中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

POSTAL SAVINGS BANK OF CHINA CO., LTD.
中 國 郵 政 儲 蓄 銀 行 股 份 有 限 公 司

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

(Stock Code: 1658)

(Stock Code of Preference Shares: 4612)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

The board of directors (the "**Board**") of Postal Savings Bank of China Co., Ltd. (the "**Bank**") hereby announces the audited annual results of the Bank and its subsidiaries for the year ended December 31, 2020 and the proposed payment of cash dividend for 2020. The Audit Committee of the Board of the Bank has reviewed such audited annual results. This announcement complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The printed version of the Bank's Annual Report for 2020 will be sent to the shareholders of the Bank in due course and the Annual Report for 2020 is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Bank at www.psbc.com.

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

Beijing, PRC
March 29, 2021

As at the date of this announcement, the Board of the Bank comprises Mr. Zhang Jinliang as Chairman and Non-executive Director; Mr. Zhang Xuewen and Ms. Yao Hong as Executive Directors; Mr. Han Wenbo, Mr. Liu Yue and Mr. Ding Xiangming as Non-executive Directors; Mr. Fu Tingmei, Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang and Ms. Pan Yingli as Independent Non-executive Directors.

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

Company Profile

Having approximately

40,000

outlets

The postal savings business in China can be traced back to its start in 1919 with a history of over one hundred years. In March 2007, based on the reform of the previous postal savings management system, Postal Savings Bank of China Limited was officially established. In January 2012, the Bank was transformed into a joint stock limited liability company. In December 2015, the Bank introduced ten strategic investors from home and abroad. In September 2016, it went public and was listed on the Hong Kong Stock Exchange. In December 2019, it was listed on the Shanghai Stock Exchange, successfully accomplishing the three-step reform, namely "joint stock reform, introduction of strategic investors and initial public offerings of A share and H share".

With approximately 40,000 outlets and services covering over 600 million personal customers, the Bank strategically focuses on providing financial services to Sannong customers, urban and rural residents and SMEs and is committed to meeting the financial needs of the most promising customers during China's economic transformation. In addition, the Bank is accelerating its transformation towards a new retail bank featuring data-driven, channel coordination, interaction between wholesale and retail as well as efficient operation. It has shown its superior asset quality and significant development potential, and is a leading retail bank in China.

The Bank is committed to serving the real economy, actively implementing the national development strategy and supporting the development of the modern economic system of China, and strives for sustainable development. The Bank adheres to the customer-centric philosophy and has established a financial service system where online and offline services connect with each other for joint development, providing our customers with

Serving **Sannong, urban and rural residents** and **SMEs**

Services covering over **600 million** personal customers

Following the principle of **covering both urban and rural areas and delivering services to the broad masses**

Ranked

22nd

in The Banker's list of

"Top 1000 World Banks"

in terms of tier 1 capital

quality, convenient and efficient integrated financial services. It adheres to the risk-based approach, continuously improves the development of the comprehensive risk management system featuring "all aspects, whole process and entire staff", and maintains good asset quality. It continues to follow the principle of "covering both urban and rural areas and delivering services to the broad public", and actively fulfills its social responsibilities in fields of inclusive finance, green finance, and targeted poverty alleviation.

After 14 years of dedicated efforts, the Bank has been playing an increasingly important role in the market with marked influence. In 2020, it ranked 22nd in The Banker's list of "Top 1000 World Banks" in terms of tier 1 capital. It has been rated A+ and A1 this year by Fitch Ratings and Moody's Investors Service respectively, which are the same as China's sovereignty credit rating. It has been rated A, AAAspc and AAA with a stable outlook by Standard & Poor's Global, S&P Global (China) Ratings and CCXI.

Faced with the period of strategic opportunities for China's economic and social development, the Bank will thoroughly implement the new development concept, comprehensively deepen reform and innovation, accelerate the transformation and development towards "uniqueness, comprehensiveness, lightness, digitalization and intensiveness", continue to improve the quality and efficiency of serving the real economy and the ability of serving customers, and make every effort to be a first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value.

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

A centennial of services, a full commitment to customers

1919

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

1930

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

1949

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

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

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

1986

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

In 1994 , postal savings commenced the Green Card Program.

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

2007

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

2012

Postal Savings Bank of China was transformed to a joint-stock limited liability company;

In 2015, the Bank introduced ten strategic investors from home and abroad;

PSBC Consumer Finance Co., Ltd. was established and open for business.

2016

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

2019

The Bank was formally classified as a major state-owned commercial bank and listed successfully on the Shanghai Stock Exchange. PSBC Wealth Management Co., Ltd. was established and open for business.

邮惠万家银行
PSBC online

2020

The Bank obtained approval of establishment of PSBC online, making it the first major state-owned commercial bank to participate in the direct banking pilot program;

The Bank obtained approval of establishment of the Credit Card Center as a specialized institution.

Contents

Definitions

"affluent customers"	Our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively as consolidated assets). We usually classify customers with consolidated assets of RMB500,000 or more as our affluent customers
"Articles of Association"	The Articles of Association of Postal Savings Bank of China Co., Ltd., as amended, supplemented or otherwise modified from time to time
"Bank/we/PSBC/Postal Savings Bank of China"	Postal Savings Bank of China Co., Ltd., a joint stock limited liability company established in the PRC in accordance with PRC laws, including its predecessors, branches and sub-branches, directly-operated outlets and agency outlets (to the extent of agency outlets' operations, risk management and licenses in relation to agency banking businesses they conduct) and subsidiaries (where the context so requires)
"CBIRC/CBRC"	China Banking and Insurance Regulatory Commission, or its predecessor, the former China Banking Regulatory Commission (where the context so requires)
"central bank/PBOC"	People's Bank of China
"China Post Group"	China Post Group Co., Ltd., a wholly state-owned company restructured from the former China Post Group Corporation in accordance with the Company Law of the People's Republic of China, is the controlling shareholder of the Bank
"corporate loans to small enterprises"	The loans granted by the Bank to micro, small, and medium enterprises under the Classification Standards of Small and Medium Enterprises
"CSRC"	China Securities Regulatory Commission
"Direct Bank/PSBC online"	PSBC online, a direct bank subsidiary which has been approved by regulators to be set up by the Bank
"Group"	The Bank and its subsidiaries
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards and the related amendments and interpretations issued by the International Accounting Standards Board
"loans to micro and small enterprises"	The loans to micro and small enterprises which comply with the classification standards of the CBIRC, including the loans to small-sized enterprises, loans to micro-sized enterprises, loans to self-employed traders and loans to small and micro-sized business owners; the classification standards of enterprises strictly follow the Classification Standards of Small and Medium Enterprises
"MOF"	Ministry of Finance of the PRC
"new rules on asset management"	Guiding Opinions on Regulating Asset Management Business of Financial Institutions and other related regulations
"PRC GAAP"	The Accounting Standards for Business Enterprises issued by the MOF on February 15, 2006, and the relevant laws and regulations issued thereafter
"PSBC Consumer Finance"	PSBC Consumer Finance Co., Ltd.
"PSBC Wealth Management"	PSBC Wealth Management Co., Ltd.
"Sannong"	Agriculture, rural areas and farmers
"SFO"	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"SMEs"	The enterprises classified as micro, small, and medium enterprises under the Classification Standards of Small and Medium Enterprises
"SSE"	Shanghai Stock Exchange

Definitions

"Three Regions and Three Prefectures"	Tibet Autonomous Region, the Tibetan inhabited areas in four provinces (Qinghai, Sichuan, Yunnan and Gansu), four prefectures in southern Xinjiang Autonomous Region, Liangshan Prefecture of Sichuan Province, Nujiang Prefecture of Yunnan Province, and Linxia Prefecture of Gansu Province
"VIP customers"	Our customer segmentation is primarily based on each customer's personal financial assets and loan balances with us (collectively as consolidated assets). We usually classify customers with consolidated assets of RMB100,000 or more as our VIP customers

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

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

Important Notice

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

The 2020 results announcement, annual report and highlights have been reviewed and approved at the meeting of the Board of Directors of the Bank held on March 29, 2021. There were 11 Directors of the Bank eligible for attending the meeting, among which 11 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.

In accordance with the Company Law of the People's Republic of China, the Administrative Measures for Provisioning of Financial Enterprises, the Articles of Association and relevant requirements, statutory surplus reserve of RMB6,249 million and a general reserve of RMB13,572 million were appropriated for 2020. On the basis of 92,383,967,605 ordinary shares of the total share capital of the Bank, RMB19,262 million (before tax) of cash dividends will be distributed to all the ordinary shareholders whose names appeared on the share register on the record date with RMB2.085 (before tax) per ten ordinary shares. Cash dividends are denominated and declared in Renminbi, and paid to holders of A shares in Renminbi and to holders of H shares in Hong Kong dollars converted at the RMB central parity rate announced by the PBOC on the day of the Bank's 2020 Annual General Meeting. The remaining undistributed profits are carried forward to the next year. The Bank did not convert its capital reserve to share capital in 2020. The aforesaid profit distribution scheme is subject to the review and approval at the 2020 Annual General Meeting. For the Bank's profits of the reporting period, please refer to "Discussion and Analysis – Analysis of Financial Statements".

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

Important Notice

The financial report of the Bank for the year 2020, prepared in accordance with PRC GAAP and IFRSs, has been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with Chinese and international auditing standards respectively with unqualified auditor's reports issued.

The Board of Directors of Postal Savings Bank of China Co., Ltd.
March 29, 2021

Mr. Zhang Jinliang, Legal Representative of the Bank, Mr. Zhang Xuewen, Vice President in charge of finance of the Bank, and Mr. Liu Yucheng, General Manager of the Finance and Accounting Department of the Bank, hereby declare and warrant the truthfulness, accuracy and completeness of the financial statements contained in this report.

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

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

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

Corporate Information

Legal name in Chinese:	中國郵政儲蓄銀行股份有限公司(“中國郵政儲蓄銀行”)
Legal name in English:	POSTAL SAVINGS BANK OF CHINA CO., LTD. (“PSBC”)
Legal representative:	Zhang Jinliang
Chairman:	Zhang Jinliang
President:	Zhang Xuewen[1]
Authorized representatives:	Yao Hong, Du Chunye
Secretary to the Board of Directors:	Du Chunye Telephone: 86-10-68858158 Fax: 86-10-68858165 E-mail: psbc.ir@psbcoa.com.cn
Registered address and place of business:	No. 3 Financial Street, Xicheng District, Beijing
Principal place of business in Hong Kong:	40/F, Dah Sing Financial Centre, 248 Queen’s Road East, Wan Chai, Hong Kong
Investor contacts:	Postal code: 100808 Telephone: 86-10-68858158 Fax: 86-10-68858165 E-mail: psbc.ir@psbcoa.com.cn Website: www.psbc.com
Hotline for customer services and complaints:	86-95580
Information disclosure media:	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Annual report available at:	Office of the Board of Directors of the Bank, No. 3 Financial Street, Xicheng District, Beijing

1 Mr. Guo Xinshuang resigned as President on January 4, 2021 due to change of job. As approved by the Board of Directors, Mr. Zhang Xuewen, Executive Director and Vice President, started to perform the duties of President from January 4, 2021. For details, please refer to “Directors, Supervisors and Senior Management”.

