an increase of RMB10,039 million, or 9.31% compared with the same period of the prior year, primarily due to an increase of RMB531,026 million in the average balance of customer deposits of the Bank and the increase of 3 basis points in the average cost caused by intensified deposit competition.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

	2018			2017		
Item	**Average balance**	**Interest expense**	**Average cost (%)**	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	**383,964**	**8,122**	**2.12**	359,633	7,796	2.17
Demand	**825,342**	**8,146**	**0.99**	798,080	5,310	0.67
Subtotal	**1,209,306**	**16,268**	**1.35**	1,157,713	13,106	1.13
Personal deposits						
Time	**4,630,411**	**93,819**	**2.03**	4,305,472	87,450	2.03
Demand[(1)]	**2,497,843**	**7,749**	**0.31**	2,343,349	7,241	0.31
Subtotal	**7,128,254**	**101,568**	**1.42**	6,648,821	94,691	1.42
Total customer deposits	**8,337,560**	**117,836**	**1.41**	7,806,534	107,797	1.38

(1) Inclusive of credit card deposits.

Interest Expense on Amounts Due to Banks and Other Financial Institutions

During the reporting period, the Bank's interest expense on amounts due to banks and other financial institutions amounted to RMB5,149 million, representing a decrease of RMB1,400 million, or 21.38% compared with the same period of the prior year. This was primarily because the Bank had optimized the liability structure and the average daily balance of deposits and placements from banks and other financial institutions was further declined.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued totaled RMB3,059 million, representing an increase of RMB235 million, or 8.32% compared with the same period of the prior year.

Net Fee and Commission Income

During the reporting period, the Bank realized net fee and commission income of RMB14,434 million, representing an increase of RMB1,697 million, or 13.32% compared with the same period of the prior year. In particular, fee and commission income increased by RMB5,550 million, representing an increase of 23.53%; fee and commission expense increased by RMB3,853 million, representing an increase of 35.50%.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Change (%)
Bank cards and POS	**12,952**	10,137	2,815	27.77
Settlement and clearing	**5,985**	3,533	2,452	69.40
Wealth management business	**4,589**	4,836	(247)	(5.11)
Agency service business	**4,330**	3,847	483	12.56
Custodian business	**830**	967	(137)	(14.17)
Others	**455**	271	184	67.90
Fee and commission income	**29,141**	23,591	5,550	23.53
Less: Fee and commission expense	**14,707**	10,854	3,853	35.50
Net fee and commission income	**14,434**	12,737	1,697	13.32

During the reporting period, bank cards and POS fee income amounted to RMB12,952 million, representing an increase of RMB2,815 million, or 27.77%, compared with the same period of the prior year. This was primarily due to the rapid increase in consumption and installment amount of credit cards of the Bank which drove the increase in transaction fees. Due to the regulatory policies such as fee reduction, the debit card cross-bank and cross-region fee income decreased year-on-year.

During the reporting period, settlement and clearing fee income amounted to RMB5,985 million, representing an increase of RMB2,452 million, or 69.40% compared with the same period of the prior year, primarily due to the rapid growth of the Bank's electronic payment business.

During the reporting period, agency service fee income amounted to RMB4,330 million, representing an increase of RMB483 million, or 12.56%, compared with the same period of the prior year, primarily due to the growth of fees of its debt securities underwriting business and bancassurance business.

During the reporting period, wealth management fee income amounted to RMB4,589 million, representing a decrease of RMB247 million, or 5.11%, compared with the same period of the prior year. The custodian business fee income amounted to RMB830 million, representing a decrease of RMB137 million, or 14.17% compared with the same period of the prior year. The decrease in the fee income from wealth management and custodian business was primarily due to the influence of the new asset management rules.

During the reporting period, fee and commission expense amounted to RMB14,707 million, representing an increase of RMB3,853 million, or 35.50%, compared with the same period of the prior year, primarily due to an increase in the agency fees to China Post Group.

Other Non-Interest Income

During the reporting period, the Bank realized other non-interest income of RMB12,689 million, representing a decrease of RMB11,323 million, or 47.16% compared with the same period of the prior year.

Components of Other Non-Interest Income

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Change (%)
Net trading gains	**4,569**	1,875	2,694	143.68
Net gains on investment securities	**3,780**	22,255	(18,475)	(83.02)
Net other operating profit or loss	**4,340**	(118)	4,458	–
Total	**12,689**	24,012	(11,323)	(47.16)

During the reporting period, net trading gains amounted to RMB4,569 million, representing an increase of RMB2,694 million compared with the same period of the prior year, primarily due to an increase in the trading gains and valuation gains of interbank certificates of deposits and debt securities business, as well as the impact caused by the interest income arising from financial assets at fair value through profit or loss being included in investment gains since 2018 in accordance with the new financial instrument standards.

During the reporting period, net gains on investment securities amounted to RMB3,780 million, representing a decrease of RMB18,475 million compared with the same period of the prior year, primarily due to a decrease in the scale of interbank investment business as well as a decrease in the valuation gains.

During the reporting period, net other operating profit or loss amounted to RMB4,340 million, representing an increase of RMB4,458 million compared with the same period of the prior year, primarily due to an increase in the exchange gains.

Operating Expenses

In 2018, the Bank strictly controlled its costs, established a sound cost benchmark system and fully implemented the plan targeting difficulties in cost management. During the reporting period, the cost-to-income ratio was 57.60%, representing a decrease of 7.04 percentage points compared with the same period of the prior year.

During the reporting period, the Bank's operating expenses totaled RMB152,324 million, representing an increase of RMB5,308 million, or 3.61% compared with the same period of the prior year. Among which, deposit agency fee costs and others increased by RMB4,215 million, or 6.13% compared with the same period of the prior year, primarily due to the rapid increase in the balance of customer deposits taken through agency outlets; staff costs amounted to RMB44,920 million, representing an increase of RMB3,108 million, or 7.43% compared with the same period of the prior year; other expenses decreased by RMB3,820 million, representing a decrease of 53.91% compared with the same period of the prior year, primarily because the Bank prudently established accruals considering legal proceedings and lawsuits last year.

Major Composition of the Operating Expenses

In millions of RMB, except for percentages

Item	2018	2017	Increase/ (decrease)	Change (%)
Deposit agency fee costs and others	**73,012**	68,797	4,215	6.13
Staff costs	**44,920**	41,812	3,108	7.43
General operating and other administrative expenses	**24,673**	23,103	1,570	6.80
Depreciation and amortization	**4,610**	4,556	54	1.19
Taxes and surcharges	**1,843**	1,662	181	10.89
Others	**3,266**	7,086	(3,820)	(53.91)
Total operating expenses	**152,324**	147,016	5,308	3.61
Cost-to-income ratio (%)(1)	**57.60**	64.64	(7.04)	–

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

Impairment Losses on Assets

During the reporting period, the Bank's impairment losses of asset amounted to RMB55,434 million, representing an increase of RMB28,697 million compared with the same period of the prior year, which was mainly because the Bank strengthened risk management in key areas based on its consistently prudent and stable credit risk management policy, and because the Bank became more proactive and forward-looking in the measurement of impairment allowances due to the implementation of the new financial instrument standards.

Income Tax Expenses

During the reporting period, the income tax expenses of the Bank amounted to RMB1,103 million, representing a decrease of RMB2,299 million compared with the same period of the prior year. This was mainly affected by the income tax reduction and exemption for the interest income from government bonds, local government bonds, railway bonds, long-term special financial bonds, and micro loans to farmers and small and micro enterprises, etc., as well as the dividends of securities investment funds.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

	2018		2017	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Personal banking	**163,611**	**62.63**	148,539	66.06
Corporation banking	**55,757**	**21.34**	43,102	19.17
Treasury business	**41,487**	**15.88**	32,800	14.59
Others	**390**	**0.15**	423	0.18
Total operating income	**261,245**	**100.00**	224,864	100.00

For further details of business scope of each segment, please refer to "Notes to the Consolidated Financial Statements — 43.1 Business segment".

Operating Income by Geographical Region

In millions of RMB, except for percentages

	2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**40,166**	**15.37**	31,498	14.01
Yangtze River Delta	**32,477**	**12.43**	28,223	12.55
Pearl River Delta	**28,384**	**10.86**	22,741	10.11
Bohai Rim	**33,049**	**12.65**	28,538	12.69
Central China	**63,273**	**24.22**	55,316	24.60
Western China	**47,331**	**18.12**	42,864	19.06
North-eastern China	**16,565**	**6.35**	15,684	6.98
Total operating income	**261,245**	**100.00**	224,864	100.00

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Bank's total assets amounted to RMB9,516,211 million, representing an increase of RMB503,660 million, or 5.59% compared with the prior year-end. In particular, total loans to customers increased by RMB646,730 million, representing an increase of 17.82% compared with the prior year-end. Investments instruments increased by RMB220,454 million, representing an increase of 6.96% compared with the prior year-end. Cash and deposits with central bank decreased by RMB209,027 million, representing a decrease of 14.80% compared with the prior year-end. Deposits and placements with banks and other financial institutions decreased by RMB186,784 million, representing a decrease of 30.48% compared with the prior year-end. Financial assets held under resale agreements increased by RMB97,713 million, representing an increase of 68.82%, compared with the prior year-end.

In terms of asset structure, net loans to customers accounted for 43.60% of the total assets, representing an increase of 4.30 percentage points compared with the prior year-end; investments instruments accounted for 35.60% of the total assets, representing an increase of 0.46 percentage points compared with the prior year-end; cash and deposits with central bank accounted for 12.64% of the total assets; deposits and placements with banks and financial assets held under resale agreements accounted for 6.99% of the total assets.

Key Items of Assets

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Total loans to customers	**4,276,865**	**–**	3,630,135	–
Less: Allowance for impairment losses on loans	**127,327**	**–**	88,564	–
Loans to customers, net	**4,149,538**	**43.60**	3,541,571	39.30
Investments instruments	**3,387,487**	**35.60**	3,167,033	35.14
Cash and deposits with central bank	**1,202,935**	**12.64**	1,411,962	15.67
Deposits with banks and other financial institutions	**140,351**	**1.47**	296,758	3.29
Placements with banks and other financial institutions	**285,622**	**3.00**	315,999	3.51
Financial assets held under resale agreements	**239,687**	**2.52**	141,974	1.58
Other assets[1]	**110,591**	**1.17**	137,254	1.51
Total Assets	**9,516,211**	**100.00**	9,012,551	100.00

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

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB4,276,865 million, representing an increase of RMB646,730 million, or 17.82% compared with the prior year-end.

Distribution of Loans to Customers by Business Line

In millions of RMB, except for percentages

	December 31, 2018		December 31, 2017	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	**1,552,402**	**36.30**	1,391,901	38.34
Discounted bills	**404,623**	**9.46**	291,761	8.04
Personal loans	**2,319,840**	**54.24**	1,946,473	53.62
Total loans to customers	**4,276,865**	**100.00**	3,630,135	100.00

As of the end of the reporting period, the Bank's total corporate loans amounted to RMB1,552,402 million, representing an increase of RMB160,501 million, or 11.53%, compared with the prior year-end. The Bank actively supported major national projects and industries such as the new energy and high-end equipment manufacturing industry. It constantly improved its financial services to emerging strategic industries, consistently practiced inclusive finance and provided strong support for major livelihood projects including transportation and water conservancy.

As of the end of the reporting period, the Bank's total discounted bills amounted to RMB404,623 million, representing an increase of RMB112,862 million, or 38.68% compared with the prior year-end, primarily because the Bank proactively supported development of private enterprises, and effectively meet the credit needs of SMEs.

As of the end of the reporting period, the Bank's total personal loans amounted to RMB2,319,840 million, representing an increase of RMB373,367 million, or 19.18% compared with the prior year-end. The Bank actively assisted in the transformation and upgrading of household consumption, continued to step up its input in credit card business and focused on the support to residents' demand for self-occupied housing. Moreover, it resolutely implemented the work plan of the CPC Central Committee and the State Council in supporting the rural revitalization strategy, serving the real economy and targeted poverty alleviation via financial services, increasing fund support for personal business loans and micro loans.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Transportation, storage and postal services	**418,878**	**26.99**	382,006	27.45
Manufacturing	**240,122**	**15.47**	223,037	16.02
Financial services	**192,527**	**12.40**	169,855	12.20
Production and supply of electricity, heating, gas and water	**191,948**	**12.36**	188,518	13.54
Wholesale and retail	**88,551**	**5.70**	79,602	5.72
Leasing and commercial services	**86,909**	**5.60**	58,426	4.20
Construction	**82,399**	**5.31**	60,851	4.37
Water conservancy, environmental and public facilities management	**76,810**	**4.95**	82,676	5.94
Real estate	**56,345**	**3.63**	45,788	3.29
Mining	**56,100**	**3.61**	48,403	3.48
Other industries[1]	**61,813**	**3.98**	52,739	3.79
Total	**1,552,402**	**100.00**	1,391,901	100.00

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

As of the end of the reporting period, the top five industries to which the Bank extended corporate loans were transportation, storage and postal services; manufacturing; financial services; production and supply of electricity, heating, gas and water; and wholesale and retail. The balance of loans extended to the top five industries accounted for 72.92% of total corporate loans, representing a decrease of 2.23 percentage points compared with the prior year-end.

Distribution of Personal Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Consumer loans				
Residential mortgage loans	**1,417,898**	**61.12**	1,155,176	59.35
Other consumer loans	**275,544**	**11.88**	256,185	13.16
Personal business loans	**349,434**	**15.06**	300,990	15.46
Personal micro loans	**177,651**	**7.66**	156,427	8.04
Credit cards overdrafts and others	**99,313**	**4.28**	77,695	3.99
Total personal loans	**2,319,840**	**100.00**	1,946,473	100.00

As of the end of the reporting period, the Bank's personal loans increased by RMB373,367 million, or 19.18% compared with the prior year-end.

The Bank implemented regulatory requirements on the real estate market and implemented differentiated housing credit policy to support residents' reasonable demand for self-occupied housing. As of the end of the reporting period, the balance of the Bank's residential mortgage loans was RMB1,417,898 million, representing an increase of RMB262,722 million, or 22.74% compared with the prior year-end.

The Bank further explored the diversified consumption needs of residents and accelerated the transformation and upgrading of household consumption. As of the end of the reporting period, the balance of the Bank's other consumer loans was RMB275,544 million, representing an increase of RMB19,359 million, or 7.56% compared with the prior year-end.

The Bank fully supported the development of small and micro enterprises, individual business owners, emerging forms of agribusiness and small farmers. As of the end of the reporting period, the balance of the Bank's personal business loans was RMB349,434 million, representing an increase of RMB48,444 million, or 16.09% compared with the prior year-end. The balance of personal micro loans was RMB177,651 million, representing an increase of RMB21,224 million, or 13.57% compared with the prior year-end.

Distribution of Customer Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Central China	**1,030,335**	**24.09**	838,929	23.10
Yangtze River Delta	**796,752**	**18.63**	651,145	17.94
Western China	**766,342**	**17.92**	662,034	18.24
Bohai Rim	**649,228**	**15.18**	559,898	15.42
Pearl River Delta	**479,018**	**11.20**	400,766	11.04
North-eastern China	**284,714**	**6.66**	260,865	7.19
Head Office	**270,476**	**6.32**	256,498	7.07
Total loans to customers	**4,276,865**	**100.00**	3,630,135	100.00

Investments instruments

Investments instruments are one of the major components of the Bank's assets. In 2018, the Bank actively responded to the regulatory and market changes, reasonably controlled the pace of investment and continuously optimized its investment portfolio. As of the end of the reporting period, the Bank's investments instruments amounted to RMB3,387,487 million, representing an increase of RMB220,454 million, or 6.96% compared with the prior year-end, and accounting for 35.60% of the Bank's total assets.

Investment Structure by Type of Investments Instruments

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Debt instruments	**3,384,844**	**99.92**	2,727,563	86.12
Equity instruments	**2,643**	**0.08**	439,470	13.88
Total	**3,387,487**	**100.00**	3,167,033	100.00

Distribution of Investments by Product

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Debt securities:	**2,863,403**	**84.54**	2,318,119	73.20
Government bonds	**909,939**	**26.87**	642,826	20.30
Debt securities issued by public institutions and quasi-government bonds	**52**	**0**	1,270	0.04
Debt securities issued by financial institutions	**1,846,543**	**54.52**	1,606,927	50.74
Corporate debt	**106,869**	**3.15**	67,096	2.12
Interbank certificates of deposit	**188,484**	**5.56**	85,263	2.69
Commercial bank wealth management products	**31,964**	**0.94**	292,545	9.24
Asset management plans	**84,812**	**2.50**	164,845	5.21
Trust investment plans	**110,223**	**3.25**	156,539	4.94
Securities investment funds	**102,709**	**3.03**	105,903	3.34
Others	**5,892**	**0.18**	43,819	1.38
Total	**3,387,487**	**100.00**	3,167,033	100.00

During the reporting period, the Bank further optimized the investment structure. The scale of non-standardized business such as commercial bank wealth management products continued to decline while the bond investments developed steadily. In particular, the balance of investment in debt securities issued by policy banks amounted to RMB1,701,498 million.

Distribution of Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Overdue	**70**	**0**	0	0
Within 3 months	**41,753**	**1.46**	81,357	3.51
3-12 months	**279,608**	**9.76**	109,839	4.74
1-5 years	**1,477,541**	**51.61**	1,157,497	49.93
Over 5 years	**1,064,431**	**37.17**	969,426	41.82
Total	**2,863,403**	**100.00**	2,318,119	100.00

As of the end of the reporting period, the balance of the Bank's debt securities due within 3 months decreased by RMB39,604 million compared with the prior year-end. The balance of the Bank's debt securities due within 1 to 5 years increased by RMB320,044 million compared with the prior year-end, primarily due to the adjustment on the maturity structure of debt investment and the moderate extension of the duration by the Bank.

Distribution of Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
RMB	**2,841,050**	**99.22**	2,302,166	99.31
Foreign currencies	**22,353**	**0.78**	15,953	0.69
Total	**2,863,403**	**100.00**	2,318,119	100.00

Distribution of Investments Instruments by Measurement Approach

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Financial assets at fair value through profit or loss	**341,662**	**10.09**	119,992	3.79
Financial assets at fair value through other comprehensive income	**183,903**	**5.42**	Not Applicable	Not Applicable
Financial assets at amortized cost	**2,861,922**	**84.49**	Not Applicable	Not Applicable
Available-for-sale financial assets	**Not Applicable**	**Not Applicable**	686,748	21.68
Held-to-maturity investments	**Not Applicable**	**Not Applicable**	935,735	29.55
Investment classified as receivables	**Not Applicable**	**Not Applicable**	1,424,558	44.98
Total	**3,387,487**	**100.00**	3,167,033	100.00

In accordance with the requirements in the new financial instrument standards, investments instruments of the Bank shall be classified into three categories, namely financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost based on business model and contractual cash flow.

As of the end of the reporting period, financial assets at fair value through profit or loss of the Bank amounted to RMB341,662 million, representing 10.09% of investments instruments. Financial assets at fair value through other comprehensive income amounted to RMB183,903 million, representing 5.42% of investments instruments. Financial assets at amortized cost amounted to RMB2,861,922 million, representing 84.49% of investments instruments.

The Top Ten Financial Bonds Held by the Bank

In millions of RMB, except for percentages

Debt Securities	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses[(1)]
2015 Policy Financial Bonds	86,378	3.76	August 31, 2025	–
2009 Policy Financial Bonds	50,000	2.35	September 29, 2019	–
2009 Policy Financial Bonds	50,000	2.35	November 20, 2019	–
2012 Policy Financial Bonds	49,800	2.43	June 6, 2022	–
2015 Policy Financial Bonds	49,428	4.26	September 28, 2035	–
2010 Policy Financial Bonds	46,200	2.45	February 9, 2021	–
2011 Policy Financial Bonds	40,000	3.85	December 21, 2021	–
2015 Policy Financial Bonds	32,974	4.22	September 28, 2030	–
2015 Policy Financial Bonds	30,821	4.24	October 15, 2035	–
2015 Policy Financial Bonds	29,043	3.76	August 31, 2025	–

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

Liabilities

As of the end of the reporting period, the Bank's total liabilities amounted to RMB9,040,898 million, representing an increase of RMB459,704 million, or 5.36% compared with the prior year-end. Among which, customer deposits increased by RMB564,781 million, representing an increase of 7.00% compared with the prior year-end; deposits and placements with banks and other financial institutions decreased by RMB8,061 million, representing a decrease of 6.60% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Customer Deposits	**8,627,440**	**95.43**	8,062,659	93.96
Deposits from banks and other financial institutions	**74,165**	**0.82**	48,454	0.56
Placements from banks and other financial institutions	**39,845**	**0.44**	73,617	0.86
Financial assets sold under repurchase agreements	**134,919**	**1.49**	115,143	1.34
Debt securities issued	**76,154**	**0.84**	74,932	0.87
Other liabilities[1]	**88,375**	**0.98**	206,389	2.41
Total liabilities	**9,040,898**	**100.00**	8,581,194	100.00

(1) Consists of tax payable, agency liabilities, provisions, employee benefits payable, derivative financial liabilities, settlement and clearance payables and other liabilities.

Customer Deposits

As of the end of the reporting period, the Bank's total customer deposits was RMB8,627,440 million, representing an increase of RMB564,781 million, or 7.00% compared with the prior year-end.

Distribution of Customer Deposits by Products and Customers

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Corporate deposits	**1,157,780**	**13.42**	1,199,781	14.88
Time	**386,863**	**4.48**	394,165	4.89
Demand	**770,917**	**8.94**	805,616	9.99
Personal Deposits	**7,467,911**	**86.56**	6,861,404	85.10
Time	**4,852,585**	**56.25**	4,337,973	53.80
Demand	**2,615,326**	**30.31**	2,523,431	31.30
Other deposits[1]	**1,749**	**0.02**	1,474	0.02
Total	**8,627,440**	**100.00**	8,062,659	100.00

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

During the reporting period, the Bank's core liabilities grew steadily. In terms of customer structure, the Bank's personal deposits increased by RMB606,507 million, or 8.84% compared with the prior year-end; corporate deposits decreased by RMB42,001 million or 3.50% compared with the prior year-end.

Distribution of Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Head Office	**1,107**	**0.01**	971	0.01
Yangtze River Delta	**1,256,850**	**14.57**	1,182,603	14.67
Pearl River Delta	**818,615**	**9.49**	778,234	9.65
Bohai Rim	**1,325,392**	**15.36**	1,238,415	15.36
Central China	**2,681,208**	**31.08**	2,495,542	30.96
Western China	**1,891,486**	**21.92**	1,744,067	21.63
Northeastern China	**652,782**	**7.57**	622,827	7.72
Total customer deposits	**8,627,440**	**100.00**	8,062,659	100.00

Distribution of Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Repayable on demand	**3,438,418**	**39.85**	3,374,194	41.84
Within 3 months	**1,977,228**	**22.92**	1,879,913	23.32
3-12 months	**2,350,883**	**27.25**	2,208,916	27.40
1-5 years	**860,899**	**9.98**	599,636	7.44
Over 5 years	**12**	**0**	0	0
Total	**8,627,440**	**100.00**	8,062,659	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's total shareholders' equity amounted to RMB475,313 million, representing an increase of RMB43,956 million, or 10.19% compared with the prior year-end, primarily due to an increase of net profit and other comprehensive income during the reporting period.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Share capital	**81,031**	**17.05**	81,031	18.79
Other equity instruments – preference shares	**47,869**	**10.07**	47,846	11.09
Capital reserve	**74,648**	**15.71**	74,659	17.31
Other reserves	**137,923**	**29.01**	121,126	28.07
Retained earnings	**132,933**	**27.97**	106,311	24.65
Equity attributable to shareholders of the Bank	**474,404**	**99.81**	430,973	99.91
Non-controlling interests	**909**	**0.19**	384	0.09
Total shareholders' equity	**475,313**	**100.00**	431,357	100.00

Off-Balance Sheet Items

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

The derivative financial instruments of the Bank mainly include interest rate contracts, exchange rate contracts, and others. For details of nominal amount and fair value of derivative financial instruments, please refer to "Notes to the Consolidated Financial Statements — 18 Derivative financial assets and liabilities".

The Bank's contingent liabilities and commitments mainly consist of lawsuits and claims, capital commitments, credit commitments, operating lease commitments, mortgage and pledged assets and redemption commitment for government bonds. For details of contingent liabilities and commitments, please refer to "Notes to the Consolidated Financial Statements — 41 Contingent liabilities and commitments".

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

Components of Off-Balance Sheet Commitments

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Loan commitments	**388,997**	**60.14**	429,839	66.74
Bank acceptances	**20,444**	**3.16**	32,933	5.11
Guarantees and letters of guarantee	**20,896**	**3.23**	18,593	2.89
Letters of credit	**12,100**	**1.87**	12,224	1.90
Unused credit card commitments	**204,358**	**31.60**	150,409	23.36
Total	**646,795**	**100.00**	643,998	100.00

Analysis of Cash Flow Statement

The Bank's net cash inflow from operating activities amounted to RMB184,505 million, representing an increase of RMB583,853 million compared with the same period of the prior year. It was primarily due to the decrease in deposits with central bank and deposits with banks.

Net cash outflow from investing activities amounted to RMB89,325 million. In particular, cash inflow amounted to RMB880,879 million, representing a decrease of RMB373,729 million compared with the same period of the prior year, primarily due to the decrease in cash received from disposal of investments instruments; cash outflow amounted to RMB970,204 million, representing an increase of RMB194,939 million compared with the same period of the prior year, primarily due to the increase in cash paid for investments instruments.

Net cash outflow from financing activities amounted to RMB16,863 million. In particular, cash inflow amounted to RMB8,250 million, representing a decrease of RMB60,085 million which was primarily due to the decrease in the proceeds raised from issuance of debt securities; cash outflow amounted to RMB25,113 million, representing an increase of RMB16,508 million. It was primarily due to the increase in interests paid for issued debt securities and dividends distributed during the period.

Other Financial Information

Explanation of Changes in Accounting Policies

There were changes in accounting policies during the reporting period. For details, please refer to "Notes to the Condensed Consolidated Financial Statements — 2 Significant accounting policies".

Business Overview

Personal Banking Business

The Bank had been actively promoting inclusive finance and adhering to its positioning as a large-scale retail commercial bank. Leveraging its huge customer base and extensive network, the Bank focused on the improvement of customer contribution and outlet value, so as to achieve higher quality development of personal banking business. It grasped the opportunities of rural revitalization and urbanization, improved services based on the stratification and grouping of customers and piloted the wealth management business, driving a steady growth in customers' financial assets with the Bank. In addition, the Bank strengthened the integration between business development and innovation of new financial technologies such as big data, and continued to facilitate the digitalized, scenario-based and intelligent development of credit products and services. As of the end of the reporting period, personal customers of the Bank reached 578 million, including 27,931,300 VIP customers.

Personal Loans

The Bank provides a wide variety of personal loan products, consisting of consumer loans (including residential mortgage loans and other consumer loans), personal business loans, personal micro loans, credit card overdrafts and others.

As of the end of the reporting period, the balance of the Bank's personal loans reached RMB2.32 trillion, representing an increase of RMB373,367 million, or 19.18%, compared with the prior year-end. In line with the national policies of promoting consumption and enhancing the basic role of consumption in economic development, the Bank promoted the steady development of consumer loans and contributed to the transformation and upgrading of household consumption. The balance of the Bank's consumer loans was RMB1.69 trillion, accounting for 73.00% of the total personal loans. The Bank introduced differential housing credit policy in accordance with the government's regulations and controls on the real estate market, and the balance of residential mortgage loans was RMB1.42 trillion, accounting for 83.73% of the total consumer loans. The Bank proactively took on the responsibility of providing inclusive financial services with the introduction of online college education loans granted in places of students' origin, which not only diversified its student loan products but also expanded the distribution channels of services. The Bank also increased its efforts in developing credit card business. The balance of credit card overdrafts was RMB99,313 million, representing an increase of RMB21,618 million, or 27.82% compared with the prior year-end.

The Bank fully supported the development of small and micro enterprises, individual business owners, emerging forms of agribusiness and small farmers, promoted the integration of primary, secondary and tertiary industries, and helped easing financial difficulties, lowering costs and reducing application time for private and small- and micro-sized businesses. The Bank deepened cooperation with governments, guarantee companies and insurance companies in order to reduce business risks and financing cost for customers. As of the end of the reporting period, the balance of personal business loans was RMB349,434 million, representing an increase of RMB48,444 million, or 16.09% compared with the prior year-end. The balance of personal micro loans was RMB177,651 million, representing an increase of RMB21,224 million, or 13.57% compared with the prior year-end.

Personal Deposits

During the reporting period, the Bank provided comprehensive financial services for key customer groups including migrant workers, pensioners, payroll customers, young customers, commerce and trade customers, and farmers and stockbreeders, further tapping into the growth potential of existing customers' deposits; it took the initiative to respond to market competitions, and maintained its competitiveness in the personal deposit market by measures such as increasing the issuance of large denomination certificates of deposit to individuals, introducing progressive interest-bearing products and promoting favorable interest-bearing products; it fully supported rural revitalization and consolidated deposit advantages in County Areas to lay a solid deposit foundation. As of the end of the reporting period, the balance of the Bank's personal deposits was 7,467,911 million. The Bank continued to strengthen the refined management of interest rates, and the cost of personal deposits of the Bank for the year of 2018 was 1.42%.

Bank Card Business

Debit Card

During the reporting period, the Bank issued the second generation of Serviceman Support Card. We cooperated with the Ministry of Human Resources and Social Security to promote the issuance of the third-generation Social Security Card; cooperated with the Ministry of Transport to promote the construction of Smart Transportation and vigorously promote the issuance of ETC Card. The Bank also actively carried out marketing campaigns to promote debit card consumption and enriched user-friendly and accessible payment scenarios, continuously increasing the scale and activeness of debit card consumption transactions. During the reporting period, the number of newly-issued debit cards reached 52,989,900 and the number of debit cards in circulation stood at 969 million. The amount of consumption via debit cards was RMB6.43 trillion, representing a year-on-year increase of 47.70%.

Credit Card Business

During the reporting period, the Bank continued to step up its efforts in developing credit card business, expanding its product portfolio, improving customer acquisition channels, promoting business process integration and optimization and pushing forward the healthy and rapid development of credit card business. It launched a series of new products successively, including the Year of Dog Chinese Zodiac Card, Book of Poetry Card, Youth Card, Tencent Sports Co-branded Card and the Health Volunteer Card, continuing to improve the attractiveness and benefits of its products; it executed integrated marketing efforts across lines of business to tap existing customer base and achieved satisfactory results; it optimized its online application channels, which effectively improved customer experience and allowed its customer acquisition channels to be developed continuously; it facilitated the improvement of its credit card usage environment and innovated its ways of conducting marketing activities by launching campaigns such as the Huoshan Video Clip Challenge, which allowed the scale of transaction to achieve a fast growth and the income contribution of the credit card business to increase continuously. During the reporting period, the number of newly-issued credit cards reached 7,639,100, representing a year-on-year increase of 11.17%; the number of credit cards in circulation reached 23,099,800 and the amount of consumption via credit cards was RMB774,345 million, representing a year-on-year increase of 35.86%.

Personal Settlement Business

The Bank provides collection and payment agency services and various settlement services for personal customers. The collection and payment agency services primarily include payments of payrolls, benefits and allowances, collection of utility bill payments and collection and payment of social security pensions. As a principal approach for serving retail customers, collection and payment agency services have brought the Bank a large number of customers and huge flow of funds. During the reporting period, the Bank vigorously expanded the payment and collection agency services and realized a steady growth in the transactions of such services. The transaction volume of the collection agency services was RMB800,319 million, representing a year-on-year increase of 5.43%; the transaction volume of the payment agency services was RMB3.84 trillion, representing a year-on-year increase of 19.72%. In particular, the Bank provided social security pension collection agency services of RMB53,464 million and social security pension payment agency services of RMB878,577 million. The Bank also provides personal customers with various international settlement services such as cross-border telegraphic transfer (T/T), Western Union, and MoneyGram. During the reporting period, the number of international remittance transactions for individuals was 2,369,400 with a transaction volume of USD3,175 million.

Personal Investment and Wealth Management Services

Personal Wealth Management

During the reporting period, the Bank proactively implemented regulatory requirements such as the new rules on asset management, stepped up its efforts in issuing net value products, and improved trainings for wealth management managers to advance the transformation and development of its personal wealth management business. The Bank launched holiday-limited, VIP-exclusive and new customer-targeting wealth management products on a continual basis, and lowered the minimum threshold for the purchase of wealth management products in a phased manner, thus better satisfying customers' investment needs. As of the end of the reporting period, the balance of wealth management products to retail customers was RMB723,447 million, representing a year-on-year increase of 7.25%.

Bancassurance

During the reporting period, the Bank, in line with regulatory requirements, vigorously supported the bancassurance business in going back to its fundamental purpose and focused on the development of regular-premium and protection type products. As of the end of the reporting period, the Bank had entered into partnership with 57 insurance companies on products covering life, property, health and accident insurance, etc. During the reporting period, the Bank posted total written premiums of new policies of RMB358,732 million, having the biggest market share in the bancassurance sector. In particular, the volume of regular-premium insurance was RMB51,535 million, representing a year-on-year increase of 41.64%.

Distribution of Fund Products

During the reporting period, the Bank offered automatic investment plans on favorable terms and fund subscription fee rate cuts on a continual basis, and sold fund products as an agent through multiple channels such as outlets, mobile banking and online banking. The fund distribution volume of the Bank maintained rapid growth. During the reporting period, the total volume of fund products distributed by the Bank was RMB103,310 million, representing a year-on-year increase of 16.17%.

Distribution of PRC Government Bonds

The Bank distributes PRC government savings bonds (certificate and electronic). During the reporting period, the Bank distributed 8 tranches of government savings bonds (certificate) with total sales of RMB9,902 million and 10 tranches of government savings bonds (electronic) with total sales of RMB22,944 million.

Distribution of Customer Asset Management Plans of Securities Companies

The Bank intensified its cooperation with securities companies and their subsidiaries, introducing more products and expanding its product portfolio. It acted as an agent for the sale of asset management plans through outlets, mobile banking and online banking channels to meet the diverse investment needs of customers. During the reporting period, the total sales of asset management plans by the Bank amounted to RMB30,904 million, representing a year-on-year increase of 16.88%.

Precious Metals

The Bank trades various contracts on the Shanghai Gold Exchange on behalf of customers and distributes gold and silver coins, gold and silver investment products, as well as gold and silver crafts. It also sells its own branded precious metals product "PSBC Gold Coin & Bar" and offers the automatic investment plans of gold. During the reporting period, its precious metals transactions amounted to RMB16,141 million. Through measures like marketing campaigns, the launch of series of brand products and the introduction of different types of products, the sales of physical precious metals amounted to RMB1,136 million, representing a year-on-year increase of 22.15%.

Corporate Banking

The Bank provides diversified financial products and services to its corporate customers, mainly including corporate loans, corporate deposits, as well as fee- and commission-based products and services such as settlement, cash management and investment banking services. During the reporting period, following the national strategies and insisted on to the concept of serving the real economy, the Bank continued to reinforce its customer base, vigorously pushed forward its corporate business transformation and improved its ability in providing comprehensive financial service, achieving steady development on different aspects of the corporate business. As of the end of the reporting period, the Bank had 646,900 corporate customers, representing an increase of 10,400 compared with the prior year-end.

Corporate Loans

The Bank provides corporate customers with corporate loan products such as working capital loans, fixed asset loans, trade finance and corporate loans to small enterprises. During the reporting period, the Bank actively supported major national projects, mobilized prime resources to boost the implementation of national strategies such as the "Belt and Road" initiative as well as economic restructuring and upgrading, consistently practiced inclusive finance, and provided strong support for the construction of major livelihood projects such as transportation, water conservancy, and urban underground pipe network. The Bank actively practiced the concept of green development, and constantly improved its financial services to emerging strategic industries, with a focus on industries such as the new energy and high-end equipment manufacturing industries. In addition, the Bank actively responded to the call of the national policy, formulated 20 measures to support private enterprises, persistently stepped up support for private economy such as Sannong and small and micro business, and improved financial services for large and medium-sized private enterprises in an active and prudent way. As of the end of the reporting period, the balance of the Bank's corporate loans amounted to RMB1,552,402 million, representing an increase of RMB160,501 million, or 11.53% compared with the prior year-end, with the growth rate ranking among the top in China's banking industry.

Corporate Deposits

The Bank provides time and demand deposits in Renminbi and other major foreign currencies to corporate customers. During the reporting period, the Bank, against the backdrop of the slowing down growth of the entire corporate deposits in the banking sector, boosted its efforts in corporate deposit marketing, continuously expanded its institutional deposits such as deposits from governments and social security funds, gave play to the advantages of its cash management products and accelerated the promotion of the transaction funds management mode and cross-platform integration to reduce the outflow of corporate settlement funds. During the reporting period, the average daily balance of the Bank's corporate deposits amounted to RMB1,209,306 million, representing an increase of RMB51,593 million, or 4.46%, compared with the same period of the prior year.

Settlement and Cash Management

During the reporting period, giving full play to its advantages in settlement network and supported by its comprehensive cash settlement products, the Bank customized cash management solutions to help customers manage funds effectively and reasonably, increase funds utilization rate and reduce financial risks. As of the end of the reporting period, the Bank had 180,700 contracted accounts for cash management business, representing an increase of 12,600 or 7.52% compared with the prior year-end. At the same time, the Bank designed and promoted new settlement products such as bank-enterprise direct connect, e-bidding deposit management, housing transaction funds supervision, lottery account services and MIS-POS solutions to continuously expand customer coverage and improve customer services.

Trade Finance Business

During the reporting period, based on actual situations and in line with the overall requirement of “enhancing the support of the financial sector to the real economy", the Bank kept enhancing its customer service and product sales capabilities and expanded business scale continuously. The Bank gave play to its advantages in liquidity and ratings, innovated service plans, and promoted financial services for the Belt and Road Initiative. The Bank adhered to the principle of sustainable development, expanded businesses to multiple industries in more than 20 countries and regions and successfully carried out key projects such as foreign exchange loans and overseas sovereign loans. The Bank also constantly enhanced its ability to apply new technologies to address business needs. It had developed a smart, convenient and safe blockchain forfeiting trading platform and optimized the functions of online supply chain finance platform consistently to satisfy the need of industrial transformation and upgrading of key customers, with financing services providing to nearly 1,300 suppliers of more than 50 core enterprises. During the reporting period, the Bank’s trade finance business increased by RMB399,048 million.

Investment Banking

To accelerate the transformation and upgrading of the corporate business and further increase the income from fee- and commission-based business, the Bank was dedicated to “four major areas”, including debt securities underwriting, mergers and acquisitions, corporate wealth management and financial advisory. During the reporting period, the size of debt securities underwritten by the Bank amounted to RMB108,456 million, representing a year-on-year increase of 228.65%, exceeding 200% for two consecutive years. Mergers and acquisitions loans increased by RMB6,527 million and the balance at the year-end exceeded RMB10,000 million. The Bank also successfully launched the largest RMBS product in the PRC and the first credit risk mitigation certificate in Western China. In addition, the Bank made breakthroughs in innovative products such as innovation and entrepreneurship bonds, poverty alleviation notes and cross-border mergers and acquisitions with positive market responses.

Treasury Business

During the reporting period, the Bank followed the guidance of regulatory supervision, insisted on going back to the fundamental function of serving the real economy, and continued to optimize the asset structure of its financial market business, with the proportion of standardized assets keeping rising. The Bank continued to promote the innovation of off-balance-sheet wealth management products and accelerated the transition towards net-worth wealth management products, so as to meet the increasingly diversified investment needs of customers.

Financial Market Business

The Bank's financial market business has obtained various types of licenses and qualifications in China's interbank market, which allows it to engage in various market transactions. With broad range of products, comprehensive business layout and extensive customer resources, the Bank is able to adapt to market changes and meet different customer needs. During the reporting period, the Bank was active in market trading and generated good returns.

Trading Business

The Bank trades standardized financial products in the interbank market. The financial products traded include money market products, fixed income products, foreign exchange products, derivatives and precious metals, involving 11 currencies and 20 transaction types. The Bank has qualifications and capacity to trade major products in Renminbi and foreign currencies in the interbank markets, plays important roles including primary dealer, market maker and SHIBOR and USD-CHIROR quoting firm and provides quotations and liquidity support to the domestic money, bond and foreign exchange markets and other markets, playing an important role in the interbank market. During the reporting period, the Bank actively expanded its counterparties and further enhanced trading activity level amid a market environment of downward interest rate and fluctuating exchange rate. During the reporting period, the total volume of the Bank's domestic and foreign currency transactions reached RMB77.70 trillion with a total of 137,500 transactions.

Investment Business

Investments in Debt Securities and Interbank Certificates of Deposits

In terms of debt securities investment, the Bank took "grasping opportunities, preventing risks, adjusting structure and improving returns" as the guideline, strengthened market analysis and judgement, maintained a close track on interest rate trends, promoted interactions between businesses in primary and secondary markets, increased investments in various bonds, and regarded local government bonds as a key investment product in the second half of the year. During the reporting period, the new investments in debt securities of the Bank mainly included low-risk interest rate bonds, highly rated central enterprise and local leading enterprise unsecured bonds as well as publicly offered interbank asset-backed securities with highly dispersed underlying assets, thus effectively improving portfolio returns while keeping risks at a controllable level. As of the end of the reporting period, the balance of the Bank's investments in debt securities and interbank certificates of deposits was RMB3.05 trillion.

Interbank Investment

The Bank strictly followed the regulatory guidance on interbank investment business, continuously improved the proportion of standardized assets and maintained a reasonable business scale. During the reporting period, the Bank proactively adjusted the structure of its interbank investment business and prudently carried out businesses such as mutual fund investment under the premise of product compliance and risk control. As of the end of the reporting period, the balance of the Bank's interbank investment (or investments made through other financial institutions) in commercial banks' wealth management products, trust investment plans, asset management plans and securities investment funds was RMB329,708 million.

Interbank Financing Business

Interbank financing is a business where the Bank has an inherent advantage in terms of interbank cooperation. During the reporting period, the Bank analyzed the market data accurately, adjusted the pace precisely and developed strategy proactively. It carried out interbank financing businesses such as deposits and placements with banks and interbank borrowings in a timely manner. At the same time, it actively adapted to the online trend of interbank business, and continued to strengthen cooperation with banking financial institutions to form a sound interbank customer base. As of the end of the reporting period, the total balance of the Bank's deposits and placements with banks and other financial institutions amounted to RMB425,973 million.

Asset Management Business

During the reporting period, the Bank actively implemented the new regulatory requirements and accelerated the transformation of the asset management business. As of the end of the reporting period, the off-balance-sheet wealth management business accounted for approximately 100%. In response to the needs of customers, the Bank actively designed and issued multi-variety and multi-term net-worth wealth management products from such dimensions as liquidity, risk and functionality, and steadily advanced the transition to net-worth products. It had issued 60 net-worth products, accounting for 11.18% of the total products, the figure being only less than 1% at the beginning of the year. Adhering to the prudent strategy of asset allocation, the Bank fully supported the development of the real economy, by leveraging the advantages in professional abilities and funds, and enriching its financing channels and services. During the reporting period, the Bank issued RMB2,220,753 million of wealth management products for the year, representing a decrease of 1.08% compared with the prior year-end. As of the end of the reporting period, assets under management amounted to RMB814,535 million, representing an increase of 0.4% as compared with the prior year-end.

Custody Services

During the reporting period, the Bank actively coped with the challenges and opportunities arising from the issuance of new regulations on asset management, deepened the collaboration of business segments within the Bank, as well as put the focus on publicly-offered funds, insurance assets and asset securitization businesses, continuing to accelerate the transformation and development of custody business. At the same time, the Bank obtained ISAE 3402 international accreditation on internal control, strengthened its risk management and ensured smooth operations of the business. As of the end of the reporting period, the assets under custody were RMB4.04 trillion. In particular, there were 10 newly established public funds under custody in the current year and a total number of public funds under custody accumulated to 98 with a scale of RMB145,455 million, representing a year-on-year increase of 10.36%; there were 18 newly established asset securitization products and the scale of asset securitization under custody was RMB49,098 million, representing a year-on-year increase of 74.42%.

Green Finance

During the reporting period, the Bank practiced the concept of green development persistently, vigorously developed green finance, accelerated the building of a green bank, and contributed to the fight against pollution. The Bank established guiding opinions on the fight against pollution and the development of green finance, and a three-year plan for the construction of green bank. It improved differentiated support measures such as support in terms of credit policy, the allocation of credit resources, loan pricing and system functions, and increased financial support in fields such as green transportation, energy saving and environmental protection as well as green agriculture. By formulating environmental and social risk management measures, carrying out special investigations on environmental risks, and adhering to the principles of “full process, all elements, all-round, and full coverage”, the Bank effectively prevented and resolved environmental, social and corporate governance risks. In addition, the Bank adhered to the policy of not extending loans to non-environmental-friendly industries, and strictly restricted the credit extension to clients and projects in the “industries with high pollution, high energy consumption and over-capacity”. As of the end of the reporting period, the balance of the Bank’s green credit (energy saving and environmental protection projects and services loans) was RMB190,405 million, representing an increase of 15.47% compared with the prior year-end.

Sannong Financial Business

During the reporting period, in line with the arrangements proposed by the Party Central Committee and the State Council, the Bank proactively implemented the rural revitalization strategy, served the real economy and carried out targeted poverty alleviation via financial services. It enhanced the capability of Sannong financial services and created a specialized rural financial service system. Leveraging its advantages of a broad and deep network in County Areas, the Bank focused on improving the quality of financial services and continued to deliver better Sannong financial services.

Stepping up Support for Rural Vitalization

Adhering to its strategic positioning as a large-scale retail commercial bank, the Bank continued to improve basic financial services in rural areas, and stepped up its efforts in granting loans in rural areas with a focus on improving the coverage and availability of financial services in rural areas, fully supporting the rural vitalization strategy.

Improving the Basic Financial Services in Rural Areas

With the business management model consisting of both directly-operated outlets and agency outlets, the Bank's outlets cover extensive County Areas, forming a large service network with a multitude of outlets connecting urban and rural areas. As of the end of the reporting period, the Bank had a total of 27,901 outlets at and below the county level, accounting for more than 70% of all outlets. The Bank actively initiated the "online + offline" integrated network construction, providing comprehensive and multi-level financial services for rural areas. The Bank had been building a safe and convenient online banking service platform with comprehensive functions comprising personal online banking, mobile banking and WeChat banking, etc., providing rural residents with convenient and fast financial services from various channels. As of the end of the reporting period, there were 80,474 self-service terminals of the Bank at county level and below.

The Bank vigorously promoted the "Special Migrant Worker Bank Card Services". During the reporting period, the Bank, as an acquirer, had a total of 99,400 transactions with a volume of RMB191 million; and as an issuer, had a total of 224,200 transactions with a volume of RMB389 million. The Bank proactively provided diversified financial services to customers in rural areas and issued exclusive debit card "Hometown Card" to migrant workers, and the number of the "Hometown Card" in circulation had reached 94,523,700. The Bank also proactively participated in the promotion of the New Rural Social Endowment Insurance (NREI) and the New Rural Cooperative Medical Service (NRCMS). During the reporting period, the Bank acted as the collection agency for 13,004,600 NREI transactions with a volume of RMB4,214 million; as the payment agency for 239 million of NREI transactions with a volume of RMB34,159 million; as the payment agency for 939,900 NRCMS reimbursement and allowance payment transactions with a volume of RMB1,173 million.