Corporate Information

Unified social credit code:	9111000071093465XC
A share listing place, stock name, stock code and website for publication of annual report:	Stock exchange on which shares are listed: Shanghai Stock Exchange Stock name: Postal Savings Bank of China Stock code: 601658 Share Registrar: China Securities Depository and Clearing Corporation Limited, Shanghai Branch 188 Yanggao South Road, Pudong New Area, Shanghai Website of Shanghai Stock Exchange for publication of annual report: www.sse.com.cn
H share listing place, stock name, stock code and website for publication of annual report:	Stock exchange on which shares are listed: The Stock Exchange of Hong Kong Limited Stock name: Postal Savings Bank of China Stock code: 1658 Share Registrar: Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong Website of Hong Kong Stock Exchange for publication of annual report: www.hkexnews.hk
Preference share listing place, stock name and stock code:	Stock exchange on which shares are listed: The Stock Exchange of Hong Kong Limited Stock name: PSBC 17USDPREF Stock code: 4612
Legal advisor as to laws of the Chinese mainland:	King & Wood Mallesons
Legal advisor as to laws of Hong Kong, PRC:	Clifford Chance LLP
Domestic auditor:	PricewaterhouseCoopers Zhong Tian LLP Place of business: 11th Floor, PricewaterhouseCoopers Center, Link Square 2, 202 Hubin Road, Huangpu District, Shanghai Signing accountants: Yip Siu Foon, Linda, Zou Yan
International auditor:	PricewaterhouseCoopers

Sponsors for continuous supervision and guidance:	China International Capital Corporation Limited Place of business: 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing Signing sponsors: Zhou Shaolong, Li Yifan Period of continuous supervision and guidance: December 10, 2019 to December 31, 2022 China Post Securities Co., Ltd. Place of business: No. 17, Zhushikou East Street, Dongcheng District, Beijing Signing sponsors: Li Yong, Xie Min Period of continuous supervision and guidance: December 10, 2019 to January 5, 2021 CITIC Securities Co., Ltd. Place of business: 23rd Floor, CITIC Securities Building, No. 48, Liangmaqiao Road, Chaoyang District, Beijing Signing sponsors: Sun Yi, Ma Xiaolong Period of continuous supervision and guidance: January 6, 2021 to December 31, 2022

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Financial Highlights

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

Operating income
(In millions of RMB)

2016	189,602
2017	224,864
2018	261,245
2019	277,116
2020	**286,537**

Year of 2020
Operating income
286,537

Net profit
(In millions of RMB)

2016	39,776
2017	47,709
2018	52,384
2019	61,036
2020	**64,318**

Year of 2020
Net profit
64,318

Total assets
(In millions of RMB)

2016	8,265,622
2017	9,012,551
2018	9,516,211
2019	10,216,706
2020	**11,353,263**

Year-end of 2020
Total assets
11,353,263

Total loans to customers
(In millions of RMB)

2016	3,010,648
2017	3,630,135
2018	4,276,865
2019	4,974,186
2020	**5,716,258**

Year-end of 2020
Total loans to customers
5,716,258

Customer deposits
(In millions of RMB)

2016	7,286,311
2017	8,062,659
2018	8,627,440
2019	9,314,066
2020	**10,358,029**

Year-end of 2020
Customer deposits
10,358,029

Non-performing loans ratio
(%)

2016	0.87
2017	0.75
2018	0.86
2019	0.86
2020	**0.88**

Year-end of 2020
Non-performing loans ratio
0.88

Allowance to NPLs ratio
(%)

2016	271.69
2017	324.77
2018	346.80
2019	389.45
2020	**408.06**

Year-end of 2020
Allowance to NPLs ratio
408.06

Capital adequacy ratio
(%)

2016	11.13
2017	12.51
2018	13.76
2019	13.52
2020	**13.88**

Year-end of 2020
Capital adequacy ratio
13.88

Key Financial Data

In millions of RMB, unless otherwise stated

Item	2020	2019	2018	2017	2016
Operating results					
Operating income	**286,537**	277,116	261,245	224,864	189,602
Net interest income[1]	**253,378**	242,686	236,037	189,516	158,605
Net fee and commission income[1]	**16,495**	14,623	12,519	11,336	10,479
Operating expenses	**167,984**	157,976	152,324	147,016	129,772
Credit impairment losses	**50,398**	55,384	55,414	N/A	N/A
Impairment losses on other assets	**19**	11	20	N/A	N/A
Impairment losses on assets	**N/A**	N/A	N/A	26,737	16,902
Profit before income tax	**68,136**	63,745	53,487	51,111	42,928
Net profit	**64,318**	61,036	52,384	47,709	39,776
Net profit attributable to shareholders of the Bank	**64,199**	60,933	52,311	47,683	39,801
Net cash flows from operating activities	**161,772**	26,443	184,505	(399,348)	220,457

Item	2020	2019	2018	2017	2016
Per share data (in RMB)					
Basic and diluted earnings per share[2]	**0.71**	0.72	0.62	0.59	0.55

Note (1): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2016 to 2019 have been restated.

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

In millions of RMB, unless otherwise stated

Item[4]	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Data as at the end of the reporting period					
Total assets	**11,353,263**	10,216,706	9,516,211	9,012,551	8,265,622
Total loans to customers[1]	**5,716,258**	4,974,186	4,276,865	3,630,135	3,010,648
Allowance for impairment losses on loans to customers[2]	**203,897**	166,124	127,327	88,564	71,431
Loans to customers, net	**5,512,361**	4,808,062	4,149,538	3,541,571	2,939,217
Financial investments[3]	**3,914,650**	3,675,030	3,387,487	3,167,033	3,463,841
Cash and deposits with central bank	**1,219,862**	1,154,843	1,202,935	1,411,962	1,310,273
Total liabilities	**10,680,333**	9,671,827	9,040,898	8,581,194	7,918,734
Customer deposits[1]	**10,358,029**	9,314,066	8,627,440	8,062,659	7,286,311
Equity attributable to shareholders of the Bank	**671,799**	543,867	474,404	430,973	346,530
Net capital	**784,579**	671,834	593,729	555,445	444,919
Core tier 1 capital - net	**542,347**	492,212	421,678	381,673	344,817
Additional tier 1 capital - net	**127,954**	47,948	47,927	47,887	6
Risk-weighted assets	**5,651,439**	4,969,658	4,316,219	4,440,497	3,995,908

Item[4]	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Per share data (in RMB)					
Net assets per share[5]	**6.25**	5.75	5.26	4.73	4.28

Note (1): For ease of reference, “loans to customers” refers to “loans and advances to customers” and “customer deposits” refers to “deposits from customers” in this report.

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

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

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

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

Financial Indicators

Item	2020	2019	2018	2017	2016
Profitability (%)					
Return on average total assets[1]	**0.60**	0.62	0.57	0.55	0.51
Return on weighted average equity[2]	**11.84**	13.10	12.31	13.07	13.44
Net interest margin[3][5]	**2.42**	2.53	2.69	2.42	2.25
Net interest spread[4][5]	**2.36**	2.48	2.67	2.47	2.36
Net fee and commission income to operating income ratio[5]	**5.76**	5.28	4.79	5.04	5.53
Cost to income ratio[6]	**57.86**	56.29	57.60	64.64	66.44

Item	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Asset quality(%)					
Non-performing loans ratio[7]	**0.88**	0.86	0.86	0.75	0.87
Allowance to NPLs ratio[8]	**408.06**	389.45	346.80	324.77	271.69
Allowance to loans ratio[9]	**3.60**	3.35	2.99	2.44	2.37
Capital adequacy ratio (%)					
Core tier 1 capital adequacy ratio[10]	**9.60**	9.90	9.77	8.60	8.63
Tier 1 capital adequacy ratio[11]	**11.86**	10.87	10.88	9.67	8.63
Capital adequacy ratio[12]	**13.88**	13.52	13.76	12.51	11.13
Risk-weighted assets to total assets ratio[13]	**49.78**	48.64	45.36	49.27	48.34
Total equity to total assets ratio	**5.93**	5.33	4.99	4.79	4.20

Note (1): Calculated by dividing net profit by the average balance of total assets at the beginning and at the end of the reporting period.

Note (2): Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010) issued by the CSRC.

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

Note (4): Calculated by the spread between yield on average balance of total interest-earning assets and cost on average balance of total interest-bearing liabilities.

Note (5): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2016 to 2019 have been restated.

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

Note (7): Calculated by dividing the balance of NPLs by total balance of loans to customers. Since 2020, the total loans have no longer included the accrued interest in the calculation of NPL ratio. The comparative period data have been restated.

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

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

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

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

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

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

Other Major Indicators

Item		Regulatory criteria	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Liquidity ratio (%)[1]	RMB and foreign currency	≥25	**71.61**	67.96	61.17	42.10	38.37
Percentage of loans to largest single borrower (%)[2]		≤10	**23.21**	27.19	29.78	35.04	44.34
Percentage of loans to the ten largest borrowers (%)			**34.49**	39.42	41.39	47.80	71.23
Loan migration ratio (%)	Normal		**1.02**	1.28	1.24	1.61	1.58
	Special mention		**48.94**	16.42	25.01	21.39	12.95
	Substandard		**52.81**	63.32	75.09	92.74	88.37
	Doubtful		**86.23**	81.80	83.55	88.95	80.28

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

Note (2): Percentage of loans to largest single customer = balance of loans to the largest customer/net capital x 100%. The largest customer refers to the customer with the highest balance of loans at the period end. As of the end of the reporting period, China State Railway Group Co., Ltd. was the Bank's largest single borrower. The outstanding loan balance with China State Railway Group Co., Ltd. was RMB182,089 million, accounting for 23.21% of the Bank's net capital. The credit line the Bank granted to China State Railway Group Co., Ltd. includes the legacy credit line of RMB240 billion which was approved by relevant regulatory authorities. As of the end of the reporting period, the outstanding loan balance under such credit line for China State Railway Group Co., Ltd. was RMB165 billion. After deduction of this RMB165 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.18% of the Bank's net capital.