Increasing Support for Rural Loans

The Bank established a product portfolio of five major agro-related loans, including farm household loans, emerging forms of agribusiness loans, agriculture-related merchant loans, county level agriculture-related small and micro-sized enterprise loans and agricultural industry-leading enterprise loans. It also promoted the pilot program of loans secured against the operating rights of contracted rural land and farmers' housing property rights. The Bank proactively supported the key areas of rural revitalization strategy such as national food security, integration of primary, secondary and tertiary industries, connection between small farmers and modern agriculture as well as the construction of a beautiful countryside. As of the end of the reporting period, the balance of agriculture-related loans reached RMB1.16 trillion, representing an increase of RMB107,286 million or 10.18%, compared with the prior year-end; the balance of the Bank's personal operational loans, which mainly consisted of loans to farmers and agriculture-related merchant loans, was RMB557,126 million, ranking high among national commercial banks; the balance of the loans to emerging forms of agribusiness such as family farms and farming cooperatives was RMB56,652 million, representing an increase of nearly RMB13,349 million or 30.83%, compared with the prior year-end.

Continually Enhancing the Application of Financial Technology

The Bank actively applied big data, cloud computing, mobile Internet and other technical means to improve the business process, product innovation and risk control of Sannong finance and steadily promoted paperless and intelligent operations. The Bank encouraged business development through the use of mobile devices, which enabled loan officers to complete photo taking during on-site investigation as well as information uploading and verification via mobile intelligent terminals. It developed on-the-go business processing mode as well as "facial recognition + e-signature" functions on the mobile APP. It established an industry database to improve and optimize its review and approval models. In addition, it actively developed retail credit factory by incorporating scoring models and utilizing big data to identify risks effectively. Through standardized and automated batch processing, the Bank had broadened its service scope, reduced service costs and continuously improved the loan acquisition rate of its customers, especially rural customers.

The Bank continued to promote its online credit model. As of the end of the reporting period, "E Convenient Loan" had extended loans of RMB117,781 million accumulatively and "Shop Owners Loan" had disbursed loans of RMB1,151 million accumulatively. The Bank continued to develop new online loan products. It developed online products such as "Speedy Loan" by using new technologies and operating methods such as big data risk control and scenario-based customer acquisition. With the concept of scientific and technological innovation, it fully explored the potential of its ten million existing customers accumulated by the Bank over the past ten years, by actively moving the business from "offline" to "online". As of the end of the reporting period, "Speedy Loan" had been piloted for four months with an accumulative loan amount of RMB468 million.

Continuously Carrying out Targeted Poverty Alleviation via Financial Services

The Bank proactively facilitated the fight against poverty and stepped up its input in targeted poverty alleviation via financial services. It offered targeted support for registered poor households, extending micro loans to those with the ability to work and have the willingness to shake off poverty. Through leveraging the power of local governments, the two village committees and the chief secretaries of the villages, it pushed forward the building of creditworthy villages and towns and fostered a good credit environment for rural areas. It fully supported infrastructure construction in poverty-stricken areas and prioritized its support to projects in areas such as transportation, water conservancy, electricity, power grids, telecommunications and relocation of the poor. As of the end of the reporting period, the balance of the targeted poverty alleviation loans (including loans for people who have been cut of poverty) was RMB93,858 million, up 52.46% compared with the prior year-end, of which the balance of the targeted poverty alleviation loans to individuals and loans for people who have been cut of poverty amounted to RMB43,683 million, up 40.07% compared with the prior year-end; the balance of the targeted poverty alleviation loans to industries amounted to RMB12,678 million, up 560.04% compared with the prior year-end; the balance of the targeted poverty alleviation loans to projects amounted to 37,497 million, up 31.76% compared with the prior year-end.

Small and Micro Financial Business

During the reporting period, the Bank fully implemented all policies proposed by the Party Central Committee and the State Council. It deeply cultivated the small and micro enterprise market, focused on small and micro financial services, and strived to alleviate the financing difficulties and high financing costs for small and micro enterprises. As of the end of the reporting period, the balance of corporate loans to small and micro enterprises with a maximum credit line of RMB10 million for a single customer amounted to RMB544,992 million, representing an increase of 17%, or RMB80,084 million compared with the prior year-end, and the cumulative amount for the year was RMB477,445 million, representing a year-on-year increase of 20%. There were 1,457,700 accounts with loan balance, representing an increase of 23,100 accounts as compared with the end of last year. The average interest rate for new loans was 6.67%. The asset quality remained stable and the ratio of non-performing corporate loans to small and micro enterprises was 2.48%.

Improving the Construction of Systems

The head office and tier-1 branches of the Bank have both set up leading groups on small and micro enterprise business to enhance unified leadership, high-level coordination and effective implementation. Except for Tibet branch, the other 35 tier-1 branches of the Bank have upgraded Small Enterprise Finance Department to the level-1 department, and tier-2 branches are also upgrading Small Enterprise Finance Department. All tier-1 sub-branches and directly-operated outlets can directly handle small and micro enterprise loan business.

The Bank continuously expanded the coverage and increased the availability of financial services to small and micro business and promoted the establishment of specialized sub-branches serving small and micro enterprises. As of the end of the reporting period, the Bank had a total of 852 specialized sub-branches serving small and micro enterprises and modern agricultural demonstration zones under construction, geographically covering all 36 tier-1 branches including areas such as Tibet, Qinghai and Xinjiang.

Strengthening Preferential Policies and Allocation of Resources

In 2018, the Bank fully provided favourable policies and more resources for the development of financial services to small and micro enterprises. The Bank strengthened the appraisal assessment of corporate loans to small and micro enterprises, and increased the weighting of assessment. It provided special credit line guarantee, and gave priority to meet the credit needs of small and micro enterprises. The Bank implemented preferential internal fund transfer pricing and granted income subsidies to branches and sub-branches for small and micro enterprises loans. In addition, the head office shared the provision for small and micro enterprise loans.

Speeding up the Promotion of Online Loan Product

The Bank fully tapped the customer resources within the Bank, actively introduced the data from external third parties, and comprehensively strengthened "cooperation between the Bank and tax authorities" and "cooperation between the Bank and corporations". The Bank speeded up the promotion of its fully online product "Easy Small and Micro Loan". As of the end of the reporting period, the Bank had extended loans in 24 tier-1 branches targeting small and micro clients, with the average size of loan per customer amounting to only RMB670,000, and the accumulative amount totaling RMB1,289 million with no overdue and non-performing loans.

Further Optimizing Business Mode

The Bank optimized the small and micro financial business model around the four systems, namely, marketing, product, operation and risk control. In terms of marketing, we put the focus around "platforms and institutions, industrial parks, core enterprises, and urban business districts" and further promoted the "Great Visit" campaign. In 2018, we visited nearly 120,000 various small and micro enterprises during the year. The Bank expanded the "Headquarters to Headquarters" platform connection, vigorously promoted various cooperation projects with science and technology, and market supervision and management departments, and strived to improve the financing environment of small and micro enterprises. We focused on sub-branch marketing, and gave full play to the functions of key tier-2 sub-branches as the major marketing bases. In terms of products, regarding the lack of mortgages and distinctive geographical features of small and micro enterprises, the Bank continued to improve its online, standardized and specialized product systems based on customer stratification. In terms of operation, we used mobile devices in business development, strengthened cost management and control, optimized business operation procedures, such as loan investigation, business processing and post-loan management, advanced the transformation of operation system to the "efficient operation + intelligent audit + refined management", and saved operational cost through online products, targeted marketing, online payment and utilization, and post-loan monitoring and early warning platforms. In terms of risk management, the Bank attached great importance to risk management of small and micro finance businesses, focused on four key points, namely key products, key customers, key institutions and key industries, strengthened the means of "off-site risk monitoring and on-site inspection", and insisted on refined management of post-loan management, improving the ability of the risk control team, orderly handling high-risk customers and operating in compliance with the laws.

Information Technology

Following closely the IT development trend in the new era, the Bank proactively adapted itself to the new requirements of digital transformation, pushed forward the implementation of its 13th Five-Year IT planning with full efforts and continuously enhanced its ability in IT management. With a key focus on digital transformation, the Bank proposed a development strategy with "IT planning + technology innovation" as its dual drive, "personal business + Internet finance platform" as its dual core, embracing bimodal IT that supports both "traditional IT + agile IT" and building a "distributed + reliable and safe" risk control architecture, so as to build a smart bank focusing on both "experience" and "intelligence". During the reporting period, the Bank pushed for the progress of 217 projects, including "Ten Platforms" and "Five Data Marts".

It continued to develop technological innovation and furthered the research and application of new technologies such as cloud computing, big data, blockchain and artificial intelligence proactively. During the reporting period, the Bank incorporated 34 systems in its cloud platform, such as mobile banking and online banking. The number of daily transactions on cloud platform amounted to over 170 million, ranking high in China's banking industry. It kept improving the "1+N+36" big data application system facing three levels of users including managers, client managers and outlet tellers, providing strong data support for management decision-making, business analysis and outlet services. Besides, new breakthroughs were made in the application of artificial intelligence with the roll-out of deep learning-based intelligent customer service system and remote authorization robot. In particular, the intelligent customer service system handled over 30% of all services at the customer service center.

The Bank further enhanced its capacity in independent R&D, increased basic R&D tools and achieved rapid product iteration to help improve customer experience and optimize service processes. The Software Research and Development Center Hefei Branch and Chengdu Branch were officially put into operation.

During the reporting period, the Bank's information system operated smoothly without any material systematic failure and incidents of information security risk loophole. The service availability of important information systems was over 99.99%. The Bank carried out emergency exercises of information system, network and infrastructure for 120 times, which has effectively supported and safeguarded its business development.

Distribution Channels

Business Outlets

The Bank actively promoted the systematic transformation of outlets, implemented outlet classification management, continued to improve outlets' efficiency, and strove to build smarter and lighter outlets with integrated functions. Altogether the Bank cut 125,000 square meters of business areas, 4,911 counters and moved 5,655 tellers to other positions at its directly-operated outlets. As of the end of the reporting period, the Bank had a total of 39,719 outlets, including 7,962 directly-operated outlets, accounting for 20.05% of all outlets, and 31,757 agency outlets, accounting for 79.95% of all outlets. In terms of the geographical distribution, the Bank had 11,818, 8,775 and 19,126 outlets in cities, counties and rural areas respectively, covering all cities and 99% of the County Areas in Mainland China.

During the reporting period, the Bank continued the construction of intelligent outlets. It increased the use of the intelligent teller machine (ITM), a new non-cash smart device, and piloted the application of the super teller machine (STM), a new cash-based smart device, enhancing the business handling capacity of self-service channels. The Bank continuously optimized the transaction functions and business processes of self-service equipment. It piloted the e-signature function on ITM to promote paperless transactions; it also launched money withdrawal via facial recognition on ATM and certificate of deposit business on STM to further enhance customer experience. During the reporting period, the Bank had 124,600 sets of self-service equipment, representing an increase of approximately 5,400 sets compared with the prior year. In particular, the number of new type of intelligent equipment such as ITM reached over 11,600. The self-service equipment posted 5,210 million transactions, with a transaction amount of RMB4.60 trillion. The percentage of cash recycling system (CRS) in the cash handling equipment increased from 64% at the beginning of the year to 70%, indicating a further improvement in the structure of equipment.

Internet Finance

During the reporting period, the Bank continuously promoted the implementation of its Internet finance development plan with a focus on mobile banking. The number of customer and business scale saw a fast growth, mobile banking and personal online banking were updated comprehensively, and new development was made in scenario construction.

Business Scale

As of the end of the reporting period, the Bank had 277 million electronic banking customers. The number of mobile banking customers reached 218 million and the number of personal online banking customers reached 210 million, both exceeding 200 million. In addition, the number of WeChat banking customers reached 6,982,500.

During the reporting period, the Bank posted 26,893 million electronic banking transactions, up by 33.96% year-on-year, with a transaction amount of RMB18.49 trillion, up by 30.95% year-on-year. Specifically, the number of mobile banking transactions amounted to 5,645 million, up by 38.70% year-on-year, with a transaction amount of RMB5.81 trillion, up by 54.93% year-on-year; the number of personal online banking transactions amounted to 564 million, with a transaction amount of RMB1.79 trillion. The substitution ratio of electronic banking transactions was 90.44%, representing an increase of 3.47 percentage points, compared with the prior year-end.

Product Innovation

During the reporting period, the Bank launched the mobile banking 4.0, which added holdings and credit card account information to the app interface and offered services such as smart online customer service and personal calendar via the application of new technologies like artificial intelligence, bringing better user experience. It also launched a new generation of personal online banking with an overall updated page layout and design as well as an improvement in user experience with various functions. The new log-in function in personal online banking via mobile banking QR code scanning was added in order to further strengthen interconnection between channels.

Scenario Construction

During the reporting period, the Bank seized market opportunities and continued to strengthen the construction of scenarios with postal characteristics. Making use of the resources of China Post Group, the Bank joined hands with China Post Group to carry out integrated QR code business, which focused on payment to expand cooperation with merchants and continuously enrich external application scenarios. In addition, the Bank relied on the O2O life service payment system to promote the construction of online and offline integrated scenarios.

Human Resources Management and Institution Management

Human Resources Management

In terms of talent training, the Bank continued to deepen talent development and training and strengthened talent building in an all-around way. During the reporting period, the Bank closely followed business management and development trend, and strengthened the trainings on compliance and risk through comprehensive methods, such as face-to-face group teaching, long-distance learning, qualification acknowledgement, on-the-job training with mentors, examinations and competitions alongside a variety of domestic and overseas resource channels, cultivating and training a team of high-quality talents in a systematic and continuous way. It strengthened the building of the team of trainers and mobile learning, as well as enriched teaching materials and training platforms to enhance the role of training in supporting and ensuring development.

In terms of remuneration and benefits management, the Bank emphasized efficiency and value orientation and continued to improve the efficiency of resources. It implemented the requirements on deepening income distribution reform in China, optimized the basic remuneration allocation system, and took better care of front-line staff and skilled talents, continuously enhancing the sense of well-being, happiness and security among the employees. It implemented regulatory requirements in relation to salary payment and enhanced standardization regarding the performance of the salary management of the Bank. The Bank adhered to the people-oriented management philosophy, continued to enrich the welfare system, and continuously improved the standard of employee benefits.

Employees

As of the end of the reporting period, the Bank had a total of 170,809 employees (and 14,091 third-party-contracted employees), including 120,777 employees with bachelor degree or above, accounting for 70.71%.

The Bank's Employees by Function Lines

	Number of employees	Percentage (%)
Management	5,841	3.42
Personal banking	78,983	46.25
Corporation banking	12,558	7.35
Treasury business	1,320	0.77
Financial and accounting	16,290	9.54
Risk management and internal control	11,160	6.53
Others[1]	44,657	26.14
Total	**170,809**	**100.00**

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

The Bank's Employees by Age

	Number of employees	Percentage (%)
Under 30 (inclusive)	46,653	27.31
31-40	71,934	42.11
41-50	42,045	24.62
Over 51 (inclusive)	10,177	5.96
Total	**170,809**	**100.00**

The Bank's Employees by Education Level

	Number of employees	Percentage (%)
Master's degree and above	9,636	5.64
Bachelor's degree	111,141	65.07
Associate degree	42,816	25.07
Others	7,216	4.22
Total	**170,809**	**100.00**

The Bank's Employees by Geographical Region

	Number of employees	Percentage (%)
Head office	2,260	1.32
Yangtze River Delta	18,604	10.89
Pearl River Delta	18,020	10.55
Bohai Rim	26,931	15.77
Central China	44,925	26.30
Western China	39,352	23.04
Northeastern China	20,717	12.13
Total	**170,809**	**100.00**

Institution Management

The Bank-wide decision-making and operation are directed by its head office located in Beijing. The Bank has established tier-1 branches in the capital cities of provinces, autonomous regions, municipalities and cities with independent planning status. As the operation management center within the corresponding regions, tier-1 branches are responsible for managing all sub-branches in their respective areas and directly report to the head office. Tier-2 branches are generally set up in the prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-2 branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-1 branches in their respective regions. The tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. The tier-2 sub-branches primarily undertake the function of business operation.

Regarding institutional reform and organizational restructuring, the Bank implemented the retail banking and inclusive finance strategies to further strengthen the financial service organizational system for Sannong and small and micro enterprises, and enhanced the ability of serving the real economy. By establishing departments such as the Internet Finance Department and Operation Management Department, the organizational structure of the Bank continued to be optimized and the operational efficiency was effectively improved.

Number of Branches and Sub-branches of the Bank

Item	Number of institutions	Percentage (%)
Tier-1 branches	36	0.44
Tier-2 branches	322	3.89
Tier-1 sub-branches	2,069	25.01
Tier-2 sub-branches and others	5,845	70.66
Total	**8,272**	**100.00**

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

Region	Number of institutions	Percentage (%)
Yangtze River Delta	949	11.47
Pearl River Delta	770	9.31
Bohai Rim	1,147	13.87
Central China	2,415	29.20
Western China	2,127	25.71
Northeastern China	864	10.44
Total	**8,272**	**100.00**

Majority-owned Subsidiary

The Bank currently has one majority-owned subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015, which mainly provides unsecured loan service (excluding mortgage and auto loans) to domestic residents for consumption purposes. As of the end of the reporting period, PSBC Consumer Finance had a registered capital of RMB3 billion, of which the Bank held 70.5%. As of the end of the reporting period, it had total assets of RMB23,671 million, net assets of RMB3,086 million and recorded a net profit of RMB203 million for the year.

Protection of Consumer Rights and Interests

During the reporting period, the Bank further incorporated the concept of financial consumer rights protection into corporate governance, corporate culture construction and business development strategy, optimized the mechanism of consumer protection, improved the institutional system, strengthened the management of business operations, improved the complaint handling mechanism, and enhanced financial products and services. It also continued to carry out promotion and education activities on the protection of financial consumers' rights and interests, and built a more harmonious and stable consumption environment. During the reporting period, the customer complaints handled represented a year-on-year decrease of 51.43%, and the satisfaction ratio of complaint handling was 99.45%. The Bank was awarded the Best Performance Institution Award in the Activity of Popularizing Financial Knowledge by China Banking Association.

Risk Management

Comprehensive Risk Management System

Following the central government's requirements on preventing and mitigating major risks, the Bank kept improving its comprehensive risk management system, formulated the three-year plan well for preventing and mitigating major risks and focused on building a long-term mechanism for risk management. In accordance with regulatory requirements, the Bank deepened the rectification of market irregularities and effectively improved the level of compliance; continuously improved comprehensive risk management policy system by refining the risk appetite and risk limit management as well as optimizing risk management policies covering market risk, liquidity risk, and reputation risk; continued to strengthen asset quality control and enhanced risk prevention and mitigation in key areas; promoted the implementation of advanced approach of capital management, accelerated the development of risk management IT system and effectively improved risk management level.

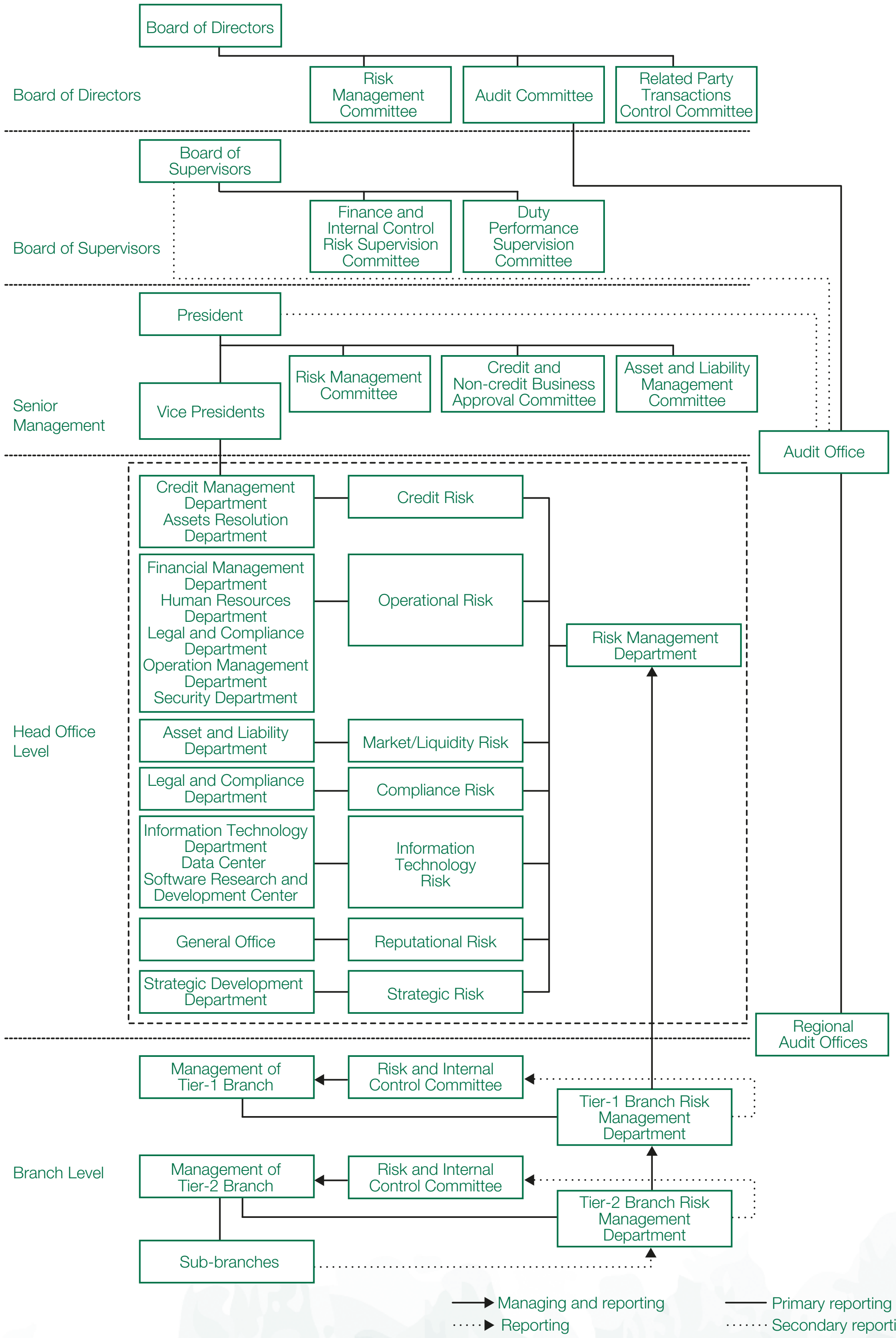
Risk Management Organizational Structure

The Board of Directors undertakes the ultimate responsibilities and performs its functions in relation to risk management through the Risk Management Committee of the Board of Directors to deliberate significant matters of risk management and supervise the operations of the Bank's risk management system and its risk profile.

As the supervisory body of the Bank, the Board of Supervisors is responsible for supervising the Board of Directors in respect of the formulation of the Bank's risk management strategies, policies and procedures, and supervising and assessing the performance of the directors, supervisors and senior management members in carrying out their risk management duties.

Under the Articles of Association and the authorization of the Board of Directors, the senior management executes risk management responsibilities to ensure the Bank's operation and management are in line with the risk management strategies and risk appetite formulated and approved by the Board of Directors. The Risk Management Committee under the senior management is responsible for deliberating basic policies and systems of risk management, assessing the risk management profile of the Bank and reviewing the standards, methods and processes for managing various kinds of risks.

Risk Management Organizational Structure



Credit Risk

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of an obligor or counterparty, or its reduced capability to fulfill its contractual obligations. The Bank is exposed to credit risk primarily through its loans, treasury business (including deposits and placements with banks, financial assets held under resale agreements and investments in corporate bonds and financial bonds) and off-balance sheet credit businesses (including guarantees and commitments).

Credit Risk Management

The Bank strictly follows national policies and regulatory requirements on credit risk. Under the leadership of the Board of Directors and senior management, the Bank strengthens the full-process credit risk management under the principle of "segregation of duties and internal control".

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

Credit Risk Management of Corporate Loans

During the reporting period, the Bank continued to strengthen the risk management and control of corporate loans. It implemented the national macro-control policies and supported green credit, private enterprises as well as loans targeting poverty alleviation; strictly enacted quota management in high-risk areas and strictly controlled customer access; strengthened post-loan management as well as risk monitoring and early warning, increased control over key areas such as financing platforms, and those with overcapacity or acute environmental problems, so as to prevent risks of substantial amount; upgraded the corporate credit system and standardized the working process of corporate credit extension. It proactively improved its credit risk management system for small enterprise business, adopted the big data risk early warning model, regularly conducted off-site risk monitoring, eliminated high-risk customers, and improved risk handling capabilities.

Credit Risk Management of Personal Loans

During the reporting period, the Bank continuously strengthened the credit risk management of personal loans. It improved policy systems, promoted parallel operation mode, conducted multi-level visits to customers with large loans, and focused on customer screening. It strictly implemented the state's real estate regulatory policies, and developed and implemented differentiated credit policies for personal mortgages under the principles of targeted guidance and localized policies. It strengthened risk monitoring and early warning, established a mechanism for the suspension and resumption of personal business loans and strengthened the control of the use of personal consumer loans. It continued to promote a new-generation retail credit factory project, established a retail credit internal evaluation system and strengthened the application of mobile Internet technology and data analysis technology to achieve intelligent decision-making, and effectively identify and prevent risks.

Credit Risk Management of Credit Card Business

During the reporting period, the Bank further strengthened the risk management of credit card business. It enhanced risk analysis and judgment, actively responded to changes in the industry's risk situation, continuously optimized and improved rules for risk management, optimized customer structure, prevented external risk transmission, and promoted a balance between risk and return. It improved the quantitative risk management system, increased the use of external data, strengthened the risk management of online channels, optimized credit line management, and improved risk identification and judgment. It strengthened the management and control on the investigation and early warning of customers with high risk, optimized the means of overdue payment collection, improved the asset structure, and enhanced risk mitigation capabilities.

Credit Risk Management of Treasury Business

During the reporting period, the Bank continued to optimize the working process of its treasury business, actively implemented the regulatory policies of CBIRC, timely revised various policies and systems, strengthened management requirements on key links of business, and actively carried out pre-investment investigation, investment review and approval and post-investment management so as to cover the entire process of risk management. Under the principles of moving risk management to the front and putting expectations under control, the Bank refined the interbank customer access requirements, clarified the standards for customer classification and stratification, and standardized the list-based management of cooperative institutions; it optimized internal control mechanism, refined the review and deliberation mechanism, enhanced the review of authorization and loan extension and specified the standards for the process of loan extension; it focused on the enhancement of post-investment management, sorted business documents, conducted regular screening and on-site inspections of special risks, and improved the mechanism of risk alerts, risk monitoring and risk reporting; it standardized risk classification of assets, made prudent provision for asset impairment based on the prudence principle, and controlled the concentration of investment in a single product in accordance with requirements on large-scale risk exposure.

Credit Risk Analysis

Maximum Credit Risk Exposures before Considering Collaterals or Other Credit Enhancements

In millions of RMB

Item	December 31, 2018	December 31, 2017
Deposits with central bank	**1,155,444**	1,364,392
Deposits with banks and other financial institutions	**140,351**	296,758
Placements with banks and other financial institutions	**285,622**	315,999
Derivative financial assets	**7,166**	6,584
Financial assets held under resale agreements	**239,687**	141,974
Loans and advances to customers	**4,149,538**	3,541,571
Investments Instruments		
Financial assets at fair value through profit or loss – debt instruments	**339,572**	119,992
Financial assets at fair value through other comprehensive income – debt instruments	**183,350**	Not Applicable
Financial assets at amortized cost	**2,861,922**	Not Applicable
Available-for-sale financial assets – debt investments	**Not Applicable**	247,278
Held-to-maturity investments	**Not Applicable**	935,735
Investment classified as receivables	**Not Applicable**	1,424,558
Other financial assets	**13,343**	56,356
Subtotal	**9,375,995**	8,451,197
Credit commitments	**646,795**	643,998
Total	**10,022,790**	9,095,195

Non-performing Loan Structure by Collateral

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)(1)	December 31, 2017 Amount	December 31, 2017 Percentage (%)(1)
Unsecured loans	**4,339**	**11.76**	2,075	7.61
Guaranteed loans(2)	**11,538**	**31.28**	6,255	22.94
Loans secured by mortgages(2)(4)	**18,181**	**49.29**	18,249	66.92
Loans secured by pledges(2)(3)	**2,830**	**7.67**	691	2.53
Discounted bills	**—**	**—**	—	—
Total	**36,888**	**100.00**	27,270	100.00

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

(2) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

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

(4) Represents security interests in certain assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

As of the end of the reporting period, the total amount of non-performing loans secured by mortgages was RMB18,181 million, representing a decrease of RMB68 million compared with the prior year-end. The balance of non-performing guaranteed loans amounted to RMB11,538 million, representing an increase of RMB5,283 million compared with the prior year-end. The balance of non-performing unsecured loans amounted to RMB4,339 million, representing an increase of RMB2,264 million compared with the prior year-end. The total amount of non-performing loans secured by pledges was RMB2,830 million, representing an increase of RMB2,139 million compared with the prior year-end.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage of total loans (%)	As at December 31, 2017 Amount	As at December 31, 2017 Percentage of total loans (%)
Overdue for 1 to 90 days	**14,564**	**0.34**	12,716	0.35
Overdue for 91 days to 1 year	**13,121**	**0.31**	9,471	0.26
Overdue for 1 to 3 years	**11,905**	**0.28**	11,754	0.32
Overdue for over 3 years	**2,766**	**0.06**	1,332	0.04
Total	**42,356**	**0.99**	35,273	0.97

As of the end of the reporting period, the balance of overdue loans of the Bank stood at RMB42,356 million, representing an increase of RMB7,083 million compared with the prior year-end. Specifically, the balance of loans overdue for 1 to 90 days was RMB14,564 million; the balance of loans overdue for 91 days to 1 year was RMB13,121 million; the balance of loans overdue for 1 to 3 years was RMB11,905 million; the balance of loans overdue for more than 3 years was RMB2,766 million.

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	176,803	4.13	29.78
Borrower B	Leasing and commercial services	10,234	0.24	1.72
Borrower C	Transportation, storage and postal services	10,220	0.24	1.72
Borrower D	Mining	8,500	0.20	1.43
Borrower E	Information transmission, software and information technology services	8,000	0.19	1.35
Borrower F	Leasing and commercial services	7,176	0.17	1.21
Borrower G	Production and supply of electricity, heating, gas and water	6,500	0.15	1.09
Borrower H	Transportation, storage and postal services	6,358	0.15	1.07
Borrower I	Real estate	6,030	0.14	1.02
Borrower J	Transportation, storage and postal services	5,930	0.14	1.00

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

(2) Percentage of loans to the largest single customer = total loans to the largest customer/net capital×100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of December 31, 2018, China Railway Corporation was the Bank's largest single borrower. The outstanding loan balance with China Railway Corporation was RMB176,803 million, accounting for 29.78% of the Bank's net capital. The credit the Bank extended to China Railway Corporation includes RMB240.0 billion which the Bank historically provided to it and was approved by the CBIRC. As of December 31, 2018, the outstanding loan balance under such credit approved by the CBIRC for China Railway Corporation was RMB165 billion. After the deduction of this RMB165 billion, the Bank's balance of loans to China Railway Corporation represented 1.99% of the Bank's net capital.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

	December 31, 2018		December 31, 2017	
Item	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Normal	**4,213,246**	**98.51**	3,578,275	98.57
Special mention	**26,731**	**0.63**	24,590	0.68
Non-performing loans	**36,888**	**0.86**	27,270	0.75
Substandard	**9,380**	**0.22**	4,606	0.13
Doubtful	**5,981**	**0.14**	5,585	0.15
Loss	**21,527**	**0.50**	17,079	0.47
Total	**4,276,865**	**100.00**	3,630,135	100.00

As of the end of the reporting period, the balance of the Bank's non-performing loans amounted to RMB36,888 million, representing an increase of RMB9,618 million compared with the prior year-end. Non-performing loan ratio was 0.86%, representing an increase of 0.11 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB26,731 million, representing an increase of RMB2,141 million compared with the prior year-end. Special mention loan ratio was 0.63%, representing a decrease of 0.05 percentage point compared with the prior year-end. The ratio of non-performing loans to loans overdue for over 90 days was 132.73%, representing an increase of 11.84 percentage points compared with the prior year-end.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

Item	December 31, 2018			December 31, 2017		
	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]
Corporate loans						
Working capital loans	**9,695**	**26.28**	**1.58**	8,311	30.48	1.48
Fixed asset loans	**274**	**0.75**	**0.04**	205	0.75	0.03
Trade finance loans	**561**	**1.52**	**0.25**	745	2.73	0.38
Others[2]	**1,549**	**4.20**	**7.59**	20	0.07	0.12
Subtotal	**12,079**	**32.75**	**0.78**	9,281	34.03	0.67
Discounted bills	**—**	**—**	**—**	—	—	—
Personal loans						
Consumer loans						
Residential mortgage loans	**5,053**	**13.70**	**0.36**	2,693	9.87	0.23
Other consumer loans	**3,286**	**8.91**	**1.19**	1,671	6.13	0.65
Personal business loans	**9,470**	**25.67**	**2.71**	8,203	30.08	2.73
Micro loans	**5,343**	**14.48**	**3.01**	4,294	15.75	2.75
Credit cards overdrafts and others	**1,657**	**4.49**	**1.67**	1,128	4.14	1.45
Subtotal	**24,809**	**67.25**	**1.07**	17,989	65.97	0.92
Total	**36,888**	**100.00**	**0.86**	27,270	100.00	0.75

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

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

As of the end of the reporting period, the balance of the Bank's non-performing corporate loans amounted to RMB12,079 million, representing an increase of RMB2,798 million compared with the prior year-end; non-performing corporate loan ratio was 0.78%, representing an increase of 0.11 percentage point compared with the prior year-end. The balance of the Bank's non-performing personal loans amounted to RMB24,809 million, representing an increase of RMB6,820 million compared with the prior year-end; non-performing personal loan ratio was 1.07%, representing an increase of 0.15 percentage point compared with the prior year-end.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Head office	**1,658**	**4.49**	1,131	4.15
Yangtze River Delta	**4,662**	**12.64**	3,012	11.05
Pearl River Delta	**3,101**	**8.41**	2,330	8.54
Bohai Rim	**4,300**	**11.65**	3,341	12.25
Central China	**7,042**	**19.09**	5,274	19.34
Western China	**11,559**	**31.34**	8,729	32.01
Northeastern China	**4,566**	**12.38**	3,453	12.66
Total	**36,888**	**100.00**	27,270	100.00

As of the end of the reporting period, the balance of non-performing loans originated in Western China was RMB11,559 million, the highest among all regions; the increases in the balance of non-performing loans originated in Western China and Central China were RMB2,830 million and RMB1,768 million, respectively, compared with the prior year-end, higher than that of other regions.

Distribution of Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2018 Amount	December 31, 2018 Percentage (%)	December 31, 2017 Amount	December 31, 2017 Percentage (%)
Transportation, storage and postal services	157	1.30	107	1.15
Manufacturing	5,759	47.68	4,983	53.69
Production and supply of electricity, heating, gas and water	108	0.89	21	0.23
Financial services	–	–	8	0.09
Wholesale and retail	4,304	35.63	2,745	29.58
Construction	319	2.64	355	3.83
Real estate	18	0.15	18	0.19
Mining	78	0.65	57	0.61
Water conservancy, environmental and public facilities management	28	0.23	39	0.42
Leasing and commercial services	148	1.22	140	1.51
Agriculture, forestry, animal husbandry and fishery	629	5.21	438	4.72
Information transmission, computer services and software	60	0.50	41	0.44
Hotels and catering	267	2.21	207	2.23
Residential services and other services	81	0.67	69	0.74
Culture, sports and entertainment	17	0.14	16	0.17
Others[1]	106	0.88	37	0.40
Total	12,079	100.00	9,281	100.00

(1) mainly includes education; scientific research and technical services; and health and social work.

During the reporting period, the increase in the balance of non-performing corporate loans of the Bank mainly came from wholesale and retail as well as manufacturing. As of the end of the reporting period, the balances of non-performing corporate loans from wholesale and retail as well as manufacturing were RMB4,304 million and RMB5,759 million, respectively, representing an increase of RMB1,559 million and RMB776 million compared with the prior year-end.

Movements of Allowance for Impairment Losses on Loans

Corporate Loans and Advances – Financial Assets at Amortised Cost

In millions of RMB

Item	December 31, 2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2018	35,052	1,959	8,815	45,826
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	67	(67)	–	–
Transfer to stage 2	(3,311)	3,316	(5)	–
Transfer to stage 3	(2,925)	(307)	3,232	–
Changes of ECL arising from transfer of stages	(56)	1,520	3,190	4,654
Financial assets derecognized or settled during the period	(7,983)	(365)	(1,037)	(9,385)
New financial assets originated or purchased	18,998	–	–	18,998
Remeasurement	10,708	431	887	12,026
Write-off	–	–	(2,855)	(2,855)
Loss allowance as at December 31, 2018	50,550	6,487	12,227	69,264

Personal Loans and Advances – Financial Assets at Amortised Cost

In millions of RMB

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

Market Risk

Market risk refers to the risk of losses to the Bank's on- and off-balance sheet businesses arising from unfavorable movements in the market prices (including interest rate, exchange rate, stock price and commodity price). The principal market risks that the Bank is exposed to include interest rate risk and exchange rate risk (including gold).

During the reporting period, the Bank formulated the 2018 market risk policy preference and risk limit, amended the administrative measures for market risk management, continued to improve the policy system for market risk management, and encouraged proactively the development of the IT system for market risk management. Major risk limit control was executed properly, and the market risk was relatively stable.

Separation of Trading Book and Banking Book

In order to take targeted market risk management measures and accurately measure regulatory capital required for market risk, the Bank classified all the on- and off-balance sheet assets and liabilities into either the trading book or the banking book according to the nature and characteristics of different books. The trading book includes tradable financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

Market Risk Management of the Trading Book

The Bank manages the market risk of trading book by adopting multiple methods including limit management, sensitivity analysis, duration analysis, exposure analysis and stress testing. During the reporting period, the Bank closely watched market changes such as changes in interest rates and exchange rates, monitored, reported and prompted changes in limits in a timely manner, took the initiative to carry out stress testing, tracked and researched new trends in market risk regulation, promoted asset measurement for the derivatives counterparty default risk in an orderly manner, and strengthened the IT application in market risk management, thereby controlling risk exposure of trading book within the Bank's tolerable range.

Market Risk Management of the Banking Book

The Bank manages the market risk of banking book through comprehensive application of measures including limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

Interest rate risk in the banking book refers to the risk of loss in the economic value and overall gain of the banking book arising from adverse movements in interest rate and maturity structure, etc, mainly including gap risk, benchmark rate risk and option risk.

During the reporting period, the net interest margin increased as the Bank paid close attention to changes in external interest rate environment, formulated an interest rate risk limit system for the Bank, monitored interest rate risk conditions regularly, and continued to improve internal and external pricing mechanisms. In order to better implement the latest regulatory requirements of Basel Committee on Banking Supervision and CBIRC on interest rate risk management of the banking book, the Bank actively improved the banking book interest rate risk management framework, promoted the optimization of the interest rate risk management system, fostered the application of standardized measurement framework, and continued to improve the level of refinement of interest rate risk management. During the reporting period, the Bank's banking book interest rate risk level was generally stable, and all limit indicators were controlled within the target range.

Interest Rate Risk Analysis

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest earning/ bearing
December 31, 2018	**167,165**	**(351,365)**	**(600,001)**	**394,642**	**660,881**	**152,727**
December 31, 2017	42,213	(164,549)	(704,986)	274,389	523,202	411,283

Interest Rate Sensitivity Analysis

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

In millions of RMB

Movements in yield rate basis points	December 31, 2018 Movements in net interest income	December 31, 2017 Movements in net interest income
Increased by 100 basis points	**(3,641)**	(3,686)
Decreased by 100 basis points	**3,641**	3,686

Exchange Rate Risk Management

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

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

Exchange Rate Risk Analysis

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

Liquidity risk

Liquidity Risk Management

Liquidity risk refers to the risk of failure to obtain sufficient funds at a reasonable cost in a timely manner to settle amounts due, fulfill other payment obligations and meet other financial needs during the commercial banks' ordinary course of business. Liquidity risk of the Bank may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, over-mismatch of maturity between assets and liabilities, difficulties in assets realization, and weakening in financing ability.

Objective, Strategy and Policy of Liquidity Risk Management

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

During the reporting period, the Bank, against the backdrop of prudent monetary policy with an appropriate amount of intensity, closely monitored market liquidity conditions and strictly carried out the policy on risk limits so as to strike an effective balance among safety, liquidity and profitability.

Liquidity Risk Stress Testing

The Bank performs liquidity risk stress testing on a quarterly basis to identify potential liquidity risks and constantly improves stress testing methods based on regulatory and internal management requirements. The test results showed that the Bank could pass the shortest survival period testing under various stress scenarios as required by regulatory authorities.

Liquidity Risk Analysis

The Bank's liabilities are stable, as its major source of funds is personal deposits; it also has a relatively strong assets realization ability with a large proportion of cash and qualified high-quality bonds in its assets. During the reporting period, all of the Bank's liquidity regulatory indicators were within the normal range and the overall liquidity of the Bank was sufficient, secured and under control.

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

Item	Overdue	Repayable on demand	Within 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Undated	Total
December 31, 2018	**10,070**	**(3,316,863)**	**(43,686)**	**(1,033,733)**	**(493,679)**	**1,525,392**	**2,660,959**	**1,115,589**	**424,049**
December 31, 2017	12,169	(3,239,882)	(244,126)	(908,607)	(386,319)	1,498,476	2,316,303	1,333,538	381,552

For details of the liquidity coverage ratio of the Bank as of the end of the reporting period, please refer to "Appendix II: Liquidity Coverage Ratio and the Net Stable Funding Ratio".

Operational Risk

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

During the reporting period, following relevant regulatory requirements including the Guidance to the Operational Risk Management of Commercial Banks issued by the CBIRC and under the leadership of the Board of Directors and senior management, the Bank continued to improve the operational risk management mechanism and implemented practical and effective operational risk management policy. In line with the new financial regulatory situation that focuses on "strengthening regulation and rectifying irregularities", the Bank managed the operational risk in each link of its operation and management. It strengthened the risk management of institutions at lower levels, focused on areas of weakness, developed management tools, ensured the fulfillment of responsibilities, and improved performance incentive and disciplinary mechanism, which enhanced the quality and effectiveness of policy implementation and problem rectification. The Bank steadily enhanced IT capacity to prevent and control risks, expanded the scope of businesses subject to centralized operations, continuously optimized business processes, and formed a restriction mechanism among positions and between the front and back offices. The Bank comprehensively enhanced the operational risk control capability, minimized operational risk incidents and reduced risk losses.

Legal and Compliance Risk

Legal risk refers to the risk of commercial banks suffering from adverse legal consequences including legal liabilities, loss of rights and reputational damage due to violation of laws and regulations, administrative rules, regulatory provisions and terms of contract of its business operations; non-application of laws and breach of contracts of others including the other party of the contract; and significant changes in the external legal environment. During the reporting period, the Bank continued to improve the legal risk management system and strengthened the capacity for legal risk management. It carried out standardization of business contracts and improved the level of professionalization and refinement of legal review. It strengthened risk prevention and control of cases in which the Bank was the defendant, identified and prevented potential cases, and minimized the losses of cases to the largest extent. It constructed the supervision and control assistance system to improve the efficiency of assistance in enforcement. It optimized the authorization management and intellectual property management, enhanced legal risk management steadily and supported the healthy development of various businesses.

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of the commercial bank's failure to comply with laws, regulations and rules. During the reporting period, the Bank continued to improve its compliance management. By requesting employees to sign the letter of compliance commitment, and organizing and carrying out activities such as compliance knowledge competition, the Bank created a good compliance culture. In addition, it strengthened compliance risk monitoring, improved compliance review mechanism, enhanced the compliance of innovations and supported the healthy development of business management activities effectively.

Anti-Money Laundering

During the reporting period, the Bank further reinforced the "risk-based" anti-money laundering concept, reformed work mechanisms, improved institutional systems, standardized work processes, promoted the centralized analysis of suspicious transactions to prevent money laundering, continuously improved the AML system, actively carried out AML awareness campaign and training, earnestly fulfilled its AML legal obligations and social responsibilities and continued to improve the bank-wide anti-money laundering as well as counter-terrorist financing ability.

Reputational Risk

Reputational risk refers to the risk resulting from negative reports or comments on the Bank's business, operations, management, personnel matters and other actions it takes, or external events relating to it. During the reporting period, the Bank continued to enhance its reputational risk prevention ability by improving its management system, strengthening employees' reputational risk awareness, enhancing system building, stepping up reputational risk investigation and rectification, and offering relevant training.

Country Risk

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

During the reporting period, the Bank incorporated country risk management into the comprehensive risk management system, conducted country risk assessment and rating, implemented country risk limit management, monitored and kept statistics for country risk exposure on a continuous basis, promoted the development of cross-border businesses in a prudent manner and effectively kept country risks under control.

Consolidation of Risk Management

Consolidation of risk management refers to the comprehensive risk management of the bank group and its affiliates carried out by the Bank to continue to push forward and optimize system construction, and effectively identify, measure, and monitor the overall risks of the bank group.

During the reporting period, the Bank continued to carry out consolidated risk management on the Group and its affiliates. It improved the consolidated management governance structure and policy system as well as firewall and risk isolation mechanism; it increased capital and expanded shares in its subsidiary and supported its business development to ensure the stable and healthy operations of the Group.

Capital Management

The capital management of the Bank covers its subsidiary and affiliates. The Bank implements consolidated capital management and carries out capital-based management activities such as measurement, allocation, application, monitoring and assessment, effectively supporting and guiding the operations and development of the Bank. The objective of the Bank's capital management is to maintain a stable and ideal capital adequacy level, continuously meet regulatory policies and macro-prudential requirements; to focus on the balance between capital use and return, improve capital use efficiency, and raise the level of capital return; to continuously consolidate the capital base of the Bank, increase the use of retained earnings to replenish capital internally, and actively expand channels for supplementing capital via external sources.

During the reporting period, the Bank actively explored a capital-efficient business development mode to improve the efficiency of capital allocation; continued to manage capital in an all-round manner, improved management policy systems, optimized capital planning, the management plan of capital adequacy ratio and leverage ratio and promoted the regular operation of internal capital adequacy assessment program; strengthened data governance, and optimized and upgraded capital measurement system and risk data mart to provide significant technical support for efficient capital management, ensuring that capital adequacy ratio and leverage ratio continuously meet the risk coverage and regulatory requirements. During the reporting period, various capital indicators performed well, and the capital adequacy ratio increased steadily.

Capital Adequacy Ratio

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

Capital Adequacy

In millions of RMB, except for percentages

Item	December 31, 2018		December 31, 2017	
	The Group	The Bank	The Group	The Bank
Core tier 1 capital, net	421,678	419,107	381,673	380,800
Net tier 1 capital	469,605	466,976	429,560	428,646
Net capital	593,729	590,842	555,445	554,400
Risk-weighted assets	4,316,219	4,302,873	4,440,497	4,434,942
Credit risk-weighted assets	3,974,794	3,963,224	4,116,135	4,111,059
Market risk-weighted assets	50,915	50,915	65,823	65,823
Operational risk-weighted assets	290,510	288,734	258,539	258,060
Core tier 1 capital adequacy ratio (%)	9.77	9.74	8.60	8.59
Tier 1 capital adequacy ratio (%)	10.88	10.85	9.67	9.67
Capital adequacy ratio (%)	13.76	13.73	12.51	12.50

Please refer to "Appendix IV: Composition of Capital" for details of the Bank's composition of capital.