Credit Rating

Rating Agency	2020	2019	2018	2017	2016
Standard & Poor's Global	**A (stable)**	A (stable)	A (stable)	A (stable)	–
Moody's Investors Service	**A1 (stable)**	A1 (stable)	A1 (stable)	A2 (positive)	–
Fitch Ratings	**A+ (stable)**	A+ (stable)	A+ (stable)	A+ (stable)	–
S&P Global (China) Ratings	**AAAspc (stable)**	AAAspc (stable)	–	–	–
CCXI	**AAA (stable)**	AAA (stable)	AAA (stable)	AAA (stable)	AAA (stable)

Quarterly Financial Data

In millions of RMB

	2020			
Item	**Q1**	**Q2**	**Q3**	**Q4**
Operating income	72,250	74,235	70,042	70,010
Net profit attributable to shareholders of the Bank	20,094	13,564	19,186	11,355
Net cash flows from operating activities	85,756	(96,685)	34,488	138,213

Rankings and Awards

Rankings

Top **1000** World Banks

Ranked **22nd**

in terms of tier 1 capital in the end of 2019

The Banker (UK)

Global **2000** – the World's 2000 Largest Public Companies in 2020

Ranked **30th**

Forbes

List of China Top **500** Companies

Ranked **36th**

in terms of operating income in 2019

Fortune China

Awards and Honors

- National Green Data Center of 2020
  Ministry of Industry and Information Technology, National Development and Reform Commission, Ministry of Commerce, National Government Offices Administration, CBIRC, National Energy Administration
- Bank Technology Development Award
  The People's Bank of China
- Excellent Organizer in Joint Financial Literacy and Education Campaign
  CBIRC Financial Rights Protection Bureau
- Comprehensive Market Maker with Biggest Progress

  Best Foreign Currency Trading Member
  China Foreign Exchange Trade System
- Excellent Money Market Dealer
  National Interbank Funding Center
- Best Achievements in Inclusive Finance

  Achievements Award for Helping to Win the "Three Critical Battles"

  Advanced Organization for Green Bank Evaluation of The Year
  China Banking Association
- Outstanding Organization in the Publicity Campaign of "Financial Knowledge on Preventing Gambling and Anti-Gambling"
  Payment & Clearing Association of China
- Excellent Underwriter of China Bond Green Bond Index Sample Bond
  China Central Depository & Clearing Co., Ltd.
- Excellent Award for Dedicated Customer Services
  China UnionPay
- Listed Company with the Best CSR Reputation
  China Securities Golden Bauhinia Awards Committee
- Excellent Financial Service of the Year
  Organizing Committee of China International Financial Exhibition
- Recommended Donation Enterprise
  Organizing Committee of Internet Good Summit

- Best Retail Bank
  Global Finance

- Top Ten Financial Innovation Institution for Inclusive Finance

  Special Contribution Award for Fighting COVID-19 in China's Financial Industry
  Hong Kong Commercial Daily

- Significant Contribution Award for Financial Technology Innovation
  Financial Computerizing

- Best Development Award
  China Banking

- Top Ten Fintech Innovation Award
  The Chinese Banker

- Best Bank for Poverty Alleviation of the Year
  Financial Times

- The Gamma Award Best Bank of China 2020

  The Gamma Award for Bank Wealth Management Brand of the Year
  Securities Times

- Excellent Risk Control Award of the Year
  Caijing Magazine

- Asian Excellent Commercial Bank of the Year

  Technology Bank of the Year
  21st Century Business Herald

- Excellent Chinese Bank of the Year
  The Economic Observer

- Innovation Award for Micro and Small Business Service of the Year
  China Business News

- Financial Technology Progress Award of the Year
  National Business Daily

- State-owned Commercial Bank with Excellent Competitiveness
  China Business Journal

- Digital Operation Bank of the Year

  Bank of the Year for Ensuring Stability on Six Key Fronts and Maintaining Security in Six Key Areas
  China Times

- Best Sannong Financial Service Award of the Year
  The Beijing News

- Pioneer Organization on Targeted Poverty Alleviation
  China.com.cn

- Financial Institution of the Year

  Green Finance of the Year
  The Paper

- Best Responsible Institution
  Sina Finance

- Outstanding Asset Custody Bank Award
  JRJ.com

- Excellent Financial Institution of the Year
  Hexun.com

PSBC's 2020 Brand Commemorative Booklet

Strategic Positioning and Corporate Culture

Strategic Positioning of the Bank

Stay committed to the positioning of serving Sannong, urban and rural residents and SMEs, rely on our unique distribution network consisting of directly-operated outlets and agency outlets and resource endowment, adhere to the retail banking strategy, and focus on inclusive finance.

Core Competitiveness

Well-defined strategy for retail banking

The Bank boasts a broad physical network covering urban and rural areas and a large number of retail banking customers. Leveraging on the edges and resources, the Bank gives top priority to serving Sannong customers, urban and rural residents as well as SMEs, and has determined and firmly implemented a distinctive strategy for retail banking. The Bank maintains strategic resolve and gets ready to adjust the approach when necessary to establish a strategy management system covering the whole process including strategy analysis and formulation, organization and implementation, monitoring and assessment, and optimization and adjustment. Through these efforts, the Bank has developed differentiated competitive advantages, a good brand image and excellent operating results, fully displaying potentials for growth.

A unique distribution network consisting of directly-operated outlets and agency outlets

The Bank has established the principle-agent relationship with China Post Group, its controlling shareholder, and the relationship is stable, transparent, fair and mutually beneficial. Based on its distribution network consisting of directly-operated outlets and agency outlets, the Bank is considered to be with a great number of outlets, a wide coverage and a deep network penetration in China. Leveraging the advantages of China Post Group in resources, it has established a multi-dimensional and multi-layered coordination mechanism in customers, channels and products to deepen cooperation with China Post Group, securities companies and insurance companies and to provide customers with integrated financial service solutions.

Personal banking with unique advantages

The Bank makes full use of its network covering urban and rural areas to serve more than 40% of the population in China, showing its unique characteristics in retail banking. It vigorously promotes systemic outlet transformation and the development of wealth management system, speeds up digital transformation and scenario-based customer acquisition, and creates a retail credit service system covering consumer credit, micro loans and credit cards. Besides, it makes efforts to establish a three-in-one development model characterized by "attracting users, retaining customers, and delivering more value" to encourage high-quality development in retail banking. Therefore, it remained leading in key indicators such as the proportion of operating income from personal banking, AUM of retail customers and scale of personal deposits.

Corporate banking with breakthroughs

The Bank proactively leverages the important role of corporate banking in the strategy for retail banking and focuses on coordination and synergy between corporate and retail banking. On one hand, it expands customer marketing, improves customer service and management system, and makes efforts to serve SMEs and industrial chain. In addition, the Bank strengthens online scenario-based marketing, facilitates the establishment of a comprehensive business model of "commercial banking + investment banking + asset management", and realizes the rapid growth of customers. On the other hand, it strengthens basic capabilities, improves the product system, streamlines the process, promotes corporate banking services at outlets, puts more efforts on team building, and focuses more on technology empowerment. With remarkable latecomer advantages in the corporate banking business, it makes significant achievement in transformation.

Treasury and asset management business taking deep roots

Leveraging significant network advantage and solid financial strength, the Bank is an important medium and long-term lender in the interbank market with strong market impact. With abundant products and comprehensive qualifications in terms of treasury and asset management business, it provides its partners with integrated financial services including financing, wealth management, agency business, custody and consulting. Over the years, it has accumulated abundant interbank customer resources and won a good market reputation through financial integration and agency services, laying a solid foundation for deepening cooperation with other financial institutions.

Sound and effective risk management

Adhering to the risk-based approach and upholding prudent risk appetite, the Bank continuously improves risk management system characterized by "all aspects, whole process and entire staff". It carries out regular risk assessment to effectively transmit and implement the risk appetite, thereby comprehensively improving the quality and effectiveness of risk management. It progressively promotes the implementation of the advanced approaches for capital management and pushes forward improvement in terms of the risk governance system, management and control in credit business procedure, governance of problems in credit customer ratings and applicability of the internal rating and risk control model. After the outbreak of the epidemic, the Bank made positive responses by continuously monitoring and mitigating risks on all fronts and maintained a steady development trend amid the epidemic. It maintained good asset quality, displaying strong risk resistance.

Commercially sustainable inclusive finance

As an initiator, forerunner and contributor of inclusive finance, the Bank has been dedicated to inclusive finance in the long term and played an active role in serving rural revitalization and the integrated urban-rural development. On top of the traditional advantages in outlet network and professional teams, it keeps deepening fintech application, accelerating digital transformation, expanding online service channels, improving operation efficiency and intelligence of risk prevention and control, as well as reducing operating and risk costs. Moreover, it creates an "online plus offline" integrated and coordinated network on all fronts to continuously serve a more extensive basic customer group and facilitate joint growth of customer and banking values.

IT capabilities in rapid development

Regarding IT as the core drive of business development, the Bank cultivates leading talents in technology with rapidly growing headcount, and constantly improves capabilities of independent R&D and fintech innovation. It concluded the 13th Five-Year Plan for IT application, launched 16 enterprise-level platforms including the credit business platform, realized the blueprint for business architecture and application architecture, improved product innovation capability and user experience in an all-round way, and effectively supported its digital transformation with a super-large-scale core banking business system based on an open platform serving more than 600 million customers. It built the big data platform, cloud computing platform, blockchain service and "PSBC Brain" artificial intelligence platform, and created a middle office with the fintech to empower customer marketing, operation management and risk management with new technologies, so as to support the strategy for a large retail bank.

Well-defined strategy for retail banking

A unique distribution network consisting of directly-operated outlets and agency outlets

Personal banking with unique advantages

Corporate banking with breakthroughs

Commercially sustainable inclusive finance

Treasury and asset management business taking deep roots

IT capabilities in rapid development

Sound and effective risk management

Corporate Culture

The Bank upholds Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully abides by the work requirements of the CPC Central Committee and the State Council, and implements the new development philosophy. The Bank also pushes forward transformation and upgrading, focuses on preventing and controlling financial risks, promotes the implementation of medium and long-term development strategies, and establishes a corporate cultural value shaped by simplicity, transparency and positive momentum which can further consolidate the mental strength and cultural consciousness of all employees across the Bank and provide strong support for high-quality development.

The Bank's corporate cultural philosophy represents the spiritual wealth and intangible assets accumulated along the development history of PSBC. Serving as direction of values for achieving strategic goals in the new era, it condenses the wisdom and hard work of previous generations of PSBCers and carries the hopeful expectations and promising visions of the new generation of PSBCers.

Mission

To deliver accessible financial services in both urban and rural areas.

Company Spirit

Be responsible, resilient and caring.

Vision

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

Values

Create value for customers.

Integrity is the foundation of development.

Prudence leads to sustainability.

Employees are our greatest asset.

Excellence comes through professionalism.

Embrace change and always innovate.

Brand Premise

Together we make it better.

Company Philosophies

Management philosophy:	Keep it simple and reduce administrative burden
Operation philosophy:	Gain first-mover advantage with market insights
Risk philosophy:	Prudence and compliance lead to stability, and risk control is the key to sustainable development
Service philosophy:	Pour our heart and soul into customer satisfaction
Talent philosophy:	Respect the value of employees, tap their potential, and bring them closer to their dreams
Coordination philosophy:	See the bigger picture, act with one mind, and make progress toward shared future

Consensus of PSBCers

1. Release concise documents, have meaningful meetings, and make straightforward communication.
2. You are respected for your capacity to create value, not for your authority to dictate.
3. Relationship shall facilitate cooperation, rather than being an excuse to break rules.
4. Be practical rather than superficial, be down-to-earth rather than perfunctory.
5. Dive into the market and get close to customers. It is all empty talk without field study.
6. Discussion without a conclusion is a dereliction of duty. The front-line business cannot wait for endless discussions behind.
7. An action is better than a dozen of plans. Do it right away and get the job well-done.
8. Support each other and everyone has his or her stage.
9. Lessen ineffective orders and streamline front-line business.
10. The professional pathway can also lead to great career success.

Messages from the Chairman and Senior Management

Zhang Jinliang
Chairman

Message from the Chairman

As a Chinese poem reads, "Heaven does not speak and it alternates the four seasons." Even the COVID-19 epidemic could not stop the arrival of spring.

Looking back on the extraordinary year of 2020, under the strong leadership of the CPC Central Committee with Xi Jinping at its core, we rose above the situation, responded calmly and earnestly and performed our responsibilities and missions as a major state-owned bank. We remained true to our original aspiration, leveraged our strengths, and worked with a down-to-earth manner to effectively serve the economy and people's livelihood, and boost rural revitalization as well as the recovery and development of industries. We planted our feet firmly on the ground, planned for the long term, concentrated resources on accomplishing our job, and sustained high-quality development. **We channelled financial resources to invigorate the real economy and support dream chasers.** As at the end of the reporting period, we recorded a loan balance of RMB5.72 trillion, representing an increase of 14.92%; the loan-to-deposit ratio rose by 1.78 percentage points to 55.19%; our agro-related loans amounted to RMB1.41 trillion, representing an increase of RMB149.676 billion; inclusive finance loans to micro and small enterprises (MSEs) amounted to RMB801.247 billion, up RMB148.062 billion; loans for targeted poverty alleviation stood at RMB100.521 billion, increasing by RMB18.065 billion; and green loans were RMB280.936 billion, growing by 30.20%. **Focusing on value creation, we saw steady expansion in size and improvement in quality and efficiency.** Last year, the Bank realized an operating income of RMB286.537 billion, a year-on-year increase of 3.40%, and a net profit of RMB64.318 billion, up 5.38% year on year. The Board of Directors suggested distributing cash dividends of RMB2.085 (before tax) per 10 ordinary shares to all shareholders. The net interest margin and net interest spread were 2.42% and 2.36% respectively, leading the industry. The intermediary business continued to develop, with year-on-year growth of 12.80%. We once again obtained the best credit rating among Chinese commercial banks granted by the world's top three rating agencies.

Only in hard times can courage and perseverance be manifested. Only after polishing can a piece of jade be finer. We owe every bit of achievements to the persistence and perseverance of every PSBC person and their inner drive for progress and growth.

Last year we continued to grow with our customers. Wherever you are, be it in bustling cities or remote villages, you can always find our dedicated employees. Our huge physical network used to be our strongest edge. Now, technologies have blurred the line between online and offline services and made financial services accessible to everyone. As at the end of the reporting period, we had 39,631 outlets and around 149,700 self-service machines, serving 622 million personal customers; our mobile banking app had 299 million users, and our assets under management (AUM) amounted to RMB11.25 trillion. The long-term trust of our customers, numbered in hundreds of millions, is the strong engine driving us forward.

Last year we ramped up efforts in innovation to boost growth. Experience is the best teacher in a defined set of circumstances, but in a fast-changing market, innovation is the only way to survive and thrive. In 2020, we accelerated digitalization on all fronts. We invested RMB9.027 billion in IT development, accounting for 3.15% of the operating income, and made substantial progress. We completed the 13th Five-Year Plan for

IT Application, built the enterprise-level information platform, and deeply applied IT to our business. We realized product agility and iteration, and sped up to build a digital scenario ecosystem and the “finance plus service” ecosystem. The Bank was approved to join the national e-CNY pilot program. We launched independent system R&D, and worked faster to develop convenient and diversified scenarios for the use of e-CNY. We were the first major state-owned bank to obtain the direct banking license, and launched PSBC online to build an innovation platform for financial services, which will serve rural revitalization and create a better and technology-empowered life.

Last year we continued to prioritize risk control. We inherit the operation philosophy of “working on the trivial work even others despise; working towards stability rather than big profit” from our predecessor Postal Savings and Remittance Bureau of about 100 years ago, and “inclusiveness” and “stability” have been written in our genes since then. Facing the daunting challenge of the epidemic, we accelerated to improve our comprehensive risk management system featuring “all aspects, whole process and entire staff”. As at the end of the reporting period, we registered an NPL ratio of 0.88%, far lower than the average of the industry, and recorded an allowance-to-NPLs ratio of 408.06%, twice the industry average. We issued RMB80 billion of perpetual bonds. At the beginning of 2021, we completed the non-public issuance of RMB30 billion A shares as scheduled, and issued RMB30 billion perpetual bonds, to continuously enhance our capital strength and risk resistance capability.

Last year we regarded employees as wealth as always. A country cannot sustain development without a host of talents, so does an industry. Talents are a core asset that cannot be reflected on the balance sheet of an enterprise. We regard employees as our most valuable asset, and closely follow the development strategy of the Bank to build a talent development system with PSBC characteristics. We refined the talent cultivation, incentive and constraint mechanism, improved the staff development path, and enhanced the enthusiasm, initiative and creativity of our team. We actively implemented the new development philosophy, refined the simple, fresh, transparent and positive corporate culture concept, and further concentrated the spiritual strength and cultural awareness of all employees, to provide strong support for our high-quality development.

We will remain true to our original aspiration in the fast-changing market.

Technology has profoundly affected the financial landscape, and the outbreak of COVID-19 has spurred the evolution of financial service models, but financial services are still meant to serve the real economy and PSBC remains true to the original aspiration of “serving both urban and rural areas and delivering services to the broad public”. Hence we developed the retail banking strategy in response to the call of the times. The development of retail banking aligns with national strategies, boosts social development, addresses people’s needs, and is a solid foundation for our high-quality development. The year 2021 marks the 100th anniversary of the founding of the CPC and the beginning of China’s new journey of the 14th Five-Year Plan, and rural revitalization and fintech development are bound to create abundant opportunities. We will follow the trend, make every effort to build an advanced and efficient financial service system and realize the transformation of PSBC.

We will vigorously support rural revitalization. To achieve national rejuvenation, the countryside must be revitalized. After claiming decisive victory in the critical battle against poverty, China will go all out to promote rural revitalization in all respects, which is a historic shift in the focus of the national strategy concerning Sannong. PSBC has always positioned itself as a financial service provider for Sannong and sought corporate development along the way. We have cultivated a huge service network, a loyal customer base, a professional team and a good brand image. Standing at a new starting point, **we will spare no effort to build a digital bank serving rural revitalization.** We will work to accelerate technology empowerment, actively build a digital Sannong finance framework covering channels, products, platforms, operation and risk control, and continuously improve the integrated online-offline service model. We will stimulate the data flow, turn credit into wealth and enhance the availability and sustainability of financial services. **We will strive to build an ecosystem for the coordinated development of Sannong.** Through openness and cooperation, we will seek extensive cooperation from the outside to build an ecosystem of financial services, services for producers and lifestyle services for Sannong. We will deliver financial services to both urban and rural residents, and share with them the development benifits.

We will combine finance and technology more tightly through innovation. Each year, we spend 3% of our operating income on IT development. Based on the platform architecture, smart insight, innovative development and efficient organization, we kicked off our 14th Five-Year Plan for IT Application by addressing enterprise-level demands and building the business architecture. We will advance the agile transformation on all fronts, and continue to sharpen our edge in open platform and distributed architecture technologies. An enterprise-level information system consisting of an agile front office, a strong middle office and a stable back office will be established. **Upholding the principle of openness, sharing and benefits for all, our direct bank PSBC online, with its distinctive characteristics,** will open up more space for serving Sannong, and serving micro and small enterprises. It will also offer more possibilities for building a business model with PSBC characteristics. Over the years, based on our expansive county-level network and dedicated rural service teams, we have produced fruitful outcomes in serving Sannong. Looking into the future, through in-depth integration of online and offline services, we will build an experimental field to explore new ways and technologies to deliver our financial services to more and more farmers and micro and small business owners. We will live up to the government recognition of our inclusive financial services over the years. Meanwhile, **we will seize the historic opportunity brought by the e-CNY pilot program** and make it another milestone in our journey of digital transformation. The Bank will build an application ecosystem with its own characteristics, which will blur the online and offline boundaries, and deliver inclusive finance services to basic lifestyle scenarios such as food, housing, traveling, tourism, entertainment, shopping, medical service, senior care and education. Relying on our county-level outlets, we will build a new urban community circle bonded by e-CNY, develop digital-currency demonstration towns for rural inclusive finance, and help open up new horizons for rural revitalization. We are confident that we can combine and use our expertise in finance and technology to help solve the financing problem facing micro and small enterprises, and unleash the economic potential across China.

Progress and victory are for dreamers who dare to reform and innovate. PSBC will follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, continue to work hard and seize every minute to create more glories. Together we make it better!

Message from the Senior Management

The year 2020 marks an unprecedented year in PSBC's history of reform and development. To respond to the sudden outbreak of COVID-19, guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we made solid efforts to ensure stability on six key fronts and maintain security in six key areas, and served the real economy and people's livelihood. Aiming to become a first-class modern retail bank, we adhered to high-quality development, and contributed to economic and social development by providing customers with excellent, convenient and efficient financial services, delivering a brilliant performance to the public and investors.

Last year, we made concerted efforts, took active measures to cope with the pandemic and made progress in operation and development steadily. To ease the impact of the pandemic, we established a mechanism for pandemic prevention and control without delay, and coordinated this task with the delivering of financial service. Since the outbreak of COVID-19, there has been no confirmed clustering cases in the Bank. At the same time, we took the initiative to extend special re-lending of RMB8.9 billion to fight against the pandemic, granted more than hundreds of billions of loans to enterprises fighting the virus and donated RMB30 million to Hubei Province. Through these efforts, we gave timely help to national pandemic prevention and control as well as resumption of work and production. We weathered through the difficulties, and improved our operating results stably. As at the end of the reporting period, our assets amounted to RMB11.35 trillion, up 11.12% over the prior year-end, ranking fifth among commercial banks in China. Among them, loans stood at RMB5.72 trillion, an increase of 14.92% over the prior year-end. Liabilities recorded RMB10.68 trillion, up 10.43% from the end of the previous year (wherein deposits were RMB10.36 trillion, an increase of 11.21% over the prior year-end). The loan-to-deposit ratio stood at 55.19%, an increase of 1.78 percentage points over the end of the previous year. Operating income registered RMB286,537 million, a year-on-year increase of 3.40%. Net profit recorded RMB64,318 million, a year-on-year increase of 5.38%, better than that of comparable peers. Among the three major international rating agencies, Fitch Ratings and Moody's rated us A+ and A1, consistent with China's sovereign ratings, and S&P rated us A, the best rating among major state-owned banks, showing that our comprehensive competitiveness was further recognized.

Last year, we earnestly implemented major national decisions and plans, and fulfilled our responsibilities as a major state-owned bank. We learned and conveyed the guiding principles of the CPC without delay, and implemented major national decisions and plans to fully serve national strategies. As at the end of the reporting period, newly granted agriculture-related loans stood at RMB149,676 million, making the balance of such loans amounting to RMB1.41 trillion, vigorously supporting rural revitalization. We recorded outstanding loans for targeted poverty alleviation of RMB100,521 million, an increase of RMB18,065 million over the end of the previous year. Besides, we promoted best-bet products such as "Easy Small and Micro Loan" and "Speedy Micro Loan" based on big data to improve our service capabilities of inclusive finance through online and offline collaboration. We recorded a balance of inclusive finance loans for small and micro businesses of RMB801,247 million, and the accounts with outstanding loans went up by 94,500 over the end of the previous year. We ranked top among comparable peers in terms of both the number of customers and the proportion of inclusive finance loans for small and micro businesses. We supported the development of private enterprises with the percentage of outstanding loans for private enterprises and newly granted loans in 2020 leading among the major state-owned banks. We also supported the high-quality development of manufacturing. Our balance of manufacturing loans grew by 14.43% over the end of last year. Moreover, we supported building of a green bank. As at the end of the reporting period, the balance of green loans stood at RMB280,936 million, up RMB65,158 million or 30.20% over the prior year-end, 9.9 percentage points higher than the average of the banking industry. Furthermore, we supported major strategies for regional development such as the coordinated development of Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze Economic Belt by extending more than RMB300 billion to these regions. We also improved our capabilities of cross-border financial service to better serve the Belt and Road Initiative. In this way, we further displayed our role in serving national strategies and economic and social development.