Market Risk Capital Requirements

In millions of RMB

Item	December 31, 2018	December 31, 2017
Interest rate risk	1,768	2,161
Foreign exchange risk	2,305	3,104

Leverage Ratio

As of the end of the reporting period, the leverage ratio calculated by the Group pursuant to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Amended) issued by the CBIRC in 2015 was 4.76%, meeting the regulatory requirements. Please refer to "Appendix III: Leverage Ratio" for details of the Bank's leverage ratio.

Capital Financing Management

On the basis of capital replenishment through retained earnings, the Bank utilizes external financing tools to replenish its capital. The Bank considered and approved the proposal on the extension of the validity term of the proposal of Postal Savings Bank of China Co., Ltd. regarding initial public offering and listing of RMB ordinary shares (A Shares) at the 2018 fourth meeting of the Board of Directors held in March 2018, and such proposal was considered and approved at the Shareholders' General Meeting in June 2018. The Bank is currently promoting A-share listing in an orderly manner.

Economic Capital Management

During the reporting period, the Bank continuously improved economic capital management, proactively enhanced the active economic capital management ability, optimized the economic capital allocation, enhanced economic capital quota management and strengthened the capital constraint and value transmission. The Bank embedded the idea of "compensated use of scarce capital" into its operations, enhanced the awareness of saving economic capital, and further pushed for capital-light allocation.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

List of Changes in Share Capital

Unit: Share

	December 31, 2017		Increase or decrease during the reporting period	December 31, 2018	
	Numbers of shares	Percentage (%)	(+,-)	Numbers of shares	Percentage (%)
I. Shares subject to selling restrictions					
1. RMB ordinary shares	61,174,407,000	75.50	-61,174,407,000	–	–
2. Overseas-listed foreign shares	6,254,480,000	7.72	-6,254,480,000	–	–
II. Shares not subject to selling restrictions					
1. RMB ordinary shares	–	–	+61,174,407,000	**61,174,407,000**	**75.50**
2. Overseas-listed foreign shares	13,601,687,000	16.79	+6,254,480,000	**19,856,167,000**	**24.50**
III. Total shares	81,030,574,000	100.00	–	**81,030,574,000**	**100.00**

As of the end of the reporting period, the Bank's total ordinary shareholders amounted to 2,967, among which, there were 2,962 H shareholders and 5 domestic shareholders. As of February 28, 2019, the total number of ordinary shareholders was 2,959, and there was no preference shareholders with restored voting rights. The top 10 ordinary shareholders are as follows:

Unit: Shares

Shareholders	Class of shares	Number of shares held	Shareholding percentage (%)	Increase or decrease in shares during the reporting period	Number of shares pledged or locked-up
China Post Group*	Domestic Shares	55,847,933,782	68.92	0	None
HKSCC Nominees Limited	H Shares	18,725,443,760	23.11	2,952,689,880	Unknown
China Life Insurance Company Limited*	Domestic Shares	3,341,900,000	4.12	0	None
China Telecommunications Corporation*	Domestic Shares	1,117,223,218	1.38	0	None
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.	Domestic Shares	738,820,000	0.91	0	None
JPMorgan China Investment Company II Limited	H Shares	642,670,000	0.79	0	None
International Finance Corporation	H Shares	474,290,000	0.59	0	None
Shenzhen Tencent Domain Computer Network Company Limited	Domestic Shares	128,530,000	0.16	0	None
LI KIU	H Shares	207,000	0.0003	0	Unknown
KWOK CHEE YIN	H Shares	200,000	0.0002	0	Unknown

Notes: 1. The shareholdings of H shareholders are based on the number of shares listed in the register of shareholders of the Bank set up by the H Share Registrar.

2. The total number of shares held by HKSCC Nominees Limited, as the nominee, is the total number of H Shares held by all institutions and individual investors registered with the company as of December 31, 2018.

3. * indicates the state-owned shareholders.

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

On September 27, 2017, the Bank issued non-public offshore preference shares totaling USD7.25 billion in the offshore market. A total of 362,500,000 shares were issued, each having a face value of RMB100 and was issued at a price of USD20. The dividend rate would be adjusted every 5 years, and within each adjustment period, the dividend rate would remain unchanged. The dividend rate would be the yield on five-year US treasury notes in the adjustment period plus a fixed interest spread, and the dividend rate of the first 5 years after issuance is 4.50%. The offshore preference shares of the Bank were listed on the Hong Kong Stock Exchange on September 28, 2017, and the net proceeds raised from the issuance were approximately RMB47.8 billion, which were all used to supplement the Bank's additional tier 1 capital.

Stock code of the offshore preference shares	Preference shares abbreviation	Issuing date	Issuing price (USD/share)	Initial dividend rate (%)	Issuing quantity (share)	Issuing amount (USD)	Listing date	Permitted trading volume (share)
4612	PSBC 17USDPREF	September 27, 2017	20	4.50	362,500,000	7,250,000,000	September 28, 2017	362,500,000

Number of Offshore Preference Shareholders and Shareholdings

As of the end of the reporting period, the total number of offshore preference shareholders (or proxies) of the Bank was 1. As of February 28, 2019, the total number of offshore preference shareholders (or proxies) of the Bank was 1. The top 10 offshore preference shareholders (or proxies) of the Bank are as follows:

Name of shareholders	Nature of shareholders	Class of shares	Increase or decrease during the reporting period (share)	Number of shares held at the end of the period (share)	Shareholding percentage (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked-up (share)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	–	362,500,000	100	–	Unknown

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

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

(3) "Shareholding percentage" refers to the percentage of offshore preference shares held by offshore preference shareholders in total number of offshore preference shares.

Profit Distribution of Offshore Preference Shares

During the reporting period, as per the resolution and authorization of the Shareholders' General Meeting, upon the review and approval at the meeting of the Board of Directors of the Bank held on June 28, 2018, the Bank distributed cash dividends to the offshore preference shareholders whose names appeared on the register of members on the record date on September 27, 2018, totaling USD362.5 million (pre-tax), of which USD326.25 million (after tax) were paid to the holders of offshore preference shares. For specific details, please refer to the announcement of the Bank dated June 28, 2018.

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

Redemption or Conversion of Offshore Preference Shares

During the reporting period, there was no redemption or conversion of the offshore preference shares issued by the Bank.

Restoration of Voting Rights of Offshore Preference Shares

During the reporting period, there was no restoration of voting rights of the offshore preference shares issued by the Bank.

Accounting Policies Adopted for Offshore Preference Shares and the Reasons Thereof

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

Substantial Shareholders

According to the Interim Measures on Equity management of Commercial Banks published by CBIRC, China Post Group, China Shipbuilding Industry Corporation ("CSIC") and Shanghai International Port (Group) Co., Ltd ("SIPG") are substantial shareholders of the Bank, as China Post Group holds more than 5% of interest in the Bank and one member of senior management from CSIC and SIPG each holds a concurrent post of director of the Bank.

Basic Information of Substantial Shareholders

Controlling Shareholders

The controlling shareholder of the Bank is China Post Group. China Post Group, a large-scale wholly state-owned enterprise, was established in accordance with the Law on Industrial Enterprises Owned by the Whole People of the People's Republic of China on October 4, 1995. It engages in various postal businesses in accordance with law, undertakes the obligations of general postal services and provides special postal services entrusted by the government. China Post Group has a registered capital of RMB108,821.49 million. Its registered address is No. 3 Financial Street, Xicheng District, Beijing. Its unified social credit code is 911000000000192465 and the legal representative is Mr. Liu Aili. China Post Group is principally engaged in domestic and international mail delivery and express delivery, distribution of publications such as newspapers, journals and books, stamp issuance, postal remittance, confidential correspondence, postal financial business, postal logistics, e-commerce, postal agency and other businesses as stipulated by the state.

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

Other Substantial Shareholders

Founded on July 1, 1999, CSIC is a wholly state-owned enterprise established under the Company Law and financed by the state with a registered capital of RMB63 billion. Its registered address is No. 72 Kunminghu Nan Lu, Haidian District, Beijing. Its uniform social credit code is 9111000071092446XA and the legal representative is Mr. Hu Wenming. CSIC is principally engaged in the research, development and production of naval products, merchant ships and supporting facilities as well as non-marine equipment and is one of the Global 500 companies in the shipping industry in the PRC.

SIPG has its registered address at 4/F, Area A, Comprehensive Building, No. 1 Tonghui Road, Luchaogang Town, Pudong New Area, Shanghai, and its head office at No. 358 East Daming Road, Hongkou District, Shanghai (International Port Building). Its unified social credit code is 913100001322075806 and the legal representative is Mr. Chen Xuyuan. The registered capital of SIPG is RMB23,173,674,650 and its ultimate controller is Shanghai State-owned Assets Supervision and Administration Commission. SIPG, the operator of the public terminals in the Port of Shanghai, is a large specialized business group established in January 2003 by restructuring the former Shanghai Port Administration Bureau. In June 2005, SIPG was transformed into a joint stock company after an overall restructuring, and was listed on the Shanghai Stock Exchange on October 26, 2006, becoming the first joint-stock port company listed as a whole in China. It is now the largest public company in the port industry in Mainland China and is also one of the largest port companies in the world. SIPG is mainly engaged in port-related business with main business including port handling, port service, port logistics and port commerce.

Share Pledge by Substantial Shareholders of the Bank

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

Related Parties of Substantial Shareholders and Transactions with Related Parties

The Bank managed approximately 1,300 enterprises as the related parties of the Bank including the above substantial shareholders and the controlling shareholder, actual controllers, related parties, persons acting in concert and ultimate beneficiaries. During the reporting period, the types of transactions between the Bank and the above related parties mainly included credit extension, service provision, and asset transfer, etc. These related transactions were included in the daily connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or filing.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

As at December 31, 2018, the Bank received notifications from the following persons regarding their interests or short positions in the shares and underlying shares of the Bank, which were recorded in the register required to be kept pursuant to Section 336 of the SFO as follows:

Name of shareholders	Capacity	Class of shares	Number of shares held (share)	Nature	Approximate percentage of total issued shares (%)	Approximate percentage of issued class shares (%)
China Post Group	Beneficial owner	Domestic Shares	55,847,933,782	Long position	68.92	91.29
China Life Insurance (Group) Company[1]	Interest of controlled corporations	Domestic Shares	3,341,900,000	Long position	4.12	5.46
China Life Insurance Company Limited[1]	Beneficial owner	Domestic Shares	3,341,900,000	Long position	4.12	5.46
USB Group AG[2]	Guaranteed interest and interest of controlled corporations	H Shares	4,411,248,294	Long position	5.44	22.22
	Interest of controlled corporations	H Shares	4,031,284,551	Short position	4.98	20.30
CSIC Investment One Limited[3]	Beneficial owner	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding Capital Limited[3]	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding & Offshore International (H.K.) Co., Limited[3]	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding & Offshore International Co., Limited[3]	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
China Shipbuilding Industry Corporation[3]	Interest of controlled corporations	H Shares	3,574,515,000	Long position	4.41	18.00
Shanghai International Port Group (HK) Co., Limited[4]	Beneficial owner and interest of controlled corporations	H Shares	3,349,490,000	Long position	4.13	16.87
Shanghai Port Group (BVI) Holding Co., Limited[4]	Beneficial owner	H Shares	1,600,000,000	Long position	1.97	8.06
Shanghai International Port (Group) Co., Ltd.[4]	Interest of controlled corporations	H Shares	3,349,490,000	Long position	4.13	16.87

Name of shareholders	Capacity	Class of shares	Number of shares held (share)	Nature	Approximate percentage of total issued shares (%)	Approximate percentage of issued class shares (%)
CITIC Securities Company Limited[5]	Interest of controlled corporations	H Shares	2,906,990,029	Long position	3.59	14.64
	Interest of controlled corporations	H Shares	4,206,771,526	Short position	5.19	21.19
Li Ka-Shing[6]	Interest of controlled corporations	H Shares	2,267,364,000	Long position	2.80	11.42
Li Tzar Kuoi, Victor[6]	Interest of controlled corporations	H Shares	2,267,364,000	Long position	2.80	11.42
Li Ka Shing (Canada) Foundation[6]	Beneficial owner	H Shares	1,108,228,000	Long position	1.37	5.58
China National Tobacco Corporation	Beneficial owner	H Shares	1,296,000,000	Long position	1.60	6.53
JPMorgan Chase & Co.[7]	Beneficiary owner, investment manager, guaranteed interest and approved lending agent	H Shares	1,310,366,957	Long position	1.62	6.59
	Beneficiary owner, investment manager	H Shares	185,926,003	Short position	0.23	0.93
	Approved lending agent	H Shares	117,655,424	Lending pool	0.15	0.59

(1) China Life Insurance (Group) Company, an enterprise owned by the whole people, holds approximately 68.37% shares of China Life Insurance Company Limited and is therefore deemed to be interested in the total 3,341,900,000 domestic shares held by China Life Insurance Company Limited under the SFO.

(2) According to the disclosure of interests form submitted by UBS Group AG, UBS Group AG is interested in the total 4,411,248,294 H Shares (long position) and 4,031,284,551 H Shares (short position), including 69,574,232 H Shares (long position) held as a guaranteed interest holder, as well as 4,341,674,062 H Shares (long position) and 4,031,284,551 H Shares (short position) held through its controlled corporation. The interests include derivative interests, of which 149,263,336 (long position) and 1,551 (short position) underlying shares are derived from listed and physically settled derivatives; 680,378,000 (long position) and 3,350,905,000 (short position) underlying shares derived from unlisted and physically settled derivatives; and 8,755,101 (long position) and 680,378,000 (short position) underlying shares derived from unlisted and cash settled derivatives.

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

(4) According to the disclosure of interests forms submitted by Shanghai International Port Group (HK) Co., Limited, Shanghai Port Group (BVI) Holding Co., Limited and Shanghai International Port (Group) Co., Ltd., Shanghai International Port Group (HK) Co., Limited is interested in the total 3,349,490,000 H Shares (long position), of which 1,749,490,000 H Shares are beneficially owned and 1,600,000,000 H Shares are held by Shanghai Port Group (BVI) Holding Co., Limited of which 100% shares are directly owned by it. The State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is the controlling shareholder of Shanghai International Port (Group) Co., Ltd. Shanghai International Port (Group) Co., Ltd. is the controlling shareholder of Shanghai International Port Group (HK) Co., Limited. They are therefore deemed to be interested in the total 3,349,490,000 H Shares held by Shanghai International Port Group (HK) Co., Limited under the SFO.

(5) According to the disclosure of interests form submitted by CITIC Securities Company Limited, CITIC Securities Company Limited is interested in the total 2,906,990,029 H Shares (long position) and 4,206,771,526 H Shares (short position) through its controlled corporation. The interests include derivative interests, of which 1,027,907,710 (long position) and 1,297,692,946 (short position) underlying shares are derived from listed derivatives (convertible instruments); 1,625,000,000 (long position) and 1,624,998,000 (short position) underlying shares derived from unlisted and physically settled derivatives; and 254,082,319 (long position) and 1,284,080,580 (short position) underlying shares derived from unlisted and cash settled derivatives.

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

(7) According to the disclosure of interests form submitted by JPMorgan Chase & Co., JPMorgan Chase & Co. is interested in the total 1,310,366,957 H Shares (long position), 185,926,003 H Shares (short position) and 117,655,424 H Shares (lending pool), including the 767,387,204 H Shares (long position) and 165,298,003 H Shares (short position) held as a beneficiary owner, the 424,900,329 H Shares (long position) and 20,628,000 H Shares (short position) held as an investment manager, 424,000 H Shares (long position) held as a guaranteed interest holder of shares, and 117,655,424 H Shares (lending pool) held as an approved lending agent. The interests include derivative interests, of which 8,279,000 (short position) underlying shares are derived from listed and cash settled derivatives; 4,005,000 (long position) and 1,686,596 (short position) underlying shares derived from unlisted and physically settled derivatives; 5,000 (long position) and 19,253,000 (short position) underlying shares derived from unlisted and cash settled derivatives; and 208,313,631 (long position) and 15,600,448 (short position) underlying shares derived from listed derivatives (convertible instruments).

Issuance and Listing of Securities

For details of the issuance of securities of the Bank during the reporting period, please refer to “Notes to the Consolidated Financial Statements — 32 Debt securities issued” and “Notes to the Consolidated Financial Statements — 34.2 Other equity instruments".

Directors, Supervisors and Senior Management

Basic Information

Name	Title	Gender	Age	Term of Office
Directors				
Zhang Xuewen	Executive Director	Male	57	January 2013 - May 2019
	Vice President			January 2013-
Yao Hong	Executive Director	Female	53	August 2016 - August 2019
	Vice President			December 2006 -
Han Wenbo	Non-executive Director	Male	53	May 2017 - May 2020
Tang Jian	Non-executive Director	Male	59	January 2013 - May 2019
Liu Yaogong	Non-executive Director	Male	52	May 2017 - May 2020
Chin Hung I David	Non-executive Director	Male	51	August 2016 - August 2019
Liu Yue	Non-executive Director	Male	57	December 2017 - December 2020
Ding Xiangming	Non-executive Director	Male	51	October 2017 - October 2020
Ma Weihua	Independent Non-executive Director	Male	71	January 2014 - January 2020
Bi Zhonghua	Independent Non-executive Director	Female	67	January 2014 - January 2020
Fu Tingmei	Independent Non-executive Director	Male	53	August 2016 - August 2019
Gan Peizhong	Independent Non-executive Director	Male	63	August 2016 - August 2019
Hu Xiang	Independent Non-executive Director	Male	44	October 2017 - October 2020
Supervisors				
Chen Yuejun	Chairman of the Board of Supervisors	Male	54	January 2013 - May 2019
Li Yujie	Shareholder Representative Supervisor	Male	58	May 2016 - May 2019
Zhao Yongxiang	Shareholder Representative Supervisor	Male	55	May 2016 - May 2019
Zeng Kanglin	External Supervisor	Male	81	May 2016 - May 2019
Guo Tianyong	External Supervisor	Male	51	December 2013 - March 2020
Wu Yu	External Supervisor	Male	53	May 2016 - May 2019
Li Yue	Employee Supervisor	Male	47	December 2012 - March 2019
Song Changlin	Employee Supervisor	Male	54	March 2016 - March 2019
Bu Dongsheng	Employee Supervisor	Male	54	May 2017 - May 2020

Name	Title	Gender	Age	Term of Office
Senior Management				
Zhang Xuewen	See "Directors" above			
Yao Hong	See "Directors" above			
Qu Jiawen	Vice President	Male	56	January 2013-
Xu Xueming	Vice President	Male	52	January 2013-
Shao Zhibao	Vice President	Male	57	January 2013-
Liu Hucheng	Secretary to the Party Discipline Inspection Committee	Male	53	January 2017 -
Du Chunye	Secretary to the Board of Directors	Male	42	April 2017 -
	Joint Company Secretary			March 2017 -
Resigned Personnel				
Li Guohua	Former Chairman of the Board of Directors	Male	59	January 2012 - August 2018
	Former Non-executive Director			December 2006 - August 2018
Lyu Jiajin	Former Executive Director	Male	51	December 2006 - January 2019
	Former President			January 2013 - January 2019

1. The actual terms of directors, supervisors and senior management of the Bank shall start from the date of approval by regulatory authorities (if approval is needed).

2. This section sets forth the information about directors, supervisors and senior management of the Bank as of the Latest Practicable Date.

Biographies of Directors

Zhang Xuewen, Executive Director, Vice President

Zhang Xuewen, male, obtained a doctor's degree in economics from Dongbei University of Finance and Economics and holds the title of senior economist. Mr. Zhang has served as Executive Director and Vice President of the Bank since January 2013. He has performed the duties on behalf of the Chairman and President since the resignation of Lyu Jiajin on January 4, 2019. He previously served as Deputy Director of the Internal Trade Division II of the Trade Finance Department of the MOF, Deputy Director of the Grain Division of the Economy and Trade department of the MOF, Deputy Director and Director of the Grain Division of the Economic Development Department of the MOF, and Deputy Director General of the Economic Development Department of the MOF, etc. In addition, Mr. Zhang concurrently serves as Deputy Chairman of the Rural Social Insurance Commission of China Social Insurance Association and Deputy Chairman of the Banking Accounting Society of China.

Yao Hong, Executive Director, Vice President

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

Han Wenbo, Non-Executive Director

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

Tang Jian, Non-executive Director

Tang Jian, male, obtained a master's degree in economics from Dongbei University of Finance and Economics and holds the title of senior economist. Mr. Tang has served as Non-executive Director of the Bank since January 2013. He previously served as Deputy Director of the General Business Division and Deputy Director of the Management Division II of the Foreign Financial Institution Department under the PBOC, Assistant Consultant and Deputy Director of the Policy Bank Regulatory Division, Deputy Director of the Policy Bank Regulatory Division I, Deputy Director and Consultant of the Postal Savings Institution Supervision Division of the Bank Regulatory Department I of the PBOC, Director of the Postal Savings Institution Supervision Division of the Banking Regulatory Department III, Director of the Postal Savings Institution On-site Supervision Division of the Banking Regulatory Department IV, Director of the On-site Supervision Division of the Banking Regulatory Department IV, and Associate Counsel of the Banking Regulatory Department IV of the China Banking Regulatory Commission (now CBIRC), etc.

Liu Yaogong, Non-executive Director

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

Chin Hung I David, Non-executive Director

Chin Hung I David, male, obtained a Master of Arts degree from the University of Cambridge, United Kingdom and is qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales. Mr. Chin has served as Non-executive Director of the Bank since August 2016. He held a number of positions successively at UBS Investment Bank, including the head of financial institutions group Asia, the head of investment banking Asia, and the head and a senior advisor of corporate client solutions Asia. He also served as an alternate chief executive of UBS AG Hong Kong Branch and a member of the UBS Asia Pacific Executive Committee, etc. He is now the head of corporate client solutions division of UBS Asia Pacific.

Liu Yue, Non-executive Director

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

Ding Xiangming, Non-executive Director

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

Ma Weihua, Independent Non-executive Director

Ma Weihua, male, obtained a doctor's degree from the Southwestern University of Finance and Economics. Mr. Ma has served as Independent non-executive Director of the Bank since January 2014. He previously served as President, Chief Executive Officer and Executive Director of China Merchants Bank Co., Ltd., Chairman of CIGNA & CMB Life Insurance Co. Ltd., Chairman of China Merchants Fund 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, Independent Director of Guotai Junan Securities Co., Ltd., and Independent Non-executive Director of China Resources Land Limited, etc. He currently serves as a member of the standing council of the China Society for Finance and Banking, Independent Non-executive Director of China Eastern Airlines Co., Ltd., Independent Director of China International Trade Center Co., Ltd., Independent Non-executive Director of Legend Holdings Corporation, Chairman of the Board of Supervisors of Taikang Insurance Group Inc and Chairman of Bison Finance Group Limited (formerly known as Roadshow Holdings Limited).

Bi Zhonghua, Independent Non-executive Director

Bi Zhonghua, female, graduated from Xiamen University and holds the title of senior economist. Ms. Bi has served as Independent Non-executive Director of the Bank since January 2014. She previously served as Section Chief and Deputy Director at Fuzhou branch of Bank of China Limited, Deputy General Manager and General Manager of the International Business Department, General Manager of the Operations Department, Associate President, Vice President, and Chairwoman of the Board of Supervisors of Industrial Bank Co., Ltd., and Deputy Director (serving temporary position) of the Research Office under the Central Financial Work Commission of the Communist Party of China, etc. She currently serves as Independent Director of COFCO Trust Co., Ltd..

Fu Tingmei, Independent Non-executive Director

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

Gan Peizhong, Independent Non-executive Director

Gan Peizhong, male, obtained a doctor's degree in law from Peking University. Mr. Gan has served as Independent Non-executive Director of the Bank since August 2016. He previously served as Independent Director of Beijing North Star Company Limited, Chuying Agro-pastoral Group Co., Ltd., Foxit Software Incorporated, Hebei Xiaojin Machinery Manufacturing Inc., Beyondsoft Corporation and Inly Media Co., Ltd. He also served as an arbitrator at the China International Economic and Trade Arbitration Commission. He now is a professor at Peking University Law School. He concurrently serves as Independent Director of Beijing Tongtech Co., Ltd., Independent Director of Beijing Thunisoft Corporation Limited, Independent Director of Suzhou Douson Drilling & Production Equipment Co., Ltd., Independent Director of Jinhui Liquor Co., Ltd., Vice President of China 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, a fourth-term Special Advisor to the Supreme People's Court of China, a member and an adjunct professor of the Expert Consultation Commission of the Second Intermediate People's Court of Beijing Municipality, Chairman of the China Association of Business Law, Specially Invited Advisor of the Supreme People's Court, and Legal Adviser of Liaoning Provincial People's Government.

Hu Xiang, Independent Non-executive Director

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

Biographies of Supervisors

Chen Yuejun, Chairman of the Board of Supervisors

Chen Yuejun, male, obtained a doctor's degree in economics from the Southwestern University of Finance and Economics and holds the title of senior economist. Mr. Chen has served as Chairman of the Board of Supervisors of the Bank since January 2013. He previously served as Deputy Director of the Bank Division I of the Audit Supervision Bureau of PBOC, Deputy Director and Director of the Policy Bank Supervision Division, Director of the Policy Bank Supervision Division I, Director of the Policy Bank Supervision Division II of Bank Supervision Department I of the PBOC, Director of Policy Bank Supervision Division II of Bank Regulatory Department III, Deputy Chief of the Sichuan Regulatory Bureau, Deputy Director of the Banking Regulatory Department IV of the China Banking Regulatory Commission (now CBIRC), and Director (Director General level) of the Finance Department of the People's Government of Sichuan Province, etc.

Li Yujie, Shareholder Representative Supervisor

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

Zhao Yongxiang, Shareholder Representative Supervisor

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

Zeng Kanglin, External Supervisor

Zeng Kanglin, male, graduated from Sichuan Finance and Economics College, and is a professor. Mr. Zeng has served as External Supervisor of the Bank since May 2016. He previously served as a doctoral tutor, Dean of the Finance Department, Director of Financial Research Institute and Chairman of Academic Committee and other positions at the Southwestern University of Finance and Economics. He currently serves as Honorary Director of Institute of Chinese Financial Studies at the Southwestern University of Finance and Economics and Independent Director of China Film Co., Ltd..

Guo Tianyong, External Supervisor

Guo Tianyong, male, obtained a doctor's degree in economics from the Financial Research Institute of the PBOC and is a professor. Mr. Guo has served as External Supervisor of the Bank since December 2013. He currently serves as a professor and doctoral tutor of the School of Finance at the Central University of Finance and Economics. He concurrently serves as Independent Director of Digiwin Software Co., Ltd., Hundsun Technologies Inc. and Zhejiang Orient Holdings Co., Ltd..

Wu Yu, External Supervisor

Wu Yu, male, obtained a bachelor's degree in law from Renmin University of China and is qualified as a senior editor. Mr. Wu has served as External Supervisor of the Bank since May 2016. He previously served as Chief Editor of Entrepreneurship Weekly Publication, Deputy Director of Chief Editor Office, and Director (Deputy Chief Level) of the Finance News Department at Economic Daily Society, etc. He currently serves as Senior Vice President and Director of ChemChina Asset Management Co., Ltd. He concurrently serves as Vice President of Investment Association of Central SOEs and Director of Sichuan Tianyi Science & Technology Co., Ltd..

Li Yue, Employee Supervisor

Li Yue, male, obtained a bachelor's degree in arts from Heilongjiang University and is qualified as senior corporate culture specialist. Mr. Li has served as Employee Supervisor of the Bank since December 2012. He previously served as Project Manager of the Investment Attraction Bureau, Deputy Director and Director of Beijing Liaison Office of Jiangsu Nantong Economic & Technological Development Area, Deputy Director of Beijing Liaison Office of Nantong People's Government of Jiangsu Province, as well as Deputy Director (presiding over the work) of Party-Masses Work Department, Deputy Director of Inspection and Supervision Department and Director of Party-Masses Work Department of the Bank, etc. He currently serves as Director of Party Committee and Party Building Department, Chairman of the Head Office Labor Union and Secretary of the Head Office Party Discipline Inspection Committee of the Bank.

Song Changlin, Employee Supervisor

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

Bu Dongsheng, Employee Supervisor

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

Biographies of Senior Management

For detailed biographies of Mr. Zhang Xuewen and Ms. Yao Hong, please see "Biographies of Directors" in this section. The biographies of other senior management members are as follows:

Qu Jiawen, Vice President

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

Xu Xueming, Vice President

Xu Xueming, male, obtained an executive master of business administration degree from Peking University and holds the title of senior economist. Mr. Xu has served as Vice President of the Bank since January 2013. He previously served as Deputy Chief of Beijing Postal Savings and Remittance Bureau, Director of the Public Service Division of the Beijing Postal Administration Bureau, Chief of Beijing Western Post Bureau, Deputy Chief of Beijing Postal Administration Bureau, Deputy General Manager of Beijing Post Company, President of Beijing Branch and Secretary to the Board of Directors of the Bank, etc. He concurrently serves as Director of China Post Securities Company Limited and Director of China Bankers Institute of China Banking Association.

Shao Zhibao, Vice President

Shao Zhibao, male, obtained an executive master of business administration degree from Jinan University and is qualified as a senior accountant. Mr. Shao has served as Vice President of the Bank since January 2013 and has concurrently served as President of the Sannong Finance Department of the Bank since September 2016. He previously served as Associate General Manager and Deputy General Manager of Guangdong Southern Communication Group Company, Deputy Director and Director of the Planning and Finance Division, Associate Chief and Deputy Chief of Guangdong Post Bureau, Deputy General Manager of Guangdong Post Company, and President of Guangdong Branch of the Bank, etc. He concurrently serves as an Executive Council member and Vice Chairman of China Institute of Rural Finance.

Liu Hucheng, Secretary to the Party Discipline Inspection Committee

Liu Hucheng, male, obtained a master's degree in business administration from Liaoning University and is qualified as a senior accountant. Mr. Liu has served as a member of the discipline inspection team of the Leading Party Group of China Post Group, head of the discipline inspection team stationed in the Bank and Secretary to the Party Discipline Inspection Committee of Postal Savings Bank of China of the Communist Party of China since January 2017. He previously served as Deputy Director, Deputy Director (presiding over the work) and Director of the Planning and Finance Division of Hebei Post Bureau, as well as the responsible person and General Manager of the Finance and Accounting Department, General Manager of the Planning and Finance Department and President of Henan Branch of the Bank, etc.

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

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

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

In ten thousands of RMB

		Remuneration before tax from the Bank in 2018			
Name	Title	Fees (1)	Remuneration paid (2)	Contribution by the employer to social insurance, housing fund and enterprise annuity, etc. (3)	Total(4)=(1)+(2)+(3)
Zhang Xuewen	Executive Director, Vice President	–	46.01	17.44	63.45
Yao Hong	Executive Director, Vice President	–	43.72	17.23	60.95
Han Wenbo	Non-executive Director	–	–	–	–
Tang Jian	Non-executive Director	–	–	–	–

		Remuneration before tax from the Bank in 2018			
Name	Title	Fees (1)	Remuneration paid (2)	Contribution by the employer to social insurance, housing fund and enterprise annuity, etc. (3)	Total(4)= (1)+(2)+(3)
Liu Yaogong	Non-executive Director	–	–	–	–
Chin Hung I David	Non-executive Director	–	46.39	–	46.39
Liu Yue	Non-executive Director	–	–	–	–
Ding Xiangming	Non-executive Director	–	–	–	–
Ma Weihua	Independent Non-executive Director	45.00	–	–	45.00
Bi Zhonghua	Independent Non-executive Director	30.00	–	–	30.00
Fu Tingmei	Independent Non-executive Director	30.00	–	–	30.00
Gan Peizhong	Independent Non-executive Director	30.00	–	–	30.00
Hu Xiang	Independent Non-executive Director	27.50	–	–	27.50
Chen Yuejun	Chairman of the Board of Supervisors	–	46.18	17.51	63.69
Li Yujie	Shareholder Representative Supervisor	–	–	–	–
Zhao Yongxiang	Shareholder Representative Supervisor	–	–	–	–
Zeng Kanglin	External Supervisor	24.00	–	–	24.00
Guo Tianyong	External Supervisor	24.00	–	–	24.00
Wu Yu	External Supervisor	–	–	–	–
Li Yue	Employee Supervisor	–	–	–	–
Song Changlin	Employee Supervisor	–	–	–	–
Bu Dongsheng	Employee Supervisor	–	–	–	–
Qu Jiawen	Vice President	–	43.68	17.31	60.99

Name	Title	Remuneration before tax from the Bank in 2018 Fees (1)	Remuneration paid (2)	Contribution by the employer to social insurance, housing fund and enterprise annuity, etc. (3)	Total(4)= (1)+(2)+(3)
Xu Xueming	Vice President	–	43.68	17.15	60.83
Shao Zhibao	Vice President	–	43.68	17.74	61.42
Liu Hucheng	Secretary to the Party Discipline Inspection Committee	–	41.22	17.18	58.40
Du Chunye	Secretary to the Board of Directors, Joint Company Secretary	–	37.83	15.83	53.66
Resigned Personnel					
Li Guohua	Former Chairman of the Board of Directors, Former Non-executive Director	–	–	–	–
Lyu Jiajin	Former Executive Director, Former President	–	–	–	–

Notes: 1. In accordance with the relevant requirements, the final remuneration of directors, supervisors and senior management members of the Bank is still subject to confirmation and additional details of remuneration will be disclosed upon confirmation.

2. In accordance with actual management measures, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Liu Yue and Mr. Ding Xiangming, as Non-executive Directors of the Bank, did not receive remuneration from the Bank.

3. Mr. Li Yujie and Mr. Zhao Yongxiang, as Shareholder Representative Supervisors of the Bank, did not receive remuneration from the Bank.

4. Mr. Wu Yu, as External Supervisor of the Bank, did not receive remuneration from the Bank.

5. Employee supervisors of the Bank did not receive remuneration from the Bank as employee supervisors, and the compensation due to them as employees of the Bank is not included here.

6. Mr. Li Guohua, the former Chairman of the Board of Directors and Non-executive Director the Bank, and Mr. Lyu Jiajin, the former Executive Director and President of the Bank, received remuneration from China Post Group, the controlling shareholder of the Bank, and did not receive remuneration from the Bank.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On June 28, 2018, Mr. Li Guohua was re-elected as a non-executive director of the Bank at the 2017 Annual General Meeting of the Bank with the renewed term of office starting from June 28, 2018. For details, please refer to the circular of the Bank dated May 14, 2018 and the announcement on poll results of the Bank dated June 28, 2018. On August 17, 2018, Mr. Li Guohua resigned from positions of Chairman, Non-executive Director and Chairman and member of Strategic Planning Committee of the Board of Directors due to change of job. Mr. Lyu Jiajin started to perform the duties on behalf of the Chairman and Chairman of the Strategic Planning Committee of the Board of Directors immediately after the departure of Mr. Li Guohua, with effect from August 17, 2018. For details, please refer to the resignation announcement of the Bank dated August 17, 2018. On January 4, 2019, Mr. Lyu Jiajin resigned from positions of Executive Director and President of the Bank, Chairman and member of Social Responsibility and Consumer Rights Protection Committee, member of Strategic Planning Committee, member of Risk Management Committee, member of Nomination and Remuneration Committee of the Board of Directors, as well as his duties on behalf of the Chairman and Chairman of Strategic Planning Committee of the Board of Directors due to change of job. Mr. Zhang Xuewen started to perform the duties on behalf of the Chairman, President and Chairman of the Strategic Planning Committee of the Board of Directors, and Ms. Yao Hong started to perform the duties on behalf of the Chairman of Social Responsibility and Consumer Rights Protection Committee immediately after the departure of Mr. Lyu Jiajin, with effect from January 4, 2019. For details, please refer to the announcement of the Bank dated January 4, 2019. On February 21, 2019, the Board of Directors of the Bank held a meeting and nominated Mr. Zhang Jinliang as a non-executive director candidate of the Bank. On April 8, 2019, the 2019 First Extraordinary General Meeting of the Bank considered and approved the proposal on the election of Mr. Zhang Jinliang as a Non-executive Director of the Bank. On the same day, the Board of Directors of the Bank held a meeting and considered and unanimously approved the proposal on the election of Mr. Zhang Jinliang as the Chairman of the Bank. The qualification of Mr. Zhang Jinliang is still subject to the approval of the CBIRC. For details, please refer to the announcement of the Bank dated April 8, 2019.

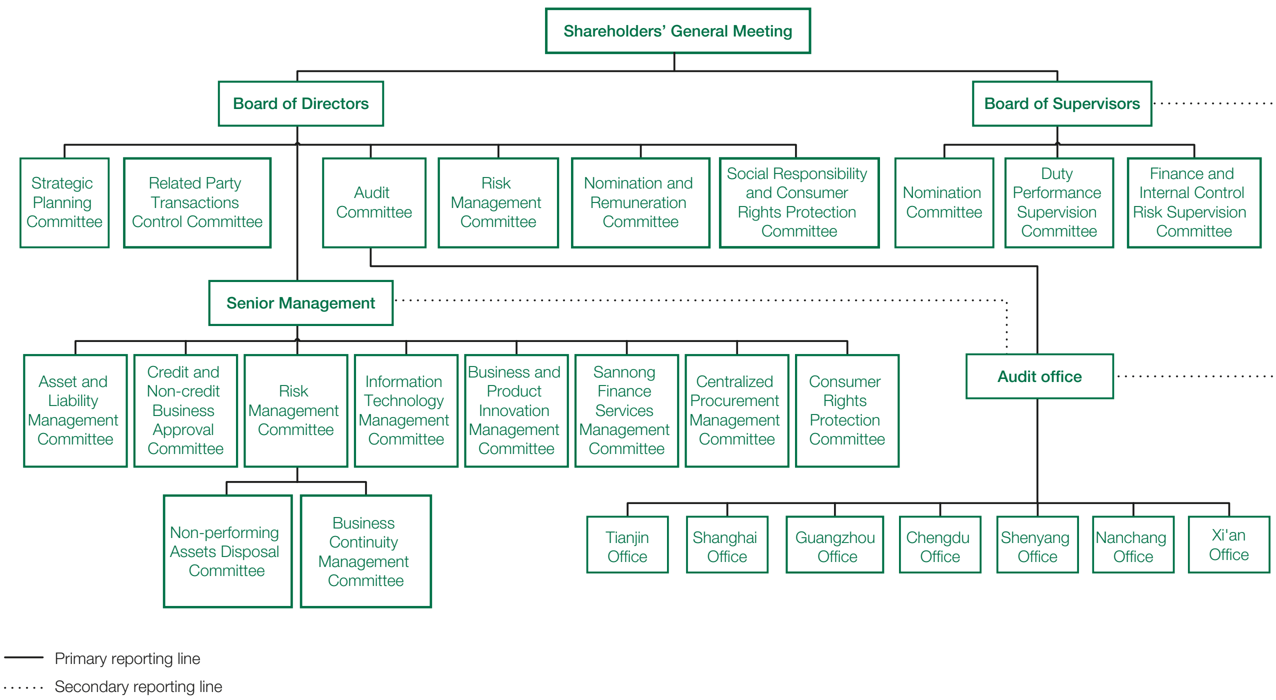
Changes in Supervisors

During the reporting period, there were no changes in supervisors.

Changes in Senior Management

Save as the matters relating to the changes in directors as disclosed above, there were no other changes in senior management during the reporting period.

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



Corporate Governance Code

During the reporting period, the Bank complied with the 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 actively performed its corporate governance duties. It is responsible for amending the Articles of Association, the Rules of Procedures of Shareholders' General Meetings and the Rules of Procedures of the meetings of the Board of Directors, establishing relevant corporate governance systems and continuously improving the Bank's corporate governance. The Board of Directors has established several special committees which perform their functions strictly in accordance with the applicable requirements of corporate governance.

Shareholders' Rights

Convening of an Extraordinary General Meeting

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

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

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

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

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

Proposals to the Shareholders' General Meeting

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

Proposals to the Board of Directors

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

Enquiries to the Board of Directors

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

Shareholders' General Meeting

During the reporting period, the Bank held 1 Shareholders' General Meeting, 1 domestic shareholders' class meeting, and 1 H shareholders' class meeting in total. It considered and approved 15 proposals, including 2017 Work Report of the Board of Directors, 2017 Work Report of the Board of Supervisors, final financial accounts for 2017 and profit distribution plan for 2017, the appointment of the accounting firm for 2018 and the remuneration settlement plan for directors and supervisors for 2016. It listened to 2 reports, including the 2017 Report on Related Party Transactions and the Implementation of the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors. 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. The Bank's auditor attended the 2018 Annual General Meeting and responded to the questions about audit work and the preparation of auditor's report. For details of the meeting, please refer to the announcements of the Bank dated May 14, 2018 and June 28, 2018.

Board of Directors and Special Committees

Functions and Powers of the Board of Directors

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

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

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

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

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

(9) to consider and approve the working rules of the president proposed by the president;

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

(11) to decide on or authorize the president to decide on matters within the terms of reference of the Board of Directors, including other external investments, asset acquisitions, asset disposals, asset write-offs and external guarantees of the Bank;

(12) to appoint and dismiss the president and the secretary to the Board of Directors according to the proposals of the Chairman of the Board of Directors;

(13) to appoint and dismiss the vice presidents and other members of senior management according to the nomination of the president;

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

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

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

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

(18) to formulate stock incentive schemes;

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

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

(21) to consider and approve the proposals submitted by the committees of the Board of Directors;

(22) to consider and approve or to authorize the Related Party Transactions Control Committee of the Board of Directors to approve related party transactions (other than those which shall be 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;

(23) 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;

(24) to consider the execution and rectification of regulatory suggestions from the banking regulatory authority of the State Council to the Bank;

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

Composition of the Board of Directors and Board Diversity Policy

Composition of the Board of Directors

As of the Latest Practicable Date, the Board of Directors consisted of 13 directors in total, including 2 Executive Directors: Mr. Zhang Xuewen and Ms. Yao Hong; 6 Non-executive Directors: Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Chin Hung I David, Mr. Liu Yue and Mr. Ding Xiangming; 5 Independent Non-executive Directors: Mr. Ma Weihua, Ms. Bi Zhonghua, Mr. Fu Tingmei, Mr. Gan Peizhong and Mr. Hu Xiang. The executive directors have long been engaged in financial or postal financial operation and management, and are familiar with the operation and management of the Bank; most of the non-executive directors come from regulatory authorities, well-known international financial institutions and large state-owned enterprises, and have rich management experience and professional expertise; independent non-executive directors are well-known experts in the fields of economy, finance and law, and can provide professional advice to the Bank in different fields. As of the Latest Practicable Date, there were 5 independent non-executive directors in the Board of Directors of the Bank, accounting for more than one-third of the total number of Board members, and there were 2 female directors in the Board of Directors, which met relevant regulatory requirements. Please refer to "Directors, Supervisors and Senior Management" for details on the incumbent directors.

Board Diversity Policy

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

Meetings of the Board of Directors

During the reporting period, the Bank convened a total of 16 meetings of the Board of Directors, conducting in-depth review and study on a total of 70 material matters, including annual review matters (such as assets and liabilities business allocation plan, economic capital allocation proposal, business plans and financial budgets, fixed assets investment budget, final accounts plan and proposed profit distribution scheme), specific proposed topics (such as the three-year rolling capital plan from 2018 to 2020, credit card IT plan, and the three-year plan for preventing and mitigating major risks), the proposal on the extension of the plan for initial public offering and listing of RMB ordinary shares (A-share), equity participation in State Financing Guarantee Fund, the work report on deepening the rectification of irregularities in banking industry, and the establishment of a wealth management subsidiary; and listening to 14 reports, including 2017 audit work report and 2018 audit work plan, 2017 case-prevention work summary and 2018 case-prevention work plan, and 2018 comprehensive risk management profile for the first quarter. During the reporting period, the Bank held a meeting attended only by the Chairman (interim) and non-executive directors (including independent non-executive directors) in October 2018.

Attendance of Directors at Meetings

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

Number of attendance in person/meetings requiring attendance*

Directors	Shareholders' General Meeting	Board of Directors	Strategic Planning Commission	Related Party Transactions Control Commission	Audit Commission	Risk Management Committee	Nomination and Remuneration Committee	Social Responsibility and Consumer Rights Protection Committee
Executive Directors								
Zhang Xuewen	3/3	16/16	7/7	5/5	–	–	5/5	–
Yao Hong	3/3	14/16	5/7	4/5	–	–	–	4/4
Non-executive Directors								
Han Wenbo	3/3	16/16	7/7	–	–	9/9	–	–
Tang Jian	3/3	16/16	–	–	–	9/9	–	4/4
Liu Yaogong	3/3	16/16	–	–	8/8	9/9	–	–
Chin Hung I David	3/3	16/16	–	–	7/8	–	–	3/4
Liu Yue	3/3	15/16	6/7	–	7/8	–	–	–
Ding Xiangming	3/3	16/16	–	–	–	4/9	–	4/4
Independent Non-executive Directors								
Ma Weihua	0/3	14/16	5/7	5/5	5/8	–	–	–
Bi Zhonghua	3/3	15/16	–	4/5	8/8	–	5/5	4/4
Fu Tingmei	3/3	16/16	–	5/5	–	–	5/5	–
Gan Peizhong	3/3	16/16	–	–	7/8	6/9	5/5	–
Hu Xiang	3/3	16/16	7/7	–	8/8	–	–	–
Resigned Directors								
Li Guohua	3/3	9/10	4/4	–	–	–	–	–
Lyu Jiajin	3/3	15/16	7/7	–	–	7/9	5/5	4/4

* 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 designated other directors as proxies to attend and to vote on their behalf at the meetings.

Special Committees of the Board of Directors

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

On August 17, 2018, since Mr. Li Guohua resigned from the positions of chairman and member of the Strategic Planning Committee of the Board of Directors, Mr. Lyu Jiajin started to perform the duties on behalf of the chairman of the Strategic Planning Committee of the Board of Directors, immediately after the departure of Mr. Li Guohua. On January 4, 2019, Mr. Lyu Jiajin resigned from the positions of the Executive Director and President of the Bank, chairman and member of Social Responsibility and Consumer Rights Protection Committee, member of Strategic Planning Committee, member of Risk Management Committee, member of Nomination and Remuneration Committee of the Board of Directors, as well as his duties on behalf of the Chairman and chairman of Strategic Planning Committee of the Board of Directors. Mr. Zhang Xuewen started to perform the duties on behalf of the Chairman, President and chairman of the Strategic Planning Committee of the Board of Directors, and Ms. Yao Hong started to perform the duties on behalf of the chairman of Social Responsibility and Consumer Rights Protection Committee, immediately after the departure of Mr. Lyu Jiajin, with effect from January 4, 2019. For details, please refer to "Directors, Supervisors and Senior Management — Changes in Directors".

Strategic Planning Committee

As of the Latest Practicable Date, the Strategic Planning Committee of the Bank comprised 6 directors, including Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors, Mr. Han Wenbo and Mr. Liu Yue as Non-executive Directors, and Mr. Ma Weihua and Mr. Hu Xiang as Independent Non-executive Directors. The Strategic Planning Committee is chaired by Mr. Zhang Xuewen (interim). The Strategic Planning Committee primarily performs such duties as considering the Bank's business objectives, overall strategic development plan and specific strategic development plan, the Bank's strategic capital allocation and assets and liabilities management objectives, business development plan, major investment and financing plans and other matters significant to the development of the Bank and proposing suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee convened 7 meetings, considered and discussed 16 proposals, including credit card IT plan, establishing a wealth management subsidiary, 2018 assets and liabilities business allocation plan, fixed assets investment budget, and economic capital allocation plan etc. It also proposed constructive opinions and suggestions to the Board of Directors in the aspects including specific strategic development plan, major investment and financing plans, assets and liabilities business allocation plan, and fixed assets investment budget.

Related Party Transactions Control Committee

As of the Latest Practicable Date, the Related Party Transactions Control Committee of the Bank comprised 5 directors, including Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors, and Mr. Ma Weihua, Ms. Bi Zhonghua and Mr. Fu Tingmei as Independent Non-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 managing matters on related party transactions of the Bank, reviewing the basic management system for related party transactions, supervising their implementation and making recommendations to the Board of Directors; verifying related parties of the Bank, reporting to the Board of Directors and Board of Supervisors, and informing relevant staff of the Bank in a timely manner; and reviewing major related party transactions or related party transactions subject to the approval of the Board of Directors or Shareholders' General Meeting, and submitting to the Board of Directors or the Shareholders' General Meeting through the Board of Directors for approval.

During the reporting period, the Related Party Transactions Control Committee convened 5 meetings and considered 5 proposals, including special report on related party transactions in 2017, estimated caps on related party transactions in 2019-2021, report on list of related parties, administrative measures on related party transactions (revised edition 2018). The Related Party Transactions Control Committee provided constructive opinions and suggestions to the Board of Directors on strengthening the management over the Bank's related parties and related party transactions.

Audit Committee

As of the Latest Practicable Date, the Audit Committee of the Bank comprised 7 directors, including Mr. Liu Yaogong, Mr. Chin Hung I David and Mr. Liu Yue as Non-executive Directors, as well as Ms. Bi Zhonghua, Mr. Ma Weihua, Mr. Gan Peizhong and Mr. Hu Xiang as Independent 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, reviewing the Bank's major financial accounting policies and their implementation, considering the Bank's basic audit management system, regulations, medium and long-term audit plan, as well as annual work plan and making proposals to the Board of Directors, supervising and evaluating the work of the Bank's internal audit department, reviewing the annual audit report and other specific opinions, audited annual financial accounting report, as well as other financial accounting reports and financial information to be disclosed prepared by the accounting firm, and proposing the engagement or dismissal of the accounting firm and reporting it to the Board of Directors for review.

During the reporting period, the Audit Committee convened 8 meetings and considered 15 proposals, including the audit work report for 2017 and the 2018 audit work plan, financial statements and audit reports, annual internal control and assessment report as well as changes on accounting policies for financial instruments. It listened to 6 reports, including reports on annual audit work, the agreed procedures for the first quarter of 2018 financial statements, and the review work for the 2018 interim financial statements. The Audit Committee liaised closely with the external auditor in respect of the auditing of the Bank's financial statements and reviewed the Bank's financial statements in conjunction with the external 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 issues relevant to the financial statements and audit reports 6 times a year and reviewed issues relevant to internal control 6 times a year.

Risk Management Committee

As of the Latest Practicable Date, the Risk Management Committee of the Bank comprised 5 directors, including Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, and Mr. Ding Xiangming as Non-executive Directors, and Mr. Gan Peizhong as Independent Non-executive Director. The Risk Management Committee is chaired by Mr. Han Wenbo. The Risk Management Committee primarily performs such duties, based on the Bank's overall development strategy plan, as reviewing and editing the Bank's risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management framework and principal procedures and systems for risk management, considering plans for risk capital allocation, listening to the risk management reports, and making suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee convened 9 meetings and considered 20 proposals, including the risk management strategies and risk appetite schemes of 2018, the three-year rolling capital plan from 2018 to 2020 and capital sufficiency management plan of 2018, the case-prevention work summary of 2017 and the case-prevention work plan of 2018, the three-year plan for preventing and mitigating major risks, as well as administrative measures on large-scale risk exposure. It listened to 2 reports, including the report on the anti-money laundering work of 2017 and report on the implementation of risk management strategies and appetites as well as risk policies and limits. The Risk Management Committee kept watching on the effectiveness of the overall risk management of the Bank on a regular basis, and provided suggestions on issues such as the enhancement of risk management and internal control.

During the reporting period, the Risk Management Committee considered the report on comprehensive risk management profile of the Bank 4 times a year and reviewed the work report on internal control and compliance administration, as well as the case-prevention work summary and plan regularly.

Nomination and Remuneration Committee

As of the Latest Practicable Date, the Nomination and Remuneration Committee of the Bank comprised 4 directors, including Mr. Zhang Xuewen as Executive-Director, and Mr. Gan Peizhong, Ms. Bi Zhonghua, and Mr. Fu Tingmei as Independent Non-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 of Directors, and making suggestions in respect of the size and composition of the Board of Directors; developing the standards and procedures for the election and appointment of directors, chairmen and members of special committees of the Board of Directors and senior management members, performing preliminary review on the qualifications and conditions of candidates for directors and senior management members, and making suggestions to the Board of Directors; formulating performance evaluation policies for directors, assessment policies for senior management members, and remuneration policies or plans for directors and senior management members and submitting such policies or plans to the Board of Directors for review.

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

When reviewing the qualification of candidates of directors, the Nomination and Remuneration Committee mainly takes into account their qualifications as directors, compliance with laws, administrative regulations, department rules and the Articles of Association, fiduciary duty, understanding of the Bank's operation and management and willingness to accept supervision of their performance by the Board of Supervisors as well as the fulfillment of the diversity requirements of the Board of Directors. Candidates of directors shall be approved by more than half of votes of all members of the Nomination and Remuneration Committee, and shall be nominated by the Board of Directors in written proposals to the Shareholders' General Meeting after reviewed by the Board of Directors, and then voted at the Shareholders' General Meeting. For details, please refer to the Articles of Association and Rules of Procedures for Nomination and Remuneration Committee of Postal Savings Bank of China Co., Ltd. on the website of the Hong Kong Stock Exchange or the website of the Bank. During the reporting period, the Bank strictly implemented the relevant provisions of the Articles of Association to appoint or re-appoint the directors of the Bank.

During the reporting period, the Nomination and Remuneration Committee convened 5 meetings and considered 8 proposals relating to the structure, size and composition of the Board of Directors as well as the implementation of the Board diversity policy, the 2016 and 2017 annual remuneration settlement plan for directors, senior management members and officers in charge of the internal audit department, the evaluation measures on the performance of directors by the Board of Directors, and the eligibility for appointment and qualifications of non-executive directors. The Nomination and Remuneration Committee studied the structure, size and composition of the Board of Directors, the implementation of the Board diversity policy, the eligibility for appointment and qualifications of re-elected directors, the remuneration settlement proposal of directors and senior management, and the evaluation measures on the performance of directors by the Board of Directors and gave constructive suggestions and advice to the Board of Directors.

Social Responsibility and Consumer Rights Protection Committee

As of the Latest Practicable Date, the Social Responsibility and Consumer Rights Protection Committee of the Bank comprised 5 directors, including Ms. Yao Hong as Executive Director, Mr. Tang Jian, Mr. Chin Hung I David, and Mr. Ding Xiangming as Non-executive Directors, and Ms. Bi Zhonghua as Independent Non-executive Director. The Social Responsibility and Consumer Rights Protection Committee is chaired by Ms. Yao Hong (interim). The Social Responsibility and Consumer Rights Protection Committee primarily performs such duties as developing strategies, policies and goals of social responsibility and consumer rights protection which are consistent with the Bank's development strategies and actual situation, developing the basic management system for social responsibility and consumer rights protection and submitting them to the Board of Directors for approval before implementation; listening to the report regularly on the progress of consumer rights protection work, supervising and evaluating the completeness, promptness and effectiveness of the Bank's consumer rights protection work as well as duty performance of senior management, and disclosing relevant information regarding consumer rights protection work according to regulatory requirements, as authorized by the Board of Directors.

During the reporting period, the Social Responsibility and Consumer Rights Protection Committee convened 4 meetings and considered 6 proposals including the 2017 social responsibility (environment, society and governance) report, summary of consumer rights protection work of 2017 and work plan of 2018, green bank construction work report, renaming the Social Responsibility Committee of the Board of Directors to the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors. The Social Responsibility and Consumer Rights Protection Committee gave important guidance to the Bank regarding social responsibility fulfillment, green bank building and consumer rights 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 of the financial statements for the year ended on December 31, 2018, the directors have adopted and applied appropriate accounting policies consistently, and made judgments and estimates prudently and reasonably.

During the reporting period, the Bank complied with the requirements of relevant laws and regulations and the Hong Kong Listing Rules, and disclosed 2017 Results Announcement and 2017 Annual Report, and 2018 Interim Results Announcement and 2018 Interim Report.

Terms of Directors

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

Training of Directors and Company Secretary

Training of Directors

During the reporting period, the Bank made overall plans for the training of directors and actively encouraged and organized directors to attend various trainings to help directors improve their duty performance ability. During the reporting period, in compliance with the Hong Kong Listing Rules and relevant regulatory requirements, the directors of the Bank actively participated in a series of trainings organized by the MOF, China Banking Association, IFC, McKinsey, Zurich, ICBC International, as well as a series of on-line training courses for directors on the website of the Hong Kong Stock Exchange, covering a wide range of topics such as bank risk governance, interpretation of regulatory policies such as new asset management rules and equity administrative measures, PPP financing, green finance and environmental and social risk management, international financial situation and banking industry development trend. During the reporting period, all directors attended the training organized by the Bank. The directors also promoted the improvement of their expertise in an all-round manner by writing professional articles, participating in seminars, as well as visiting other banks and the Bank's branches and sub-branches for on-the-spot research, exchanges and study.

Training of Company Secretary

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

Independence and Performance of Duties of Independent Non-executive Directors

During the reporting period, the qualifications, number and proportion of the Bank's independent non-executive directors were in full compliance with the requirements of regulatory authority. The independent non-executive directors were not involved in any business or financial interests of the Bank and did not take any managerial position in the Bank. The Bank has received annual independence confirmations from all independent non-executive directors and confirmed their independence.

During the reporting period, the independent non-executive directors earnestly attended the meetings of the Board of Directors and special committees, and provided independent and objective advice on various material decisions, such as the profit distribution plan, appointment of external auditors and major related party transactions, by taking advantage of their professional capabilities and industrial experiences. The independent non-executive directors actively strengthened the communication with the senior management, specialized business departments and external auditors and thoroughly studied the operation and management of the Bank by attending important work meetings, listening to the special reports of important businesses and having seminars with external auditors. They earnestly performed their duties with integrity and diligence, complied with the working rules for independent non-executive directors, provided strong support to the Board of Directors for making rational decisions, protected the interests of the Bank and its shareholders as a whole and worked for the Bank for more than 15 workdays. The Bank highly valued the opinions and advice from the independent non-executive directors and organized the implementation thereof according to its actual conditions.

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

Board of Supervisors and Special Committees

Composition of the Board of Supervisors

As of the Latest Practicable Date, the Board of Supervisors consisted of 9 supervisors in total, including the Chairman Mr. Chen Yueju; Shareholders Representative Supervisors Mr. Li Yujie and Mr. Zhao Yongxiang; External Supervisors Mr. Zeng Kanglin, Mr. Guo Tianyong and Mr. Wu Yu; Employee Supervisors Mr. Li Yue, Mr. Song Changlin and Mr. Bu Dongsheng. For details of current supervisors, please refer to "Directors, Supervisors, and Senior Management".

Meetings of the 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 of Association and the rules of procedures of the Board of Supervisors. The Board of Supervisors held 8 meetings, studied and reviewed 21 proposals, including the 2017 final accounts plan, 2017 profit distribution plan, 2017 Results Announcement and 2017 Annual Report, 2017 internal control evaluation report and 2017 annual report of the Board of Supervisors, and report by the Board of Supervisors on performance evaluation of the Board of Directors, senior management and its members in 2017, and listened to 30 reports on topics such as 2017 annual supervision work, comprehensive risk management, internal control and compliance management, and related party transactions management.

Attendance of Supervisors at Meetings

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

Number of attendance in person/meetings requiring attendance*

Supervisors	Board of Supervisors	Nomination Committee	Duty Performance Supervision Committee	Finance and Internal Control Risk Supervision Committee
Chen Yuejun	8/8	–	–	–
Li Yujie	8/8	2/2	–	–
Zhao Yongxiang	8/8	–	3/4	–
Zeng Kanglin	7/8	2/2	–	–
Guo Tianyong	6/8	–	4/4	–
Wu Yu	8/8	–	–	4/4
Li Yue	8/8	–	4/4	4/4
Song Changlin	8/8	2/2	4/4	4/4
Bu Dongsheng	7/8	–	–	4/4

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

Special Committees of the Board of Supervisors

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

Nomination Committee

As of the Latest Practicable Date, the Nomination Committee of the Board of Supervisors of the Bank comprised 3 members, namely, External Supervisor Mr. Zeng Kanglin, Shareholders Representative Supervisor Mr. Li Yujie and Employee Supervisor Mr. Song Changlin, and was chaired by Mr. Zeng Kanglin. It is responsible for the formulation of procedures and standards for the election and appointment of shareholders representative supervisors and external supervisors, the preliminary vetting of their eligibility for appointment and qualifications, as well as other matters authorized by the Board of Supervisors. During the reporting period, it held 2 meetings, researched and considered issues including the 2017 remuneration settlement plan for supervisors and investigation report on the cost management of tier-2 branches.

Duty Performance Supervision Committee

As of the Latest Practicable Date, the Duty Performance Supervision Committee of the Board of Supervisors comprised 4 members, namely, External Supervisor Mr. Guo Tianyong, Shareholders Representative Supervisor Mr. Zhao Yongxiang and Employee Supervisors Mr. Li Yue, and Mr. Song Changlin, and was chaired by Mr. Guo Tianyong. It is responsible for supervising and evaluating the performance of duties of the Board of Directors, senior management and its members, providing advice to the Board of Supervisors, as well as other matters authorized by the Board of Supervisors. During the reporting period, it held 4 meetings, researched and considered issues including the 2017 performance evaluation plan of the Board of Supervisors for the Board of Directors, senior management and its members, the 2017 self-evaluation and supervisors' performance evaluation plan of the Board of Supervisors, the 2017 performance evaluation report of the Board of Supervisors for the Board of Directors, senior management and its members, as well as the 2017 self-evaluation and supervisors' performance evaluation report of the Board of Supervisors.

Finance and Internal Control Risk Supervision Committee

As of the Latest Practicable Date, the Finance and Internal Control Risk Supervision Committee of the Board of Supervisors comprised 4 members, namely, External Supervisor Mr. Wu Yu, Employee Supervisors Mr. Li Yue, Mr. Song Changlin, and Mr. Bu Dongsheng and was chaired by Mr. Wu Yu. It is responsible for examining and supervising financial activities of the Bank and offering advice to the Board of Supervisors, supervising matters such as operation decisions, risk management and internal control and offering advice to the Board of Supervisors, and handling other matters authorized by the Board of Supervisors. During the reporting period, it held 4 meetings, studied and considered issues including the 2017 supervision work report, internal control and compliance management report and the comprehensive risk management report.

Functions of Senior Management

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

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

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

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

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

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

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

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

(7) to propose the appointment or dismissal of vice presidents or other members of the senior management (other than secretary to the Board of Directors) to the Board of Directors;

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

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

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

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

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

(13) to propose to convene an extraordinary Board meeting;

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

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

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

Division of Responsibilities between the Chairman and the President

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

Mr. Li Guohua resigned from his position as the Chairman of the Bank as well as his duties of legal representative due to change of job, with effect from August 17, 2018. Elected by more than half of the directors, from August 17, 2018 to January 4, 2019, the Executive Director and President Mr. Lyu Jiajin performed the duties of the Chairman and legal representative. Mr. Lyu Jiajin resigned from his position as the Executive Director and President of the Bank due to change of job, with effect from January 4, 2019. Elected by more than half of the directors, the Executive Director and Vice President Mr. Zhang Xuewen has performed the duties of the Chairman, the President and legal representative since January 4, 2019 and will perform such duties until the election of a new Chairman (referred below as "Transitional Arrangement"). Although the above transitional arrangement deviates from the requirements of code provision A.2.1 of the Corporate Governance Code, in order to ensure that the operation of the Board of Directors and the day-to-day operations of the Bank are not affected, the Board of Directors considered that the transitional arrangement is an appropriate arrangement before the nomination and election of the Chairman, and the arrangement will not weaken the balance of power and authority between the Board of Directors and the management of the Bank, given: (i) a certain period of time and corresponding legal procedure are required for holding the nomination and election of the Chairman of the Board of Directors (ii) Mr. Lyu Jiajin and Mr. Zhang Xuewen have extensive experiences in the financial industry. They have a deep understanding of the Company's operations, management, culture, etc.; (iii) the Board resolution must be approved by at least half of the directors. Since five of the directors of the Board of Directors are independent non-executive directors, there is a sufficient balance of power; and (iv) the Bank's strategic, business, operational, financial and other major decisions must be made collectively after the discussion between Board of Directors and the management. Mr. Lyu Jiajin's and Mr. Zhang Xuewen's performance of the duty as Chairman is only a transitional arrangement, the Bank is actively pushing forward the nomination and election of the relevant candidates to comply with the requirements of code provision A.2.1 of the Corporate Governance Code.

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 have confirmed that they have complied with such code of conduct during the reporting period.

Appraisal and Incentive Mechanisms for Senior Management

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

Auditors' Engagement and Remuneration

As approved by the Shareholders' General Meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2018, respectively. The Bank did not change its auditors in any of the preceding three years.

In 2018, the fee payable to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for auditing related services provided to the Bank amounted to RMB29,000,000 in total. Besides, PricewaterhouseCoopers Zhong Tian LLP did not provide other non-auditing services to the Bank during the reporting period.

Significant Changes to the Articles of Association during the Reporting Period

During the reporting period, the Bank received the CBIRC's Approval in Relation to the Amendments to the Articles of Association of Postal Savings Bank of China Co., Ltd. (Yin Bao Jian Fu [2018] No. 81). The CBIRC has granted approval to the amended Articles of Association accordingly, which has taken effect from June 21, 2018. For details, please refer to the Bank's announcement on the approval of the amendments to the Articles of Association from CBIRC dated June 27, 2018. The amendments will further enhance the Bank's corporate governance and better implement the general requirements for including the work of Party building in the Articles of Association of the Company and the relevant requirements of CBIRC on the equity management of commercial banks and the performance supervision by the Board of Supervisors.

Internal Control and Internal Audit

Internal Control

The Bank has continued to enhance its internal control mechanism, improve its internal control governance structure and organizational structure, and clarify the responsibilities of the Board of Directors, the Board of Supervisors, senior management and relevant departments, and has established an organizational structure with reasonable division of labour, clear responsibilities, checks and balances, and clear reporting relationships.

The Board of Directors is responsible for ensuring that the Bank establishes and implements an adequate and effective internal control system and that the Bank operates prudently within the framework of laws and policies, and reviewing on an annual basis that whether the risk management and internal control systems of the Bank and of its subsidiary are effective and adequate. The Board of Supervisors is responsible for improving the supervision mechanism and effectively performing performance supervision. The senior management is responsible for implementing the decisions of the Board of Directors, and effectively performing various duties of internal control. Branches and departments are responsible for participating in the formulation of business systems and operational procedures related to their own responsibilities, and strictly implementing the internal control system. The Legal and Compliance Department, as the department taking the lead of the internal control management, takes the lead in organizing the construction of the internal control system. The Audit Department is responsible for monitoring and evaluating the implementation of the internal control. The Risk and Internal Control Committees established by branches are responsible for the organization, supervision, evaluation and review of the internal control of the branches.

During the reporting period, the Bank enhanced the internal control system, systematically reviewed the internal management control standards of the Bank, and prepared the Internal Control Management Manual to identify risks, control measures and corresponding rules and regulations for relevant operation and management, thereby improving the effectiveness of the internal control. It introduced a system library in the Office Automation (OA) website, and optimized functions such as system collection, inquiry and statistics. It improved the institutional planning, project establishment and post-evaluation mechanism, improved system evaluation and rectification, and achieved a full lifecycle management of the system. It issued the Key Points of Compliance Review and Examples of Institutional Texts to fully support the compliance review and improve the compliance and standardization of institutional building. Besides, internal control building activities with the theme of “internal control improvement” were carried out to strengthen employee compliance awareness. The Bank actively promoted the integration of internal control compliance culture into the whole process of operation and management, and effectively improved the internal control management of the Bank.

The Board of Directors acknowledges that it is responsible for the risk management and internal control systems and for reviewing the effectiveness of such systems. However, these systems are designed to manage rather than eliminate the risk of failing to achieve business objectives. The Board of Directors can only make reasonable, but not absolute, assurances that there will be no material misstatement or loss.

Internal Audit

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

The Audit Office at the head office is responsible for the overall audit work and the coordination of audit resources of the Bank. It mainly audits the head office and key areas of the Bank with the lead of the focus of those in charge of governance. There are 7 regional audit offices under the Audit Office, which are vital parts of the Audit Office at the head office as local offices thereof and are mainly responsible for the audit work of tier-1 branches within their authority. The audit departments of tier-1 branches, which are under the dual leadership of the Audit Office at the head office and their respective branch presidents, are responsible for the audit work at institutions under the management of tier-1 branches.

During the reporting period, around major national policies, following the regulatory requirements and implementing the strategic decisions of the head office, the Audit Office of the head office has carried out various audit work, and effectively strengthened the supervision, promoted implementation, intensified the management and enhanced the efficiency, safeguarding the prudent operation and high-quality development of the whole bank. At the same time, the Bank strengthened the cultivation of internal auditing abilities, and further enhanced the audit management by reviewing audit responsibilities, promoting institutional building, coordinating audit resources, strengthening process management and control, and deepening multi-party exchanges.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank faithfully and diligently performed its information disclosure duties, disclosed information in a true, accurate, complete and timely manner in accordance with regulatory requirements, and released periodic reports and various types of interim reports compliantly; proactively strengthened voluntary disclosure addressing areas of concerns of the market and investors; continuously strengthened insider information management, enhanced the awareness of insider information compliance, and strictly managed the confidentiality of insider information and the scope of insiders in accordance with the Administrative Measures on Information Disclosure of Postal Savings Bank of China Co., Ltd.

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

Investor Relations

The Bank adheres to the principle of closely following the market, be forward-looking in judgment, being professional and efficient, as well as comprehensiveness and synergy. By establishing contacts with various entities in the capital market, the Bank actively engages in interactive communications at different levels and in different ways, and continuously tracks regulatory trends, market focuses, and analyst research reports. It has established an effective internal and external coordination mechanism, and takes investor communication activities as an opportunity to display business development achievements in an all-round way and convey investment value in a timely manner. In addition, the senior management directly participates in the communications with the capital market and addresses questions of interest. The Bank fully fulfills its commitments made during the IPO and is widely recognized by the market.

During the reporting period, the Bank held the annual performance promotion and senior management roadshow of 2017 results, the interim performance promotion of 2018 and phone promotion of the 2018 first quarter and third quarter results. It also held the Capital Market Corporate Day with the theme of "Lead by strategy, Bank through retail", attended 19 investor summits home and abroad, arranged 5 onsite researches at branches for investors and analysts, communicated with a total of 400 investors and analysts, and conveyed the Bank's unique competitive advantages to the potential investors in Asia Pacific, Europe, North America and other regions, having established a positive and proactive image and enhanced investor confidence.

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

The Office of the Board of Directors 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

Social Responsibility

During the reporting period, adhering to the market positioning of serving the community, SMEs, and Sannong customers, the Bank was committed to serving the real economy, implemented the retail banking strategy, continuously improved the sustainable development capability and was in line with the coordinated development of the economy, society and environment.

Contributing to Economic Development via Inclusive Finance

Fully utilizing its network and funds advantages, the Bank was committed to exploring the path of commercially sustainable development of inclusive finance, actively promoted economic and social development and served the people to create a better life.

Fully Serving Major Projects

The Bank was fully committed to providing financial support for major strategic and key projects such as the coordinated development of Beijing-Tianjin-Hebei region, the construction of the Xiong'an New Area, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and the development of the Yangtze River Economic Belt. At the same time, the Bank actively supported all-round opening up and enterprises to "Go Global" and serve the "Belt and Road" construction.

Supporting the Development of Private Economy

The Bank actively built a platform for cooperation among banks, governments, associations and enterprises, promoted the "financing + knowledge introduction" model, gave full play to the advantages of science and technology, and reduced fees for companies and let them benefit more, so as to mobilize multi-party resources to form a joint force in supporting the development of private and small and micro enterprises and further address the problem of small and micro enterprises being unable to access loans or having to pay high interest to secure loans.

Deeply Promoting Rural Vitalization

The Bank continued to improve the mechanisms and systems of the Sannong Finance Department, built a coordinated agriculture support ecosystem, introduced Internet technologies and established a product system with five major agricultural loans, proactively supporting the key areas of rural vitalization strategy such as national food security, the integration of primary, secondary and tertiary industries, connection between small farmers and modern agriculture as well as the construction of a beautiful countryside, and fully serving the rural vitalization strategy.

Providing Targeted Services for Poverty Alleviation

The Bank attached great importance to targeted poverty alleviation via financial services, and strengthened the top-level design of targeted poverty alleviation via financial services. With risk prevention and control, the Bank actively innovated financial poverty alleviation products and models, stepped up efforts in targeted poverty alleviation, offered targeted support to areas affected by extreme poverty and fully supported the fight against poverty.

Promoting the Development of Communities via Innovation

The Bank vigorously promoted the development of intelligent, light and functional integrated outlets, and was committed to building a more complete financial product and service system, and providing more convenient, efficient and safe inclusive financial services to help build a better community.

Building a Beautiful China with Low Carbon and Environmentally Friendly Practices

The Bank practiced the concept of green development, accelerated the building of a green bank, and actively promoted the development of green credit to build a first-class green bank with strong influence and sustainable development capabilities, and support the construction of ecological civilization.

Developing Green Finance

The Bank took the initiative to incorporate green development into the corporate governance framework, comprehensively strengthened environmental and social risk management, and continuously improved differentiated green finance policies and the comprehensive financial services capabilities of green finance, effectively supporting the development of green and low-carbon economy and helping build a beautiful China.

Promoting Green Operation

The Bank set up an energy saving leading group at the head office to form a synergistic linkage mechanism, advocated green office, implemented waste sorting and harmless disposal, explored the green operation and maintenance of disaster recovery center, and deepened the low-carbon operation of financial business, striving to build an environmentally friendly green bank.

Fulfilling the Dream of a Better Life via Harmonious and Shared Development

The Bank adhered to its people-oriented principle by emphasizing the protection of legal rights and interests of employees, optimizing the employee incentive mechanism, and expanding the career path of employees. It established a sound and comprehensive whole-process consumer rights protection system, continued to improve the product and service system and carried out in-depth financial knowledge popularization activities to keep improving customer experience. It also actively participated in public welfare and voluntary service campaigns via the "PSBC Love Charity" platform to help build a harmonious community and deliver positive energy.

For more information on social responsibility, please refer to "2018 Social Responsibility Report (Environment, Society and Governance) of Postal Savings Bank of China Co., Ltd." to be published on the websites of the Hong Kong Stock Exchange and the Bank.

Principal Business and Business Review

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

Profits and Dividends Distribution

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

With the approval at the 2017 Annual General Meeting held on June 28, 2018, the Bank has distributed cash dividends of RMB1.471 (tax inclusive) per ten shares, totaling approximately RMB11,920 million, for the period from January 1, 2017 to December 31, 2017 to the ordinary shareholders whose names appeared on the share register after the close of market on July 10, 2018. The Bank did not declare or distribute interim dividend of 2018, nor did it convert any capital reserve into share capital.

The Board of Directors of the Bank proposed distributing cash dividends of RMB1.937 (tax inclusive) for ten shares of 81,030,574,000 ordinary shares for the year 2018 ended December 31, 2018 to all holders of ordinary shares, totaling approximately RMB15,696 million (tax inclusive). The aforesaid annual dividend distribution plan of the 2018 is still subject to the approval of the Annual General Meeting for the year 2018 of the Bank. Once approved, the above-mentioned dividends will be paid to the ordinary shareholders whose names appear on the share register of the Bank after the close of market on June 11, 2019 (Tuesday). The Bank will suspend the registration procedures of H share ownership transfer on June 6, 2019 (Thursday) (inclusive) through June 11, 2019 (Tuesday) (inclusive). The holders of H shares of the Bank that desire to receive the proposed cash dividends but have not registered the ownership transfer documents are requested to hand over their ownership transfer documents together with the H shares to the Bank's H share registrar — Computershare Hong Kong Investor Services Limited that is located at Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. of June 5, 2019 (Wednesday). Pursuant to relevant regulatory requirements and operational rules, cash dividends of ordinary shares are expected to be paid on July 19, 2019 (Friday).

Dividend Distribution of Ordinary Shares of the Bank for the Recent Three Years

Item	**2017**	2016	2015[2]
Amount of distributed dividends per ten shares (tax inclusive, in RMB)	**1.471**	0.737	Not Applicable
Cash dividends (tax inclusive, in millions of RMB)	**11,920**	5,972	9,000
Percentage of cash dividends[1](%)	**25%**	15%	Not Applicable

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

(2) Dividends in 2015 were special dividends of RMB9 billion distributed to China Post Group according to the relevant provisions of the Share Subscription Agreement signed between the Bank and the strategic investors.

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

Implementation of Cash Dividend Policy

The Articles of Association of the Bank stipulates that the Bank's dividend distribution policy shall be focused on generating reasonable returns to investors, maintaining its continuity and stability, and meanwhile taking into account the long-term interests of the Bank, the overall interests of all shareholders and the sustainable development of the Bank. Cash dividends shall be the main form of dividends distributed by the Bank. Except under special circumstances, the Bank shall distribute dividends to shareholders of ordinary shares in the form of cash every financial year with an aggregate amount of not less than 10% of the net dividend attributable to shareholders of the Bank. The special circumstances refer to circumstances where: (i) the dividend distribution is restricted by laws, administrative regulations and regulatory requirements; (ii) cash dividend distribution may adversely affect the long-term interests of the shareholders. Under circumstances where the Bank has sound operations, but the Board of Directors determines that the share price of the Bank does not match the size of its share capital and share dividend is beneficial to the interests of shareholders of the Bank as a whole, a plan on dividend distribution in the form of shares may be formulated and implemented upon approval at the Shareholders' General Meeting, provided that the requirements on cash dividend distribution set out above have been met. The Board of Directors of the Bank is responsible for submitting proposals on dividend payments, if any, to the Shareholders' General Meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on the Bank's results of operations, cash flows, financial conditions, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by the Bank, and other factors that the Board of Directors considers relevant.

Under the PRC Company Law and the Bank's Articles of Association, all of the Bank's shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. The formulation and implementation of the Bank's cash dividend policy comply with the provisions stipulated in the Articles of Association and the requirements provided in the resolutions of the Shareholders' General Meeting. The relevant decision-making procedures and mechanism are complete and the distribution standards and proportion are clear and explicit. Independent non-executive directors can carry out their obligations diligently and express their opinions to play their due roles.

Reserves

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

Financial Summary

The summary of operating results, assets and liabilities for the five years ended December 31, 2018 is set out in the section headed "Financial Highlights".

Donations

During the reporting period, the Bank made external donations (domestic) of RMB20,764,600.

Fixed Assets

For details of the changes in fixed assets of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements — 23 Property and equipment".

Subsidiary

The Bank currently has one majority-owned subsidiary, namely, PSBC Consumer Finance. PSBC Consumer Finance was established on November 19, 2015, which mainly provides unsecured loan service (excluding mortgage and auto loans) to domestic residents for consumption purposes. As of the end of the reporting period, PSBC Consumer Finance had a registered capital of RMB3 billion, of which the Bank held 70.5%. As of the end of the reporting period, it had total assets of RMB23,671 million, net assets of RMB3,086 million and recorded a net profit of RMB203 million for the year.

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). As of the Latest Practicable Date and based on publicly available information, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the relevant exemptions granted by the Hong Kong Stock Exchange upon the Bank's listing.

Tax Deduction

Overseas H Shareholders

According to the Notice on the Collection of Personal Income Tax after the Expiration of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation on June 28, 2011, dividends received by overseas resident individual shareholders from stocks in the Hong Kong market issued by domestic non-foreign invested enterprises are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks in the Hong Kong market issued by domestic non-foreign invested enterprises may be entitled to the relevant preferential tax treatment pursuant to the tax agreements signed between their resident countries and PRC, or the tax arrangements between the Chinese mainland and Hong Kong (or Macau).

Based on the tax regulations mentioned above, the Bank generally withholds the individual income tax at a rate of 10% on behalf of the overseas individual H shareholders of the Bank. However, where there are different requirements otherwise specified in relevant tax regulations and tax agreements, the Bank will follow such requirements of the tax authorities.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and relevant implementation regulations which have been effective since January 1, 2008, the Bank shall withhold the enterprise income tax at a rate of 10% on behalf of the overseas non-resident enterprise H shareholders.

If the overseas H shareholders of the Bank have any queries regarding the tax arrangements mentioned above, please consult your tax consultants regarding the tax implications in Mainland China, Hong Kong and other countries (regions) for holding and disposing the Bank's H shares.

Mainland's Shareholders of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

Pursuant to the Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) and the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) jointly released by the Ministry of Finance, the State Administration of Taxation and the CSRC on October 31, 2014 and November 5, 2016, for dividends received by the mainland individual investors from H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (hereinafter referred to as "CSDC") for providing the register of mainland individual investors and withhold the individual income tax at a rate of 20% tax rate on behalf of the mainland individual investors. While for dividends received by the mainland individual investors from non-H shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, CSDC will withhold the individual income tax at a rate of 20%. Individual investors may, by producing valid tax payment proofs, apply to the competent tax authority of CSDC for tax credit relating to the withholding tax already paid abroad.

For dividends received by the mainland securities investment funds from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the individual income tax shall be withheld pursuant to the foregoing regulations.

For dividends received by the mainland enterprise investors from shares listed on the Hong Kong Stock Exchange invested by them through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, such dividend income shall be included in their total revenue and the enterprise income tax shall be levied according to law. In particular, for dividends received by mainland resident enterprises from holding H shares for 12 consecutive months, the enterprise income tax shall be exempted according to law. The H-share companies listed on the Hong Kong Stock Exchange shall apply to CSDC for providing the register of mainland enterprise investors. The H-share companies shall not withhold income tax on dividends on behalf of mainland enterprise investors and such investors shall declare and pay the relevant tax themselves.

Offshore Preference Shareholders

In accordance with tax laws and regulations in China, when distributing dividends on offshore preference shares to overseas non-resident enterprise shareholders, the Bank shall withhold the enterprise income tax at a rate of 10%. In accordance with the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of the dividends on offshore preference shares paid by the Bank.

Purchase, Sale or Redemption of the Bank's Shares

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

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 may increase its registered capital by issuing shares through public or non-public offering, allotting new shares to the existing shareholders, placing new shares to the existing shareholders, converting capital reserve to share capital and other methods as permitted by laws, regulations and relevant authorities.

Major Customers

During the reporting period, the aggregate interest income and other operating income from of the five largest customers of the Bank did not exceed 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".

Material Relationship with Employees and Suppliers

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

For details on the Bank's relationship with its employees, please refer to "2018 Social Responsibility Report (Environment, Society and Governance) of Postal Savings Bank of China Co., Ltd." to be published on the websites of the Hong Kong Stock Exchange and the Bank.

Use of Proceeds from Fundraising Activities

The funds raised from the Bank's fundraising activities were used for the purposes as disclosed in the prospectuses, namely, strengthening the capital base to support the ongoing business growth of the Bank.

For future planning disclosed in the public disclosure documents such as previous offering prospectuses and fund raising prospectuses issued by the Bank which has continued during the reporting period, its implementation progress conformed to the planning as described after verification and analysis.

Major Projects Invested by Non-raised Capital

During the reporting period, the Bank had no major projects invested by non-raised capital.

Directors' and Supervisors' Interests in Contracts of Significance

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

Directors' and Supervisors' Interests in Competing Businesses

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

During the reporting period, the Bank did not grant any rights to acquire shares or debentures to any of the Bank's directors or supervisors, nor were any of such rights exercised by any of the Bank's directors or supervisors. Neither the Bank nor its subsidiary entered into any agreement or arrangement enabling the directors or supervisors of the Bank 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 of the Bank held any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the SFO) in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or any interests or short positions which have to be recorded in the register under Section 352 of the SFO, or any interests or short positions which have to be notified to the Bank and Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank and other persons, please refer to "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. It refined management mechanism, optimized approval and filing procedures, organized training and continued to cultivate compliance culture to further strengthen the management of connected transactions. During the reporting period, the Bank's connected transactions were in compliance with relevant laws, and no impairment of the interests 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 or 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 the Implementation of the Management System for Connected Transactions".

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 the Implementation of the Management System for Connected Transactions", these related party transactions do not constitute connected transactions that are required to be disclosed under the Hong Kong Listing Rules.

Remuneration of Directors, Supervisors and Senior Management

The remuneration of senior management shall be considered and approved by the Board of Directors. The remuneration of directors of the Bank is submitted to the Shareholders' General Meeting of the Bank for further consideration and approval after the consideration and approval by the Board of Directors. The remuneration of supervisors is submitted to the Shareholders' General Meeting of the Bank for further consideration and approval after the consideration and approval by the Board of Supervisors. For the details on remuneration, please refer to "Remuneration of Directors, Supervisors and Senior Management Members Paid during the Year". The Bank did not formulate any share incentive plan for the Bank's directors, supervisors and senior management.

Permitted Indemnity Provision

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

Financial, Business and Family Relations among Directors

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

Employee Benefit Plans

The Bank has pension plans 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(2) 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.

Auditors

The auditor's report of the Bank for 2018, prepared in accordance with China Accounting Standards and IFRSs, has been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers according to the Auditing Standards of China and International Standards on Auditing respectively, both of which are unqualified audit opinions.

Environmental Policy

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

For details on the Bank's implementation of green credit policies, please refer to "Discussion and Analysis — Business Overview — Green Finance".

Compliance with Important Laws, Regulations and Rules

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

For details of the Bank's compliance with important laws, regulations and rules 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
Zhang Xuewen
Executive Director
March 26, 2019

Report of the Board of Supervisors

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank, in accordance with laws and regulations, regulatory requirements and the Articles of Association, was positioned to firmly protect the lawful rights and benefits of the Bank, shareholders, employees, creditors and other stakeholders; closely emphasized the key tasks of the reform and development of the entire Bank; kept being problem-oriented and risk-conscious; seriously fulfilled the supervisory functions to be responsible to all shareholders, playing an active role in promoting the stable and robust development of the Bank.

Supervision and Assessment of Duty Performance

The Board of Supervisors continued to optimize the annual performance evaluation, perfected the evaluation plan according to the regulatory requirements, reviewed the duty performance files, optimized weights of evaluation criteria, enriched dimensions of evaluation, and ensured the objectiveness and fairness of the evaluation results; notified the evaluation results to the Board of Directors, proposed suggestions for performance improvement, and further improved the application of the evaluation results. The Board of Supervisors continuously improved its routine duty performance supervision, carried out the assessment on the fulfillment of risk control responsibilities of the Board of Directors, the Board of Supervisors and the senior management, reviewed the duty performance of various governance entities in accordance with laws, regulations and regulatory requirements, and put forward supervision suggestions; promptly responded to the latest regulatory requirements, carried out supervision, investigations and researches on equity management, large-scale risk exposure, 13th Five-Year IT plan, consumer rights protection, collateral management and obtained higher refinement in its routine duty performance supervision.

Supervision on Risk Management

The Board of Supervisors actively promoted the implementation of the Bank's strategy, and carried out a series of supervision, investigations and researches on financial poverty alleviation, green credit, key risk areas, and retail strategy implementation around the "three critical battles". The Board of Supervisors paid attention to the Bank's prevention and resolution of major risks, effectively strengthened risk supervision on corporate businesses such as group customers and PPP project finance, focused on strengthening supervision of non-credit risks such as the risks of wealth management business and industrial funds, and actively carried out risk supervision of off-balance-sheet businesses such as bank acceptance and letters of credit, so as to promote improvement in the Bank's risk prevention and control measures. It monitored and gave alerts on the compliance of regulatory indicators such as capital adequacy ratio and liquidity coverage ratio to promote the lawful and compliant operation and development of the Bank.

Financial Supervision

The Board of Supervisors effectively performed the duties of supervision on important financial decisions and reviewed the proposals including the Bank's regular reports, annual financial accounts plans, profit distribution plans and the engagement of annual accounting firm. It strengthened communication with external auditors and supervised the independence and effectiveness of external audit work. The Board of Supervisors actively responded to investors' concerns, paid close attention to the Bank's profitability and cost control, conducted supervision, investigations and analysis of issues such as tier-2 branch costs and the use of foreign currency funds, regularly tracked the financial operations of the Bank, promoted the efficiency of resource allocation, and assisted in the transformation and upgrading, as well as innovation and development of the whole Bank.

Supervision on Internal Control

The Board of Supervisors earnestly performed its supervision duties on internal control, reviewed the internal control evaluation report of the Bank, rectification plans and reports to meet regulatory requirements; listened to reports on internal control and compliance management and connected transaction management. It strengthened the supervision on key areas and weak links in internal control, paid close attention to the case and risk events of the whole Bank and the progress of the internal control system consulting project. The Board of Supervisors actively promoted the implementation of its own supervisory opinions, as well as corrective action and rectification of irregularities. It strengthened supervision and provided more tips in areas such as information technology risk and business compliance management, and pushed forward the consolidation of the foundation of the Bank's internal control and compliance.

Work 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 supervision and investigation activities conducted by the Board of Supervisors, attended meetings of the Board of Supervisors and special committees, issued professional, rigorous and independent opinions and viewpoints, and played an active role in promoting the improvement in the Bank's corporate governance and management capability. During the reporting period, each external supervisor worked over 15 working days for the Bank's supervision.

Independent Opinions Issued by the Board of Supervisors

Compliant Operations

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

Annual Report

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

Acquisition and Sale of Assets

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

Connected Transactions

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

Implementation of Resolutions Passed at the Shareholders' General Meeting

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

Internal Control

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

Implementation of Information Disclosure Management Rules

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

Performance Evaluation of Directors and Senior Management

All the incumbent directors and senior management members were evaluated as competent in the 2018 performance assessment.

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

By Order of the Board of Supervisors
Chen Yuejun
Chairman of the Board of Supervisors
March 26, 2019

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 equity shares of the Bank, and is the Bank's controlling shareholder. According to the Hong Kong Listing Rules, China Post Group and its associates are the Bank's related parties. 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

Pursuant to the land use rights and properties leasing framework agreement (the "Land Use Rights and Properties Leasing Framework Agreement") entered into between the Bank and China Post Group on September 2, 2016, the Bank and China Post Group and/or its associates leased certain of their land use rights, properties and ancillary equipment to each other. China Post Group and/or its associates rent certain of the Bank's land use rights, properties and ancillary equipment for their outlets or office purposes, and pay the rental fees to the Bank. The Bank rents certain of the properties and ancillary equipment of China Post Group and/or its associates mainly for the Bank's outlets or office purposes. The aforementioned properties and ancillary equipment meet the Bank's business needs and relocation of such properties and ancillary equipment would cause unnecessary suspension of business and expenses. If neither party to the agreement raises any objections and regulatory requirements are met in the place where the Bank's shares are listed, the Land Use Rights and Properties Leasing Framework Agreement will be automatically renewed for a further term of three years upon expiry. During the reporting period, the aggregate amount of the rental payments for the properties and ancillary equipment leased by China Post Group and/or its associates to the Bank was RMB84 million; the aggregate amount of the rental payments for the properties and ancillary equipment leased by the Bank to China Post Group and/or its associates was RMB985 million.

Comprehensive Services

Pursuant to the comprehensive services framework agreement (the "Comprehensive Services Framework Agreement") entered into between the Bank and China Post Group on September 6, 2016, the Bank and China Post Group and/or its associates provide a number of comprehensive services to each other. If neither party to the agreement raises any objections and regulatory requirements are met in the place where the Bank's shares are listed, the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry.

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 the Bank. Since the agency outlets are not permitted to conduct corporate deposit business under relevant rules, agency outlets will refer corporate clients to the Bank's 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 the Bank was RMB404 million.

Banking Related Labor Services and Other General Commercial Services

Pursuant to the Comprehensive Services Framework Agreement, China Post Group and/or its associates provide various banking related labor services and other general commercial services to the Bank. In particular, banking related labor services include transportation and storage of banknotes and equipment maintenance services, and general commercial services include property management, advertising, 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 its/their independent third parties engaged. 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 the Bank to leverage 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 the Bank 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 the Bank was RMB930 million.

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 the Bank and to promote the long-term and stable growth of the Bank's businesses, the Bank and China Post Group entered into an agency banking businesses framework agreement (the "Agency Banking Businesses Framework Agreement") in relation to the Bank's entrustment of China Post Group to conduct part of the Bank's commercial banking businesses through agency outlets (the "Agency Banking Businesses"). The Agency Banking Businesses Framework Agreement came into effect from September 7, 2016 with an indefinite term. Under the national policies, neither the Bank nor China Post Group is entitled to terminate the agency arrangement. In the event that there is any change in national policies in the future permitting the termination of the agency arrangement between the Bank and China Post Group, following friendly negotiations between the Bank and China Post Group, the Bank's right to terminate the Agency Banking Businesses Framework Agreement (the "Termination Right") shall be made by the Board of Directors with written opinions expressed by all independent non-executive directors, and the Bank 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, has been filed with the CBIRC.

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") for the Bank. 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 Renminbi Deposit Taking Business

The Bank calculates the deposit agency fee costs for the Agency Renminbi Deposit Taking Business paid to China Post Group according to the principle of "Fixed Rate, Scaled Fees Based on Deposit Type" i.e., different deposit agency fee rates are applicable to deposits with different maturities (the "Scaled Fee Rate"), and the actual weighted average deposit agency fee rate (the "Composite Rate") is calculated based on the Scaled Fee Rate and the daily average balance of agency deposits with different maturities. The Cap on Composite Rate shall be at 1.5%.

During the reporting period, the aggregate amount of the deposit agency fees the Bank paid for the Agency Renminbi Deposit Taking Business was RMB75,250 million, and the Composite Rate was 1.39%. The table below sets forth the average daily balances, Scaled Fee Rate and the corresponding deposit agency fees for each type of deposits paid to China Post Group in respect of the Agency Renminbi Deposit Taking Business during the reporting period:

In millions of RMB, except for percentages

	For the year ended December 31, 2018		
Types	Average daily balance	Scaled Fee Rate (%)	Deposit agency fees
Demand deposit	**1,726,524.43**	**2.30**	**39,710.06**
Time-demand optional deposit	**14,756.48**	**1.50**	**221.35**
Call deposit	**23,718.42**	**1.70**	**403.21**
3-month time deposit	**128,945.85**	**1.25**	**1,611.82**
6-month time deposit	**159,185.48**	**1.15**	**1,830.63**
1-year time deposit	**2,721,294.41**	**1.08**	**29,389.98**
2-year time deposit	**206,554.01**	**0.50**	**1,032.77**
3-year time deposit	**407,344.04**	**0.30**	**1,222.03**
5-year time deposit	**17,572.25**	**0.20**	**35.14**
Daily aggregate cash (including cash in transit)	**13,831.33**	**(1.50)**	**(207.47)**
Total	**5,405,895.37**	**1.39**	**75,249.52**

Agency Foreign Currency Deposit Taking Business

During the reporting period, the Bank calculated the deposit agency fee rates on both the short-term foreign currency deposits (with a term of less than 12 months) and the long-term foreign currency deposits (with a term of 12 months or more), respectively, in line with the market practice.