Last year, we consolidated the foundation, vigorously implemented strategies and further upgraded our retail strategy. Based on our natural endowment and the industry prospect, starting from customers, the financial ecosystem and channels, we accelerated transformation towards a new retail bank featuring data-driven development, channel coordination, interaction between wholesale and retail, and efficient operation. We tapped into customer value in an in-depth manner, and moved faster to build a development model characterized by "attracting users, retaining customers, and delivering more value". We served 622 million personal customers, including 36.415 million VIP customers, up 17.60% over the prior year-end. Assets under management (AUM) of retail customers amounted to RMB11.25 trillion, an increase of more than RMB1 trillion over the prior year-end. Moreover, we made full use of our advantages in differentiated positioning, achieved significant effect in building the ecosystem of "finance plus services" and improved the customer acquisition system of "outlets plus business circles". We launched version 6.0 of Mobile Banking, and fully leveraged platforms such as Customer Relationship Management System (CRM), data mart and Customer Manager Cloud Studio to enable offline marketing, improve the efficiency of offline marketing and provide online services with a human touch. We were the first major state-owned bank granted the qualifications for piloting direct banking, as we were approved to establish PSBC online, a subsidiary as a direct bank, which will be built into an innovative platform supporting rural revitalization through financial services and better life through technology to benefit more groups with achievements in financial technology.

Last year, we stayed mindful of the worst-case scenarios, made solid efforts to improve our capabilities of comprehensive risk management and maintained excellent asset quality. Facing the external environment full of uncertainties and instability, we upheld the philosophy of steady development as always, gave top priority to risk management and continued to build a comprehensive risk management system featuring "all aspects, whole process and entire staff". We had a big picture of asset risks, and launched the "Jinjing" system to carry out intelligent risk monitoring and early warning analysis. Moreover, we made the control of the three lines of defense more effective so that they could timely identify and dispose of risk hazards. Additionally, we vigorously implemented the advanced approaches for capital management, comprehensively optimized the internal rating system, accelerated the development of intelligent risk control capabilities, standardized the mechanisms for supervising internet loans and managing consolidated risks and made risk management more targeted and effective. As at the end of the reporting period, our NPL ratio was 0.88%. NPLs and special-mention loans accounted for 1.42%. The overdue ratio stood at 0.80%, down 0.23 percentage point over the prior year-end. Meanwhile, the allowance-to-NPLs ratio rose to 408.06%. The year 2020 marks the first complete operation year after we were listed in the A share market. We issued perpetual bonds of RMB80 billion, and completed the non-public issuance of ordinary A shares of RMB30 billion to China Post Group, further improving our risk resistance.

Last year, we forged ahead, vigorously promoted the development of financial technology and made breakthroughs in transformation and innovation. Following the philosophy of "unconventional development of financial technology", we invested RMB9,027 million in information technology in 2020, a year-on-year increase of 10.35%, and doubled the number of the Head Office's technology personnel. To conclude the 13th Five-year Plan for IT Application, we carried out 333 IT application projects, and accomplished the tasks under such plan. We promoted the development of the new-generation core system for personal banking with enterprise-level modeling and distributed architecture to support the strategy for a large retail bank. Moreover, we implemented a new round of five-year (2020-2024) plan for big data development with our big data platform connected to more than 100 important business systems. We also launched 183 data services that cater for individual needs on mobile banking, making our business development continuously enabled by data. Furthermore, we deepened application of key technologies such as artificial intelligence, blockchain, Internet of Things and cloud computing in business fields, steadily improving our capabilities of innovation in financial technology. Against such a backdrop, we were approved to participate in the national e-CNY pilot program to build convenient and diversified scenarios for e-CNY application.

Last year, we fostered soft power, further integrated the philosophy of value creation into culture and formed a system, significantly improving our management capabilities. Adhering to the strategy for building a strong bank through talent, we developed a talent pool of the Pilot Project as scheduled, and built a three-tier management talent pool to prepare for transformation and development. We also improved the mechanisms for talent cultivation and incentives and constraints, optimized the channels for personnel development and stimulated enthusiasm, initiative and creativity of teams. Besides, we actively coped with market changes, and improved resource allocation efficiency by reducing assets with low efficiency, increasing the loan-to-deposit ratio and the percentage of credit assets and stabilizing the percentage of retail loans. We established a mechanism for allocating on/off-balance-sheet asset portfolios based on RAROC, strengthened rigid capital constraint, continuously improved the refined capital management, and effectively controlled capital occupation businesses with low efficiency. Additionally, we vigorously controlled costs, refined control objectives and imposed rigid restrictions with benchmarks set, striving to gain more benefits from every unit of inputs. We remained a leader in terms of NIS and NIM, and significantly improved our management capabilities.

Success only favors those who boldly forge ahead. The year 2021 is the opening year for the 14th Five-year Plan period as well as a crucial year for China's modernization. Guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will focus on high-quality development, strive to deepen reform and innovation and vigorously promote transformation into "unique, comprehensive, light, digital and intensive" development to make fresh progress in building a world-class modern retail bank and make more contributions to China's economic and social development.

Chen Yuejun
Chairman of the
Board of Supervisors

Discussion and Analysis

Environment and Prospect

In 2021, PSBC will adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the guiding principles of the Fifth Plenary Session of the 19th CPC Central Committee to thoroughly implement the new development philosophy. We will adhere to the strategic vision of building a first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value. We will stick to the business strategy of taking retail as the mainstay supported by wholesale. With those in mind, we will work faster to advance the reforms in key areas and strive to create a new pattern for high-quality development.

In 2020, the epidemic has plunged the world economy into a deep recession, which triggered a sharp decline in trade and investments. The financial market has gradually stabilized after drastic fluctuations, and the debt level of the non-financial sector has increased significantly. Countries generally intensified counter-cyclical regulation policies, with monetary policy remaining accommodative. The assets of banks expanded. However, as interest margins narrowed, profits shrank and asset quality deteriorated.

Facing the severe and complex international landscape and the serious impact from the epidemic outbreak, China became the only major economy to achieve positive economic growth due to the major strategic achievements in the coordination of promoting the epidemic prevention and control as well as economic and social development. The Three Critical Battles have made decisive achievements, with the economy gradually returning to normality. As a result, we have successfully accomplished the 13th Five-Year Plan. The positive fiscal policy continued to play its due role. The prudent monetary policy embodies foresight, accuracy and timeliness. The transmission efficiency of monetary policy has improved, lending rates have dropped, the two-way floating elasticity of RMB exchange rate has enhanced, and the financial risks have been effectively prevented and controlled. The banking industry in China vigorously supported the epidemic prevention and control and the resumption of work and production, increased financial support to the real economy, and resolutely implemented the policy of fee reduction and interest concessions, and increased provisions to cope with the mounting pressure from adverse risks in advance, rendering a stable operation on the whole.

Looking forward to 2021, there are many uncertainties in the epidemic changes and the international climate, and the world economy faces complicated and severe situations. The foundation of China's economic recovery remains unsolid, and the recovery is unstable and unbalanced. The vigilance shall be laid on various derivative risks due to the impact of the epidemic, and the banking industry is still facing greater challenges in risk prevention and control. In the first year of the 14th Five-Year Plan period, China will consolidate the achievements made in epidemic prevention and control and in economic and social development, maintain the continuity, stability and sustainability of macro policies. China will endeavor to ensure stability on six key fronts and maintain security in six key areas to accelerate the establishment of a new development pattern featuring a strong domestic market and positive interplay between domestic circulation and international circulation, and achieve a higher-level dynamic balance in which demand leads supply and supply creates demand. The banking industry shall grasp new development opportunities, speed up establishing systems and mechanisms that effectively serve the real economy, enhance technology empowerment, innovate business modes and continuously improve its capabilities for serving the real economy. It shall defuse existing risks and prevent incremental risks, replenish capital through multiple channels, and fully support the establishment of a new development framework.

In 2021, PSBC will adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the guiding principles of the Fifth Plenary Session of the 19th CPC Central Committee to thoroughly implement the new development philosophy. We will adhere to the strategic vision of building a first-tier large retail bank which is trustworthy, distinctive, prudent, safe, innovative, and with remarkable value. We will stick to the business strategy of taking retail as the mainstay supported by wholesale. With those in mind, we will work faster to advance the reforms in key areas and strive to create a new pattern for high-quality development.

Firstly, we will unswervingly serve the real economy.

We will keep providing greater support for major strategies, major programs and key projects of the country, with the focus on investing more funds in manufacturing, high-tech industries and other fields, in a bid to push ahead with the structural transformation and upgrading of the economy. Remaining committed to serving Sannong customers, urban and rural residents, and small and medium-sized enterprises, we will boost rural revitalization, facilitate rural and urban residents' pursuit of a better life, and support the development of micro and small enterprises and private businesses. We will deepen the building of the retail, corporate and inter-industry ecosystems, enhance our two core capabilities for customer management and risk control, and offer better services to promote the development of the real economy.

Secondly, we will spare no effort to promote our transformation towards "uniqueness, comprehensiveness, lightness, digitalization and intensiveness".

For uniqueness, we will actively promote the digital transformation of Sannong finance, speed up the building of an ecosystem for financial services to micro and small enterprises, and fully tap into the potential of the "self-operated plus agency" model. For comprehensiveness, we will strengthen the business collaboration, the coordination with China Post Group, and the specialized and unique operation of our subsidiaries. For lightness, we will deepen the application of economic capital tools in operation and management, vigorously develop intermediary businesses, and accelerate the smart outlet transformation. For digitalization, we will keep advancing the building of projects such as the six data marts, the blockchain platform and the PSBC Brain, and create benchmark scenarios like "smart agriculture", "smart medical care", "smart campus" as well as smart houses and vehicles. For the intensiveness of internal management and operation platforms, we will improve the allocation efficiency of financial, human and IT resources.

Thirdly, we will keep improving our self-research and development abilities in information technology.

We will continue to introduce more professionals, to increase training on IT knowledge, to refine the performance and incentive mechanisms, and to strengthen the building of scientific and technological talent teams. We will intensify source data governance, improve the quality of data assets, enhance data empowerment and extend our data services to front-end application scenarios. We will focus on the establishment of a new-generation personal business core system for the earlier launch of key projects, for the further integration of business and technology, and continuously optimize the agile delivery process for better independent R&D capabilities.

Fourthly, we will build a line of defense for internal risk control.

We will promote the in-depth and orderly implementation of the advanced capital management measures, strengthen the capacity building over intelligent risk control for the entire bank, strengthen the risk management and control of consolidated subsidiaries, and upgrade the overall risk management system. We will follow the overall requirements of “clear division of responsibilities, thorough understanding of circumstances, early detection of risks, quick actions, rich ideas, and strict evaluation” to enhance risk screening and asset quality control in key areas. We will do a good job in consumer right protection, intensify anti-money laundering management, further internal control and compliance management, consolidate the “three defense lines” of business management, risk compliance, and internal audit and supervision, and firmly guard the bottom line of risks.