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

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

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

Agency Intermediary Banking Business

Pursuant to the Agency Banking Businesses Framework Agreement, China Post Group provides agency intermediary banking business to the Bank via agency outlets, which includes settlement services, agency financial services and other services. The settlement services primarily include cross-region transactions, cross-bank transactions, personal remittance, small-balance account management, short message services (SMS) and other settlement businesses, whereas agency financial 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 intermediary banking services and pursuant to the requirement of accounting standards, the revenue from the agency intermediary banking business shall initially be recognized by the Bank, and the fees and commissions will then be paid by the Bank to China Post Group and its branches and sub-branches at different levels providing general postal services, following the principle of "fees being payable to the entity providing the services". The Bank does not set any annual cap for such fees and commissions.

During the reporting period, fees payable to the agency intermediary banking business were RMB11,780 million, of which fees payable to the settlement services provided by agency outlets were RMB7,958 million, and fees payable to agency financial services and other services by agency outlets were RMB3,822 million.

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 the Hong Kong Stock Exchange at the time of its public offering, and the Hong Kong Stock Exchange approved the Bank's exemption from strict compliance with the requirements for announcement and (if applicable) independent shareholders' approval under the Listing Rules in terms of the above-mentioned continuing connected transactions. Save for the above, the Bank has applied for, and the Hong Kong Stock Exchange has granted the Bank, in respect of Agency Banking Businesses Framework Agreement, a waiver from strict compliance with the requirement to set a term of no more than three years under Rule 14A.52 of the Hong Kong Listing Rules; and for Agency Deposit Taking Business and agency intermediary banking business, a waiver from strict compliance with the requirement 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 connected transactions under the Hong Kong Listing Rules.

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

(1) in the ordinary and usual course of business of the Bank;

(2) on normal commercial terms or better;

(3) and according to the agreement governing them, on terms that are fair and reasonable and in the interests of the Bank's shareholders as a whole.

The independent non-executive directors also confirmed that;

(1) the methods and procedures established by the Bank were sufficient to ensure that the transactions had conducted on normal commercial terms and brought no harm to the interests of the Bank and minority shareholders;

(2) and the Bank had established appropriate management procedures.

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

(1) had not been approved by the Board of Directors;

(2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(4) had exceeded the cap (if applicable).

In addition to the above-mentioned continuing connected transactions, the continuing connected transactions since the Bank's listing also include the transactions under Trademark License Agreement, the sale of philatelic items and the provision of mailing service, the sale of goods other than philatelic items and the provision of entrusted asset management services by China Post Group and/or its associates under the Comprehensive Services Framework Agreement to the Bank; the sale of business supplies and other goods, the provision of bancassurance services, the provision of labor services, the provision of custody services and the provision of integrated business operation services 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 its listing, the Bank also has provided 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 are exempted from compliance with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Implementation of the Management System for Related Party Transactions

During the reporting period, the Bank established a sound management system for related party transactions, improved the operating mechanism for related party transactions and enhanced the management of related party transactions in compliance with the regulatory requirements of CBIRC and the Hong Kong Stock Exchange and pursuant to the Measures for the Administration of Connected Party Transactions of Postal Savings Bank of China (revised in 2018). First, after reviewing relevant regulatory requirements, the Bank established the identification standards for connected parties, and prepared and constantly updated the list of connected parties of the Bank. Second, the Bank made efforts to establish the management and organization system and operating mechanism for connected party transactions with "scientific management and effective control". In addition, the process for the identification and reporting of connected parties and the examination, approval, filing and reporting of connected party transactions has been further improved, ensuring the effective control of the risks of connected party transactions. Third, the Bank continued the efforts to establish the management system of connected party transactions, fully reviewed the connected party transactions of the Bank and promoted the IT application to the management of connected party transactions.

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

For more information on related parties and transactions with related parties, please see "Notes to the Consolidated Financial Statements — 39 Transactions with related parties".

Renewal of Connected Transactions

Pursuant to the Land Use Rights and Properties Leasing Framework Agreement and the Comprehensive Services Framework Agreement, if neither party to the agreements raises any objections and regulatory requirements are met in the place where the Bank's shares are listed, the Land Use Rights and Properties Leasing Framework Agreement and the Comprehensive Services Framework Agreement will be automatically renewed for a further term of three years upon expiry. The extension period of the relevant agreements is from January 1, 2019 to December 31, 2021.

As the highest applicable percentage ratio in respect of the annual caps for the transactions concerning (1)(i) leasing of certain properties and ancillary equipment by China Post Group and/or its associates to the Bank under the Land Use Rights and Properties Leasing Framework Agreement; and (2)(i) sales of philatelic items and provision of mailing services, (ii) sales of goods other than philatelic items, (iii) provision of marketing services of deposits and other businesses, (iv) provision of labor services by China Post Group and/or its associates to the Bank as well as (v) provision of bancassurance services by the Bank to China Post Group and/or its associates under the Comprehensive Services Framework Agreement exceeds 0.1%, but does not exceed 5% as specified in Chapter 14A of the Hong Kong Listing Rules, such transactions constitute continuing connected transactions under Chapter 14A of Hong Kong Listing Rules and are subject to the annual reporting, announcement and annual review requirements under Chapter 14A of Hong Kong Listing Rules, but are exempt from the independent shareholders' approval requirements.

For details, please refer to the announcement of the Bank dated October 30, 2018 on Renewal of Continuing Connected Transactions And Proposed Annual Caps from 2019 to 2021.

Significant Events

Implementation of the Commitments of the Controlling Shareholder

In order to avoid potential competition, China Post Group made a non-competing undertaking in favor of the Bank on September 7, 2016, 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 undertaking during the reporting period.

Material Legal Proceedings and Arbitration

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

As of December 31, 2018, the Bank was the defendant or arbitration respondent in several pending and material legal proceedings or arbitration each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB459 million. Accruals in respect of these matters have been fully established, and the Bank considers that these pending cases will not have any material adverse impact on the business, financial position or 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 or merger activities.

Significant Contract and Their Performance

Material Custody, Subcontracting and Leasing

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

Material Guarantees

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

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

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

Pledge of Assets

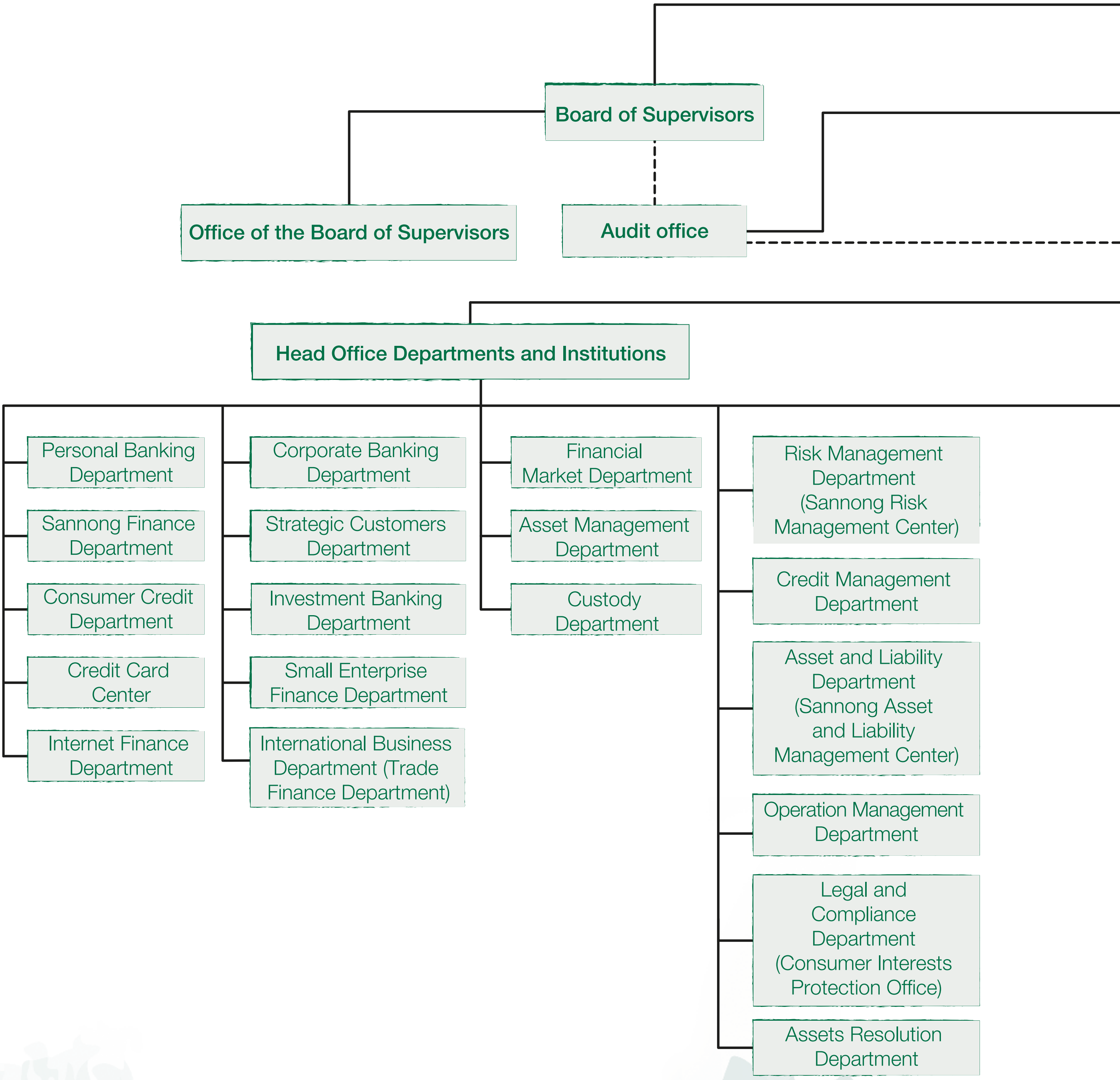
For information relating to the pledge of assets of the Bank, please see "Notes to the Consolidated Financial Statements — 41.5 Collateral".

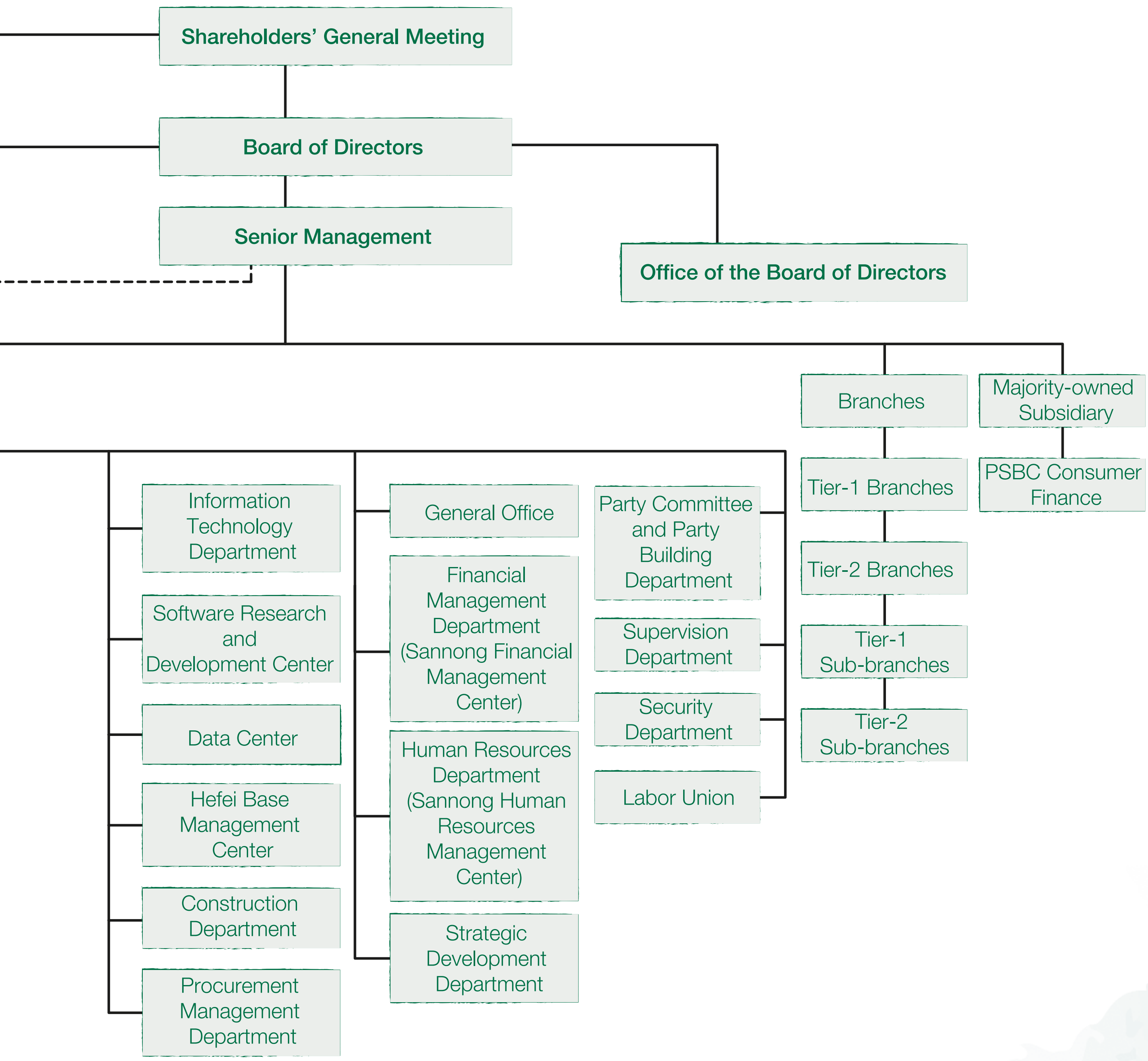
Penalties Imposed on the Bank and Directors, Supervisors and Senior Management of the Bank

Save for the announcements disclosed on the Hong Kong Stock Exchange, during the reporting period, there was no investigation, administrative penalty, criticism from the CSRC or CBIRC or public denunciation from the stock exchange in relation to the Bank or directors, supervisors and senior management of the Bank. None of the Bank or directors, supervisors and senior management of the Bank was subject to any penalty of other regulatory authorities which would have material impact on the Bank's operation.

Organizational Structure

Organization Structure of Postal Savings Bank of China





Shareholders' General Meeting
Board of Directors
Senior Management
Office of the Board of Directors
Branches
Majority-owned Subsidiary
Tier-1 Branches
PSBC Consumer Finance
Tier-2 Branches
Tier-1 Sub-branches
Tier-2 Sub-branches
Information Technology Department
Software Research and Development Center
Data Center
Hefei Base Management Center
Construction Department
Procurement Management Department
General Office
Financial Management Department (Sannong Financial Management Center)
Human Resources Department (Sannong Human Resources Management Center)
Strategic Development Department
Party Committee and Party Building Department
Supervision Department
Security Department
Labor Union

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 164 to 365, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with the International 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.

Key Audit Matters

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

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

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

- Agency Banking Transactions with China Post Group

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost Refer to Note 2.3(1)(iii) to the Consolidated Financial Statements "Impairment of financial instruments" in significant accounting policies, Note 3.1 "Measurement of the expected credit loss allowance" in critical accounting estimates and judgements in applying accounting policies, Note 20 "Loans and advances to customers", Note 21.4 "Financial assets at amortized cost" in investments instruments and Note 26 "Movements of allowance for impairment losses". As at December 31, 2018, the Group's gross loans and advances to customers amounted to RMB4,276.87 billion, and a loss allowance of RMB127.93 billion was recognized in the Group's consolidated statement of financial position. Other debt instruments measured at amortized cost amounted to RMB114.17 billion, and the impairment losses on other debt instruments recognized in the Group's consolidated statement of financial position amounted to RMB14.84 billion.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers and other instruments measured at amortized cost, primarily including: Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the on going monitoring and optimization of the models; Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, forward-looking measurement and management overlay adjustments; Internal controls over the information systems for model-based measurement.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (Cont'd) The measurement of ECL involves significant management judgments and assumptions, mainly including the following: (1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; (3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; (4) Management overlay adjustments due to significant uncertain factors not covered in the models; (5) The estimated future cash flows for loans and advances to customers in stage 3 which are considered individually significant. The Group established governance processes and controls for the measurement of ECL. For measuring ECL, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the loans and advances to customers, other debt instruments measured at amortized cost and the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also selected samples to test the transmission of major data inputs between the models' measurement systems and the information systems and we tested the calculation of ECL models to verify their accuracy and completeness on sample basis. For loans and advances to customers in stage 3 which are considered individually significant, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Agency Banking Transactions with China Post Group Refer to Note 39.3(1) "Agency banking services from China Post Group and its provincial branches". 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"). In 2018, deposit agency fee costs amounted to RMB75,250 million, representing 49.40% of total operating expenses of the Group; fees for agency savings settlement, and fees for agency sales and other commissions amounted to RMB7,958 million and RMB3,822 million, respectively, representing 80.10% of total fee and commission expense. 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.	Our procedures in relation to Services from China Post Group include: • 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. We found no significant exceptions from our above procedures.

Other Information

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	2018	2017
Interest income	4	**360,166**	305,285
Interest expense	4	**(126,044)**	(117,170)
Net interest income	4	**234,122**	188,115
Fee and commission income	5	**29,141**	23,591
Fee and commission expense	5	**(14,707)**	(10,854)
Net fee and commission income	5	**14,434**	12,737
Net trading gains	6	**4,569**	1,875
Net gains on investment securities	7	**3,780**	22,255
Net other operating gains/(losses)	8	**4,340**	(118)
Operating income		**261,245**	224,864
Operating expenses	9	**(152,324)**	(147,016)
Credit impairment losses	11	**(55,414)**	N/A
Impairment losses on other assets		**(20)**	N/A
Impairment losses on assets	12	**N/A**	(26,737)
Profit before tax		**53,487**	51,111
Income tax expenses	13	**(1,103)**	(3,402)
Net profit		**52,384**	47,709
Net profit attributable to			
Shareholders of the Bank		**52,311**	47,683
Non-controlling interests		**73**	26

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	2018	2017
Net profit		**52,384**	47,709
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		**(42)**	(32)
Subtotal		**(42)**	(32)
Items that may be reclassified subsequently to profit or loss			
Net losses on investments in available-for-sale financial assets		**N/A**	(5,082)
Net gains on investments in debt instruments at fair value through other comprehensive income		**4,021**	N/A
Subtotal		**4,021**	(5,082)
Total comprehensive income for the period		**56,363**	42,595
Total comprehensive income attributable to:			
Shareholders of the Bank		**56,290**	42,569
Non-controlling interests		**73**	26
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	14	**0.62**	0.59

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	As at December 31	
		2018	2017
Assets			
Cash and deposits with central bank	15	**1,202,935**	1,411,962
Deposits with banks and other financial institutions	16	**140,351**	296,758
Placements with banks and other financial institutions	17	**285,622**	315,999
Derivative financial assets	18	**7,166**	6,584
Financial assets held under resale agreements	19	**239,687**	141,974
Loans and advances to customers	20	**4,149,538**	3,541,571
Investment instruments			
Financial assets at fair value through profit or loss	21.1	**341,662**	119,992
Financial assets at fair value through other comprehensive income-debt instruments	21.2	**183,350**	N/A
Financial assets at fair value through other comprehensive income-equity instruments	21.3	**553**	N/A
Financial assets at amortized cost	21.4	**2,861,922**	N/A
Available-for-sale financial assets	21.5	**N/A**	686,748
Held-to-maturity investments	21.6	**N/A**	935,735
Investment classified as receivables	21.7	**N/A**	1,424,558
Property and equipment	23	**45,399**	43,804
Deferred tax assets	24	**35,887**	22,258
Other assets	25	**22,139**	64,608
Total assets		**9,516,211**	9,012,551

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	As at December 31 2018	2017
Liabilities			
Deposits from banks and other financial institutions	27	**74,165**	48,454
Placements from banks and other financial institutions	28	**39,845**	73,617
Financial liabilities at fair value through profit or loss	29	**2,360**	42,193
Derivative financial liabilities	18	**6,463**	6,616
Financial assets sold under repurchase agreements	30	**134,919**	115,143
Customer deposits	31	**8,627,440**	8,062,659
Debt securities issued	32	**76,154**	74,932
Other liabilities	33	**79,552**	157,580
Total liabilities		**9,040,898**	8,581,194
Equity			
Share capital	34.1	**81,031**	81,031
Other equity instruments			
Preference Shares	34.2	**47,869**	47,846
Capital reserve	35	**74,648**	74,659
Other reserves	36	**137,923**	121,126
Retained earnings		**132,933**	106,311
Equity attributable to Shareholders of the Bank		**474,404**	430,973
Non-controlling interests		**909**	384
Total equity		**475,313**	431,357
Total equity and liabilities		**9,516,211**	9,012,551

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

Approved and authorized for issue by the Board of Directors on March 26, 2019.

Zhang Xuewen
(On behalf of Board of Directors)

Yao Hong
(On behalf of Board of Directors)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank									
					Other reserves						
	Note	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
As at December 31, 2017		81,031	47,846	74,659	25,159	101,011	(5,044)	106,311	430,973	384	431,357
Change on application of new accounting policy	2.3	–	–	–	–	–	4,658	(3,218)	1,440	(59)	1,381
As at January 1, 2018 (restated)		81,031	47,846	74,659	25,159	101,011	(386)	103,093	432,413	325	432,738
Profit for the year		–	–	–	–	–	–	52,311	52,311	73	52,384
Other comprehensive income	36.3	–	–	–	–	–	3,979	–	3,979	–	3,979
Total comprehensive income for the year		–	–	–	–	–	3,979	52,311	56,290	73	56,363
Issuance of preference shares	34.2	–	23	–	–	–	–	–	23	–	23
Appropriation to surplus reserve	36.1	–	–	–	5,212	–	–	(5,212)	–	–	–
Appropriation to general reserve	36.2	–	–	–	–	2,948	–	(2,948)	–	–	–
Change of share proportion of the subsidiary	35	–	–	(11)	–	–	–	–	(11)	511	500
Dividends paid to ordinary shareholders	37	–	–	–	–	–	–	(11,920)	(11,920)	–	(11,920)
Dividends paid to preference shareholders	37	–	–	–	–	–	–	(2,391)	(2,391)	–	(2,391)
As at December 31, 2018		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank									
					Other reserves						
	Note	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2017		81,031	–	74,659	20,395	93,803	70	76,572	346,530	358	346,888
Profit for the year		–	–	–	–	–	–	47,683	47,683	26	47,709
Other comprehensive income	36.3	–	–	–	–	–	(5,114)	–	(5,114)	–	(5,114)
Total comprehensive income for the year		–	–	–	–	–	(5,114)	47,683	42,569	26	42,595
Appropriation to surplus reserve	36.1	–	–	–	4,764	–	–	(4,764)	–	–	–
Appropriation to general reserve	36.2	–	–	–	–	7,208	–	(7,208)	–	–	–
Issuance of preference shares	34.2	–	47,846	–	–	–	–	–	47,846	–	47,846
Dividends paid to ordinary shareholders	37	–	–	–	–	–	–	(5,972)	(5,972)	–	(5,972)
As at December 31, 2017		81,031	47,846	74,659	25,159	101,011	(5,044)	106,311	430,973	384	431,357

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

	Year ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**53,487**	51,111
Adjustments for:		
Amortization of intangible assets and other assets	**272**	816
Depreciation of property and equipment and investment properties	**4,339**	3,740
Impairment losses on assets	**55,434**	26,737
Interest income arising from investment instruments	**(110,186)**	(94,506)
Interest expense arising from debt securities issued	**3,058**	2,824
Net gains on investment securities	**(3,780)**	(22,255)
Unrealized exchange (gains)/losses	**(2,167)**	2,468
Net losses from disposal of property, equipment and other assets	**35**	8
Subtotal	**492**	(29,057)
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	**220,245**	(133,200)
Deposits with banks and other financial institutions	**157,515**	(127,077)
Placements with banks and other financial institutions	**(4,216)**	(25,108)
Financial assets at fair value through profit or loss	**(2,895)**	(89,336)
Financial assets held under resale agreements	**4,826**	7,860
Loans and advances to customers	**(635,226)**	(623,472)
Other operating assets	**2,134**	(11,131)
Subtotal	**(257,617)**	(1,001,464)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Deposits from banks and other financial institutions	**25,434**	(233,232)
Placements from banks and other financial institutions	**(33,852)**	59,459
Financial liabilities at fair value through profit or loss	**(39,985)**	31,782
Financial assets sold under repurchase agreements	**19,667**	(14,646)
Customer deposits	**470,698**	776,347
Other operating liabilities	**7,503**	16,775
Subtotal	**449,465**	636,485
Net cash flows from operating activities before tax	**192,340**	(394,036)
Income tax paid	**(7,835)**	(5,312)
Net cash generated from/(used in) operating activities	**184,505**	(399,348)
Net cash flows from operating activities include:		
Interest received	**248,917**	205,797
Interest paid	**(115,761)**	(116,056)

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

	Note	Year ended December 31 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of investment instruments		**758,344**	1,140,573
Cash received from income arising from investment instruments		**121,891**	113,938
Cash paid for purchase of investment instruments		**(963,876)**	(766,411)
Cash paid for purchase of property, equipment, intangible assets and other long-term assets		**(6,328)**	(8,854)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		**644**	97
Net cash (used in)/generated from investing activities		**(89,325)**	479,343
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital received from non-controlling interests for investment in subsidiary		**500**	–
Cash received from issuance of other equity instruments		**–**	47,846
Dividends paid		**(14,311)**	(5,972)
Interests paid on debt securities issued		**(3,052)**	(2,130)
Cash received from issuance of debt securities		**7,750**	20,489
Repayments of debt securities		**(7,750)**	(500)
Cash paid relating to other financing activities		**–**	(3)
Net cash (used in)/generated from financing activities		**(16,863)**	59,730
NET INCREASE IN CASH AND CASH EQUIVALENTS		**78,317**	139,725
Balance of cash and cash equivalents at the beginning of the year		**322,935**	184,893
Effect of foreign exchange rate changes		**1,168**	(1,683)
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	38	**402,420**	322,935

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

1 General information

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

In 2011, with the approval from the Ministry of Finance (the "MOF") of the People's Republic of China ("China" or the "PRC") and China Banking and Insurance Regulatory Commission (the "CBIRC", formally as China Banking Regulatory Commission), 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 CBIRC originally known as China Banking Regulatory Commission, holds a financial institution license of the PRC (No. B0018H111000001) and obtained its business license with unified social credit code 9111000071093465XC from the State Administration for Industry and Commerce. The address of the Bank's registered office is No. 3 Jinrong Street, Xicheng District, Beijing, the PRC.

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

The Bank and its subsidiary (the "Group") conducts its operating activities in the PRC, and its principal activities include: personal and corporate financial services, treasury operations and other business activities as approved by the CBIRC.

As at December 31, 2018, the Bank had a total of 36 tier-one branches and 322 tier-two branches across China.

The consolidated financial statements were authorized for issue by the Board of Directors of the Bank on March 26, 2019.

For The Year Ended December 31, 2018 (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 consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

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

2.2 New standards, amendments and interpretations

New and amended IFRSs effective by January 1, 2018 adopted by the Group

IFRS 9	Financial Instruments
IFRS 15	Revenue from contracts with customers
Amendments to IFRS 2	Share – based Payment
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IAS 40	Transfer of Investment Property
Amendments to IAS 28	Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 Cycle

Under IAS 18, the Group recognizes revenue when the significant risks and rewards are transferred to customers; from January 1, 2018, based on IFRS 15, the Group recognizes revenue when control over goods or services is transferred to customers. The adoption of IFRS 15 has no significant impact on the Group's financial statements.

For The Year Ended December 31, 2018 (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 annual periods beginning on or after
IFRIC 23	Uncertainty over Income Tax Treatment	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs (2015-2017 Cycle)	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IFRS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	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 amendments were originally intended to be effective for annual periods beginning on or after 1 January 2019. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

The Group is assessing the impact of the standards and amendments that are not yet effective and have not been adopted by the Group. Currently, except for the IFRS 16 – Lease, the above standards and amendments do not have significant impact on the Group’s operating results, comprehensive income and financial position.

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 – Lease

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 or short term leases, 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, 2018, the Group has non-cancellable operating lease commitments of RMB10.81 billion, see Note 41.4 “operating lease commitments”. The new standard is mandatory for financial years commencing on or after January 1, 2019. The Group will not restate comparative amounts for the year prior to first adoption. On January 1, 2019, the Group has assessed the impact of the implementation of IFRS 16 applied the simplified transition approach, without consideration low value leases and short-term leases, the group expects to recognize right-of-use assets accounting for approximate 0.1% of total assets and lease liabilities accounting for 0.1% of total liabilities.

For the lessor, 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, the adoption of IFRS 16 will not have significant impact on the financial information.

2.3 Changes in accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 1, 2018 and has replaced the guidance of IAS 39 Financial Instruments: Recognition and Measurement, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Group did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group selected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

(1) Specific IFRS 9 accounting policies applied in the current period

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

(i) Classification of financial instruments

Financial assets are classified into the following three types on the basis of the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets or the purpose of assuming liabilities:

– Amortized cost;

– Fair value through other comprehensive income ("FVOCI");

– Fair value through profit or loss ("FVTPL").

The business model reflects how the Group manages the financial assets in order to generate cash flows. The business model determines whether the cash flows of financial assets managed by the Group solely come from collecting the contractual cash flows from the assets, selling the financial assets, or both. Factors considered by the Group in determining the business model of a set of financial assets include how the cash flows of the Group were collected in the past, how the Group's performance was assessed and reported to key management personnel, how the risks were assessed and managed, and the way the business managers are paid.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cashflows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic leading arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(i) Classification of financial instruments (continued)

Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

(a) the business model for managing the financial assets is to collect contractual cash flows;

(b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal.

Financial assets measured at FVOCI

Financial assets measured at FVOCI include debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Financial assets are classified as debt instruments measured at FVOCI when they are not designated at FVTPL and both of the following conditions are met:

(a) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets;

(b) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal.

At inception, the Group may designate non-trading equity instruments as financial assets measured at FVOCI, and recognize dividend income in accordance with the relevant policies specified in Note 2.3(1)(ii). Once the designation is made, it cannot be revoked.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(i) Classification of financial instruments (continued)

Financial assets and liabilities at FVTPL

The Group classifies the financial assets other than those measured at amortized cost and measured at FVOCI as financial assets at FVTPL. The Group classifies the financial liabilities other than those measured at amortized cost as financial liabilities at FVTPL.

Financial assets and liabilities at FVTPL include those mandatory, and those designated at FVTPL.

The Group classifies the following financial assets at fair value through profit or loss:

(a) debt instruments that do not qualify for measurement at either amortized cost or FVOCI;

(b) equity instruments that are held for trading, and

(c) equity instruments for which the entity has not designated at FVOCI.

At initial recognition, the Group may designate financial assets as financial assets at FVTPL if the designation can eliminate or significantly reduce accounting mismatch. Once the designation is made, it cannot be revoked.

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (eg. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(i) Classification of financial instruments (continued)

Financial assets and liabilities at FVTPL (continued)

Financial liabilities are designated at FVTPL upon initial recognition when one of the following conditions is met:

(a) the designation can eliminate or significantly reduce accounting mismatch; or

(b) the formal written file of the Group's risk management or investment strategy have clearly stated that the financial liability portfolio, or the portfolio of financial assets and financial liabilities, are managed, evaluated and reported to key management personnel on the basis of fair value. Once the designation is made, it cannot be revoked.

Financial liabilities measured at amortized cost

Financial liabilities which other than those measured at FVTPL, are measured at amortized cost, using the effective interest method. Financial liabilities measured at amortized cost comprise deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, debt securities issued and other financial liabilities.

(ii) Measurement of financial instruments

Initial recognition

Financial assets purchased or sold in regular way are recognized on the trading day, the date on which the Group commits to purchasing or selling the assets.

At initial recognition, the Group measures a financial asset or financial liability at its fair value. For financial assets or financial liabilities that are not measured at FVTPL, the transaction costs directly attributable to the acquisition or issuance of such financial assets or financial liabilities should also be added or deducted. Transaction costs of financial assets and financial liabilities carried at FVTPL are recognized in profit or loss. After initial recognition, an expected credit loss ("ECL") allowance is immediately recognized in profit or loss for financial assets the measured at amortized cost and investments in debt instruments measured at FVOCI.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(ii) Measurement of financial instruments (continued)

Subsequent measurement

Subsequent measurement of financial instruments depends on the categories:

Financial assets measured at amortized cost

The amortized cost is determined at the financial assets or financial liabilities at initial recognition after being adjusted as follows:

(a) deducting the principal repaid;

(b) adding or deducting the cumulative amortization of any difference between the amount at initial recognition and the amount at the maturity date using the effective interest method;

(c) deducting any loss allowance (solely for financial assets).

The effective interest rate is the interest rate used to discount the estimated future cash flows of financial assets or financial liabilities over the estimated duration to the carrying amount (i.e. the amortized cost before any impairment allowance) of the financial assets or to the amortized cost of the financial liabilities. The expected credit losses are not considered in calculation, while the transaction costs, premiums or discounts, and fees paid or received that are integral to the effective interest rate are covered.

The interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, with the following exceptions:

(a) a purchased or originated credit-impaired ("POCI") financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortized cost; and

(b) a financial assets that is not a POCI financial asset but has subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to its amortized cost. If, in a subsequent period, the financial asset improves its quality so that it is no longer credit-impaired and the improvement in credit quality can be related objectively to a certain event occurring after the application of the above-mentioned rule, then the interest income can again be calculated by applying the effective interest rate to its gross carrying amount.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(ii) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial assets measured at FVOCI

Debt instruments

Movements in the carrying amount are recognized in other comprehensive income, except for the impairment gains or losses, interest income and foreign exchange gains and losses on the amortized cost of the financial assets which are recognized in profit or loss.

Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

When the financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss for the current period.

Equity instruments

Where an investment in an equity investment not held for trading is designated as a financial asset measured at FVOCI, the changes in fair value of the financial asset are recognized in the other comprehensive income. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings. The dividend income on the investment is recognized in profit or loss only when the Group's right to receive payment of the dividends is established.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(ii) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial liabilities at FVTPL

Financial liabilities at FVTPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, unless in the case of financial liabilities designated at FVTPL, where gains or losses on the financial liabilities are treated as follows:

(a) changes in the fair value of such financial liabilities due to changes in the Group's own credit risk shall be recognized in other comprehensive income; and

(b) other changes in fair value of such financial liabilities shall be recognized in profit or loss for the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group shall recognize all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated at FVTPL is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings.

(iii) Impairment of financial instruments

For debt instrument carried at amortized cost and FVOCI and exposure arising from credit commitments and financial guarantee contract, the Group assesses the expected credit losses in combination with the forward-looking information.

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, i.e., all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(iii) Impairment of financial instruments (continued)

The Group measures expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

At each balance sheet date, the Group assesses whether there is a significant increase in the credit risk of its financial instruments since their initial recognition, and calculates the impairment allowance and recognizes the expected credit losses and changes as follows:

(a) The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Irrespective of whether the Group assesses the credit losses of its financial instruments on an individual basis or collectively in a group, any increase or reversal of the allowance for credit losses shall be recognized in the profit or loss for the current period as impairment losses or gains.

(b) If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month (or residual lifetime of the financial assets) expected credit losses. Irrespective of whether the Group assesses the credit losses of its financial instruments on an individual basis or collectively in a group, any increase or reversal of the allowance for credit losses shall be recognized in the profit or loss for the current period as impairment losses or gains.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(iii) Impairment of financial instruments (continued)

For debt instruments that are measured at FVOCI, the Group recognizes the impairment loss in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial assets in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, however it is determined that at the current reporting date the credit risk on the financial instruments has no longer increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to 12-month (or the expected lifetime when it is shorter than 12 months) expected credit losses at the current reporting date and the amount of expected credit losses reversed is recognized in profit or loss.

At the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Group recognizes the amount of the changes in lifetime expected credit losses in profit or loss as an impairment gain or loss.

(iv) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(1) Specific IFRS 9 accounting policies applied in the current period (continued)

(iv) Modification of loans (continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

(2) IAS 39 accounting policies applied in the comparative period

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.

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.

(i) 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.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(i) Financial assets (continued)

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

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

– 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.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(i) Financial assets (continued)

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 identified 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.

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 identified impairment losses, at the end of each reporting period.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(i) Financial assets (continued)

Available-for-sale financial assets (continued)

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

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(i) 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.

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.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(i) Financial assets (continued)

Impairment of financial assets carried at amortized cost (continued)

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.

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.

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 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(2) IAS 39 accounting policies applied in the comparative period (continued)

(ii) 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.

(iii) 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.

(iv) Financial guarantee contracts

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is recognized in the consolidated income statement.

(3) IFRS 9 and IAS 39 accounting polices

(i) 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.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(3) IFRS 9 and IAS 39 accounting polices (continued)

(i) Determination of fair value (continued)

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.

(ii) 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.

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 asset, the asset is 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.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(3) IFRS 9 and IAS 39 accounting polices (continued)

(iii) 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:

- the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable; and

- the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

(iv) 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.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

Financial assets	IAS39		IFRS9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and deposits with central bank	Amortized cost	1,411,962	Amortized cost	1,411,962
Deposits with banks and other financial institutions	Amortized cost	296,758	Amortized cost	296,633
Placements with banks and other financial institutions	Amortized cost	315,999	Amortized cost	315,757
Derivative financial assets	FVTPL	6,584	FVTPL	6,584
Financial assets held under resale agreements	Amortized cost	141,974	Amortized cost	141,821
Loans and advances to customers	Amortized cost	3,541,571	Amortized cost	3,120,206
			FVOCI	419,917
Investment instruments	FVTPL (For trading)	77,959	FVTPL (Mandatory)	563,900
	FVTPL (Designated)	42,033	FVTPL (Designated)	42,033
	FVOCI (Available-for-sale financial assets)	686,748	FVOCI	180,022
	Amortized cost (Held-to-maturity investments)	935,735	Amortized cost	2,384,914
	Amortized cost (Investment classified as receivables)	1,424,558		
Other financial assets	Amortized cost	56,356	Amortized cost	56,356

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(i) Classification and measurement of financial instruments (continued)

With regard to the classification and measurement of financial liabilities, there is only one change in the application of IFRS 9. That is, the change in the fair value of the financial liabilities designated at FVTPL that are attributable to the changes in the own credit risks will be recognized in other comprehensive income. This change has no significant impact on the Group.

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost					
Cash and deposits with central bank					
Opening balance under IAS 39 and closing balance under IFRS 9		1,411,962			**1,411,962**
Deposits with banks and other Financial Institutions					
Opening balance under IAS 39		296,758			
Remeasurement: ECL allowance				(125)	
Closing balance under IFRS 9					**296,633**
Placements with banks and other Financial Institutions					
Opening balance under IAS 39		315,999			
Remeasurement: ECL allowance				(242)	
Closing balance under IFRS 9					**315,757**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost (continued)					
Financial Assets Held Under Resale Agreements					
Opening balance under IAS 39		141,974			
Remeasurement: ECL allowance				(153)	
Closing balance under IFRS 9					**141,821**
Loans and advances to customers					
Opening balance under IAS 39		3,541,571			
Less: Transfer to FVOCI (IFRS 9)	(h)		(420,069)		
Remeasurement: ECL allowance				(1,296)	
Closing balance under IFRS 9					**3,120,206**
Investment instruments – amortized cost					
Opening balance under IAS 39		–			
Add: Transfer from held-to-maturity investments (IAS 39)	(g)		837,509		
Remeasurement: ECL allowance				219	
Add: Transfer from investment classified as receivables (IAS 39)	(g)		1,405,509		
Remeasurement: ECL allowance				(2,329)	
Add: Transfer from available-for-sale financial assets (IAS 39)	(c)		136,711		
Remeasurement: Transfer from fair value to amortized cost				7,346	
Remeasurement: ECL allowance				(51)	
Closing balance under IFRS 9					**2,384,914**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost (continued)					
Investment instruments – held-to-maturity investments					
Opening balance under IAS 39		935,735			
Less: Transfer to financial assets at amortized cost (IFRS 9)	(g)		(837,509)		
Less: Transfer to FVTPL (mandatory) (IFRS 9)	(a)		(20,583)		
Less: Transfer to FVOCI (IFRS 9)	(d)		(77,643)		
Closing balance under IFRS 9					–
Investment instruments – investments classified as receivables					
Opening balance under IAS 39		1,424,558			
Less: Transfer to financial assets at amortized cost (IFRS 9)	(g)		(1,405,509)		
Less: Transfer to FVTPL (mandatory) (IFRS 9)	(b)		(18,663)		
Less: Transfer to FVOCI (IFRS 9)	(d)		(386)		
Closing balance under IFRS 9					–
Other financial assets					
Opening balance under IAS 39 and closing balance under IFRS 9		56,356			**56,356**
Total financial assets at amortized cost		8,124,913	(400,633)	3,369	**7,727,649**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVTPL					
Investment instruments – FVTPL (mandatory)					
Opening balance under IAS 39		77,959			
Add: Transfer from available-for- sale financial assets(IAS 39)	(e)		447,680		
Remeasurement: Transfer from amortized cost to fair value				(672)	
Add: Transfer from held-to-maturity investments (IAS 39)	(a)		20,583		
Reclassification: Transfer from amortized cost to fair value				(386)	
Add: Transfer from investment classified as receivables (IAS 39)	(b)		18,663		
Reclassification: Transfer from amortized cost to fair value				73	
Closing balance under IFRS 9					**563,900**
Investment instruments -FVTPL (designated)					
Opening balance under IAS 39		42,033			
Closing balance under IFRS 9					**42,033**
Derivative financial assets					
Opening balance under IAS 39		6,584			
Closing balance under IFRS 9					**6,584**
Total Financial Assets at FVTPL		126,576	486,926	(985)	**612,517**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVOCI					
Investment instruments – FVOCI					
Opening balance under IAS 39		–			
Add: Transfer from held-to-maturity investments (IAS 39)	(d)		77,643		
Remeasurement: Transfer from amortized cost to fair value				(375)	
Add: Transfer from investment classified as receivables (IAS 39)	(d)		386		
Remeasurement: Transfer from amortized cost to fair value				11	
Add: Transfer from available-for-sale financial assets (IAS 39)	(g)		102,304		
Add: Transfer from available-for-sale financial assets (IAS 39) to designated at FVOCI (equity instruments)	(f)		53		
Closing balance under IFRS 9					**180,022**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Note	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
FVOCI (continued)					
Investment instruments – available-for-sale financial assets					
Opening balance under IAS 39		686,748			
Less: Transfer to FVTPL (mandatory) (IFRS 9)	(e)		(447,680)		
Less: Transfer to amortized cost (IFRS 9)	(c)		(136,711)		
Less: Transfer to FVOCI (IFRS 9)	(g)		(102,304)		
Less: Transfer to FVOCI (equity instruments)	(f)		(53)		
Closing balance under IFRS 9					**–**
Loans and advances to customers					
Opening balance under IAS 39		–			
Add: Transfer from financial assets at amortized cost (IFRS 9)	(h)		420,069		
Remeasurement: From amortized cost to fair value				(152)	
Closing balance under IFRS 9					**419,917**
Total financial assets at FVOCI		686,748	(86,293)	(516)	**599,939**

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

(a) Investments reclassified from held-to-maturity investments to FVTPL

The Group holds a portfolio of debt instruments that failed to meet the 'solely payments of principal and interest' (SPPI) requirement under IFRS 9. These instruments contain provisions that, in certain circumstances, can allow the issuer to defer interest payments, but which do not accrue additional interest. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to RMB20.58 billion, were classified as FVTPL from the date of initial application.

(b) Investments reclassified from investments classified as receivables to FVTPL

The Group holds a portfolio of debt instruments that failed to meet SPPI requirement under IFRS 9. Underlying assets of such instruments cannot satisfy SPPI requirement. As a result, these instruments, which amounted to RMB18.66 billion, were classified as FVTPL from the date of initial application.

(c) Investments reclassified from available-for-sale financial assets to financial assets at amortized cost

After assessing its business model for securities within the Group's liquidity portfolio, which are mostly hold to collect the contractual cash flows and sell, the Group has identified certain securities which are managed separately and for which the past practice has been (and the Group's intention remains) to hold to collect the contractual cash flows. Consequently, the Group assessed that the appropriate business model for this group of securities is held to collect. These securities, which amounted to RMB136.71 billion, were reclassified from available-for-sale financial assets to financial assets at amortized cost from the date of initial application.

As at December 31, 2018, the fair value of financial assets reclassified from available-for-sale financial assets to financial assets at amortized cost is RMB127.30 billion, if the financial assets had not been reclassified, the recognized fair value loss would have been RMB1.37 billion.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

(d) Investments reclassified from held-to-maturity investments/investments classified as receivables to FVOCI

After assessing its business model for securities held by the Group, the business model of part of held-to-maturity investments (RMB77.64 billion) and investments classified as receivables (RMB0.39 billion) has changed to hold to collect the contractual cash flows and sell. Consequently, these securities were classified as FVOCI from the date of initial application.

(e) Investments reclassified from available-for-sale financial assets to FVTPL

The Group reclassified the equity instruments from available-for-sale financial assets to FVTPL, which amounted to RMB439.32 billion. The contractual cash flow of these equity instruments failed to meet the SPPI requirement under IFRS 9 and was not designated as FVOCI. Therefore, these equity instruments were classified as FVTPL.

The Group holds a portfolio of asset-backed securities. These investments do not pass the SPPI test given these investments form part of one of the more subordinated tranches issued by the special purpose entity, so that the exposure to credit risk of the investment is greater than the exposure to credit risk of the underlying asset pool as a whole. As a result, this portfolio of securities, which were previously classified as available-for-sale financial assets and amounted to RMB3.00 billion, have been reclassified to FVTPL.

The Group holds a portfolio of debt instruments previously classified as available-for-sale financial assets. These instruments contain provisions that, in certain circumstances, can allow the issuer to defer interest payments, but which do not accrue additional interest. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to RMB5.36 billion, were classified as FVTPL from the date of initial application.

2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

(f) Designation of equity instruments at FVOCI

The Group has selected to irrevocably designate strategic investments of RMB53 million in a small portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These investments have not been classified as available-for-sale financial assets since the application of IFRS 9.

(g) Reclassification from retired categories with no change in measurement

As their previous categories under IAS 39 were 'retired', the following debt instruments have been reclassified to new categories under IFRS 9, with no changes to their measurement basis:

– Those previously classified as available-for-sale financial assets are now classified as FVOCI; and

– Those previously classified as held-to-maturity investments and loans and receivables are now classified as financial assets at amortized cost.