Unwaveringly serve the real economy

Pushing forward “Five-transformation”

Keep improving our self-research and development abilities in information technology

Build a line of defense for internal risk control

Analysis of Financial Statements

In 2020, amidst a complex business environment, the Bank reinforced the strategy-leading philosophy by coordinating efforts in epidemic prevention and control as well as reform and development, fully developed various businesses and achieved sound operating results, which are mainly manifested in:

The Bank achieved steady improvement in profitability. During the reporting period, the Bank recorded a net profit of RMB64,318 million, representing a year-on-year increase of 5.38%. The operating income amounted to RMB286,537 million, representing a year-on-year increase of 3.40%, among which: the net interest income was RMB253,378 million, representing a year-on-year increase of 4.41%; and the net fee and commission income was RMB16,495 million, representing a year-on-year increase of 12.80%.

The Bank achieved stable growth in the scale of assets and liabilities. As of the end of the reporting period, the Bank's total assets amounted to RMB11,353,263 million, representing an increase of 11.12% compared with the prior year-end, of which total loans to customers amounted to RMB5,716,258 million, representing an increase of 14.92% compared with the prior year-end; total liabilities amounted to RMB10,680,333 million, representing an increase of 10.43% compared with the prior year-end; of which total customer deposits amounted to RMB10,358,029 million, representing an increase of 11.21% compared with the prior year-end.

The Bank maintained good quality of assets in a stable way. As of the end of the reporting period, the Bank recorded a non-performing loans ratio of 0.88%, representing an increase of 0.02 percentage point compared with the prior year-end; an allowance to NPLs ratio of 408.06%, representing an increase of 18.61 percentage points compared with the prior year-end; an allowance to loans ratio of 3.60%, representing an increase of 0.25 percentage point compared with the prior year-end.

Analysis of Income Statement

During the reporting period, the Bank's net profit amounted to RMB64,318 million, representing an increase of RMB3,282 million, or 5.38% compared with the prior year.

Changes of Principal Components in the Income Statement

In millions of RMB, except for percentages

Item	2020	2019	Increase/ (decrease)	Change (%)
Net interest income[1]	**253,378**	242,686	10,692	4.41
Net fee and commission income[1]	**16,495**	14,623	1,872	12.80
Net other non-interest income	**16,664**	19,807	(3,143)	(15.87)
Operating income	**286,537**	277,116	9,421	3.40
Less: Operating expenses	**167,984**	157,976	10,008	6.34
Credit impairment losses	**50,398**	55,384	(4,986)	(9.00)
Impairment losses on other assets	**19**	11	8	72.73
Profit before income tax	**68,136**	63,745	4,391	6.89
Less: Income tax expenses	**3,818**	2,709	1,109	40.94
Net profit	**64,318**	61,036	3,282	5.38
Attributable to shareholders of the Bank	**64,199**	60,933	3,266	5.36
Attributable to non-controlling interests	**119**	103	16	15.53
Other comprehensive income	**406**	(1,274)	1,680	–
Total comprehensive income	**64,724**	59,762	4,962	8.30

Note (1): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2019 have been restated.

Net Interest Income

During the reporting period, the Bank took the initiative to optimize and adjust the asset-liability structure, increase the proportion of high-yield assets, and strengthen the management and control of long-term deposits with high cost. By these efforts, the Bank realized a net interest income of RMB253,378 million, representing an increase of RMB10,692 million, or 4.41% compared with the prior year, of which an increase in net interest income of RMB27,504 million was driven by the increase in scale, and a decrease in net interest income of RMB16,812 million was brought by the changes in interest rates. Net interest margin and net interest spread were 2.42% and 2.36%, respectively, representing a decrease of 11 basis points and 12 basis points respectively over the prior year.

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

In millions of RMB, except for percentages

Item	2020			2019		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Total loans to customers(1)	**5,411,670**	**256,955**	**4.75**	4,655,906	227,324	4.88
Investments(2)	**3,479,598**	**126,233**	**3.63**	3,318,424	126,293	3.81
Deposits with central bank(3)	**1,086,652**	**17,655**	**1.62**	1,106,858	17,784	1.61
Deposits and placements with banks and other financial institutions(4)	**498,650**	**15,409**	**3.09**	523,770	19,299	3.68
Total interest-earning assets	**10,476,570**	**416,252**	**3.97**	9,604,958	390,700	4.07
Allowance for impairment losses on assets	**(208,355)**	**–**	**–**	(165,074)	–	–
Non-interest-earning assets(5)	**697,670**	**–**	**–**	690,696	–	–
Total assets	**10,965,885**	**–**	**–**	10,130,580	–	–
Liabilities						
Customer deposits	**9,743,427**	**154,793**	**1.59**	9,001,335	139,918	1.55
Deposits and placements from banks and other financial institutions(6)	**251,976**	**4,425**	**1.76**	207,514	4,637	2.23
Debt securities issued(7)	**99,409**	**3,417**	**3.44**	90,302	3,459	3.83
Borrowings from central bank	**13,860**	**239**	**1.72**	–	–	–
Total interest-bearing liabilities	**10,108,672**	**162,874**	**1.61**	9,299,151	148,014	1.59
Non-interest-bearing liabilities(8)	**211,347**	**–**	**–**	156,558	–	–
Total liabilities	**10,320,019**	**–**	**–**	9,455,709	–	–
Net interest income	**–**	**253,378**	**–**	–	242,686	–
Net interest spread(9)	**–**	**–**	**2.36**	–	–	2.48
Net interest margin(10)	**–**	**–**	**2.42**	–	–	2.53

Note (1): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2019 have been restated.

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

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

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

Note (5): Consists of financial assets at fair value through profit or loss, cash, property and equipment, derivative financial assets, deferred tax assets and other assets.

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

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

Note (8): Consists of financial liabilities at fair value through profit or loss, derivative financial liabilities, employee benefits payable, liabilities for agency services, tax payable and other liabilities.

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

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

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

In millions of RMB

	2020 vs 2019		
	Increase/(decrease)		
Item	**Volume[2]**	**Interest rate[3]**	**Total[4]**
Assets			
Total loans to customers[1]	35,885	(6,254)	29,631
Investments	5,847	(5,907)	(60)
Deposits with central bank	(328)	199	(129)
Deposits and placements with banks and other financial institutions	(776)	(3,114)	(3,890)
Total changes in interest income	40,628	(15,076)	25,552
Liabilities			
Customer deposits	11,790	3,085	14,875
Deposits and placements from banks and other financial institutions	782	(994)	(212)
Debt securities issued	313	(355)	(42)
Borrowings from central bank	239	–	239
Total changes in interest expense	13,124	1,736	14,860
Changes in net interest income	27,504	(16,812)	10,692

Note (1): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2019 have been restated.

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

Note (3): Represents the difference between the average yield/cost for the period and the average yield/cost for the previous period, multiplied by the average balance for the previous period.

Note (4): Represents the difference between the interest income/expense for the period and the interest income/expense for the previous period.

Interest Income

During the reporting period, the Bank's interest income amounted to RMB416,252 million, representing an increase of RMB25,552 million, or 6.54% compared with the prior year, primarily due to the growth in the scale of interest-earning assets, the optimization and adjustment of asset structure and the increase in the proportion of high-yield interest-earning assets.

Interest Income from Loans to Customers

During the reporting period, the Bank's interest income from loans to customers amounted to RMB256,955 million, representing an increase of RMB29,631 million, or 13.03% compared with the prior year.

Specifically, the Bank's interest income from corporate loans amounted to RMB78,584 million, representing an increase of RMB5,919 million, or 8.15% compared with the prior year, primarily because the Bank focused on the national and regional strategic layout, served key areas of the real economy, substantially promoted the inclusive finance business development, stepped up support for green credit, and strived hard to provide better anti-epidemic financial services. As a result, the average balance of corporate loans maintained relatively rapid growth.

Interest income from personal loans amounted to RMB165,577 million, representing an increase of RMB25,865 million, or 18.51% compared with the prior year, primarily because the Bank captured the new opportunities arising from the transformation and upgrading of household consumption after the resumption of operation and production, continuously enriched product varieties, promoted the digital, intelligent, and scenario-based transformation of retail credit business, realized the online and offline integration development, and improved customer experience. As a result, the average balance of personal loans increased rapidly.

Analysis on Average Yield of Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	2020			2019		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	**1,909,038**	**78,584**	**4.12**	1,671,447	72,665	4.35
Discounted bills	**489,965**	**12,794**	**2.61**	458,181	14,947	3.26
Personal loans	**3,012,667**	**165,577**	**5.50**	2,526,278	139,712	5.53
Total loans to customers	**5,411,670**	**256,955**	**4.75**	4,655,906	227,324	4.88

Analysis on Average Yield of Loans to Customers by Maturity Structure

In millions of RMB, except for percentages

Item	2020			2019		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Short-term loans	**2,106,473**	**88,528**	**4.20**	1,795,307	82,462	4.59
Medium- and long-term loans	**3,305,197**	**168,427**	**5.10**	2,860,599	144,862	5.06
Total loans to customers	**5,411,670**	**256,955**	**4.75**	4,655,906	227,324	4.88

Interest Income from Investment

During the reporting period, the Bank's interest income from investment amounted to RMB126,233 million, representing a decrease of RMB60 million or 0.05% compared with the prior year, primarily due to a decrease in the average yield of financial investments driven by the declining market interest rates.

Interest Income from Deposits with Central Bank

During the reporting period, the Bank's interest income from deposits with central bank amounted to RMB17,655 million, representing a decrease of RMB129 million, or 0.73% compared with the prior year, primarily due to a decrease in the average balance of deposits with central bank driven by the cut to the reserve requirement ratio by the central bank.

Interest Income from Amounts due from Banks and Other Financial Institutions

During the reporting period, the Bank's interest income from amounts due from banks and other financial institutions amounted to RMB15,409 million, representing a decrease of RMB3,890 million, or 20.16% compared with the prior year. It was primarily due to the the optimization of asset structure, active reduction in the scale of low-yield assets, as well as the decrease in the average yield driven by the declining market interest rates.

Interest Expense

During the reporting period, the Bank's interest expense amounted to RMB162,874 million, representing an increase of RMB14,860 million, or 10.04% compared with the prior year, primarily due to the increase of interest expense on customer deposits.

Interest Expense on Customer Deposits

During the reporting period, the Bank's interest expense on customer deposits amounted to RMB154,793 million, accounting for 95.04% of total interest expense and representing an increase of RMB14,875 million, or 10.63% compared with the prior year, primarily due to the growth in the scale of deposits and an increase in average cost.

Analysis on Average Cost of Customer Deposits by Product Type

In millions of RMB, except for percentages

Item	2020			2019		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Time	374,730	9,177	2.45	376,395	8,529	2.27
Demand	843,387	5,797	0.69	803,581	5,774	0.72
Subtotal	1,218,117	14,974	1.23	1,179,976	14,303	1.21
Personal deposits						
Time	5,849,364	131,551	2.25	5,278,666	117,780	2.23
Demand	2,675,946	8,268	0.31	2,542,693	7,835	0.31
Subtotal	8,525,310	139,819	1.64	7,821,359	125,615	1.61
Total customer deposits	9,743,427	154,793	1.59	9,001,335	139,918	1.55

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

During the reporting period, the Bank's interest expense on deposits and placements with banks and other financial institutions amounted to RMB4,425 million, representing a decrease of RMB212 million, or 4.57% compared with the prior year, mainly due to a decrease in the average cost driven by the dropping market interest rates.

Interest Expense on Debt Securities Issued

During the reporting period, the Bank's interest expense on debt securities issued amounted to RMB3,417 million, representing a decrease of RMB42 million, or 1.21% compared with the prior year, primarily due to the partial redemption of tier 2 capital bonds issued earlier and a decrease in the average cost of interbank certificates of deposits.

Net Fee and Commission Income

During the reporting period, the net fee and commission income of the Bank amounted to RMB16,495 million, representing an increase of RMB1,872 million, or 12.80% compared with the prior year. In particular, fee and commission income amounted to RMB32,746 million, representing an increase of RMB3,233 million, or 10.95% compared with the prior year. Fee and commission expense amounted to RMB16,251 million, representing an increase of RMB1,361 million, or 9.14% compared with the prior year.

Bank cards and POS fee income amounted to RMB11,516 million, representing a decrease of RMB694 million, or 5.68% compared with the prior year, mainly because of the implementation of the state's policy on the fee reduction and interest concession, as well as a decrease in business income such as interbank and POS resulted from the development in new payment methods such as electronic channels. Settlement and clearing fee income amounted to RMB8,281 million, representing an increase of RMB758 million, or 10.08% compared with the prior year, primarily due to enhanced cooperation with external institutions, promotion of transforming from acquiring customers from outlets to acquiring customers from scenarios, continuous optimization of customer card-binding experience and a steady growth in the income of electronic payment business. Agency service fee income amounted to RMB7,108 million, representing an increase of RMB2,552 million, or 56.01% compared with the prior year. It was mainly because the Bank improved the diversified product system, integrated the online and offline scenario marketing mode, and strived to improve the capability of serving customers, resulting in rapid growth in the income of agency businesses such as bancassurance, agency fund products and precious metals. Wealth management fee income amounted to RMB4,198 million, representing an increase of RMB248 million or 6.28% compared with the prior year, primarily due to the continuous improvement in investment and research capabilities, enrichment of diversified product categories, and enhancement in the scale of wealth management business, resulting in a steady growth in the wealth management business income. Custody business fee income amounted to RMB887 million, representing an increase of RMB107 million, or 13.72% compared with the prior year. It was mainly because the Bank seized market opportunities, strengthened its ability in expanding the customer base and spent a great deal of effort on key custody businesses including mutual funds and insurance assets, resulting in a significant expansion in the scale of custody business. Fee and commission expense amounted to RMB16,251 million, representing an increase of RMB1,361 million, or 9.14% compared with the prior year, primarily due to an increase in the commission expense led by the increased scale of financial products sold by agency outlets.

Components of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2020	2019	Increase/ (decrease)	Change (%)
Bank cards and POS[1]	**11,516**	12,210	(694)	(5.68)
Settlement and clearing	**8,281**	7,523	758	10.08
Agency business	**7,108**	4,556	2,552	56.01
Wealth management business	**4,198**	3,950	248	6.28
Custody business	**887**	780	107	13.72
Others	**756**	494	262	53.04
Fee and commission income	**32,746**	29,513	3,233	10.95
Less: Fee and commission expense	**16,251**	14,890	1,361	9.14
Net fee and commission income	**16,495**	14,623	1,872	12.80

Note (1): The Bank has reclassified the installment fee income of credit card from fee and commission income to interest income since 2020, and the relevant indicators of 2019 have been restated.

Net Other Non-Interest Income

During the reporting period, the Bank's net other non-interest income amounted to RMB16,664 million, representing a decrease of RMB3,143 million, or 15.87% compared with the prior year.

Net trading gains amounted to RMB3,259 million, representing a decrease of RMB488 million, or 13.02% compared with the prior year, primarily because the Bank actively adjusted investment structure, took the initiative to reduce the scale of assets with the low return such as interbank certificates of deposit, and the decrease in the fair value changes through profit or loss for debt securities.

Net gains on investment securities amounted to RMB15,921 million, representing an increase of RMB3,465 million, or 27.82% compared with the prior year. It was mainly because the Bank strengthened its post-investment management of financial investments, and the increase in the recoverable amount of investment in trust investment plans resulted in the income from changes in fair value.

Net gains or losses from other businesses amounted to minus RMB2,517 million, representing a decrease of RMB6,001 million, or 172.24% compared with the prior year, primarily due to the significant appreciation of the exchange rate of RMB against the US dollar.

Components of Net Other Non-Interest Income

In millions of RMB, except for percentages

Item	2020	2019	Increase/ (decrease)	Change (%)
Net trading gains	**3,259**	3,747	(488)	(13.02)
Net gains on securities investment	**15,921**	12,456	3,465	27.82
Net gains and losses on derecognition of financial assets at amortized cost	**1**	120	(119)	(99.17)
Net other operating gains and losses	**(2,517)**	3,484	(6,001)	(172.24)
Total	**16,664**	19,807	(3,143)	(15.87)

Operating Expenses

During the reporting period, the Bank continued to strengthen the refined management of costs, improved the cost benchmark system and optimized the cost structure. Operating expenses amounted to RMB167,984 million, representing an increase of RMB10,008 million, or 6.34% compared with the prior year. Among that, deposit agency fees and others amounted to RMB82,313 million, representing an increase of RMB6,160 million, or 8.09% compared with the prior year, primarily due to the increase in the scale of personal customer deposits taken by agency outlets. Operating expenses other than deposit agency fee and others amounted to RMB85,671 million, representing an increase of RMB3,848 million, or 4.70% compared with the prior year. It was mainly because the Bank sped up the establishment of a market-oriented salary distribution mechanism so as to strengthen the staffing of key areas, resulting in a slight increase in labor cost. In addition, the Bank deepened financial technology enhancement, continued to put more effort into product innovation and information technology and enhanced the operational management capability, laying a good foundation for achieving high-quality development.

Major Components of Operating Expenses

In millions of RMB, except for percentages

Item	2020	2019	Increase/ (decrease)	Change (%)
Deposit agency fee and others	**82,313**	76,153	6,160	8.09
Staff costs	**51,355**	50,039	1,316	2.63
Depreciation and amortization	**8,078**	7,225	853	11.81
Taxes and surcharges	**2,187**	1,996	191	9.57
Others	**24,051**	22,563	1,488	6.59
Total operating expenses	**167,984**	157,976	10,008	6.34
Cost to income ratio (%)[1]	**57.86**	56.29	1.57	–

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

Credit Impairment Losses

During the reporting period, the Bank's credit impairment losses amounted to RMB50,398 million, representing a decrease of RMB4,986 million, or 9.00% compared with the prior year. Among them, impairment losses on loans to customers amounted to RMB52,377 million, representing an increase of RMB4,943 million, or 10.42% compared with the prior year. It was primarily due to the growth in the loan scale and the Bank's adherence to a prudent risk management policy. The Bank enhanced the overall forward-looking provision for risks in accordance with the trend of the macro-economy and the change of the financial market so as to strengthen its risk offset capability.

Income Tax Expense

During the reporting period, the Bank's income tax expenses amounted to RMB3,818 million, representing an increase of RMB1,109 million, or 40.94% compared with the prior year, primarily due to the growth in the profit before income tax and the impact of tax factors.

Segment Information

Operating Income by Business Segment

In millions of RMB, except for percentages

	2020		2019	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Personal banking	**198,127**	**69.15**	176,636	63.74
Corporate banking	**55,899**	**19.51**	59,816	21.58
Treasury business	**32,103**	**11.20**	40,253	14.53
Others	**408**	**0.14**	411	0.15
Total operating income	**286,537**	**100.00**	277,116	100.00

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

Operating Income by Geographical Region

In millions of RMB, except for percentages

Item	2020 Amount	2020 Percentage (%)	2019 Amount	2019 Percentage (%)
Head Office	**19,636**	**6.85**	38,789	14.01
Yangtze River Delta	**41,636**	**14.53**	34,936	12.61
Pearl River Delta	**35,532**	**12.40**	32,345	11.67
Bohai Rim	**40,770**	**14.23**	35,417	12.78
Central China	**75,646**	**26.41**	68,683	24.78
Western China	**55,252**	**19.28**	50,059	18.06
Northeastern China	**18,065**	**6.30**	16,887	6.09
Total operating income	**286,537**	**100.00**	277,116	100.00

For further details of business scope of each geographical region, please refer to "Notes to the Consolidated Financial Statements – 42.2 Geographical segment".

Balance Sheet Analysis

Assets

As of the end of the reporting period, the Bank's total assets amounted to RMB11,353,263 million, representing an increase of RMB1,136,557 million, or 11.12% compared with the prior year-end. In particular, total loans to customers increased by RMB742,072 million, or 14.92% compared with the prior year-end; financial investments increased by RMB239,620 million, or 6.52% compared with the prior year-end; cash and deposits with central bank increased by RMB65,019 million, or 5.63% compared with the prior year-end.

In terms of the structure, net loans to customers accounted for 48.55% of total assets, representing an increase of 1.49 percentage points compared with the prior year-end; financial investments accounted for 34.48% of total assets, representing a decrease of 1.49 percentage points compared with the prior year-end; cash and deposits with central bank accounted for 10.74% of total assets, representing a decrease of 0.56 percentage point compared with the prior year-end; and total deposits and placements with banks and other financial institutions and financial assets held under resale agreements accounted for 4.86% of total assets, representing an increase of 0.50 percentage point compared with the prior year-end.

Key Items of Assets

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Total loans to customers	**5,716,258**	**–**	4,974,186	–
Less: Allowance for impairment losses on loans[(1)]	**203,897**	**–**	166,124	–
Loans to customers, net	**5,512,361**	**48.55**	4,808,062	47.06
Financial investments	**3,914,650**	**34.48**	3,675,030	35.97
Cash and deposits with central bank	**1,219,862**	**10.74**	1,154,843	11.30
Deposits with banks and other financial institutions	**43,682**	**0.38**	28,373	0.28
Placements with banks and other financial institutions	**248,396**	**2.19**	269,597	2.64
Financial assets held under resale agreements	**259,956**	**2.29**	147,394	1.44
Other assets[(2)]	**154,356**	**1.37**	133,407	1.31
Total assets	**11,353,263**	**100.00**	10,216,706	100.00

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

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

Loans to Customers

As of the end of the reporting period, the Bank's total loans to customers amounted to RMB5,716,258 million, representing an increase of RMB742,072 million, or 14.92% compared with the prior year-end.

Corporate loans amounted to RMB1,977,785 million, representing an increase of RMB237,221 million, or 13.63% compared with the prior year-end, primarily because the Bank focused on serving the national and regional strategic layout, strongly supported the implementation of major livelihood projects, actively provided better anti-epidemic financial services for enterprises related to epidemic prevention and control, deepened the development of key customer groups and continuously improved its product innovation and customer service capabilities. As a result, corporate loans and small business loans achieved steady growth in scale.