(h) The Group's forfeiting and discounted bills used to be measured at amortized cost in line with IAS 39. According to the requirements of IFRS 9, on the transition day their business model was recognized as both collecting contractual cash flows and potentially selling the assets. They are both recognized at Fair Value through Other Comprehensive Income (FVOCI).

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2 Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

(4) Disclosures relating to the impact of the adoption of IFRS 9 on the Group (continued)

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance and provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

	Allowance for impairment losses under IAS 39/Provision under IAS 37	Reclassifications	Remeasurements	Allowance for impairment losses under IFRS 9
Deposits with banks and other financial institutions	1,047	–	125	1,172
Placements with banks and other financial institutions	433	–	242	675
Financial assets held under resale agreements	–	–	153	153
Loans and advances to customers	88,564	(490)	1,296	89,370
Held-to-maturity investments	415	(415)	–	–
Investments classified as receivables	4,157	(4,157)	–	–
Financial investment-Financial assets at amortized cost	–	4,430	2,161	6,591
Other financial assets	409	–	–	409
Subtotal	95,025	(632)	3,977	98,370
Loan commitments	1,366	–	45	1,411
Other off-balance sheet items	101	–	175	276
Subtotal	1,467	–	220	1,687
Total	96,492	(632)	4,197	100,057

2 Significant accounting policies (continued)

2.4 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.

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

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

2 Significant accounting policies (continued)

2.5 Revenue recognition

(1) Interest income

(i) Financial assets under IFRS9

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(ii) Financial assets under IAS39

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 Significant accounting policies (continued)

2.5 Revenue recognition (continued)

(2) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Under IAS 18, 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.

IFRS 15 provides a more detailed principle-based approach for revenue recognition than the IAS 18. Under IFRS 15, the Group recognizes revenue when a performance obligation is satisfied by transferring a promised good or service to a customer(thus the customer obtains control of that good or service).

2.6 Foreign currency translation

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

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

Changes in the fair value of monetary securities denominated in foreign currency classified as 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 under IAS39 and FVOVI – debt investment under IFRS9 are recognized in other comprehensive income; other exchange differences are recognized directly in profit and loss.

2 Significant accounting policies (continued)

2.7 Taxation

Income tax expense comprises current and deferred tax.

Current tax

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

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

Deferred tax

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

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

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

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

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

2 Significant accounting policies (continued)

2.8 Employee benefits

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

(1) Short-term employee benefits

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

(2) Retirement benefits

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

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

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.

2 Significant accounting policies (continued)

2.8 Employee benefits (continued)

(2) Retirement benefits (continued)

Supplementary retirement benefit

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

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

(3) Early retirement benefits

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

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

2 Significant accounting policies (continued)

2.9 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%

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 gains or losses in the consolidated statement of comprehensive income. Property and equipment's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

2 Significant accounting policies (continued)

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.

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

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

2 Significant accounting policies (continued)

2.12 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 net other operating gains 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.

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 Significant accounting policies (continued)

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 when the dividends are approved by the Bank's shareholders.

2.17 Provisions

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

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

2 Significant accounting policies (continued)

2.18 Fiduciary activities

The Group acts as custodian or trustee to hold and manage assets for third parties. The Group conducts entrusted lending business as agent of customer. In the fiduciary activities, the Group only receives service fee without bearing any major risks related to its fiduciary business. The assets and their repayment obligations related to these activities are not included in the consolidated statement of financial position of the Group.

2.19 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because s specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of expected credit loss under IFRS9 Note 2.3(1)(iii); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the expected credit loss. The Group has not provided any commitment to provide loans at a below market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

2 Significant accounting policies (continued)

2.20 Contingent liabilities

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

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

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

2.21 Segment Analysis

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Relevant committees led by 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.

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

3 Critical accounting estimates and judgements in applying accounting policies

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

3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e. g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 44.3 Credit Risk, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of ECL;

– Establishing the number and relative weightings of forward-looking scenarios.

Detailed information about the above judgements and estimates made by the Group is set out in Note 44.3 Credit Risk.

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.

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.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31	
	2018	2017
Interest income		
Deposits with central bank	**19,643**	21,258
Deposits with banks and other financial institutions	**12,335**	9,539
Placements with banks and other financial institutions	**13,611**	11,464
Financial assets held under resale agreements	**6,640**	6,784
Loans and advances to customers	**197,752**	160,981
Including: Corporate loans and advances	**82,595**	67,104
Personal loans and advances	**115,157**	93,877
Investment instruments		
Financial assets at fair value through profit or loss	**N/A**	753
Financial assets at fair value through other comprehensive income-debt instruments	**7,352**	N/A
Financial assets at amortized cost	**102,833**	N/A
Available-for-sale financial assets	**N/A**	7,998
Held-to-maturity investments	**N/A**	30,644
Investment classified as receivables	**N/A**	55,864
Subtotal	**360,166**	305,285
Interest expense		
Deposits from banks and other financial institutions	**(772)**	(1,781)
Placements from banks and other financial institutions	**(1,793)**	(1,076)
Financial assets sold under repurchase agreements	**(2,584)**	(3,692)
Customer deposits	**(117,836)**	(107,797)
Debt securities issued	**(3,059)**	(2,824)
Subtotal	**(126,044)**	(117,170)
Net interest income	**234,122**	188,115
Including: Interest income accrued on impaired financial assets	**269**	139
Included in interest income		
Interest income from listed investments	**63,734**	36,955
Interest income from unlisted investments	**46,451**	57,551

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

	Note	Year ended December 31	
		2018	2017
Bank cards and POS fee income		**12,952**	10,137
Settlement and clearing fee income	(1)	**5,985**	3,533
Wealth management fee income		**4,589**	4,836
Agency service fee income	(2)	**4,330**	3,847
Custodian business fee income		**830**	967
Others		**455**	271
Fee and commission income		**29,141**	23,591
Fee and commission expense	(3)	**(14,707)**	(10,854)
Net fee and commission income		**14,434**	12,737

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

(2) Agency service fee income mainly refers to fee and commission income from various agency services, including insurances, funds, government bonds underwriting, and collection and payment services.

(3) Fee and commission expense is expense incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 39.3(1) for expenses paid by the Bank to China Post Group.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

6 Net trading gains

	Year ended December 31	
	2018	2017
Debt securities	**4,346**	2,070
Derivative financial instruments	**223**	(195)
Total	**4,569**	1,875

7 Net gains on investment securities

	Year ended December 31	
	2018	2017
Net gains from financial assets at fair value through profit or loss	**2,918**	N/A
Net gains from financial assets at fair value through other comprehensive income	**862**	N/A
Net gains from available-for-sale financial assets	**N/A**	21,991
Net re-valuation gains arising from reclassification from other comprehensive income to profit or loss	**N/A**	108
Net gains from investment classified as receivables	**N/A**	60
Amortization of unrealized gains arising from the portion transferred to held-to-maturity investments	**N/A**	96
Total	**3,780**	22,255

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

8 Net other operating gains/(losses)

	Year ended December 31	
	2018	2017
Net exchange gains/(losses)	**2,641**	(1,876)
Government subsidies	**816**	824
Precious metal sales income	**346**	419
Leasing income	**165**	184
Others	**372**	331
Total	**4,340**	(118)

9 Operating expenses

		Year ended December 31	
	Note	**2018**	2017
Deposit agency fee costs and others	(1)	**73,012**	68,797
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	**44,920**	41,812
General operating and other administrative expenses		**24,644**	23,051
Depreciation and amortization		**4,610**	4,556
Taxes and surcharges	(3)	**1,843**	1,662
Auditor's remuneration	(4)	**29**	52
Others		**3,266**	7,086
Total		**152,324**	147,016

(1) Deposit agency fee costs and others mainly are payments by the Bank to China Post Group and its provincial branches for the agency services they provided for gathering deposits on behalf of the Group(Notes 39.3(1)).

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses (continued)

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

	Year ended December 31	
	2018	2017
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	**31,213**	29,517
Staff welfare	**1,857**	1,689
Social security contributions	**2,218**	1,929
Including: Medical insurance	**2,029**	1,770
Maternity insurance	**130**	101
Work injury insurance	**59**	58
Housing funds	**2,754**	2,464
Labour union funds and employee education funds	**1,334**	1,182
Subtotal	**39,376**	36,781
Defined contribution benefits		
Basic pensions	**4,407**	3,982
Unemployment insurance	**94**	95
Annuity scheme	**1,021**	942
Subtotal	**5,522**	5,019
Supplementary retirement benefits (Note 33(2)(iii))	**22**	12
Total	**44,920**	41,812

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

Pursuant to the "notice on adjusting the VAT rate" (Cai Shui [2018] No. 32) (關於調整增值稅稅率的通知) issued by the MOF and the State Administration of Taxation, from May 1, 2018, tax rates of VAT taxable sales of the Group will be change from 17% and 11% to 16% and 10% respectively.

(4) Auditor's remuneration included the cost of audit related services for the Bank.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors

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

		Year ended December 31, 2018				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Executive directors						
Zhang Xuewen (張學文)		–	460	103	71	634
Yao Hong (姚紅)		–	437	101	71	609
Non-executive directors						
Han Wenbo (韓文博)	(i)	–	–	–	–	–
Tang Jian (唐健)	(i)	–	–	–	–	–
Liu Yaogong (劉堯功)	(i)	–	–	–	–	–
Chin Hung I David (金弘毅)		–	464	–	–	464
Liu Yue (劉悦)	(i)	–	–	–	–	–
Ding Xiangming (丁向明)	(i)	–	–	–	–	–
Independent non-executive directors						
Ma Weihua (馬蔚華)		450	–	–	–	450
Bi Zhonghua (畢仲華)		300	–	–	–	300
Fu Tingmei (傅廷美)		300	–	–	–	300
Gan Peizhong (甘培忠)		300	–	–	–	300
Hu Xiang (胡湘)		275	–	–	–	275
Supervisors						
Chen Yuejun (陳躍軍)		–	462	104	71	637
Li Yujie (李玉傑)	(ii)	–	–	–	–	–
Zhao Yongxiang (趙永祥)	(ii)	–	–	–	–	–
Zeng Kanglin (曾康霖)		240	–	–	–	240
Guo Tianyong (郭田勇)		240	–	–	–	240
Wu Yu (吴昱)	(iii)	–	–	–	–	–
Li Yue (李躍)	(iv)	–	–	–	–	–
Song Changlin (宋長林)	(iv)	–	–	–	–	–
Bu Dongsheng (卜東升)	(iv)	–	–	–	–	–
Directors and supervisors resigned						
Li Guohua(李國華)	(v)	–	–	–	–	–
Lyu Jiajin (呂家進)	(vi)	–	–	–	–	–
Total	(vii)	2,105	1,823	308	213	4,449

10 Emoluments of directors and supervisors (continued)

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

(i) According to the fact, the non-executive directors, Mr. Han Wenbo, Mr. Tang Jian, Mr. Liu Yaogong, Mr. Liu Yue and Mr. Ding Xiangming, did not receive emolument from the Bank.

(ii) The supervisors from shareholders' representatives, Mr. Li Yujie, and Mr. Zhao Yongxiang, did not receive emolument from the Bank.

(iii) Mr. Wu Yu, an external supervisor, did not receive emolument from the Bank.

(iv) The employee supervisors were not remunerated, and their remuneration from the Bank in accordance with the employees' pay system was not recorded.

(v) Mr. Li Guohua resigned as the Chairman of the Bank in August 2018. During the term of office, he received emolument from China Post Group, but not received emolument from the Bank.

(vi) Mr. Lyu Jiajin resigned as the Executive Director and Minister of the bank in January 2019. During the term of office, he received emolument from China Post Group, but not received emolument from the Bank.

(vii) The total compensation packages for certain directors and supervisors for the year ended December 31, 2018 are not 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, 2018. The final compensation will be disclosed when determined.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

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

		Year ended December 31, 2017				
Name	Note	Fees RMB thousand	Remuneration RMB thousand	Contribution to pension schemes RMB thousand	Benefits in kind RMB thousand	Total RMB thousand
Chairman						
Li Guohua (李國華)	(i)	–	–	–	–	–
Executive directors						
Lyu Jiajin (呂家進)	(i)	–	–	–	–	–
Zhang Xuewen (張學文)		–	448	123	65	636
Yao Hong (姚紅)		–	425	120	66	611
Non-executive directors						
Han Wenbo (韓文博)	(ii)	–	423	47	60	530
Tang Jian (唐健)		–	463	51	65	579
Liu Yaogong (劉堯功)	(ii)	–	423	47	60	530
Chin Hung I David (金弘毅)		–	460	–	–	460
Liu Yue (劉悦)	(iii)	–	–	–	–	–
Ding Xiangming (丁向明)	(iii)	–	–	–	–	–
Independent non-executive directors						
Ma Weihua (馬蔚華)		450	–	–	–	450
Bi Zhonghua (畢仲華)		300	–	–	–	300
Fu Tingmei (傅廷美)		300	–	–	–	300
Gan Peizhong (甘培忠)		300	–	–	–	300
Hu Xiang (胡湘)	(iv)	–	–	–	–	–
Supervisors						
Chen Yuejun (陳躍軍)		–	450	124	65	639
Li Yujie (李玉傑)		–	–	–	–	–
Zhao Yongxiang (趙永祥)		–	–	–	–	–
Zeng Kanglin (曾康霖)		240	–	–	–	240
Guo Tianyong (郭田勇)		240	–	–	–	240
Wu Yu (吳昱)		240	–	–	–	240
Li Yue (李躍)	(v)	–	–	–	–	–
Song Changlin (宋長林)	(v)	–	–	–	–	–
Bu Dongsheng(卜東升)	(vi)	–	–	–	–	–
Directors and supervisors resigned						
Yang Songtang(楊松堂)	(vii)	–	40	4	7	51
Lai Weiwen(賴偉文)	(vii)	–	40	4	7	51
Dang Junzhang(黨均章)	(viii)	–	–	–	–	–
Total	(ix)	2,070	3,172	520	395	6,157

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, and Mr. Lyu Jiajin, the executive director, hold their office and receive emoluments from China Post Group, and do not receive emolument from the Bank.

(ii) At the Bank's Interim Shareholders' General Meeting for the year of 2017 held in March 2017, Mr. Han Wenbo and Mr. Liu Yaogong were appointed as non-executive directors of the Bank, and their appointment was approved by CBRC in May 2017.

(iii) At the Bank's Shareholders' General Meeting for the year of 2016 held in June 2017, Mr. Liu Yue and Mr. Ding Xiangming were appointed as non-executive directors of the Bank, and their appointments were approved by CBRC in December 2017 and October 2017, respectively.

(iv) At the Bank's Shareholders' General Meeting for the year of 2016 held in June 2017, Mr. Hu Xiang was appointed as independent non-executive director of the Bank, and his appointment was approved by CBRC in October 2017.

(v) The compensation due to employee supervisor Mr. Li Yue and Mr. Song Changlin as employee of the Bank was not included here.

(vi) At the Bank's First Worker's Congress for the year of 2017, Mr. Bu Dongsheng was elected employee supervisors effective in May 2017, and the compensation due to them as employees of the Bank is not included here.

(vii) Mr. Yang Songtang and Mr. Lai Weiwen ceased to be non-executive director in January 2017.

(viii) Mr. Dang Junzhang ceased to be employee supervisor in May 2017.

(ix) The total compensation packages for certain directors and supervisors for the year ended December 31, 2017 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, 2017. The final compensation will be disclosed when determined.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

(2) Five highest paid individuals

For the years ended December 31, 2018 and 2017, 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	
	2018	2017
	RMB thousand	RMB thousand
Remunerations paid	**6,735**	7,038
Contribution to pension schemes	**359**	435
Benefits in kind	**294**	261
Total	**7,388**	7,734

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

	Year ended December 31	
	2018	2017
	Headcount	Headcount
RMB1,000,001-RMB1,500,000	**4**	2
RMB1,500,001-RMB2,000,000	**1**	3

(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, 2018 and 2017, 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.

For The Year Ended December 31, 2018 (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 (continued)

(ii) For the years ended December 31, 2018 and 2017, no emolument was paid by the Group to any of the directors, supervisors, senior management or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office. Except for the annuity scheme and pension scheme, other retirement benefits for directors or supervisors were not significant, and there were no consideration provided to third parties for making available directors' or supervisors' services; and none of the directors or supervisors forfeited fees or had material interests, whether directly or indirectly, in any material transactions, arrangements or contracts in relation to the Group's business for the years ended December 31, 2018 and 2017.

11 Credit impairment losses

	Year ended December 31 2018
Deposits with banks and other financial institutions	**(846)**
Placements with banks and other financial institutions	**805**
Financial assets held under resale agreements	**669**
Loans and advances to customers	**43,134**
Investment instruments	
Financial assets at fair value through other comprehensive income-debt instruments	**69**
Financial assets at amortized cost	**10,236**
Credit Commitment	**976**
Other financial assets	**371**
Total	**55,414**

12 Impairment losses on assets

	Year ended December 31 2017
Deposits with banks and other financial institutions	1,047
Placements with banks and other financial institutions	293
Loans and advances to customers	21,127
Held-to-maturity investments	415
Investment classified as receivables	2,336
Others	1,519
Total	26,737

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

13 Income tax expense

	Year ended December 31	
	2018	2017
Current income tax	**16,255**	10,502
Deferred income tax (Note 24)	**(15,152)**	(7,100)
Total	**1,103**	3,402

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

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

		Year ended December 31	
	Note	**2018**	2017
Profit before income tax		**53,487**	51,111
Income tax expense calculated at the statutory tax rate of 25%		**13,372**	12,778
Tax effect of non-taxable income and tax reduction	(1)	**(11,205)**	(9,633)
Tax refund		**(1,513)**	–
Tax effect of items not deductible for tax purpose	(2)	**449**	257
Income tax expense		**1,103**	3,402

(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 is subject to income tax levied at half in accordance with the relevant PRC tax regulations.

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

14 Basic and diluted earnings per share

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

	Year ended December 31	
	2018	2017
Net profit attributable to shareholders of the Bank (in RMB millions)	**52,311**	47,683
Less: Net profit for the year attribute to preference shareholders of the Bank (in RMB millions)	**2,391**	–
Net profit attributable to ordinary shareholders of the Bank (in RMB millions)	**49,920**	47,683
Weighted average number of ordinary shares in issue (in millions)	**81,031**	81,031
Basic earnings per share (in RMB Yuan)	**0.62**	0.59

(2) Diluted earnings per share

For the years ended December 31, 2018 and 2017, as there were no potential diluted ordinary shares, the diluted earnings per share were the same as the basic earnings per share.

15 Cash and deposits with central bank

		As at December 31	
	Note	**2018**	2017
Cash on hand		**47,491**	47,570
Statutory reserve with central bank	(1)	**1,110,977**	1,331,917
Surplus reserve with central bank	(2)	**41,620**	30,873
Fiscal deposits with central bank		**2,847**	1,602
Total		**1,202,935**	1,411,962

(1) Statutory reserve with central bank is the general reserve deposited with the People's Bank of China (hereinafter referred to as the "central bank" or the "PBOC") by the Group in accordance with the relevant regulations, and cannot be used for daily operating activities. As at December 31, 2018, the ratio for RMB deposits statutory reserve was 13% (December 31, 2017: 16.5%), whereas the ratio for foreign currency deposits was 5% (December 31, 2017: 5%).

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

16 Deposits with banks and other financial institutions

	As at December 31	
	2018	2017
Deposits with:		
Domestic banks	**135,625**	291,140
Other domestic financial institutions	**162**	234
Overseas banks	**4,890**	6,431
Gross amount	**140,677**	297,805
Allowance for impairment losses (Note 26)	**(326)**	(1,047)
Carrying amount	**140,351**	296,758

17 Placements with banks and other financial institutions

	As at December 31	
	2018	2017
Placements with:		
Domestic banks	**74,266**	109,724
Other domestic financial institutions	**212,024**	205,600
Overseas banks	**812**	1,108
Gross amount	**287,102**	316,432
Allowance for impairment losses (Note 26)	**(1,480)**	(433)
Carrying amount	**285,622**	315,999

For The Year Ended December 31, 2018 (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 rate and interest rates, which are related to trading, asset and liability management, and customer driven transactions.

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as of balance sheet 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, or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

By types of contracts:

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

	As at December 31, 2017		
		Fair Value	
	Contractual/ Notional amounts	Assets	Liabilities
Exchange rate contracts	440,005	6,456	(6,499)
Interest rate contracts	108,558	128	(117)
Total	548,563	6,584	(6,616)

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

For The Year Ended December 31, 2018 (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	
	2018	2017
Credit risk-weighted amount for counterparty		
Exchange rate contracts	**2,733**	2,613
Interest rate contracts	**206**	58
Subtotal	**2,939**	2,671
Credit value adjustments	**4,414**	5,296
Total	**7,353**	7,967

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

19 Financial assets held under resale agreements

	As at December 31	
	2018	2017
By collateral:		
Bills	**33,340**	14,540
Debt securities	**207,169**	127,434
Gross amount	**240,509**	141,974
Allowance for impairment losses (Note 26)	**(822)**	–
Carrying amount	**239,687**	141,974

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 41.5 Contingent liabilities and commitments – Collateral". As at December 31, 2018 and December 31, 2017, the Group did not have any netting arrangements or similar agreements with counterparties.

20 Loans and advances to customers

20.1 Loans and advances by types

Loans and advances to customers

		As at December 31	
	Note	**2018**	2017
Loans and advances to customers			
– At amortized cost	(1)	**3,620,003**	3,541,571
– At fair value through other comprehensive income	(2)	**526,672**	N/A
– At fair value through profit or loss	(3)	**2,863**	N/A
Total		**4,149,538**	3,541,571

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.1 Loans and advances by types (continued)

(1) Loans and advances to customers at amortized cost

	As at December 31	
	2018	2017
Corporate loans and advances		
– Loans	**1,384,501**	1,391,901
– Discounted bills	**42,989**	291,761
Subtotal	**1,427,490**	1,683,662
Personal loans and advances		
Consumer loans	**1,693,442**	1,411,361
– Residential mortgage loans	**1,417,898**	1,155,176
– Other consumer loans	**275,544**	256,185
Personal business loans	**349,434**	300,990
Micro loans	**177,651**	156,427
Credit cards overdrafts and others	**99,313**	77,695
Subtotal	**2,319,840**	1,946,473
Gross loans and advances to customers at amortized cost	**3,747,330**	3,630,135
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
– Stage 1	**(85,115)**	N/A
– Stage 2	**(8,905)**	N/A
– Stage 3	**(33,307)**	N/A
– Individual assessment	**N/A**	(3,136)
– Collective assessment	**N/A**	(85,428)
Net loans and advances to customers at amortized cost	**3,620,003**	3,541,571

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.1 Loans and advances by types (continued)

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

	As at December 31	
	2018	2017
Corporate loans and advances		
– Loans	**167,901**	N/A
– Discounted bills	**358,771**	N/A
Loans and advances to customers at fair value through other comprehensive income	**526,672**	N/A

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

	As at December 31	
	2018	2017
Corporate loans and advances		
– Discounted bills	**2,863**	N/A

Part of the Group's discounted bills increased in this year with business model that is held neither "only for the collection of contractual cash flows" nor "both for collecting contractual cash flows and selling halfway" should be classified as FVTPL.

20.2 Detailed information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation is set out in Note 44.3.3.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

20 Loans and advances to customers (continued)

20.3 Loans and advances by allowance for impairment losses

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

	As at December 31, 2017				
	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
December 31, 2017					
Gross loans and advances	3,602,865	23,853	3,417	3,630,135	0.75%
Allowance for impairment losses	(65,079)	(20,349)	(3,136)	(88,564)	
Loans and advances to customers, net	3,537,786	3,504	281	3,541,571	

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments

21.1 Financial assets at fair value through profit or loss

	Note	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)		
Debt securities		
– Listed in Hong Kong		**163**
– Listed outside Hong Kong		**49,435**
Subtotal		**49,598**
Interbank certificates of deposits		
– Listed outside Hong Kong		**97,368**
– Unlisted		**4,109**
Subtotal		**101,477**
Asset-backed securities		
– Listed outside Hong Kong		**11,076**
Fund investments		
– Unlisted		**103,745**
Trust investment plans and asset management plans		
– Unlisted		**39,499**
Commercial bank wealth management products		
– Unlisted		**31,964**
Equity instruments		
– Unlisted		**2,090**
Subtotal		**339,449**
Financial assets designated at fair value through profit or loss		
Placements with banks and other financial institutions		
– Unlisted		**2,213**
Subtotal	(1)	**2,213**
Total		**341,662**

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

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21 Investments instruments (continued)

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

Analyzed by types of issuers:

	Note	As at December 31, 2018
Financial assets at fair value through profit or loss (mandatory)		
Debt securities		
– Government		**1,036**
– Public institutions and quasi-government		**52**
– Financial institutions		**35,989**
– Corporates		**12,521**
Subtotal		**49,598**
Interbank certificates of deposits		
– Financial institutions		**101,477**
Asset-backed securities		
– Financial institutions		**11,076**
Fund investments		
– Financial institutions		**103,745**
Trust investment plans and asset management plans		
– Financial institutions		**39,499**
Commercial bank wealth management products		
– Financial institutions		**31,964**
Equity instruments		
– Financial institutions		**13**
– Corporates		**2,077**
Subtotal		**2,090**
Subtotal		**339,449**
Financial assets designated at fair value through profit or loss		
Placements with banks and other financial institutions		
– Financial institutions		**2,213**
Subtotal	(1)	**2,213**
Total		**341,662**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

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

	Note	As at December 31, 2017
Financial assets held for trading		
Debt securities		
– Listed in Hong Kong		218
– Listed outside Hong Kong		8,819
Subtotal		9,037
Interbank certificates of deposits		
– Listed outside Hong Kong		59,163
– Unlisted		9,759
Subtotal		68,922
Subtotal	(2)	77,959
Financial assets designated at fair value through profit or loss		
Asset management plans		
– Unlisted		17,762
Placements with banks and other financial institutions		
– Unlisted		11,709
Beneficiary certificates		
– Unlisted		12,562
Subtotal	(1)	42,033
Total		119,992

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

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

Analyzed by types of issuers:

	Note	As at December 31, 2017
Debt securities		
– Government		250
– Financial institutions		3,594
– Corporates		5,193
Subtotal		9,037
Interbank certificates of deposits		
– Financial institutions		68,922
Subtotal	(2)	77,959
Financial assets designated at fair value through profit or loss		
Assets management plans		
– Financial institutions		17,762
Placements with banks and other financial institutions		
– Financial institutions		11,709
Beneficiary certificates		
– Financial institutions		12,562
Subtotal	(1)	42,033
Total		119,992

(1) The Group designates its investment proceeds from principal-guaranteed wealth management products as financial assets at fair value through profit or loss. As at December 31, 2018 and 2017, the fair value of the Group's financial assets designated as at fair value through profit or loss has no significant change due to changes arising from their credit risk exposures.

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

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

	As at December 31, 2018
Debt securities	
– Listed in Hong Kong	**8,710**
– Listed outside Hong Kong	**170,930**
– Unlisted	**693**
Subtotal	**180,333**
Asset-backed securities	
– Listed outside Hong Kong	**3,017**
Total	**183,350**

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

Analyzed by types of issuers:

	As at December 31, 2018
Debt securities	
– Government	**59,470**
– Financial institutions	**107,552**
– Corporates	**13,311**
Subtotal	**180,333**
Asset-backed securities	
– Financial institutions	**3,017**
Total	**183,350**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

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

	As at December 31, 2018
Equity instruments	
– Unlisted	**553**
Total	**553**

Analyzed by types of issuers:

	As at December 31, 2018
Equity instruments	
– Financial institutions	**553**
Total	**553**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.4 Financial assets at amortized cost

	Note	As at December 31, 2018
Debt securities		
– Listed in Hong Kong		**7,939**
– Listed outside Hong Kong		**1,658,228**
– Unlisted	(1)	**968,147**
Subtotal		**2,634,314**
Interbank certificates of deposits		
– Listed outside Hong Kong		**87,313**
Asset-backed securities		
– Listed outside Hong Kong		**35,823**
– Unlisted		**7,282**
Subtotal		**43,105**
Other debt instruments		
– Unlisted	(2)	**114,170**
Gross amount		**2,878,902**
Allowance for impairment losses (Note 26)		**(16,980)**
Carrying amounts		**2,861,922**

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

(1) Debt securities included long term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.4 Financial assets at amortized cost (continued)

Analyzed by types of issuers:

	As at December 31, 2018
Debt securities	
– Government	**849,483**
– Financial institutions	**1,703,296**
– Corporates	**81,535**
Subtotal	**2,634,314**
Interbank certificates of deposits	
– Financial institutions	**87,313**
Asset-backed securities	
– Financial institutions	**43,105**
Other debt instruments	
– Financial institutions	**114,170**
Gross amount	**2,878,902**
Allowance for impairment losses (Note 26)	**(16,980)**
Carrying amounts	**2,861,922**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.5 Available-for-sale financial assets

	Note	As at December 31, 2017
Debt securities		
– Listed in Hong Kong		9,346
– Listed outside Hong Kong		194,126
– Unlisted		657
Subtotal		204,129
Interbank certificates of deposits		
– Listed outside Hong Kong		8,898
Asset-backed securities		
– Listed outside Hong Kong		34,251
Equity instruments		
– Unlisted	(1)	439,470
Total		686,748

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

(1) Equity instruments mainly include money market funds, asset management plans and wealth management products.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.5 Available-for-sale financial assets (continued)

Analyzed by types of issuers:

	As at December 31, 2017
Debt securities	
– Government	90,254
– Financial institutions	101,281
– Corporates	12,594
Subtotal	204,129
Interbank certificates of deposits	
– Financial institutions	8,898
Asset-backed securities	
– Financial institutions	34,251
Equity instruments	
– Financial institutions	439,470
Total	686,748

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

21 Investments instruments (continued)

21.6 Held-to-maturity investments

	As at December 31, 2017
Debt securities	
– Listed in Hong Kong	1,937
– Listed outside Hong Kong	925,244
– Unlisted	326
Subtotal	927,507
Interbank certificates of deposits	
– Listed outside Hong Kong	7,443
Asset-backed securities	
– Listed outside Hong Kong	1,200
Gross amount	936,150
Allowance for impairment losses (Note 26)	(415)
Carrying amounts	935,735
Fair value of listed held-to-maturity investments	913,774

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

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21 Investments instruments (continued)

21.6 Held-to-maturity investments (continued)

Analyzed by types of issuers:

	As at December 31, 2017
Debt securities	
– Government	539,278
– Public institutions and quasi-government	1,270
– Financial institutions	342,492
– Corporates	44,467
Subtotal	927,507
Interbank certificates of deposits	
– Financial institutions	7,443
Asset-backed securities	
– Financial institutions	1,200
Gross amount	936,150
Allowance for impairment losses (Note 26)	(415)
Carrying amounts	935,735

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21 Investments instruments (continued)

21.7 Investment classified as receivables

	Note	As at December 31, 2017
Debt securities		
– Listed outside Hong Kong		120,406
– Unlisted	(1)	1,057,518
Subtotal		1,177,924
Asset-backed securities		
– Unlisted		33,854
Other debt instruments		
– Unlisted	(2)	216,937
Allowance for impairment losses (Note 26)		(4,157)
Carrying amounts		1,424,558

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

(1) Debt securities primarily comprise long-term special financial bonds issued by policy banks in 2015, with maturity of 5 to 20 years.

(2) Primarily comprise trust investment plans, asset management plans and wealth management products.

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21 Investments instruments (continued)

21.7 Investment classified as receivables (continued)

Analyzed by types of issuers:

	As at December 31, 2017
Debt securities	
– Government	13,044
– Financial institutions	1,159,560
– Corporates	5,320
Subtotal	1,177,924
Asset-backed securities	
– Financial institutions	33,854
Other debt instruments	
– Financial institutions	216,937
Allowance for impairment losses (Note 26)	(4,157)
Carrying amounts	1,424,558

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

22 Investment in subsidiary

The Bank

	As at December 31	
	2018	2017
Investment cost	**2,115**	615

On November 19, 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; authorised issuance of financial bonds; lending to domestic financial institutions; and investments in fixed income securities.

On January 4, 2018, the CBIRC Guangdong Office approved PSBC Consumer Finance to increase its registered capital from RMB1 billion to RMB3 billion. The Bank increased its share capital injection by RMB1.5 billion on January 18, 2018, and business license was updated on March 16, 2018.

As at December 31, 2018, the Bank owns 70.50% in the equity interest and voting rights of PSBC Consumer Finance (December 31, 2017: 61.50%).

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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, 2018	37,881	10,102	1,243	5,395	13,193	67,814
Add: Additions	1,643	503	24	195	4,781	7,146
Transfer-in from investment properties	7	–	–	–	–	7
Transfer-in from construction in progress	5,044	116	2	121	(5,283)	–
Less: Deductions	(163)	(477)	(85)	(1,339)	(611)	(2,675)
Transfer-out to investment properties	(6)	–	–	–	–	(6)
As at December 31, 2018	44,406	10,244	1,184	4,372	12,080	72,286
Accumulated depreciation						
As at January 1, 2018	(11,287)	(7,966)	(1,178)	(3,579)	–	(24,010)
Add: Charge for the year	(2,800)	(1,059)	(16)	(401)	–	(4,276)
Transfer-in from investment properties	(3)	–	–	–	–	(3)
Less: Disposals	45	452	82	821	–	1,400
Transfer-out to investment properties	2	–	–	–	–	2
As at December 31, 2018	(14,043)	(8,573)	(1,112)	(3,159)	–	(26,887)
Carrying value						
As at December 31, 2018	30,363	1,671	72	1,213	12,080	45,399
As at January 1, 2018	26,594	2,136	65	1,816	13,193	43,804

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23 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2017	35,934	9,748	1,259	5,027	8,088	60,056
Add: Additions	422	433	29	253	7,483	8,620
Transfer-in from investment properties	121	–	–	–	–	121
Transfer-in from construction in progress	1,484	284	–	206	(1,974)	–
Less: Deductions	(76)	(363)	(45)	(91)	(404)	(979)
Transfer-out to investment properties	(4)	–	–	–	–	(4)
As at December 31, 2017	37,881	10,102	1,243	5,395	13,193	67,814
Accumulated depreciation						
As at January 1, 2017	(9,414)	(7,139)	(1,180)	(3,041)	–	(20,774)
Add: Charge for the year	(1,836)	(1,171)	(41)	(623)	–	(3,671)
Transfer-in from investment properties	(52)	–	–	–	–	(52)
Less: Disposals	15	344	43	85	–	487
As at December 31, 2017	(11,287)	(7,966)	(1,178)	(3,579)	–	(24,010)
Carrying amounts						
As at December 31, 2017	26,594	2,136	65	1,816	13,193	43,804
As at January 1, 2017	26,520	2,609	79	1,986	8,088	39,282

For The Year Ended December 31, 2018 (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. Part of the properties were still in the process of renewing ownership certificates, with net book value amounted to RMB0.3 billion as at December 31, 2018 (December 31, 2017: RMB0.4 billion).

In addition, as at December 31, 2018, 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 RMB3.0 billion (December 31, 2017: RMB2.3 billion).

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

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

The cost and carrying amount of property and equipment held under finance leases as at December 31, 2018 and 2017 were not significant.

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	
	2018	2017
Deferred tax assets	**35,887**	22,258

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

24 Deferred taxation (continued)

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

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Deferred income	Deductible losses	Total
December 31, 2017	**18,279**	**418**	**1,725**	**1,474**	**362**	**–**	**22,258**
Change on application of new accounting policy	**991**	**–**	**(1,261)**	**–**	**–**	**–**	**(270)**
January 1, 2018	**19,270**	**418**	**464**	**1,474**	**362**	**–**	**21,988**
Credit to profit or loss	**10,334**	**339**	**3,570**	**669**	**240**	**–**	**15,152**
Charge to other comprehensive income	**–**	**–**	**(1,253)**	**–**	**–**	**–**	**(1,253)**
December 31, 2018	**29,604**	**757**	**2,781**	**2,143**	**602**	**–**	**35,887**

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial instruments	Provisions	Deferred income	Deductible losses	Total
January 1, 2017	13,320	130	(9)	–	–	24	13,465
Credit/(charge) to profit or loss	4,959	288	41	1,474	362	(24)	7,100
Credit to other comprehensive income	–	–	1,693	–	–	–	1,693
December 31, 2017	18,279	418	1,725	1,474	362	–	22,258

For The Year Ended December 31, 2018 (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			
	2018		2017	
	Deductible/ (Taxable) temporary difference	**Deferred tax assets/ (liabilities)**	Deductible/ (Taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Allowance for impairment losses	**118,416**	**29,604**	73,118	18,279
Provisions	**8,571**	**2,143**	5,896	1,474
Fair value changes of financial instruments	**11,269**	**2,817**	7,807	1,952
Deferred income	**2,407**	**602**	1,447	362
Staff cost accrued but not paid	**3,030**	**757**	1,672	418
Total	**143,693**	**35,923**	89,940	22,485
Deferred tax liabilities				
Fair value changes of financial instruments	**(145)**	**(36)**	(907)	(227)
Total	**(145)**	**(36)**	(907)	(227)
Net	**143,548**	**35,887**	89,033	22,258

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25 Other assets

	Note	As at December 31 **2018**	2017
Accounts receivable and temporary payment		**6,558**	6,427
Prepaid expenses		**2,961**	2,217
Other accounts receivable		**2,256**	6,187
Land use rights		**1,739**	1,796
Intangible assets	(1)	**1,696**	1,758
Receivable of fee and commission		**1,182**	1,046
Long-term prepaid expenses	(2)	**1,044**	1,053
Interest receivable	(3)	**862**	41,878
Investment properties		**619**	682
Low-value consumables		**407**	461
Foreclose assets		**210**	191
Others		**3,198**	1,321
Gross amount		**22,732**	65,017
Allowance for impairment losses (Note 26)		**(593)**	(409)
Net value		**22,139**	64,608

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

(2) Long-term prepaid expenses are mainly cost for improvement of property and equipment under operating leases and prepaid rental fees.

(3) According to relevant regulations, in 2018, the Group stated interest based on the effective interest rate in the carrying amount of the financial instrument, and stated interest outstanding at the balance sheet date in "other assets".

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

26 Movements of allowance for impairment losses

26.1 The loss allowance recognized in the year is impacted by a variety of factors, as described below:

Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

Financial assets derecognized or settled in this year other than write-off;

Additional allowance for new financial instruments recognized in this year;

Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

Write-offs of allowance related to assets that were written off in this year.

26.2 The following tables explain the changes in the loss allowance in this year due to these factors:

	As at December 31, 2018			
Corporate loans and advances to customers – financial assets at amortized cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2018	35,052	1,959	8,815	45,826
Movements with profit and loss ("P&L") impact:				
Transfer to stage 1	67	(67)	–	–
Transfer to stage 2	(3,311)	3,316	(5)	–
Transfer to stage 3	(2,925)	(307)	3,232	–
Changes of ECL arising from transfer of stages	(56)	1,520	3,190	4,654
Financial assets derecognized or settled during the period	(7,983)	(365)	(1,037)	(9,385)
New financial assets originated or purchased	18,998	–	–	18,998
Remeasurement	10,708	431	887	12,026
Write-offs	–	–	(2,855)	(2,855)
Loss allowance as at December 31, 2018	50,550	6,487	12,227	69,264

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26 Movements of allowance for impairment losses (continued)

26.2 The following tables explain the changes in the loss allowance in this year due to these factors (continued):

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

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

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26 Movements of allowance for impairment losses (continued)

26.2 The following tables explain the changes in the loss allowance in this year due to these factors (continued):

	2017				
	Balance at the beginning of the year	Current year provision	Current year increase	Current year decrease	Balance at the end of the year
Allowance for impairment losses					
Deposits with banks and other financial institutions	–	1,047	–	–	1,047
Placements with banks and other financial institutions	140	293	–	–	433
Loans and advances to customers	71,431	21,127	2,501	(6,495)	88,564
Held-to-maturity investments	–	415	–	–	415
Investment classified as receivables	1,821	2,336	–	–	4,157
Other assets	336	148	–	(75)	409
Total	73,728	25,366	2,501	(6,570)	95,025

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26 Movements of allowance for impairment losses (continued)

26.3 The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance:

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

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

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26 Movements of allowance for impairment losses (continued)

26.3 The following tables illustrate the changes in the gross carrying amount of the Group to explain the changes in the loss allowance (continued):

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

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

27 Deposits from banks and other financial institutions

	As at December 31	
	2018	2017
Deposits from:		
Domestic banks	21,922	12,955
Other domestic financial institutions	52,243	35,499
Total	74,165	48,454

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28 Placements from banks and other financial institutions

	As at December 31	
	2018	2017
Placements from:		
Domestic banks	**35,723**	68,708
Other domestic financial institutions	**300**	–
Overseas banks	**3,822**	4,909
Total	**39,845**	73,617

29 Financial liabilities at fair value through profit or loss

	As at December 31	
	2018	2017
Principal-guaranteed wealth management products	**2,360**	42,193

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, 2018 and 2017, 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, 2018 and 2017, 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.

30 Financial assets sold under repurchase agreements

	As at December 31	
	2018	2017
Analyzed by type of collateral:		
Debt securities	**126,647**	83,219
Bills	**8,272**	31,924
Total	**134,919**	115,143

The collateral pledged under repurchase agreement is disclosed in "Note 41.5 Contingent liabilities and commitments – Collateral".

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31 Customer deposits

	As at December 31	
	2018	2017
Demand deposits		
Corporates	**770,917**	805,616
Personal	**2,615,326**	2,523,431
Subtotal	**3,386,243**	3,329,047
Time deposits		
Corporates	**386,863**	394,165
Personal	**4,852,585**	4,337,973
Subtotal	**5,239,448**	4,732,138
Other deposits	**1,749**	1,474
Total	**8,627,440**	8,062,659

As at December 31, 2018, customer deposits received by the Group included pledged deposits of RMB30.9 billion (December 31, 2017: RMB33.3 billion).

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32 Debt securities issued

		As at December 31	
	Note	**2018**	2017
10-year tier-2 capital bonds of at a fixed interest rate	(i)	**25,328**	24,978
10-year tier-2 capital bonds of at a fixed interest rate	(ii)	**30,148**	29,972
10-year tier-2 capital bonds of at a fixed interest rate	(iii)	**20,678**	19,982
Total		**76,154**	74,932

(i) In September 2015, upon the approval from CBIRC 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 CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from September 2020 onward.

(ii) In October 2016, upon the approval from CBIRC and PBOC, the Group issued RMB30 billion of 10-year tier-two capital bonds 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 CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.30% from October 2021 onward.

(iii) In March 2017, upon the approval from CBIRC and PBOC, the Group issued RMB20 billion of 10-year tier-2 capital bonds of at a fixed interest rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2022 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBIRC. If the Group does not exercise this redemption right, the annual interest rate would remain at 4.50% from March 2022 onward.

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

During the year of 2018, the Group issued interbank certificates of deposit with the total carrying value of RMB7.25 billion ranged from one month to three months, with interest rates ranging from 2.85% to 3.10%. As at December 31, 2018, the interbank certificates of deposit reached their maturities with nil carrying value. During the year of 2017, the Group issued interbank certificates of deposit with the total carrying value of RMB2.26 billion with the term of one month, with interest rates ranging from 3.80% to 3.90%. As at December 31, 2017, the interbank certificates of deposit reached their maturities with nil carrying value.

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33 Other liabilities

	Note	As at December 31 2018	2017
Tax payable		**17,832**	9,083
Payables for agency services		**16,465**	16,359
Provisions	(1)	**11,287**	7,385
Employee benefits payable	(2)	**9,698**	8,040
Settlement and clearance payables		**5,952**	12,095
Payables to China Post Group and other related parties (Note 39.3(12)(ii))		**1,933**	2,012
Contract liabilities	(3)	**1,855**	–
Deferred income		**–**	1,219
Dormant deposit payables		**1,559**	1,547
Payable for construction cost		**1,086**	719
Exchange transaction payables		**1,034**	1,070
Interest payable	(4)	**–**	88,541
Others		**10,851**	9,510
Total		**79,552**	157,580

(1) Provisions

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

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33 Other liabilities (continued)

(1) Provisions (continued)

		2017		
	Note	Balance at beginning of year	Current year provisions	Balance at end of year
Guarantee and Commitments		122	1,345	1,467
Litigation and others	(ii)	–	5,918	5,918
Total		122	7,263	7,385

(i) As at December 31, 2018, the provisions of guarantee and commitments of the Group are mainly in stage 1.

(ii) As at December 31, 2018 and December 31, 2017, the Group established accruals according to best estimation for a variety of risk events.

(2) Employee benefits payable

		As at December 31	
	Note	**2018**	2017
Short-term employee benefits	(i)	**8,445**	6,878
Defined contribution benefits	(ii)	**722**	667
Supplementary retirement benefits	(iii)	**531**	495
Total		**9,698**	8,040

(i) Short-term employee benefits

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

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33 Other liabilities (continued)

(2) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	2017			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Wages and salaries, bonus, allowance and subsidies	4,001	29,517	(27,608)	5,910
Staff welfare	–	1,689	(1,689)	–
Social security contributions	55	1,929	(1,896)	88
Including: Medical insurance	52	1,770	(1,738)	84
Maternity insurance	2	101	(101)	2
Work injury insurance	1	58	(57)	2
Housing funds	25	2,464	(2,471)	18
Labour union funds and employee education funds	520	1,182	(840)	862
Total	4,601	36,781	(34,504)	6,878

(ii) Defined contribution benefits

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

	2017			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Basic pensions	67	3,982	(3,959)	90
Unemployment insurance	5	95	(95)	5
Annuity scheme	842	942	(1,212)	572
Total	914	5,019	(5,266)	667

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33 Other liabilities (continued)

(2) Employee benefits payable (continued)

(iii) Supplementary retirement benefits

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

	As at December 31	
	2018	2017
Balance at the beginning of year	**495**	481
Interest expenses	**20**	16
Gain or loss from actuarial calculation	**44**	28
– Charge to profit or losses	**2**	(4)
– Charge to other comprehensive income	**42**	32
Benefits paid	**(28)**	(30)
Balance at the end of year	**531**	495

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

	As at December 31	
	2018	2017
Discount rate-retirement benefit plan	**3.50%**	4.25%
Discount rate-early retirement benefit plan	**3.00%**	3.75%
Annual growth rate of average medical expenses	**8.00%**	8.00%
Annual growth rates of retiree expenses	**3% and 0%**	3% and 0%
Annual growth rates of early-retiree expenses	**6%, 3% and 0%**	6%,3% and 0%
Normal retirement age		
– Male	**60**	60
– Female	**55, 50**	55, 50

Assumption for future mortality rates at December 31, 2018 and December 31, 2017 are all based on the China Life Insurance Mortality Table (2010-2013), which is the statistical information published at December 28, 2016 and publicly available in China.

As at December 31, 2018 and December 31, 2017, the Group has no default on the staff costs payable above.

(3) From January 1, 2018, the Group began to implement IFRS 15, the Group lists obligation to transfer goods or services to customers after consideration received as other liabilities – contract liabilities. As at December 31, 2017, the obligation was listed as deferred income.

(4) According to relevant regulations, in 2018, the Group stated interest based on the effective interest rate in the carrying amount of the financial instrument, and stated interest outstanding at the balance sheet date in “other liabilities”.

34 Share capital and other equity instruments

34.1 Share capital

The Bank's share capital is comprised of fully paid ordinary shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	2018	2017
Number of shares registered, issued and fully paid at par value (in millions)		
At beginning of year	**81,031**	81,031
Addition in current year	**–**	–
At the end of year	**81,031**	81,031

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited and issued a total of 12,426,574,000 H shares (including over-allotment) with par value of RMB1 each at an offer price of HKD4.76 per share. Gross proceeds from the share issuance amounted to HKD59,150,492,240.00. Share premium (net of issuance expenses) in the amount of RMB37,675,425,775.91 was recorded in capital reserve.

34.2 Other equity instruments

(a) Preference shares outstanding as at the end of year

						Total amount (million)				
Financial instruments	Issue date	Classification	Initial dividend rate	Issue price	Quantity (million shares)	Original Currency (USD million)	Equivalent (RMB million)	Conversion condition	Maturity date	Conversion
Offshore preference shares	September 27, 2017	Equity instruments	4.50%	USD20/ share	362.5	7,250	47,989	Mandatory	No Maturity Date	None
Less: Issuance fee							120			
Carrying amount							47,869			

34 Share capital and other equity instruments (continued)

34.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of year (continued)

The key terms are as below:

(1) Dividend

Fixed rate is applied for a certain period after the issuance of the offshore preference shares. Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the Fixed Spread. The Fixed Spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The Fixed Spread will remain unchanged throughout the term of the Preference Shares. Dividends will be paid annually.

(2) Conditions to distribution of dividends

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

(3) Dividend stopper

If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full.

34 Share capital and other equity instruments (continued)

34.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of year (continued)

(4) Mandatory conversion trigger events

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

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

(5) Order of distribution and liquidation method

Upon the Winding-Up of the Bank, the rights and claims in respect of the offshore preference shareholders shall rank: junior to holders of all liabilities of the Bank including any tier 2 capital instruments and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and in priority to the Ordinary Shareholders.

(6) Redemption

The offshore preference shares are perpetual and have no maturity date. Under the premise of obtaining the approval of the CBIRC and condition of redemption, the Bank has right to redeem all or some of offshore preference shares at the first redemption date and any subsequent dividend payment date until all offshore preference shares are redeemed or converted. Redemption price of offshore preference shares is equal to issue price plus accrued dividend in current period.

The First Redemption Date of USD Preference Shares is five years after issuance.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

34 Share capital and other equity instruments (continued)

34.2 Other equity instruments (continued)

(a) Preference shares outstanding as at the end of year (continued)

(7) Dividend setting mechanism

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

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

(b) Changes in preference shares outstanding

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

(i) The RMB23 million increased in current year refers to the capital contributed due to the reduction of the issuance expenses of offshore preference shares.

(c) Equity attributable to the holders of equity instruments

Items	As at December 31 2018	2017
1. Total equity attributable to equity holders of the Bank	**474,404**	430,973
(1) Equity attributable to ordinary equity holders of the Bank	**426,535**	383,127
(2) Equity attributable to other equity holders of the Bank	**47,869**	47,846
Including: Net profit	**2,391**	–
Dividends paid	**2,391**	–
2. Total equity attributable to non-controlling interests	**909**	384
(1) Equity attributable to non-controlling interests of ordinary shares	**909**	384
(2) Equity attributable to non-controlling interests of preference shares	**–**	–

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

35 Capital reserve

		As at December 31	
	Note	**2018**	2017
Net asset revaluation appreciation from the Bank's joint stock restructuring		**3,448**	3,448
Share premium from strategic investors		**33,536**	33,536
Share premium arising from the Bank's initial public offering of H shares (net of listing expenses)		**37,675**	37,675
Change of share proportion of the subsidiary	(1)	**(11)**	–
Total		**74,648**	74,659

(1) The Bank increased its share capital injection by RMB1.5 billion on January 18, 2018, after the capital, injection the bank owns share capital increased from 61.5% to 70.5%, the difference between the amount of the adjustment to non-controlling interests and cash paid is recognised in capital reserve RMB11 million.

36 Other reserves

36.1 Surplus reserve

	Year ended December 31	
	2018	2017
At the beginning of year	**25,159**	20,395
Appropriations in current year	**5,212**	4,764
At the end of year	**30,371**	25,159

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

36 Other reserves (continued)

36.2 General reserve

	Year ended December 31	
	2018	2017
At the beginning of year	**101,011**	93,803
Appropriations in current year	**2,948**	7,208
At the end of year	**103,959**	101,011

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.

36.3 Other comprehensive income

	Gross amount	Taxation effect	Net carrying amount
December 31, 2017	**(6,691)**	**1,647**	**(5,044)**
Impact of changes in accounting policies	**6,034**	**(1,376)**	**4,658**
January 1, 2018	**(657)**	**271**	**(386)**
Remeasurement of retirement benefit obligations	**(42)**	**–**	**(42)**
Gains arising from changes in fair value of debt instruments at fair value through other comprehensive income	**5,012**	**(1,253)**	**3,759**
Changes in impairment provision of financial assets at fair value through other comprehensive income	**262**	**–**	**262**
December 31, 2018	**4,575**	**(982)**	**3,593**

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

36 Other reserves (continued)

36.3 Other comprehensive income (continued)

	Gross amount	Taxation effect	Net carrying amount
January 1, 2017	116	(46)	70
Remeasurement of retirement benefit obligations	(32)	–	(32)
Changes in fair value of available-for-sale financial assets	(6,571)	1,642	(4,929)
Transferred to profit or loss			
– Upon disposal of available-for-sale financial assets	(108)	27	(81)
– Others	(96)	24	(72)
December 31, 2017	(6,691)	1,647	(5,044)

37 Dividends distribution

Upon the approval of the annual shareholders' meeting on June 28, 2018, the Bank distributed RMB11.92 billion (tax included) of cash dividends for the year ended December 31, 2017 to all the ordinary shareholders whose names appeared on the register of members with RMB1.471 per ten shares (tax included). The Bank has distributed the cash dividends on August 17, 2018.

In the Board of Directors' Meeting held on June 28, 2018, the directors approved the payment of dividends to offshore preference shareholders. Calculated by the initial dividend rate before the first reset date which is determined in accordance with the terms and conditions of the offshore preference shares and equals to 4.50% (after tax), the dividends payments amounted to RMB2,391 million (including tax). The Bank has distributed the dividends on September 27, 2018.

On March 26, 2019, the Board of Directors proposed the following profit distribution scheme for the year ended December 31, 2018: appropriation of RMB5,212 million, representing 10% of the net profit of the Bank to statutory surplus reserve; appropriation of RMB2,939 million to general reserve, declaration of cash dividend of RMB1.937 per ten shares (tax included), totally RMB15,696 million (tax included) to ordinary shareholders based on the 81,031 million ordinary shares issued. The proposed profit distribution scheme is subject to the approval by the shareholders in the forthcoming Annual General Meeting for the year of 2018. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

For The Year Ended December 31, 2018 (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 cash and the following balances with an original maturity within 3 months:

	As at December 31	
	2018	2017
Cash	**47,491**	47,570
Surplus reserve with central bank	**41,613**	30,873
Deposits with banks and other financial institutions	**9,080**	9,117
Placements with banks and other financial institutions	**73,098**	107,111
Financial assets held under resale agreements	**231,138**	128,264
Total	**402,420**	322,935

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, PRC	Domestic and international mail delivery, issuance of publications including newspapers and books, stamps issuance, postal remittance, confidential correspondence communication, postal finance, postal express delivery and postal logistics, etc.

China Post Group is wholly-owned by MOF

(2) Registered capital of the parent company

	Balance at the beginning of the year	Change in current year	Balance at the end of the year
China Post Group	**108,821**	**–**	**108,821**

(3) As of December 31, 2018, China Post Group held 68.92% of the equity shares and voting rights in the Bank (as at December 31, 2017, 68.92%).

39 Transactions with related parties (continued)

39.2 Information of major related parties

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

The Group's other related parties contain related natural persons, related legal persons triggered by related natural persons, related parties of the controlling shareholder and related parties of the major shareholders.

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 issuance, underwriting and redemption of government bonds; certification of personal deposits; agency sales of fund products and personal wealth management products, and other agency services. In accordance with the Interim Administrative Measures for Institutional Agency of Postal Savings Bank of China (中國郵政儲蓄銀行代理營業機構管理暫行辦法) issued by CBIRC, all agency operations were provided by China Post Group under bases of fees determined in accordance with the Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets (代理營業機構委託代理銀行業務框架協議) entered into between the Bank and China Post Group and its provincial branches.

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

Monthly deposit agency fee costs at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month multiplied by the number of days of deposit × the respective deposit agency fee rate of the relevant type of deposit/365) – aggregate cash (including that in transit) multiplied by the number of days at the relevant branch × 1.5%/365.

For The Year Ended December 31, 2018 (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 Group pays deposit agency fee costs for agency savings deposits received, net of cash reserves held by agency outlets and deposits in transit.

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

The agency fee for foreign currency deposit-taking was insignificant, and it is determined in line with industrial practice, applying market rates such as the composite interest rate of the China Interbank Foreign Currency Market.

For intermediary business services performed by agency outlets such as settlement and sales services, the agency fees are determined based on the income from agency services net of all direct taxes and expenses.

Agency fees payable to China Post Group and its provincial branches are settled regularly.

		Year ended December 31	
	Note	**2018**	2017
Deposit agency fee costs and others	(i)	**73,012**	68,797
Fees for agency savings settlement		**7,958**	5,106
Fees for agency sales and other commissions		**3,822**	3,284
Total		**84,792**	77,187

(i) In 2018, deposit agency fee cost amounted to RMB75,250 million. According to the netting arrangement between the Group and China Post Group, deposit agency fee costs and others are settled with an offsetting amount.

For The Year Ended December 31, 2018 (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 ordinary course of business.

As lessor

	Year ended December 31	
	2018	2017
Buildings and others	**84**	121

As lessee

	Year ended December 31	
	2018	2017
Buildings and others	**985**	986

(3) Comprehensive services and goods transactions with related parties

Rendering other comprehensive services and selling general office materials to related parties

		Year ended December 31	
	Note	**2018**	2017
Comprehensive services rendered to related parties	(i)	**32**	80
General office materials sold to related parties		**2**	11
Agency sales of insurance products		**168**	113
Agency sales of fund products		**11**	16
Total		**213**	220

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

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39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(3) Comprehensive services and goods transactions with related parties (continued)

Receiving services or purchasing products from related parties

	Note	Year ended December 31 2018	2017
Comprehensive services received from related parties	(ii)	**1,050**	941
Marketing services received from related parties		**404**	457
Goods purchased from related parties		**61**	85
Total		**1,515**	1,483

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

(4) Credit facilities granted to related parties

	Note	As at December 31 2018	2017
Bank of Shanghai Co., Ltd.	(i)	**1,174**	N/A
Other related parties		**122**	1

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

For The Year Ended December 31, 2018 (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	
	2018	2017
China Post Group and its provincial branches	**9,455**	13,464
China Postal Express & Logistics Company Limited and its subsidiaries	**934**	1,540
Other subsidiaries of China Post Group	**177**	419
Other related parties	**2,554**	1,385
Total	**13,120**	16,808
Interest rates per annum	**0.30%-2.90%**	0.30%~2.85%

(6) Placements with banks and other financial institutions

	As at December 31	
	2018	2017
Bank of Shanghai Co., Ltd.	**1,026**	N/A

(7) Derivative financial assets

	As at December 31	
	2018	2017
Bank of Shanghai Co., Ltd.	**72**	N/A

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(8) Financial assets held under resale agreements

	As at December 31	
	2018	2017
Bank of Shanghai Co., Ltd.	**808**	N/A

(9) Investment instruments

	As at December 31	
	2018	2017
Financial assets at fair value through profit or loss		
– China Post Group	**1,217**	–
– China Post & Capital Fund Management Co., Ltd.	**507**	N/A
– Bank of Shanghai Co., Ltd.	**300**	N/A
– China Post Securities Co., Ltd.	**–**	10,542
Financial assets at fair value through other comprehensive income-debt instruments		
– China Post Group	**2,318**	N/A
Financial assets at fair value through other comprehensive income-equity instruments		
– Other related parties	**53**	N/A
Financial assets measured at amortized cost		
– Bank of Shanghai Co., Ltd.	**35**	N/A
Available-for-sale financial assets		
– China Post & Capital Fund Management Co., Ltd.	**N/A**	2,030
– Other related parties	**N/A**	53

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(10) Deposits from banks and other financial institutions

	As at December 31	
	2018	2017
China Post Life Insurance Co., Ltd.	**7,022**	3,260
China Post Securities Co., Ltd.	**524**	353
Others	**2**	12
Total	**7,548**	3,625

(11) Derivative financial liabilities

	As at December 31	
	2018	2017
Bank of Shanghai Co., Ltd.	**82**	N/A

(12) Balance with related parties

(i) Accounts receivable

	As at December 31	
	2018	2017
China Post Group and other related parties	**265**	284

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.3 Related party transactions (continued)

(12) Balance with related parties (continued)

(ii) Accounts payable

	As at December 31	
	2018	2017
China Post Group and other related parties (Note 33)	**1,933**	2,012

(13) Commitments to related parties

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

	As at December 31	
	2018	2017
China Post Group and other related parties	**1,075**	1,004

39.4 The Group and other government related entities

Other than related party transactions disclosed above and also in other relevant notes, a great part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative product transactions, agency services, underwriting and distribution of bonds issued by government authorities, purchase, sales and redemption of securities issued by government authorities.

The Group considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

39 Transactions with related parties (continued)

39.5 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	
	2018	2017
Key management personnel compensation	**7**	13

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

As at December 31, 2018 and 2017, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed by the Group) amounted to RMB757.5 billion and RMB732.0 billion, respectively. The Group earned fee and commission of RMB4.6 billion and RMB4.8 billion from these non-principal guaranteed WMPs for the year ended December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. As at December 31, 2018 and 2017, the non-principal guaranteed WMP vehicles did not incur any losses, or experience any difficulties in financing their activities.

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

40 Structured entities (continued)

40.2 Unconsolidated structured entities held by the Group

Unconsolidated structured entities invested by the Group comprise trust investment plans, fund investments, asset-backed securities, asset management plans, and WMPs held by the Group as investments, and the Group records trading gains or losses and interest income therefrom. As at December 31, 2018 and 2017, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

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

	As at December 31, 2017			
	Available-for-sale financial assets	Held-to–maturity investments	Investment classified as receivables	Total
Equity instruments	439,470	–	–	439,470
Asset-backed securities	34,251	1,200	33,656	69,107
Other debt instruments	–	–	213,041	213,041
Total	473,721	1,200	246,697	721,618

No open market information was readily available for overall scale of those unconsolidated structured entities mentioned above.

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40 Structured entities (continued)

40.2 Unconsolidated structured entities held by the Group (continued)

For the years ended December 31, 2018 and 2017, the income from these unconsolidated structured entities earned by the Group was as follows:

	Year ended December 31	
	2018	2017
Interest income	**11,034**	17,794
Net gain arising from investment securities	**309**	22,156
Other comprehensive income	**213**	(490)
Total	**11,556**	39,460

40.3 Consolidated structured entities held by the Group

The consolidated structured entities issued and managed by the Group consist of principal guaranteed WMPs and a special purpose trust founded by a third party trust company for conducting asset securitization business by the Group. For the years ended December 31, 2018 and 2017, the Group did not provide any financial support to any of these principal guaranteed WMPs 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. Provisions for expected losses from cases and lawsuits are disclosed in Note 33 Other Liabilities.

41.2 Capital commitments

		As at December 31	
	Note	**2018**	2017
Contracts signed but not executed	(1)	**3,860**	2,360

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

For The Year Ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

41 Contingent liabilities and commitments (continued)

41.3 Credit commitments

	As at December 31	
	2018	2017
Loan commitments		
– With an original maturity of less than 1 year	**15,605**	12,215
– With an original maturity of 1 year or above	**373,392**	417,624
Subtotal	**388,997**	429,839
Bank acceptances	**20,444**	32,933
Guarantees and letters of guarantee	**20,896**	18,593
Letters of credit	**12,100**	12,224
Unused credit card commitments	**204,358**	150,409
Total	**646,795**	643,998

Credit commitments of the Group mainly include unused limits for credit cards issued to customers and general credit facilities. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantees and letters of guarantee or bank acceptances.

41.4 Operating lease commitments

The Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at December 31	
	2018	2017
Within 1 year	**3,543**	3,399
1 to 2 years	**2,584**	2,584
2 to 3 years	**1,691**	1,946
3 to 5 years	**1,785**	2,105
Over 5 years	**1,202**	1,091
Total	**10,805**	11,125

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41 Contingent liabilities and commitments (continued)

41.5 Collateral

Assets pledged as collaterals

The carrying amounts of assets pledged as collaterals under repurchase agreements are as follows:

	As at December 31	
	2018	2017
Debt securities	**130,572**	85,035
Bills	**8,311**	32,292
Total	**138,883**	117,327

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at December 31, 2018, the carrying amount of debt securities pledged as collaterals amounted to RMB61.3 billion (December 31, 2017: RMB38.6 billion). The pledged debt securities are mainly classified as financial assets at amortized cost.

Collaterals received

Collaterals under loans and advances mainly include land use rights and buildings, vehicles and certificates of time deposits. The Group has not resold or re-pledged these collaterals.

The Group obtains debt securities from counterparts which could be resold or re-pledged as collaterals during the operation of financial assets held under resale agreements from banks. As at December 31, 2018 and December 31, 2017, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB2.2 billion and RMB78.1 billion, separately.

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 honouring such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at December 31, 2018, the nominal value of treasury bonds the Group was obligated to redeem was RMB106.9 billion (December 31, 2017: RMB101.9 billion). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

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41 Contingent liabilities and commitments (continued)

41.7 Credit risk-weighted amounts for financial guarantees and credit commitments

	As at December 31	
	2018	2017
Financial guarantees and credit commitments	**265,067**	274,635

The credit risk-weighted figures are amounts calculated in accordance with the CBIRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities. Risk weights applied to contingent liabilities and credit commitments may vary from 0% to 100%.

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 transferred financial assets, the transfers do not qualify for derecognition and the Group shall continue to recognize these financial assets.

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 (Note 30).

	As at December 31, 2018 Financial assets at amortized cost	As at December 31, 2017 Held-to-maturity investments
Carrying amount of the collateral	**995**	3,048
Financial assets sold under repurchase agreements	**(1,010)**	(3,116)

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42 Transfer of financial assets (continued)

42.2 Credit assets securitization transactions

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

The Group may maintain continuing involvement in its transferred assets as it may hold subordinated tranches of the asset-backed securities ("ABS"). The Group recognizes these credit assets in other assets and other liabilities of its balance sheet to the extent of its continuing involvement, while derecognizes the remaining parts. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred financial assets.

As at December 31, 2018 and 2017, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at December 31	
	2018	2017
ABS issued-par value	**21,097**	6,800
Assets retained by the Group, net	**1,687**	273

As at December 31, 2018, the par value of the issued ABS that had been derecognized through holding the ABS at all levels of the special purpose trust was RMB3,817 million and the balance of related assets was RMB105 million (December 31, 2017: RMB115 million). The Group acts as a credit service provider of the special purpose trust, manages the credit assets transferred to the special purpose trust, and collects the corresponding fee as the loan asset manager. In the years of 2018 and 2017, the Group did not provide financial support to the above-mentioned special purpose trust.

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 currency, and wealth management products.

Treasury

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

Others

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	120,568	87,112	152,486	–	360,166
Interest expense to external customers	(102,085)	(15,751)	(8,208)	–	(126,044)
Intersegment net interest income/ (expense)	132,054	(16,432)	(115,622)	–	–
Net interest income	150,537	54,929	28,656	–	234,122
Net fee and commission income	11,420	540	2,474	–	14,434
Net trading gains	–	–	4,569	–	4,569
Net gains from investment securities	–	–	3,780	–	3,780
Net other operating gains	1,654	288	2,008	390	4,340
Operating expenses	(124,921)	(12,777)	(13,967)	(659)	(152,324)
Credit impairment losses	(17,136)	(27,322)	(10,956)	–	(55,414)
Impairment losses on other assets	(20)	–	–	–	(20)
Profit before income tax	21,534	15,658	16,564	(269)	53,487

	As at December 31, 2018				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,684,541	2,161,533	4,634,250	–	9,480,324
Deferred tax assets					35,887
Total assets					9,516,211
Segment liabilities	(7,529,623)	(1,170,867)	(340,408)	–	(9,040,898)
Supplementary information					
Depreciation and amortization	3,956	593	61	–	4,610
Capital expenditures	5,430	814	84	–	6,328
Credit commitments	204,358	442,437	–	–	646,795

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.1 Business segment (continued)

	Year ended December 31, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Interest income from external customers	99,293	71,767	134,225	–	305,285
Interest expense to external customers	(94,691)	(13,106)	(9,373)	–	(117,170)
Intersegment net interest income/ (expense)	132,925	(15,689)	(117,236)	–	–
Net interest income	137,527	42,972	7,616	–	188,115
Net fee and commission income	9,884	309	2,544	–	12,737
Net trading gains	–	–	1,875	–	1,875
Net gains from investment securities	–	–	22,255	–	22,255
Net other operating gains/(losses)	1,128	(179)	(1,490)	423	(118)
Operating expenses	(116,011)	(17,077)	(13,447)	(481)	(147,016)
Impairment losses on assets	(9,712)	(12,934)	(4,091)	–	(26,737)
Profit before income tax	22,816	13,091	15,262	(58)	51,111

	As at December 31, 2017				
	Personal banking	Corporate banking	Treasury	Others	Total
Segment assets	2,362,836	1,951,411	4,676,046	–	8,990,293
Deferred tax assets					22,258
Total assets					9,012,551
Segment liabilities	(6,997,490)	(1,217,065)	(366,639)	–	(8,581,194)
Supplementary information					
Depreciation and amortization	3,829	649	78	–	4,556
Capital expenditures	7,442	1,261	151	–	8,854
Credit commitments	150,409	493,589	–	–	643,998

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, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region, Inner Mongolia Autonomous Region and Guangxi Zhuang Autonomous Region; and

– “Northeastern China” region: Liaoning Province, Jilin Province, Heilongjiang Province and Dalian.

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	Year ended December 31, 2018								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	177,897	32,178	25,120	27,962	47,370	36,109	13,530	–	360,166
Interest expense to external customers	(17,078)	(17,158)	(9,273)	(16,612)	(34,840)	(23,286)	(7,797)	–	(126,044)
Intersegment net interest (expense)/income	(128,207)	14,248	9,260	18,814	46,164	30,331	9,390	–	–
Net interest income	32,612	29,268	25,107	30,164	58,694	43,154	15,123	–	234,122
Net fee and commission income	(2,829)	2,785	3,012	2,672	4,024	3,475	1,295	–	14,434
Net trading gains/(losses)	4,447	–	–	–	–	122	–	–	4,569
Net gains/(losses) from investment securities	3,227	227	99	–	147	–	80	–	3,780
Net other operating gains	2,709	197	166	213	408	580	67	–	4,340
Operating expenses	(9,825)	(19,725)	(16,752)	(20,258)	(40,492)	(32,456)	(12,816)	–	(152,324)
Credit impairment losses	(14,033)	(6,517)	(4,813)	(5,508)	(9,166)	(11,321)	(4,056)	–	(55,414)
Impairment losses on other assets	–	–	–	(2)	–	(9)	(9)	–	(20)
Profit before income tax	16,308	6,235	6,819	7,281	13,615	3,545	(316)	–	53,487
Segment assets	6,116,423	1,487,803	971,925	1,600,083	3,022,038	2,228,706	767,586	(6,714,240)	9,480,324
Deferred tax assets									35,887
Total assets									9,516,211
Segment liabilities	(5,791,677)	(1,468,359)	(951,628)	(1,582,299)	(2,983,660)	(2,212,268)	(765,247)	6,714,240	(9,040,898)
Supplementary information									
Depreciation and amortization	917	697	317	568	839	937	335	–	4,610
Capital expenditures	148	1,216	534	672	2,035	1,227	496	–	6,328
Credit commitments	204,358	62,112	77,880	95,603	110,065	84,822	11,955	–	646,795

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

43 Segment analysis (continued)

43.2 Geographical segment (continued)

	Year ended December 31, 2017								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	156,025	26,532	18,488	22,650	38,667	30,708	12,215	–	305,285
Interest expense to external customers	(12,932)	(17,230)	(8,265)	(15,565)	(33,403)	(22,020)	(7,755)	–	(117,170)
Intersegment net interest (expense)/income	(132,373)	16,258	10,220	18,991	46,402	30,576	9,926	–	–
Net interest income	10,720	25,560	20,443	26,076	51,666	39,264	14,386	–	188,115
Net fee and commission income	(1,425)	2,477	2,135	2,259	3,239	2,862	1,190	–	12,737
Net trading gains	1,817	–	1	21	–	36	–	–	1,875
Net gains from investment securities	22,209	–	–	46	–	–	–	–	22,255
Net other operating (losses)/gains	(1,823)	186	162	136	411	702	108	–	(118)
Operating expenses	(7,301)	(19,094)	(15,394)	(18,676)	(37,433)	(36,440)	(12,678)	–	(147,016)
Impairment losses on assets	(10,364)	(2,196)	(1,724)	(2,705)	(4,177)	(4,370)	(1,201)	–	(26,737)
Profit before income tax	13,833	6,933	5,623	7,157	13,706	2,054	1,805	–	51,111
Segment assets	7,213,738	1,373,954	888,035	1,540,530	2,773,226	2,032,512	730,335	(7,562,037)	8,990,293
Deferred tax assets									22,258
Total assets									9,012,551
Segment liabilities	(6,871,547)	(1,362,106)	(877,450)	(1,530,263)	(2,751,212)	(2,022,396)	(728,257)	7,562,037	(8,581,194)
Supplementary information									
Depreciation and amortization	882	695	368	512	735	1,008	356	–	4,556
Capital expenditures	1,258	2,663	377	1,610	1,474	980	492	–	8,854
Credit commitments	150,409	70,566	82,534	106,054	133,280	90,291	10,864	–	643,998

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 prudent risk management strategy, and achieves a decent return through appropriate risk-taking with consideration of size, growth and quality of its businesses.

The Group is mainly exposed to credit risk, market risk, liquidity risk and operational risk. Market risk includes exchange rate risk and interest rate risk.

This section describes the Group's position with respect to the above risk exposures, and the Group's objectives, policies and processes in managing those risk exposures, and conditions of the Group's capital management.

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

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 strategies and risk appetites. The Board of Directors oversees senior management's risk control through its Risk Management Committee and proposes requests and advices for the improvement of risk management and internal risk control. The Risk Management Committee meets regularly to deliberate the significant matters of risk management and supervise the the Group's operation of risk management system and our risk profile.

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.

44 Financial risk management (continued)

44.2 Framework of financial risk management (continued)

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.

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 fulfill an obligation.

Credit risk exposure mainly arises from loans and debt securities and other debt instruments, interbank financing business, 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 prelending assessment, loan review, drawn-down approval and post-lending management.

44 Financial risk management (continued)

44.3 Credit risk (continued)

(1) Loans and advances to customers, loan commitments and financial guarantees

The risk on its loan portfolio refers to the risk of uncertain income or loan losses from a non-performing loan due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered as a principal credit risk.

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

(2) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly trust investment plans and assets management plans.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

(3) Interbank financing business

The Group manages the credit quality of deposits and placements with banks and other financial institutions and financial assets held under resale agreements by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.1 Expected credit loss measurement

The Group has applied "Expected Credit Loss Model" to measure the impairment of debt instruments carried at amortized cost and FVOCI, as well as credit commitments.

Based on whether a significant increase in credit risk has occurred since initial recognition of financial instrument, the Group has classified it in three stages to calculate the ECL.

Stage 1 includes financial assets that have not had a significant increase in credit risk since initial recognition.

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition, measured by the changes of default risk over their expected life. These changes have been determined by comparing the default risk at the balance sheet date with it at the date of initial recognition. Please refer to note 44.3.1(1) for the criteria of a significant increase in credit risk.

Stage 3 includes financial assets that are credit-impaired. Please refer to note 44.3.1(2) for the Group's criteria of impaired financial assets.

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

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

– Significant increase in credit risk;

– Definition of default and credit-impaired;

– Descriptions of parameters, assumptions and estimation techniques;

– Forward-looking information.

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.1 Expected credit loss measurement (continued)

(1) *Significant Increase in Credit Risk (SICR)*

At each balance sheet date, the Group evaluates whether a significant increase in credit risk of relative financial instruments has occurred since initial recognition, which mainly includes: impacts of regulation and operating environment, internal and external credit rating grade, insolvency, business performance, loan contractual terms, etc. Based on individual financial instrument or financial instrument portfolios with similar credit risk characteristics, the Group determines changes of the risk of default by comparing the risk on the balance sheet date with that at the date of initial recognition.

The Group has set up quantitative and qualitative standards according to features of financial assets' credit risk and status of its risk management, mainly including whether credit grades has dropped by no less than 3 levels, whether risk classification has been changed adversely, and whether overdue days has exceed 30 days, etc., to determine whether a significant increase in credit risk of financial assets has occurred.

(2) *Definition of Default and Credit-Impaired*

The Group defines a financial instrument as in default or being credit-impaired when it meets one or more of the following criteria. Financial asset overdue for more than 90 days is regarded as in default. When evaluating whether credit impairment of a borrower occurred, the following factors are taken into consideration:

– certain credit rating grade;

– a borrower evades bank debts maliciously through merger, reorganization, division, bankruptcy, or any abnormal related party transactions to transfer assets;

– a borrower has significant financial difficulties;

– the Group makes concessions to the borrower for economic or contractual considerations related to the borrower's financial difficulties that it would not otherwise consider under normal circumstances;

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.1 Expected credit loss measurement (continued)

(2) Definition of Default and Credit-Impaired (continued)

- active market of financial asset disappears due to financial difficulties of the issuer or a borrower;
- a borrower or his family members suffer from a major accident and become insolvency;
- a borrower and his guarantor declares bankruptcy, closure, dissolution or cancellation according to law;
- other factors that impair financial assets.

(3) Description of Parameters, Assumptions, and Estimation Techniques

ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk (SICR) has occurred since initial recognition or whether an asset is considered to be impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

Related definitions are as follows:

The PD represents the likelihood of a borrower breaching the contractual terms or defaulting on its financial obligation over a specific time, either the next 12 months, or the remaining lifetime of the obligation. The Group's PD has adopted the results of internal rating model, or for financial asset that does not use this model, historical analysis is adopted, where the historical default records are calculated by historical data of asset portfolios with similar credit risk characteristics, incorporating forward-looking information and removing prudent adjustments, to reflect the PD at a specific point of time under the current macroeconomic environment.

Loss Given Default (LGD) refers to the ratio of the expected loss in the total amount of a loan, which is the extent of loss on a defaulted exposure. The Group's LGD is calculated by internal rating model. For financial asset that does not use this model, historical analysis is adopted, where the loss of default has been calculated over a certain period from the time of default, in line with one-by-one recovery amount and date computed according to customer type, guarantee method, and historical non-performing loan collection experience, etc.

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.1 Expected credit loss measurement (continued)

(3) Description of Parameters, Assumptions, and Estimation Techniques (continued)

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The discount rate used in the ECL calculation is contractual rate or its approximate value.

The Group monitors the related assumptions concerning the calculation of expected credit loss on a quarterly basis.

During the reporting period, no substantial changes occurred on the estimation techniques or key assumptions.

(4) Forward-looking Information

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio, mainly including Gross Domestic Product, Consumer Price Index, Producer Price Index, and House Price Index, etc.

These economic variables and their associated impact on the PD vary by product types. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "basic economic scenario") are made by the Group every year, and the relationship between these economic variables and PD is identified through performing statistical regression analysis with the purpose of understanding the impact that the historical changes of these variables have on PD.

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

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

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.1 Expected credit loss measurement (continued)

(5) Sensitivity Analysis and Management Overlay

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

Assuming Base scenario has a weight of 100%, the change rate of the balance of loss allowance as at December 31, 2018 would be no more than 5%.

Assuming year-over-year growth in Gross Domestic Product, the core macroeconomic forecasting indicator, would increase or decrease by 10%, the absolute change rate of the balance of loss allowance as at December 31, 2018 would be no more than 5%.

Assuming Stage 2 financial assets transferred into Stage 1, the balance of loss allowance as at December 31, 2018 would accordingly decrease by no more than 10%.

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

(6) Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practiced recovery efforts and is still not capable of reasonably estimating the partial or whole amount of financial assets that can be recovered. The Group may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off during year ended December 31, 2018 were RMB7,164 million (December 31, 2017: RMB 6,495 million).

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures

(1) Maximum credit risk exposures before considering collaterals or other credit enhancements

A summary of the maximum credit risk exposures is presented as below:

	As at December 31	
	2018	2017
Deposits with central bank	**1,155,444**	1,364,392
Deposits with banks and other financial institutions	**140,351**	296,758
Placements with banks and other financial institutions	**285,622**	315,999
Derivative financial assets	**7,166**	6,584
Financial assets held under resale agreements	**239,687**	141,974
Loans and advances to customers	**4,149,538**	3,541,571
Investment instruments		
Financial assets at fair value through profit or loss – debt instruments	**339,572**	119,992
Financial assets at fair value through other comprehensive income – debt instruments	**183,350**	N/A
Financial assets at amortized cost	**2,861,922**	N/A
Available-for-sale financial assets – debt instruments	**N/A**	247,278
Held-to-maturity investments	**N/A**	935,735
Investment classified as receivables	**N/A**	1,424,558
Other financial assets	**13,343**	56,356
Subtotal	**9,375,995**	8,451,197
Credit commitments	**646,795**	643,998
Total	**10,022,790**	9,095,195

The table above presents the Group's maximum credit risk exposures before considering any collaterals, netting agreements or other credit enhancements as at December 31, 2018 and 2017. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures (continued)

(2) Maximum exposure to credit risk-financial instruments subject to impairment

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

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures (continued)

(2) Maximum exposure to credit risk-financial instruments subject to impairment (continued)

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures (continued)

(2) Maximum exposure to credit risk-financial instruments subject to impairment (continued)

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures (continued)

(2) Maximum exposure to credit risk-financial instruments subject to impairment (continued)

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.2 Credit risk exposures (continued)

(2) *Maximum exposure to credit risk-financial instruments subject to impairment (continued)*

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers

(1) Loans and advances by geographical region:

	As at December 31			
	2018		2017	
	Amount	Proportion	Amount	Proportion
Head Office	**270,476**	**6%**	256,498	7%
Central China	**1,030,335**	**24%**	838,929	23%
Western China	**766,342**	**18%**	662,034	18%
Yangtze River Delta	**796,752**	**19%**	651,145	18%
Bohai Rim	**649,228**	**15%**	559,898	16%
Pearl River Delta	**479,018**	**11%**	400,766	11%
Northeastern China	**284,714**	**7%**	260,865	7%
Total	**4,276,865**	**100%**	3,630,135	100%

(2) Loans and advances by types:

	As at December 31			
	2018		2017	
	Amount	Proportion	Amount	Proportion
Corporate loans and advances				
Including:				
Corporate loans	**1,552,402**	**37%**	1,391,901	38%
Discounted bills	**404,623**	**9%**	291,761	8%
Personal loans and advances	**2,319,840**	**54%**	1,946,473	54%
Total	**4,276,865**	**100%**	3,630,135	100%

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers (continued)

(3) Loans and advances by industries:

	As at December 31			
	2018		2017	
	Amount	Proportion	Amount	Proportion
Corporate loans				
Transportation, storage and postal services (i)	**418,878**	**10%**	382,006	11%
Manufacturing	**240,122**	**6%**	223,037	6%
Production and supply of electricity, heating, gas and water	**191,948**	**5%**	188,518	5%
Financial services	**192,527**	**5%**	169,855	5%
Wholesale and retail	**88,551**	**2%**	79,602	2%
Leasing and business services	**86,909**	**2%**	58,426	2%
Management of water conservancy, environmental and public facilities	**76,810**	**2%**	82,676	2%
Construction	**82,399**	**2%**	60,851	2%
Real estate	**56,345**	**1%**	45,788	1%
Mining	**56,100**	**1%**	48,403	1%
Other industries	**61,813**	**1%**	52,739	1%
Subtotal	**1,552,402**	**37%**	1,391,901	38%
Discounted bills	**404,623**	**9%**	291,761	8%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	**1,417,898**	**33%**	1,155,176	33%
– Other consumer loans	**275,544**	**6%**	256,185	7%
Personal business loans	**349,434**	**8%**	300,990	8%
Micro loans	**177,651**	**5%**	156,427	4%
Credit card overdraft and others	**99,313**	**2%**	77,695	2%
Subtotal	**2,319,840**	**54%**	1,946,473	54%
Total	**4,276,865**	**100%**	3,630,135	100%

(i) As at December 31, 2018, the balance included loans to China Railway Corporation of RMB176,803 million (December 31, 2017: RMB194,633 million).

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers (continued)

(4) Loans and advances by types of collateral:

	As at December 31			
	2018		2017	
	Amount	Proportion	Amount	Proportion
Unsecured loans	**1,089,195**	**25%**	956,629	26%
Guaranteed loans	**282,088**	**7%**	265,272	7%
Loans secured by mortgages	**2,128,232**	**50%**	1,797,803	50%
Loans secured by pledges	**372,727**	**9%**	318,670	9%
Discounted bills	**404,623**	**9%**	291,761	8%
Total	**4,276,865**	**100%**	3,630,135	100%

(5) Loans and advances by overdue and impairment status

	As at December 31, 2017
Corporate loans and advances to customers	
– Neither overdue nor impaired	1,668,920
– Overdue but not impaired	5,461
– Impaired	9,281
Subtotal	1,683,662
Personal loans and advances to customers	
– Neither overdue nor impaired	1,923,897
– Overdue but not impaired	4,587
– Impaired	17,989
Subtotal	1,946,473
Total	3,630,135

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers (continued)

(5) Loans and advances by overdue and impairment status (continued)

(a) Loans and advances overdue but not impaired

The overdue status is as follows:

	As at December 31, 2017			
	Overdue for less than 1 month	Overdue for 1 to 3 months	Overdue for more than 3 months	Total
Corporate loans and advances	5,093	368	–	5,461
Personal loans and advances	3,170	1,417	–	4,587
Total	8,263	1,785	–	10,048

(b) Impaired loans and advances

Impaired loans and advances by geographical region are as follows:

	As at December 31, 2017	
	Amount	Proportion
Head Office	1,131	4%
Central China	5,274	19%
Western China	8,729	32%
Yangtze River Delta	3,012	11%
Bohai Rim	3,341	12%
Pearl River Delta	2,330	9%
Northeastern China	3,453	13%
Total	27,270	100%

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers (continued)

(5) Loans and advances by overdue and impairment status (continued)

(b) Impaired loans and advances (continued)

Concentration of impaired loans and advances is as follows:

	As at December 31, 2017	
	Amount	Proportion
Corporate loans and advances	9,281	34%
Personal loans and advances		
Consumer loans		
Residential mortgage loans	2,693	10%
Other consumer loans	1,671	6%
Personal business loans	8,203	30%
Micro loans	4,294	16%
Credit card overdraft and others	1,128	4%
Total	27,270	100%

(c) Overdue loans and advances

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

	As at December 31, 2018				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	**2,205**	**2,840**	**909**	**105**	**6,059**
Guaranteed loans	**1,540**	**2,577**	**2,472**	**742**	**7,331**
Loans secured by mortgages	**5,467**	**7,027**	**8,412**	**1,571**	**22,477**
Loans secured by pledges	**5,352**	**677**	**112**	**348**	**6,489**
Total	**14,564**	**13,121**	**11,905**	**2,766**	**42,356**

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.3 Loans and advances to customers (continued)

(5) Loans and advances by overdue and impairment status (continued)

(c) Overdue loans and advances (continued)

	As at December 31, 2017				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	879	924	663	56	2,522
Guaranteed loans	1,758	2,046	1,898	559	6,261
Loans secured by mortgages	5,404	5,852	8,164	441	19,861
Loans secured by pledges	4,603	649	1,029	276	6,557
Discounted bills	72	–	–	–	72
Total	12,716	9,471	11,754	1,332	35,273

(6) Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. As at December 31, 2018, rescheduled loans and advances of the Group were RMB1,063 million (December 31, 2017: RMB1,670 million).

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.4 Debt instruments

(1) Credit quality of debt instruments

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

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

(i) Debt instruments of stage 1

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

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.4 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

The table below represents the carrying value and accumulated impairment changes of held-to-maturity investment and debt instruments classified as receivables under IAS 39:

	Note	As at December 31, 2017
Neither overdue nor impaired	(a)	2,362,665
Impaired	(b)	2,200
Subtotal		2,364,865
Allowance for impairment losses		(4,572)
Total carrying amount of held-to-maturity investments and investment classified as receivables		2,360,293

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.4 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(a) Debt instruments neither overdue nor impaired

	As at December 31, 2017				
	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	250	90,254	539,278	13,044	642,826
Public sector and quasi-government bonds	–	–	1,270	–	1,270
Financial institution bonds	3,594	101,281	342,492	1,159,560	1,606,927
Corporate bonds	5,193	12,594	44,467	5,320	67,574
Interbank certificates of deposits	68,922	8,898	7,443	–	85,263
Asset-backed securities	–	34,251	1,200	33,854	69,305
Asset management plans	17,762	–	–	–	17,762
Placements with banks and other financial institutions	11,709	–	–	–	11,709
Beneficiary certificates	12,562	–	–	–	12,562
Other debt instruments	–	–	–	214,737	214,737
Total	119,992	247,278	936,150	1,426,515	2,729,935

(b) Impaired debt instruments

	As at December 31, 2017
Other debt instruments	2,200
Allowance for impairment losses	(2,200)
Impaired investment classified as receivables, net	–

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.4 Debt instruments (continued)

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debts instruments held. The ratings are obtained from major rating agencies where the issuers of the debt instruments are located. The carrying amounts of debts instruments analyzed by rating as at the end of the reporting year are as follows:

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.4 Debt instruments (continued)

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

	As at December 31, 2017					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	481,695	161,131	–	–	–	642,826
Public sector and quasi-government bonds	–	1,270	–	–	–	1,270
Financial institution bonds	1,549,300	44,733	3,625	3,740	5,529	1,606,927
Corporate bonds	8,865	50,995	3,947	3,137	630	67,574
Interbank certificates of deposits	85,263	–	–	–	–	85,263
Asset-backed securities	33,870	28,816	6,619	–	–	69,305
Asset management plans	17,762	–	–	–	–	17,762
Placements with banks and other financial institutions	11,709	–	–	–	–	11,709
Beneficiary certificates	12,562	–	–	–	–	12,562
Other debt instruments	216,937	–	–	–	–	216,937
Total	2,417,963	286,945	14,191	6,877	6,159	2,732,135

(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, the principal and income of which are mainly guaranteed by financial institutions or third party companies, or secured by bills and other financial assets as collateral.

44 Financial risk management (continued)

44.3 Credit risk (continued)

44.3.5 Concentration of credit risk

The credit risk exposure of financial assets mainly concentrates in Mainland China.

44.4 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 of normal operation. The objective of liquidity risk management of the Group is to meet the liquidity needs and fulfill its payment obligation to external parties during the normal operation or at a highly stressed condition which is achieved through the establishment of a scientific and comprehensive liquidity risk management mechanism, through which liquidity risk can be timely identified, measured and effectively controlled.

The Bank conducts liquidity risk stress tests on a quarterly basis to identify potential liquidity risks and continually improve stress testing methods based on regulatory and internal management requirements. The test results show that under the various scenario pressure assumptions, the Bank can pass the minimum life expectancy test.

The Group is mainly funded by personal deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as cash and deposits with banks and other financial institutions, and government bonds. During the reporting period, the bank's liquidity regulatory indicators were functioning normally, with sufficient liquidity as a whole and safe and controllable.

For the year ended December 31, 2018 (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, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	–	89,104	–	557	–	–	–	1,113,274	1,202,935
Deposits with banks and other financial institutions	–	9,121	45,333	24,199	61,698	–	–	–	140,351
Placements with banks and other financial institutions	–	–	69,426	8,844	74,197	133,155	–	–	285,622
Financial assets at fair value through profit or loss	–	102,709	33,106	33,767	83,148	12,353	74,489	2,090	341,662
Derivative financial assets	–	–	942	1,878	3,835	511	–	–	7,166
Financial assets held under resale agreements	–	–	215,177	22,289	2,221	–	–	–	239,687
Loans and advances to customers	8,719	–	231,899	317,920	1,246,055	745,395	1,599,550	–	4,149,538
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,463	13,939	30,458	129,329	1,161	–	183,350
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	500	53	553
Financial assets at amortized cost	489	–	30,531	25,179	377,372	1,368,306	1,060,045	–	2,861,922
Other financial assets	862	8,665	153	908	45	476	2,062	172	13,343
Total financial assets	10,070	209,599	635,030	449,480	1,879,029	2,389,525	2,737,807	1,115,589	9,426,129

For the year ended December 31, 2018 (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, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Deposits from banks and other financial institutions	–	69,997	171	408	1,793	1,796	–	–	74,165
Placements from banks and other financial institutions	–	–	24,714	3,089	12,042	–	–	–	39,845
Financial liabilities at fair value through profit or loss	–	–	2,292	6	62	–	–	–	2,360
Derivative financial liabilities	–	–	1,165	1,263	3,613	422	–	–	6,463
Financial assets sold under repurchase agreements	–	–	128,465	2,898	3,556	–	–	–	134,919
Customer deposits	–	3,438,418	504,440	1,472,788	2,350,883	860,899	12	–	8,627,440
Debt securities issued	–	–	–	695	522	–	74,937	–	76,154
Other financial liabilities	–	18,047	17,469	2,066	237	1,016	1,899	–	40,734
Total financial liabilities	–	3,526,462	678,716	1,483,213	2,372,708	864,133	76,848	–	9,002,080
Net liquidity	10,070	(3,316,863)	(43,686)	(1,032,733)	(493,679)	1,525,392	2,660,959	1,115,589	424,049

For the year ended December 31, 2018 (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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	–	78,443	–	–	–	–	–	1,333,519	1,411,962
Deposits with banks and other financial institutions	–	9,117	8,682	19,876	257,976	1,107	–	–	296,758
Placements with banks and other financial institutions	–	–	92,138	31,375	79,097	113,389	–	–	315,999
Financial assets at fair value through profit or loss	–	–	8,150	18,398	72,297	21,019	128	–	119,992
Derivative financial assets	–	–	1,726	2,124	2,631	103	–	–	6,584
Financial assets held under resale agreements	–	–	130,205	9,798	1,971	–	–	–	141,974
Loans and advances to customers	11,327	–	185,613	270,630	1,077,129	671,895	1,324,977	–	3,541,571
Available-for-sale financial assets	–	105,903	15,686	80,541	194,859	168,665	121,028	66	686,748
Held-to-maturity investments	–	–	10,166	17,015	50,924	507,674	349,956	–	935,735
Investment classified as receivables	–	–	47,128	13,753	129,854	638,841	594,982	–	1,424,558
Other financial assets	842	12,253	15,578	12,227	14,311	452	530	163	56,356
Total financial assets	12,169	205,716	515,072	475,737	1,881,049	2,123,145	2,391,601	1,333,748	8,938,237

For the year ended December 31, 2018 (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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Deposits from banks and other financial institutions	–	45,277	135	258	1,156	1,628	–	–	48,454
Placements from banks and other financial institutions	–	–	62,327	1,384	9,906	–	–	–	73,617
Derivative financial liabilities	–	–	1,627	1,919	2,798	272	–	–	6,616
Financial assets sold under repurchase agreements	–	–	84,600	28,998	1,545	–	–	–	115,143
Financial liabilities at fair value through profit or loss	–	–	6,324	18,503	15,838	1,528	–	–	42,193
Customer deposits	–	3,374,194	577,170	1,302,743	2,208,916	599,636	–	–	8,062,659
Debt securities issued	–	–	–	–	–	–	74,932	–	74,932
Other financial liabilities	–	26,127	27,015	30,539	27,209	21,605	366	210	133,071
Total financial liabilities	–	3,445,598	759,198	1,384,344	2,267,368	624,669	75,298	210	8,556,685
Net liquidity	12,169	(3,239,882)	(244,126)	(908,607)	(386,319)	1,498,476	2,316,303	1,333,538	381,552

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

For the year ended December 31, 2018 (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, 2018								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	–	69,997	171	410	1,861	2,018	–	–	74,457
Placements from banks and other financial institutions	–	–	24,788	3,167	12,512	–	–	–	40,467
Financial liabilities at fair value through profit or loss	–	–	2,295	6	62	–	–	–	2,363
Financial assets sold under repurchase agreements	–	–	128,602	2,917	3,588	–	–	–	135,107
Customer deposits	–	3,438,418	504,805	1,477,379	2,381,238	918,720	15	–	8,720,575
Debt securities issued	–	–	–	900	2,115	12,060	84,720	–	99,795
Other financial liabilities	–	18,047	17,469	2,066	237	1,016	1,899	–	40,734
Total non-derivative financial liabilities	–	3,526,462	678,130	1,486,845	2,401,613	933,814	86,634	–	9,113,498
Net liquidity	10,933	(3,316,863)	(27,500)	(1,001,984)	(348,548)	2,070,236	3,396,389	1,115,589	1,898,252

For the year ended December 31, 2018 (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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	–	78,443	–	663	–	–	–	1,333,519	1,412,625
Deposits with banks and other financial institutions	–	9,118	8,717	23,061	263,697	1,136	–	–	305,729
Placements with banks and other financial institutions	–	–	92,297	34,360	87,031	121,331	–	–	335,019
Financial assets at fair value through profit or loss	–	–	8,309	18,894	75,180	22,595	142	–	125,120
Financial assets held under resale agreements	–	–	130,693	9,826	1,972	–	–	–	142,491
Loans and advances to customers	12,175	–	199,768	297,666	1,180,481	990,008	1,809,492	–	4,489,590
Available-for-sale financial assets	–	105,903	16,252	81,785	202,079	191,842	132,689	66	730,616
Held-to-maturity investments	–	–	13,026	20,976	79,378	613,041	450,089	–	1,176,510
Investment classified as receivables	–	–	51,023	23,719	171,792	788,479	731,932	–	1,766,945
Other financial assets	–	12,252	201	865	17	450	530	163	14,478
Total non-derivative financial assets	12,175	205,716	520,286	511,815	2,061,627	2,728,882	3,124,874	1,333,748	10,499,123

For the year ended December 31, 2018 (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, 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	–	45,300	138	272	1,195	1,783	–	–	48,688
Placements from banks and other financial institutions	–	–	62,442	1,426	10,314	–	–	–	74,182
Financial assets sold under repurchase agreements	–	–	84,761	29,340	1,560	–	–	–	115,661
Financial liabilities at fair value through profit or loss	–	–	6,338	18,644	16,215	1,598	–	–	42,795
Customer deposits	–	3,374,840	577,600	1,306,852	2,236,549	878,617	–	–	8,374,458
Debt securities issued	–	–	–	900	2,115	12,060	86,835	–	101,910
Other financial liabilities	–	23,753	17,231	2,025	149	796	366	210	44,530
Total non-derivative financial liabilities	–	3,443,893	748,510	1,359,459	2,268,097	894,854	87,201	210	8,802,224
Net liquidity	12,175	(3,238,177)	(228,224)	(847,644)	(206,470)	1,834,028	3,037,673	1,333,538	1,696,899

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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 interest rates. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	As at December 31, 2018					
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate derivative financial instruments	**11**	**3**	**34**	**49**	**–**	**97**

	As at December 31, 2017					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	1	(1)	2	22	–	24

For the year ended December 31, 2018 (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

The fair values of the Group's derivative financial instruments that will be settled on a gross basis are primarily related to changes in foreign exchange rates and interest rates. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	As at December 31, 2018					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
– Cash inflow	**127,080**	**86,080**	**288,823**	**6,275**	**–**	**508,258**
– Cash outflow	**(127,095)**	**(85,357)**	**(288,595)**	**(6,173)**	**–**	**(507,220)**
Total	**(15)**	**723**	**228**	**102**	**–**	**1,038**

	As at December 31, 2017					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
– Cash inflow	144,243	103,870	188,001	3,892	–	440,006
– Cash outflow	(144,144)	(103,662)	(188,171)	(3,955)	–	(439,932)
Total	99	208	(170)	(63)	–	74

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.4 Liquidity risk (continued)

Credit commitments

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

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

	As at December 31, 2017			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	82,778	306,552	40,509	429,839
Bank acceptances	32,933	–	–	32,933
Guarantees and letters of guarantee	10,143	8,445	5	18,593
Letters of credit	12,224	–	–	12,224
Unused credit card commitments	150,409	–	–	150,409
Total	288,487	314,997	40,514	643,998

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 control the market risk within an acceptable range, according to the Group's risk appetite, and to maximize risk-adjusted returns.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books, and valuation of financial assets. The Group applies such rules and procedures to separate banking and trading books, and to identify, measure, monitor and control market risks on banking book and trading book.

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from the changes in value of financial instruments 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.

For the year ended December 31, 2018 (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

The interest rate risk of the Group includes the risk that the adverse changes in the interest rate level and term structure may affect the economic value and overall income of the Group, mainly based on the repricing risk and the benchmark risk of assets and liabilities.

The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch, by monitoring the interest rate sensitivity gap mainly through repricing gap analysis, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

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.

The table below shows the potential impact on the Group's net interest income by an upward or a downward parallel shift of interest rates by 100 basis points. The actual circumstances may differ from the assumptions so that the impact on the net interest income as shown in the following analysis may be different from the actual outcome.

	Increase/(Decrease) in net interest income	
	As at December 31, 2018	As at December 31, 2017
Upward parallel shift of 100 bps for yield curves	**(3,641)**	(3,686)
Downward parallel shift of 100 bps for yield curves	**3,641**	3,686

For the year ended December 31, 2018 (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 at the end of the reporting year are stated at their carrying amounts based on the earlier of their repricing date or contractual maturity date.

	As at December 31, 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,151,341	–	–	–	–	51,594	1,202,935
Deposits with banks and other financial institutions	54,224	24,085	61,699	–	–	343	140,351
Placements with banks and other financial institutions	69,333	8,495	74,176	133,155	–	463	285,622
Financial assets at fair value through profit or loss	36,495	17,630	63,023	11,074	34,983	178,457	341,662
Derivative financial assets	–	–	–	–	–	7,166	7,166
Financial assets held under resale agreements	214,872	22,148	2,180	–	–	487	239,687
Loans and advances to customers	2,606,781	406,096	1,039,640	74,023	7,316	15,682	4,149,538
Financial assets at fair value through other comprehensive income-debt instruments	13,090	20,031	29,632	116,914	337	3,346	183,350
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	553	553
Financial assets at amortized cost	171,134	600,958	466,327	900,794	693,194	29,515	2,861,922
Other financial assets	–	–	–	–	–	13,343	13,343
Total financial assets	4,317,270	1,099,443	1,736,677	1,235,960	735,830	300,949	9,426,129

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Interest rate risk (continued)

The Group's interest rate exposures are as follows. The financial assets and financial liabilities are stated at their carrying amount based on the earlier of their contractual repricing date or maturity date.

	As at December 31, 2018						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Deposits from banks and other financial institutions	70,130	397	1,687	1,675	–	276	74,165
Placements from banks and other financial institutions	24,654	3,048	11,890	–	–	253	39,845
Financial liabilities at fair value through profit or loss	2,172	6	61	–	–	121	2,360
Derivative financial liabilities	–	–	–	–	–	6,463	6,463
Financial assets sold under repurchase agreements	128,371	2,890	3,549	–	–	109	134,919
Customer deposits	3,924,778	1,444,467	2,319,491	839,643	12	99,049	8,627,440
Debt securities issued	–	–	–	–	74,937	1,217	76,154
Other financial liabilities	–	–	–	–	–	40,734	40,734
Total financial liabilities	4,150,105	1,450,808	2,336,678	841,318	74,949	148,222	9,002,080
Interest rate risk gap	167,165	(351,365)	(600,001)	394,642	660,881	152,727	424,049

For the year ended December 31, 2018 (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, 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,361,767	–	–	–	–	50,195	1,411,962
Deposits with banks and other financial institutions	17,799	59,076	218,776	1,107	–	–	296,758
Placements with banks and other financial institutions	92,138	58,568	51,904	113,389	–	–	315,999
Financial assets at fair value through profit or loss	12,346	19,699	70,885	16,805	128	129	119,992
Derivative financial assets	–	–	–	–	–	6,584	6,584
Financial assets held under resale agreements	130,205	9,798	1,971	–	–	–	141,974
Loans and advances to customers	2,359,532	348,868	765,461	60,214	7,496	–	3,541,571
Available-for-sale financial assets	18,363	12,642	35,012	121,680	59,581	439,470	686,748
Held-to-maturity investments	12,447	39,680	64,229	471,312	348,067	–	935,735
Investment classified as receivables	186,130	638,862	324,058	92,646	182,862	–	1,424,558
Other financial assets	–	–	–	–	–	56,356	56,356
Total financial assets	4,190,727	1,187,193	1,532,296	877,153	598,134	552,734	8,938,237

For the year ended December 31, 2018 (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, 2017						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Deposits from banks and other financial institutions	45,412	258	1,156	1,628	–	–	48,454
Placements from banks and other financial institutions	62,327	1,384	9,906	–	–	–	73,617
Derivative financial liabilities	–	–	–	–	–	6,616	6,616
Financial assets sold under repurchase agreements	84,600	28,998	1,545	–	–	–	115,143
Financial liabilities at fair value through profit or loss	6,285	18,359	15,759	1,500	–	290	42,193
Customer deposits	3,949,890	1,302,743	2,208,916	599,636	–	1,474	8,062,659
Debt securities issued	–	–	–	–	74,932	–	74,932
Other financial liabilities	–	–	–	–	–	133,071	133,071
Total financial liabilities	4,148,514	1,351,742	2,237,282	602,764	74,932	141,451	8,556,685
Interest rate risk gap	42,213	(164,549)	(704,986)	274,389	523,202	411,283	381,552

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange rate risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2018 and 2017. The Group's RMB exposures are included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments are stated at their carrying amounts in RMB equivalent.

The major currency of the Group for daily operation is RMB. Other currencies used by the Group include United States Dollars (USD), Euro (EUR), Hong Kong Dollars (HKD) and U.K. Pound Sterling (pound).

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange rate risk (continued)

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

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2017			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,410,669	1,229	64	1,411,962
Deposits with banks and other financial institutions	289,120	5,568	2,070	296,758
Placements with banks and other financial institutions	261,507	54,492	–	315,999
Financial assets at fair value through profit or loss	109,951	10,041	–	119,992
Derivative financial assets	95	6,488	1	6,584
Financial assets held under resale agreements	141,974	–	–	141,974
Loans and advances to customers	3,518,669	19,068	3,834	3,541,571
Available-for-sale financial assets	671,161	15,587	–	686,748
Held-to-maturity investments	933,018	2,717	–	935,735
Investment classified as receivables	1,424,558	–	–	1,424,558
Other financial assets	49,285	7,060	11	56,356
Total financial assets	8,810,007	122,250	5,980	8,938,237

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2017			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Deposits from banks and other financial institutions	48,453	1	–	48,454
Placements from banks and other financial institutions	61,520	12,097	–	73,617
Financial liabilities at fair value through profit or loss	42,193	–	–	42,193
Derivative financial liabilities	117	6,311	188	6,616
Financial assets sold under repurchase agreements	115,143	–	–	115,143
Customer deposits	8,020,186	42,009	464	8,062,659
Debt securities issued	74,932	–	–	74,932
Other financial liabilities	126,598	6,441	32	133,071
Total financial liabilities	8,489,142	66,859	684	8,556,685
Net on-balance sheet position	320,865	55,391	5,296	381,552
Net notional amount of derivative financial instruments	2,284	2,325	(4,374)	235
Credit commitments	628,445	10,518	5,035	643,998

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

44 Financial risk management (continued)

44.5 Market risk (continued)

Foreign exchange rate risk (continued)

Exchange Rate Sensitivity Analysis

The table below indicates the potential effect of appreciation or depreciation of USD spot and forward exchange rate against RMB by 5% on net profit of the Group on date below.

	As at December 31	
Exchange rate changes	**2018**	2017
5% of appreciation of USD against RMB	**691**	1,086
5% of depreciation of USD against RMB	**(691)**	(1,086)

The impact on the net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities. The effect on the net profit is based on the assumption that the Group's net foreign currency at the end of the reporting year remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign exchange exposures, based on the management expectation of future foreign currency movements. Therefore the above sensitivity analysis may differ from the actual situation.

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.

44 Financial risk management (continued)

44.7 Fair value of financial instruments

(1) During the years ended December 31, 2018 and 2017, in the Group, there were no assets or liabilities measured at fair value which discontinued being measured at fair value.

(2) Fair value hierarchy

Financial instruments at fair value are classified into the following three levels of measurement hierarchy:

Level 1: Fair value is determined based on quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

(3) Financial assets and financial liabilities not measured at fair value on the statement of financial position

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, loans and advances to customers, financial assets measured at amortized cost/held to maturity investments and investment classified as receivable, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

The tables below summarize the fair values of the financial assets measured at amortized cost/held to maturity investments and investment classified as receivable and debt securities issued which are not set out in the statement of financial position.

For the year ended December 31, 2018 (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 (continued)

	As at December 31, 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	**2,861,922**	**2,898,251**	**10,046**	**1,801,348**	**1,086,857**
Financial liabilities					
Debt securities issued	**76,154**	**75,633**	**–**	**75,633**	**–**

	As at December 31, 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	935,735	914,104	2,725	911,379	–
Investment classified as receivables	1,424,558	1,355,374	–	64,285	1,291,089
Total	2,360,293	2,269,478	2,725	975,664	1,291,089
Financial liabilities					
Debt securities issued	74,932	71,239	–	71,239	–

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

For the year ended December 31, 2018 (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 at fair value on the statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured at their fair value in the statement of financial position.

	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
– Debt securities	198	49,400	–	49,598
– Interbank certificates of deposits	4,109	97,368	–	101,477
– Assets-backed securities	–	11,076	–	11,076
– Placements with banks and other financial institutions	–	–	2,213	2,213
– Fund investments	–	102,709	1,036	103,745
– Trust investment plans and asset management plans	–	–	39,499	39,499
– Commercial bank wealth management products	–	–	31,964	31,964
– Equity instruments	–	–	2,090	2,090
– Loans and advances to customers	–	–	2,863	2,863
Subtotal	4,307	260,553	79,665	344,525
Derivative financial assets				
– Exchange rate derivatives	–	6,565	–	6,565
– Interest rate derivatives	–	601	–	601
Subtotal	–	7,166	–	7,166

For the year ended December 31, 2018 (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 at fair value on the statement of financial position (continued)

	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets (continued)				
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	11,923	168,410	–	180,333
– Assets-backed securities	–	3,017	–	3,017
– Loans and advances to customers	–	167,901	358,771	526,672
Subtotal	11,923	339,328	358,771	710,022
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	–	553	553
Subtotal	–	–	553	553
Total financial assets	16,230	607,047	438,989	1,062,266
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(2,360)	(2,360)
Derivative financial liabilities				
– Exchange rate derivatives	–	(5,986)	–	(5,986)
– Interest rate derivatives	–	(477)	–	(477)
Subtotal	–	(6,463)	–	(6,463)
Total financial liabilities	–	(6,463)	(2,360)	(8,823)

For the year ended December 31, 2018 (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 at fair value on the statement of financial position (continued)

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
– Debt securities	283	8,754	–	9,037
– Interbank certificates of deposits	9,758	59,164	–	68,922
– Asset management plans	–	–	17,762	17,762
– Placements with banks and other financial institutions	–	–	11,709	11,709
– Beneficiary certificates	–	–	12,562	12,562
Subtotal	10,041	67,918	42,033	119,992
Derivative financial assets				
– Exchange rate derivatives	–	6,456	–	6,456
– Interest rate derivatives	–	128	–	128
Subtotal	–	6,584	–	6,584
Available-for-sale financial assets				
– Debt securities	12,114	192,015	–	204,129
– Interbank certificates of deposits	–	8,898	–	8,898
– Assets-backed securities	–	34,251	–	34,251
– Equity instruments	–	105,902	1,721	107,623
Subtotal	12,114	341,066	1,721	354,901
Total financial assets	22,155	415,568	43,754	481,477

For the year ended December 31, 2018 (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 at fair value on the statement of financial position (continued)

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Principal guaranteed wealth management products	–	–	(42,193)	(42,193)
Derivative financial liabilities				
– Exchange rate derivatives	–	(6,499)	–	(6,499)
– Interest rate derivatives	–	(117)	–	(117)
Subtotal	–	(6,616)	–	(6,616)
Total financial liabilities	–	(6,616)	(42,193)	(48,809)

There were no significant movements among levels of the fair value hierarchy for the years ended December 31, 2018, and 2017.

For the year ended December 31, 2018 (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 at fair value on the statement of financial position (continued)

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices. Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread.

Changes in Level 3 financial assets are analyzed below:

	2018	2017
Level 3 financial assets		
Balance at beginning of year	**396,563**	12,370
Increased	**955,262**	94,301
Settled	**(896,447)**	(64,393)
Total gains or losses recognized in		
– Profit or loss	**(16,865)**	1,408
– Other comprehensive income	**476**	68
Balance at end of year	**438,989**	43,754

Changes in Level 3 financial liabilities are analyzed below:

	2018	2017
Level 3 financial liabilities		
Balance at beginning of year	**(42,193)**	(10,623)
Increased	**(12,642)**	(93,512)
Settled	**52,478**	62,105
Total gains or losses recognized in		
– Profit or loss	**(3)**	(163)
Balance at end of year	**(2,360)**	(42,193)

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44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

				Unobservable inputs		
December 31, 2018	Note	Fair Value	Valuation technique	Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss	(i)	2,213	Discounted cash flow method	Discount rate	3.26%-3.37%	Negative correlation
Financial assets at fair value through profit or loss						
– Fund investments	(ii)	1,036	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(ii)	39,499	Net asset method	Net assets		Positive correlation
– Commercial bank wealth management products	(iii)	31,964	Discounted cash flow method	Discount rate	3.85%-4.84%	Negative correlation
– Equity instruments	(ii)	2,090	Net asset method	Net assets		Positive correlation
Financial assets at fair value through profit or loss-loans and advances	(iv)	2,863	Discounted cash flow method	Discount rate	2.96%-3.85%	Negative correlation
Subtotal		79,665				

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44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below: (continued)

				Unobservable inputs		
December 31, 2018	Note	Fair Value	Valuation technique	Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income-equity instruments	(ii)	553	Net asset method	Net assets		Positive correlation
Financial assets at fair value through other comprehensive income-loans and advances	(v)	358,771	Discounted cash flow method	Discount rate	2.86%-3.95%	Negative correlation
Total		438,989				
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	(i)	(2,360)	Discounted cash flow method	Discount rate	3.94%	Negative correlation

44 Financial risk management (continued)

44.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below: (continued)

(i) The fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(ii) The fair value of industrial funds, equity instruments, trust investment plans and asset management plans of FVTPL, and the fair value of equity instruments of FVOCI are determined using net asset method, where the significant non-observable data are the net assets.

(iii) The fair value of commercial bank wealth management products of FVTPL is determined using the discounted cash flow method, where the significant non-observable inputs are the yield curves of similar financial instruments to be used as discount rates.

(iv) The fair value of loans and advances to customers in financial assets at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(v) The fair value of loans and advances to customers in financial assets at fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

For the year ended December 31, 2018 (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 at fair value on the statement of financial position (continued)

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below: (continued)

December 31, 2017	Note	Fair Value	Valuation technique	Unobservable inputs: Inputs	Unobservable inputs: Range of inputs/weighted average	Unobservable inputs: Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss	(i)	42,033	Discounted cash flow method	Discount rate	5.00%-5.73%	Negative correlation
Available-for-sale financial assets – Equity instruments	(ii)	1,721	Net asset method	Net assets		Positive correlation
Total		43,754				
Financial liabilities						
Financial liabilities designated at fair value through profit or loss	(i)	(42,193)	Discounted cash flow method	Discount rate	4.29%-4.33%	Negative correlation

(i) The fair value of financial assets and liabilities designated as at fair value through profit or loss is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(ii) The fair value of equity investments in industrial funds, under available-for-sale financial assets is calculated using the share of the net asset value of the fund, where the significant unobservable inputs are the net assets of the invested funds.

44 Financial risk management (continued)

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.

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, 2018, the Group's core tier 1 capital adequacy ratio should be 7.50%, tier 1 capital adequacy ratio should be 8.50%, and capital adequacy ratio should be 10.50% (as at December 31, 2017: 7.10%, 8.10% and 10.10%, respectively). The Group continuously intensifies the monitoring, analyzing and reporting of capital adequacy ratios, constantly optimizes the risk asset structure, increases internal capital accumulation, and promotes the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

For the year ended December 31, 2018 (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 the Administrative Measures for Capital of Commercial Banks (for Trial Implementation) (商業銀行資本管理辦法(試行)) promulgated by the CBIRC and Accounting Standards for Business Enterprises as issued by the MOF as at December 31, 2018 is as follows:

		As at December 31	
	Note	**2018**	2017
Core tier 1 capital adequacy ratio	(1)	**9.77%**	8.60%
Tier 1 capital adequacy ratio	(1)	**10.88%**	9.67%
Capital adequacy ratio	(1)	**13.76%**	12.51%
Core tier 1 capital		**423,374**	383,431
Deductions of core tier 1 capital	(2)	**(1,696)**	(1,758)
Core tier 1 capital – net		**421,678**	381,673
Other tier 1 capital		**47,927**	47,887
Tier 1 capital – net		**469,605**	429,560
Tier 2 capital			
Excess provision for loan loss		**49,072**	50,816
Directly issued qualifying tier 2 instruments including related premium		**74,937**	75,000
Non-controlling interest given recognition in tier 2 capital		**115**	69
Net capital	(3)	**593,729**	555,445
Risk-weighted assets	(4)	**4,316,219**	4,440,497

(1) Core tier 1 capital adequacy ratio is equal to net core tier 1 capital divided by risk-weighted assets; tier 1 capital adequacy ratio is equal to net tier 1 capital divided by risk-weighted assets; and capital adequacy ratio is equal to net capital divided by risk-weighted assets.

(2) Deductions from core tier 1 capital include other intangible assets (not including land use rights).

(3) Net capital is equal to total capital net of deductions from total capital.

(4) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

45 Events after the balance sheet date

Up to the date of the approval for the consolidated financial statements, there was no material event subsequent to the balance sheet date.

46 Reclassification of comparative figures

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

47 Statement of Financial Position of the Bank

	As at December 31	
	2018	2017
Assets		
Cash and deposits with central bank	**1,202,935**	1,411,962
Deposits with banks and other financial institutions	**143,680**	298,522
Placements with banks and other financial institutions	**288,423**	318,499
Derivative financial assets	**7,166**	6,584
Financial assets held under resale agreements	**239,687**	141,974
Loans and advances to customers	**4,127,252**	3,528,775
Investment instruments		
Financial assets at fair value through profit or loss	**341,662**	119,992
Financial assets at fair value through other comprehensive income-debt instruments	**183,350**	N/A
Financial assets at fair value through other comprehensive income-equity instruments	**553**	N/A
Financial assets at amortized cost	**2,861,922**	N/A
Available-for-sale financial assets	**N/A**	686,748
Held-to-maturity investments	**N/A**	935,735
Investment classified as receivables	**N/A**	1,424,831
Investment in subsidiary	**2,115**	615
Property and equipment	**45,373**	43,789
Deferred tax assets	**35,489**	22,200
Other assets	**22,092**	64,558
Total assets	**9,501,699**	9,004,784

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47 Statement of Financial Position of the Bank (continued)

	As at December31	
	2018	2017
Liabilities		
Deposits from banks and other financial institutions	**74,805**	48,851
Placements from banks and other financial institutions	**26,303**	66,217
Financial liabilities at fair value through profit or loss	**2,360**	42,193
Derivative financial liabilities	**6,463**	6,616
Financial assets sold under repurchase agreements	**134,919**	115,143
Customer deposits	**8,627,440**	8,062,659
Debt securities issued	**76,154**	74,932
Other liabilities	**78,936**	157,199
Total liabilities	**9,027,380**	8,573,810
Equity		
Share capital	**81,031**	81,031
Other equity instruments		
Preference Shares	**47,869**	47,846
Capital reserve	**74,659**	74,659
Other reserves	**137,914**	121,126
Retained earnings	**132,846**	106,312
Total equity	**474,319**	430,974
Total equity and liabilities	**9,501,699**	9,004,784

Approved and authorized for issue by the Board of Directors on March 26, 2019.

Zhang Xuewen

(On behalf of Board of Directors)

Yao Hong

(On behalf of Board of Directors)

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

48 Statement of Changes in Equity of the Bank

				Other reserves				
	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total
As at December 31, 2017	81,031	47,846	74,659	25,159	101,011	(5,044)	106,312	430,974
Change on application of new accounting policy	–	–	–	–	–	4,658	(3,124)	1,534
As at January 1, 2018 (restated)	81,031	47,846	74,659	25,159	101,011	(386)	103,188	432,508
Profit for the year	–	–	–	–	–	–	52,120	52,120
Other comprehensive income	–	–	–	–	–	3,979	–	3,979
Total comprehensive income for the year	–	–	–	–	–	3,979	52,120	56,099
Issuance of preference shares	–	23	–	–	–	–	–	23
Appropriations to surplus reserve	–	–	–	5,212	–	–	(5,212)	–
Appropriations to general reserve	–	–	–	–	2,939	–	(2,939)	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(11,920)	(11,920)
Dividends paid to preference shareholders	–	–	–	–	–	–	(2,391)	(2,391)
As at December 31, 2018	81,031	47,869	74,659	30,371	103,950	3,593	132,846	474,319

For the year ended December 31, 2018 (All amounts in millions of RMB unless otherwise stated)

48 Statement of Changes in Equity of the Bank (continued)

	Share capital	Other equity instruments-Preference Shares	Capital reserve	Other reserves: Surplus reserve	Other reserves: General reserve	Other reserves: Other comprehensive income	Retained earnings	Total
As at January 1, 2017	81,031	–	74,659	20,395	93,803	70	76,615	346,573
Profit for the year	–	–	–	–	–	–	47,641	47,641
Other comprehensive income	–	–	–	–	–	(5,114)	–	(5,114)
Total comprehensive income for the year	–	–	–	–	–	(5,114)	47,641	42,527
Appropriations to surplus reserve	–	–	–	4,764	–	–	(4,764)	–
Appropriations to general reserve	–	–	–	–	7,208	–	(7,208)	–
Issuance of preference shares	–	47,846	–	–	–	–	–	47,846
Dividends	–	–	–	–	–	–	(5,972)	(5,972)
As at December 31, 2017	81,031	47,846	74,659	25,159	101,011	(5,044)	106,312	430,974

APPENDIX I : UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year of 2018 (All amounts in millions of RMB unless otherwise stated)

Liquidity Ratios

	Average for the year ended December 31, 2018	Average for the year ended December 31, 2017
Liquidity ratios (RMB and foreign currency)	**54.34%**	42.99%

	December 31, 2018	December 31, 2017
Liquidity ratios (RMB and foreign currency)	**61.17%**	42.10%

The above liquidity ratios are calculated in accordance with the relevant provisions published by the CBIRC and the regulatory requirements, definitions and accounting standards applicable in the current period.

Currency Concentration

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

	December 31, 2017			
	USD (in RMB equivalent)	HKD (in RMB equivalent)	Others (in RMB equivalent)	Total
Spot assets	84,724	1,362	5,245	91,331
Spot liabilities	(39,792)	(186)	(953)	(40,931)
Forward purchases	218,842	42	169	219,053
Forward sales	(216,698)	(47)	(4,898)	(221,643)
Net long/(short) position	47,076	1,171	(437)	47,810

For the year of 2018 (All amounts in millions of RMB unless otherwise stated)

International Claims

The Group regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and investments in debt securities.

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

International Claims

	December 31, 2018			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	3,550	72,080	14,691	90,321
of which attributed to Hong Kong	–	3,340	798	4,138
North and South America	34	3,370	4,607	8,011
Europe	–	3,829	4,389	8,218
Total	3,584	79,279	23,687	106,550

	December 31, 2017			
	Official sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	3,414	80,437	13,485	97,336
of which attributed to Hong Kong	—	1,951	971	2,922
North and South America	—	4,355	4,574	8,929
Europe	—	4,814	4,352	9,166
Total	3,414	89,606	22,411	115,431

APPENDIX I : UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year of 2018 (All amounts in millions of RMB unless otherwise stated)

Gross Amount of Overdue Loans and Advances to Customers

Gross Amount of Overdue Loans and Advances to Customers

	December 31, 2018	December 31, 2017
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	**14,564**	12,716
Between 3 months and 6 months (inclusive)	**5,383**	3,296
Between 6 months and 12 months (inclusive)	**7,738**	6,175
Over 12 months	**14,671**	13,086
Total	**42,356**	35,273
As a percentage of gross loans and advances to customers		
Within 3 months (inclusive)	**0.34%**	0.35%
Between 3 months and 6 months (inclusive)	**0.13%**	0.09%
Between 6 months and 12 months (inclusive)	**0.18%**	0.17%
Over 12 months	**0.34%**	0.36%
Total	**0.99%**	0.97%

Overdue Loans and Advances to Customers by Geographical Region

	December 31, 2018	December 31, 2017
Head office	**2,107**	1,351
Yangtze River Delta	**4,678**	3,527
Pearl River Delta	**3,124**	2,760
Bohai Rim	**8,589**	8,182
Central China	**7,982**	6,067
Western China	**11,512**	9,649
Northeastern China	**4,364**	3,737
Total	**42,356**	35,273

APPENDIX II: LIQUIDITY COVERAGE RATIO AND THE NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	December 31, 2018 After adjustment	December 31, 2017 After adjustment
High quality liquid assets	**1,578,769**	1,272,410
Net cash outflow	**701,046**	872,748
Liquidity coverage ratio (%)	**225.20**	145.79

The Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	December 31, 2018	September 30, 2018	June 30, 2018
Total available stable funding	**8,027,607**	**7,834,638**	**7,799,020**
Total required stable funding	**4,897,613**	**4,758,008**	**4,750,176**
The net stable funding ratio (%)	**163.91**	**164.66**	**164.18**

The net stable funding ratio ("NSFR") is introduced to ensure commercial banks have sufficient stable funding to meet the requirements of various types of assets and off-balance sheet exposures on stable funding. According to the minimum regulatory standard set by the Measures for the Liquidity Risk Management of Commercial Banks, NSFR should be no less than 100% from July 1, 2018.

The formula for calculating the NSFR is:

The net stable funding ratio = available stable funding/required stable funding x 100%

Available stable funding refers to the sum of products of book value of a commercial bank's capital and liabilities with associated available stable funding factors. Required stable funding refers to the sum of products of book value of a commercial bank's assets and off-balance sheet exposures with associated required stable funding factors.

As of the end of the reporting period, the NSFR of the Bank was 163.91%, meeting the regulatory requirement.

APPENDIX III: LEVERAGE RATIO

In millions of RMB, except for percentages

Item	December 31, 2018	December 31, 2017
Tier 1 capital — net	**469,605**	429,560
On and off-balance sheet assets after adjustments	**9,871,166**	9,444,741
Leverage Ratio (%)	**4.76**	4.55

No.	Item	December 31, 2018	December 31, 2017
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**9,269,358**	8,878,533
2	Less: Deduction from tier 1 capital	**1,696**	1,758
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	**9,267,662**	8,876,775
4	Replacement costs of various derivatives (excluding eligible margin)	**7,166**	6,584
5	Potential risk exposures of various derivatives	**12,510**	11,235
6	Total collateral deducted from the balance sheet	**–**	–
7	Less: Assets receivable arising from the provision of eligible margin	**–**	–
8	Less: Derivative assets arising from central counterpart transactions when providing clearing services to customers	**–**	–
9	Nominal principals arising from sales of credit derivatives	**–**	–
10	Less: Deductible assets arising from sales of credit derivatives	**–**	–
11	Derivative assets	**19,676**	17,819
12	Accounting assets arising from securities financing transactions	**239,687**	127,434
13	Less: Deductible assets arising from securities financing transactions	**–**	–
14	Counter-party credit risk exposure arising from securities financing transactions	**3,169**	70,237
15	Assets arising from the agency services in connection with securities financing transactions	**–**	–
16	Securities financing transactions assets	**242,856**	197,671
17	Off-balance sheet assets	**1,066,842**	1,079,518
18	Less: Decrease in off-balance sheet assets due to credit conversion	**725,870**	727,041
19	Off-balance sheet assets after adjustments	**340,972**	352,476
20	Tier 1 capital — net	**469,605**	429,560
21	On and off-balance sheet assets after adjustments	**9,871,166**	9,444,741
22	Leverage Ratio (%)	**4.76**	4.55

APPENDIX IV: COMPOSITION OF CAPITAL

Composition of Capital

In millions of RMB, except for percentages

		Amount
Core tier 1 capital:		
1	Paid-in capital	81,031
2	Retained earnings	267,263
2a	Surplus reserves	30,371
2b	General reserve	103,959
2c	Undistributed profits	132,933
3	Accumulated other comprehensive income and disclosed reserve	74,648
3a	Capital reserve	74,648
3b	Others	0
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–
5	Valid portion of minority interests	432
6	Core tier 1 capital before regulatory adjustments	423,374
Core tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	–
8	Goodwill (net of deferred tax liabilities)	0
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,696
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	–
11	Reserves that relate to the cash flow hedging of items that are not fair valued on the balance sheet	–
12	Shortfall of provision for loan impairment	0
13	Gain on sale related to asset securitization	–
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	–
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–
16	Directly or indirectly holding in own ordinary shares	–
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–
18	Deductible amount of insignificant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
20	Mortgage servicing rights	–
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liabilities)	0

Composition of Capital (Continued)

In millions of RMB, except for percentages

		Amount
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier-1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of deferred tax assets arising from temporary differences (net of related tax liabilities)	0
23	Including: Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions	0
24	Including: Deductible amount of mortgage servicing rights	–
25	Including: Deductible amount in deferred tax assets arising from temporary differences	0
26a	Investment in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
26c	Others that should be deducted from core tier 1 capital	0
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	0
28	Total regulatory adjustments to core tier 1 capital	1,696
29	Core tier 1 capital	421,678
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	47,869
31	Including: Portion classified as equity	47,869
32	Including: Portion classified as liabilities	–
33	Invalid instruments to additional tier 1 capital after the transition period	–
34	Valid portion of minority interests	58
35	Including: invalid portion to additional tier 1 capital excluded after the transition period	–
36	Additional tier 1 capital before regulatory adjustments	47,927
Additional tier 1 capital: regulatory adjustments		
37	Directly or indirectly investments in own additional tier 1 instruments	–
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	–
39	Deductible amount of non-significant minority investment in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0
41a	Investment in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	0

Composition of Capital (Continued)

In millions of RMB, except for percentages

		Amount
41c	Others that should be deducted from additional tier 1 capital	0
42	Undeducted shortfall that should be deducted from tier 2 capital	0
43	Total regulatory adjustments to additional tier 1 capital	0
44	Additional tier 1 capital	47,927
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	469,605
Tier 2 capital:		
46	Tier 2 Capital instruments and related premium	74,937
47	Invalid tier 2 instruments to capital after the transition period	–
48	Valid portion of minority interests	115
49	Including: Invalid portion to tier 2 capital after the transition period	–
50	Valid portion of surplus provision for loan impairment	49,072
51	Tier 2 capital before regulatory adjustments	124,124
Tier 2 capital: regulatory adjustments		
52	Directly or indirectly investments in own tier 2 instruments	0
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	0
54	Deductible portion of non-significant minority investment in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	0
55	Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	0
56a	Investment in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	0
56c	Others that should be deducted from tier 2 capital	0
57	Total regulatory adjustments to tier 2 capital	0
58	Tier 2 capital	124,124
59	Total capital (tier 1 capital + tier 2 capital)	593,729
60	Total risk-weighted assets	4,316,219
Requirements for capital adequacy ratio and reserve capital (%)		
61	Core tier 1 capital adequacy ratio	9.77
62	Tier 1 capital adequacy ratio	10.88
63	Capital adequacy ratio	13.76
64	Institution specific capital requirement	2.50

Composition of Capital (Continued)

In millions of RMB, except for percentages

		Amount
65	Including: Capital conservation buffer requirement	2.50
66	Including: Countercyclical buffer requirement	–
67	Including: G-SIB buffer requirement	–
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	2.27
Domestic minimum requirements for regulatory capital (%)		
69	Core tier 1 capital adequacy ratio	7.50
70	Tier 1 capital adequacy ratio	8.50
71	Capital adequacy ratio	10.50
Amounts below the thresholds for deduction		
72	Undeducted amount of non-significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	32,431
73	Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	0
74	Mortgage servicing rights (net of deferred tax liabilities)	0
75	Deferred tax assets arising from temporary differences (net of deferred tax liabilities)	35,887
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	127,327
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	49,072
78	Surplus provision for loan impairment under the internal ratings-based approach	–
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	–
Capital instruments subject to phase-out arrangements		
80	Valid cap to core tier 1 capital instruments for the current period due to phase-out arrangements	–
81	Excluded from core tier 1 capital due to phase-out arrangements	–
82	Valid cap to additional tier 1 capital instruments for the current period due to phase-out arrangements	–
83	Excluded from additional tier 1 capital due to phase-out arrangements	–
84	Valid cap to tier 2 capital instruments for the current period due to phase-out arrangements	–
85	Excluded from tier 2 capital for the current period due to phase-out arrangements	–

Detailed Description of Related Items

In millions of RMB

	The regulatory consolidated balance sheet	Code
Goodwill	0	a
Intangible assets	1,696	b
Deferred income tax liabilities	0	
Including: Deferred tax liabilities related to goodwill	0	c
Including: Deferred tax liabilities related to other intangible assets other than land use rights	0	d
Paid-in capital		
Including: Amount included in core tier 1 capital	81,031	e
Other equity instruments		
Including: Preference shares	47,869	f
Capital reserve	74,648	g
Others	0	h
Surplus reserves	30,371	i
General reserve	103,959	j
Undistributed profits	132,933	k

Correspondence between All the Items Disclosed in the Second Step and Items in the Disclosure Template of Capital Composition

In millions of RMB

		Amount	Code
Core tier 1 capital:			
1	Paid-in capital	81,031	e
2	Retained earnings	267,263	i+j+k
2a	Surplus reserves	30,371	i
2b	General reserve	103,959	j
2c	Undistributed profits	132,933	k
3	Accumulated other comprehensive income and disclosed reserve	74,648	g+h
3a	Capital reserve	74,648	g
3b	Others	0	h
4	Valid portion to core tier 1 capital during the transition period (only applicable to non-joint stock companies. Fill in 0 for joint stock banks)	–	
5	Valid portion of minority interests	432	
6	Core tier 1 capital before regulatory adjustments	423,374	
Core tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	0	a-c
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	1,696	b-d
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities)	–	
11	Reserves that relate to the cash flow hedging of items that are not fair valued on the balance sheet	–	
12	Shortfall of provision for loan impairment	0	
13	Gain on sale related to asset securitization	–	
14	Unrealized gains and losses that have resulted from changes in the fair value of liabilities due to changes in own credit risk	–	
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	
16	Directly or indirectly holding in own ordinary shares	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	

Correspondence between All the Items Disclosed in the Second Step and Items in the Disclosure Template of Capital Composition (Continued)

		Amount	Code
18	Deductible amount of non-significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0	
19	Deductible amount of significant minority investment in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	0	
20	Mortgage servicing rights	–	
Additional tier 1 capital:			
30	Additional tier 1 capital instruments and related premium	47,869	f
31	Including: Portion classified as equity	47,869	f

Main Features of Eligible Capital Instruments

	Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
1	Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.
2	Identification code	1658.HK	1528007.IB	1628016.IB	1728005.IB	4612
3	Applicable laws Regulatory process	Hong Kong laws	PRC laws	PRC laws	PRC laws	The creation and issuance of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by and shall be construed in accordance with PRC laws
Regulatory processing						
4	Including: Applicable to transitional period rules specified by Administrative Measures for the Capital of Commercial Banks (Provisional)	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital
5	Including: Applicable to the rules after expiration of the transitional period specified by Administrative Measures for the Capital of Commercial Banks (Provisional)	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital
6	Including: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Core tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Additional tier 1 capital instruments
8	Amount that can be included in regulatory capital (in RMB millions; on the latest reporting date)	RMB74,482	RMB24,980	RMB29,975	RMB19,982	RMB47,869
9	Par value of instrument (in millions)	RMB19,856	RMB25,000	RMB30,000	RMB20,000	USD7,250

Main Features of Eligible Capital Instruments (Continued)

	Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
10	Accounting treatment	Share capital, capital reserve	Bonds payable	Bonds payable	Bonds payable	Other equity instruments
11	Initial issuance date	September 28, 2016	September 7, 2015	October 26, 2016	March 22, 2017	September 27, 2017
12	Perpetual or dated	Perpetual	Dated	Dated	Dated	Perpetual
13	Including: Original maturity date	No Maturity Date	September 9, 2025	October 28, 2026	March 24, 2027	No Maturity Date
14	Issuer's redemption (subject to regulatory approval)	No	Yes	Yes	Yes	Yes
15	Including: Redemption date (or contingent redemption date) and	Not applicable	September 9, 2020	October 28, 2021	March 24, 2022	The first redemption date is September 27, 2022
	Amount		Part or full	Part or full	Part or full	Part or full
16	Including: Subsequent redemption date (if any)	Not applicable	Not applicable	Not applicable	Not applicable	September 27 in each year after the first redemption date
	Dividend or interest payment					
17	Including: Fixed or floating dividend or interest payment	Floating	Fixed	Fixed	Fixed	Floating: The dividend yield is fixed in a single dividend yield adjustment cycle (five years) and is reset every five years
18	Including: Coupon rate and relevant indicators	Not applicable	4.50%	3.30%	4.50%	The dividend yield in the first five years is 4.50%, and it is reset every five years based on the yield of five-year US treasury bond on the resetting date plus 263.4 basis points
19	Including: Existence of dividend brake mechanism	Not applicable	No	No	No	Yes
20	Including: Discretion to cancel dividend or interest payment	Full discretion	No	No	No	Full discretion
21	Including: Existence of redemption incentive mechanism	No	No	No	No	No

Main Features of Eligible Capital Instruments (Continued)

	Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
22	Including: Cumulative or noncumulative	Noncumulative	Not applicable	Not applicable	Not applicable	Noncumulative
23	Conversion into shares	No	No	No	No	Yes
24	Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, that is, the CET 1 CAR drops to 5.125% or below; or upon the occurrence of any tier 2 capital instrument trigger event, which means either of the following circumstances (whichever is earlier): (1) the CBIRC having concluded that a conversion or write-off is necessary without which the Bank would become nonviable; or (2) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the Bank would become non-viable
25	Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of additional tier 1 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all or part of the issued and outstanding overseas preference shares into common H shares; upon the occurrence of tier 2 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all of the issued and outstanding overseas preference shares into common H shares

Main Features of Eligible Capital Instruments (Continued)

Main Features of Qualified Capital Instruments		Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
26	Including: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	The initial conversion price is the average trading price of common H Shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution (March 24, 2017) on the Offshore Preference Shares issuance
27	Including: Please specify share conversion is mandatory or not, if it is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Mandatory
28	Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Core tier 1 capital
29	Including: Please specify the issuer of the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	The Bank
30	Write-down or not	No	Yes	Yes	Yes	No
31	Including: Please specify the trigger point of write-down, if allowed	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Not applicable
32	Including: Please specify the trigger point of write-down, if allowed	Not applicable	In whole	In whole	In whole	Not applicable

Main Features of Eligible Capital Instruments (Continued)

	Main Features of Qualified Capital Instruments	Ordinary shares (H Shares)	Tier 2 capital bonds	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)
33	Including: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Perpetual	Perpetual	Perpetual	Not applicable
34	Including: Please specify the book entry value recovery mechanism, if temporary write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Hierarchy of claims (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and creditor of the subordinated debts	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	The liquidation order of the principal of the bonds and the payment order of the interest is after depositor and general creditor and before equity capital, additional tier 1 capital instrument and mixed capital bonds. The current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer and in the same repayment order as the current bonds and are in the same priority as other tier 2 capital instruments that may be issued in the future and in the same repayment order as the current bonds.	After depositor, general creditor, and holders of tier 2 capital instrument
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No
	Including: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

APPENDIX V:
REFERENCE MATERIALS FOR SHAREHOLDERS

Financial Calendar for 2018

2018 annual results announcement	March 26, 2019
2018 annual report	April 23, 2019
2019 interim results announcement	To be announced no later than August 30, 2019

Securities Information

Listing

The ordinary shares of the Bank were listed on the Hong Kong Stock Exchange on September 28, 2016, the offshore preference shares were listed on the Hong Kong Stock Exchange on September 28, 2017.

Ordinary Shares

Issued H Shares: 19,856,167,000 shares (as of December 31, 2018).

Preference Shares

Issued offshore preference shares: 362,500,000 shares (as of December 31, 2018).

Market Capitalization

As of the last trading day in 2018 (December 31, 2018), the Bank's market capitalization was HKD334,656 million (based on the closing price on December 31, 2018).

Securities Price

	Closing price on December 31, 2018	Highest trading price during the year	Lowest trading price during the year
H Shares	HKD4.13	HKD5.64	HKD4.05

Securities Code

H Shares:	The Stock Exchange of Hong Kong Limited
Stock Name:	Postal Savings Bank of China
Stock code:	1658
Offshore preference shares:	The Stock Exchange of Hong Kong Limited
Stock name:	PSBC 17USDPREF
Stock code:	4612

Shareholder Enquiries

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the following address:

Computershare Hong Kong Investor Services Limited
17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: (852) 2862 8555
Fax: (852) 2865 0990

Credit Rating

Standard & Poor's	A (stable)
Moody's Investors Service	A1 (stable)
Fitch Ratings	A+ (stable)
CCXI	AAA

Index Constituents

Hang Seng China 50 Index
Hang Seng China Enterprises Index
Hang Seng Composite Index Series
Hang Seng Global Composite Index
Hang Seng SCHK Mainland China Banks Index
FTSE China 50 Index
MSCI Index Series

Investor Enquiries

The Board Office of Postal Savings Bank of China Co., Ltd.
No. 3 Financial Street, Xicheng District, Beijing, PRC
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Fax: (86) 10 6885 8165
E-mail: ir@psbc.com

Other Information

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please call the Bank's H Share Registrar (852) 2862 8555 or the Bank's hotlines at (86) 10 6885 8158.

進步 與您同步

TOGETHER WE MAKE IT BETTER

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POSTAL SAVINGS BANK OF CHINA