Discounted bills amounted to RMB484,580 million, representing an increase of RMB1,746 million, or 0.36% compared with the prior year-end, primarily because the Bank met its customers' need for short-term capital flow as an effort to support the development of the real economy.

Personal loans amounted to RMB3,253,893 million, representing an increase of RMB503,105 million, or 18.29% compared with the prior year-end, primarily due to the increase in consumer loans and micro loans.

Loans to Customers by Business Line

In millions of RMB, except for percentages

Item	December 31, 2020		December 31, 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans	**1,977,785**	**34.60**	1,740,564	34.99
Discounted bills	**484,580**	**8.48**	482,834	9.71
Personal loans	**3,253,893**	**56.92**	2,750,788	55.30
Total loans to customers	**5,716,258**	**100.00**	4,974,186	100.00

Loans to Customers by Maturity

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Short-term loans	**2,170,286**	**37.97**	1,904,278	38.28
Medium and long-term loans	**3,545,972**	**62.03**	3,069,908	61.72
Total loans to customers	**5,716,258**	**100.00**	4,974,186	100.00

Loans to Customers by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Head Office	**318,627**	**5.57**	294,229	5.91
Yangtze River Delta	**1,157,455**	**20.25**	979,711	19.69
Pearl River Delta	**668,372**	**11.69**	570,988	11.48
Bohai Rim	**869,133**	**15.20**	759,469	15.27
Central China	**1,406,061**	**24.60**	1,216,003	24.45
Western China	**979,625**	**17.14**	851,016	17.11
Northeastern China	**316,985**	**5.55**	302,770	6.09
Total loans to customers	**5,716,258**	**100.00**	4,974,186	100.00

Corporate Loans

As of the end of the reporting period, the top five industries to which the Bank granted corporate loans were transportation, storage and postal services; manufacturing; production and supply of electricity, heating, gas and water; financial services; and wholesale and retail. The balance of loans extended to the top five industries in aggregate accounted for 72.84% of total corporate loans, representing a decrease of 0.65 percentage point compared with the prior year-end.

Corporate Loans by Industry

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Transportation, storage and postal services	**611,929**	**30.94**	508,233	29.20
Manufacturing	**312,480**	**15.80**	273,074	15.69
Production and supply of electricity, heating, gas and water	**204,923**	**10.36**	187,145	10.75
Financial services	**193,861**	**9.80**	206,322	11.85
Wholesale and retail	**117,424**	**5.94**	104,441	6.00
Construction	**110,440**	**5.58**	103,094	5.92
Leasing and commercial services	**110,249**	**5.57**	99,571	5.72
Water conservancy, environmental and public facilities management	**96,018**	**4.86**	71,449	4.10
Real estate	**93,607**	**4.73**	70,158	4.03
Mining	**69,268**	**3.50**	58,479	3.36
Other industries(1)	**57,586**	**2.92**	58,598	3.38
Total corporate loans	**1,977,785**	**100.00**	1,740,564	100.00

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

Personal Loans

As of the end of the reporting period, the Bank's total personal loans amounted to RMB3,253,893 million, representing an increase of RMB503,105 million, or 18.29% compared with the prior year-end.

Residential mortgage loans amounted to RMB1,921,055 million, representing an increase of RMB221,006 million, or 13.00% compared with the prior year-end, primarily because the Bank actively implemented the national macro-control policies on real estate, focused on supporting residents' demand for self-occupied housing, and achieved steady growth in its residential mortgage loan business.

Personal micro loans amounted to RMB746,252 million, representing an increase of RMB136,051 million, or 22.30% compared with the prior year-end, mainly due to the Bank's strong support for the production of owners of micro and small enterprises, individual business owners and traditional farmers, the increasing support for rural revitalization, targeted poverty alleviation and other key areas, the transformation and upgrading of micro loan development model through technology empowerment, the increasingly mature online and offline organic integration development model, and the rapid development of micro loan business.

Credit card overdrafts and other loans amounted to RMB144,641 million, representing an increase of RMB21,453 million, or 17.41% compared with the prior year-end, primarily because the Bank continuously optimized customer acquisition channels, strengthened the building and management of sales team and reinforced product innovation and promotion. As a result, the credit card business achieved steady growth in scale.

Personal Loans by Product Type

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Consumer loans	**2,363,000**	**72.62**	2,017,399	73.34
Residential mortgage loans	**1,921,055**	**59.04**	1,700,049	61.80
Other consumer loans	**441,945**	**13.58**	317,350	11.54
Personal micro loans	**746,252**	**22.93**	610,201	22.18
Credit card overdrafts and others	**144,641**	**4.45**	123,188	4.48
Total personal loans	**3,253,893**	**100.00**	2,750,788	100.00

Financial Investments

Financial investments are the major components of the Bank's assets. In 2020, the Bank accurately evaluated and judged the market situation, made investment according to a rational schedule, captured and allocated high-quality assets, and optimized the investment structure. As of the end of the reporting period, the Bank's financial investments amounted to RMB3,914,650 million, representing an increase of RMB239,620 million, or 6.52% compared with the prior year-end, primarily due to increased investments in businesses such as securities investment funds with tax benefits and light-capital-consumption as well as high-yield trust investment plans.

Financial Investments by Product

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Debt securities	**3,163,156**	**80.80**	3,145,660	85.59
Interbank certificates of deposits	**233,609**	**5.97**	263,953	7.18
Financial institution wealth management products	**493**	**0.01**	0	–
Asset management plans	**72,826**	**1.86**	48,011	1.31
Trust investment plans	**196,980**	**5.03**	98,395	2.68
Securities investment funds	**235,674**	**6.02**	114,882	3.13
Other	**11,912**	**0.31**	4,129	0.11
Total financial investments	**3,914,650**	**100.00**	3,675,030	100.00

Financial Investment Structure by Type of Investment Instruments

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Debt instruments	**3,907,797**	**99.82**	3,672,236	99.92
Equity instruments	**6,853**	**0.18**	2,794	0.08
Total financial investments	**3,914,650**	**100.00**	3,675,030	100.00

In terms of measurement approach, as of the end of the reporting period, the Bank's financial assets at fair value through profit or loss amounted to RMB419,281 million, representing an increase of RMB109,120 million, or 35.18% compared with the prior year-end; and financial assets at fair value through other comprehensive income amounted to RMB321,726 million, representing an increase of RMB92,001 million, or 40.05% compared with the prior year-end. Financial assets at amortized cost amounted to RMB3,173,643 million, representing an increase of RMB38,499 million, or 1.23% compared with the prior year-end.

Financial investments by Measurement Approach

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Financial assets at fair value through profit or loss	**419,281**	**10.71**	310,161	8.44
Financial assets at fair value through other comprehensive income	**321,726**	**8.22**	229,725	6.25
Financial assets at amortized cost	**3,173,643**	**81.07**	3,135,144	85.31
Total financial investments	**3,914,650**	**100.00**	3,675,030	100.00

Investments in Debt Securities

As of the end of the reporting period, the Bank's investments in debt securities were RMB3,163,156 million, representing an increase of RMB17,496 million, or 0.56% compared with the prior year-end, mainly due to the optimized structure of the bond portfolio, and the increase of government bond investment with light capital consumption and tax benefits.

Investments in Debt Securities by Issuing Institution

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Government bonds	**1,129,819**	**35.72**	1,061,734	33.75
Bonds issued by public institutions and quasi-government bonds	**0**	**–**	176	0.01
Bonds issued by financial institutions	**1,835,596**	**58.03**	1,912,632	60.80
Corporate bonds	**197,741**	**6.25**	171,118	5.44
Total investments in debt securities	**3,163,156**	**100.00**	3,145,660	100.00

As at the end of the reporting period, the investments in debt securities with remaining maturity within 3 months were RMB197,996 million, representing an increase of RMB114,058 million, or 135.88%, and it was mainly because the Bank strengthened its market research and assessment, guarded against market risks and made more investment on short-duration bonds when interest rates were declining.

Investments in Debt Securities by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2020		December 31, 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Overdue	**10**	**0.00**	74	0.00
Within 3 months	**197,996**	**6.26**	83,938	2.67
3-12 months	**274,088**	**8.67**	308,896	9.82
1-5 years	**1,647,233**	**52.07**	1,482,174	47.12
Over 5 years	**1,043,829**	**33.00**	1,270,578	40.39
Total investments in debt securities	**3,163,156**	**100.00**	3,145,660	100.00

Investments in Debt Securities by Currency

In millions of RMB, except for percentages

Item	December 31, 2020		December 31, 2019	
	Amount	Percentage (%)	Amount	Percentage (%)
RMB	**3,110,535**	**98.34**	3,113,237	98.97
Foreign currencies	**52,621**	**1.66**	32,423	1.03
Total investments in debt securities	**3,163,156**	**100.00**	3,145,660	100.00

Financial Bonds

As at the end of the reporting period, the Bank held RMB1,835,596 million financial bonds issued by financial institutions, of which, bonds issued by policy banks amounted to RMB1,623,581 million, representing 88.45% of the total.

The Top Ten Financial Bonds in Terms of Par Value

In millions of RMB, except for percentages

Debt Securities	Par value	Annual interest rates (%)	Maturity date	Allowance for impairment losses(1)
2015 Policy Financial Bonds	80,106.81	3.71	2025/8/31	–
2012 Policy Financial Bonds	49,800.00	2.43	2022/6/6	–
2011 Policy Financial Bonds	46,200.00	2.45	2021/2/9	–
2015 Policy Financial Bonds	43,051.20	3.82	2035/9/28	–
2011 Policy Financial Bonds	40,000.00	3.85	2021/12/21	–
2016 Policy Financial Bonds	33,390.00	3.05	2026/8/25	–
2017 Policy Financial Bonds	32,160.00	4.30	2024/8/21	–
2019 Policy Financial Bonds	31,980.00	3.28	2024/2/11	–
2015 Policy Financial Bonds	30,099.23	3.72	2030/9/28	–
2015 Policy Financial Bonds	29,040.05	3.85	2035/10/15	–

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

Liabilities

As of the end of the reporting period, the Bank's total liabilities amounted to RMB10,680,333 million, representing an increase of RMB1,008,506 million, or 10.43% compared with the prior year-end. Among which, customer deposits amounted to RMB10,358,029 million, representing an increase of RMB1,043,963 million, or 11.21% compared with the prior year-end; deposits and placements from banks and other financial institutions amounted to RMB116,655 million, representing an increase of RMB43,607 million, or 59.70% compared with the prior year-end; financial assets sold under repurchase agreements amounted to RMB25,134 million, representing a decrease of RMB73,524 million, or 74.52% compared with the prior year-end.

Key Items of Liabilities

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Customer deposits	**10,358,029**	**96.98**	9,314,066	96.30
Deposits from banks and other financial institutions	**85,912**	**0.80**	47,252	0.49
Placements from banks and other financial institutions	**30,743**	**0.29**	25,796	0.27
Financial assets sold under repurchase agreements	**25,134**	**0.24**	98,658	1.02
Debt securities issued	**57,974**	**0.54**	96,979	1.00
Borrowings from central bank	**25,288**	**0.24**	–	–
Other liabilities(1)	**97,253**	**0.91**	89,076	0.92
Total liabilities	**10,680,333**	**100.00**	9,671,827	100.00

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

Customer Deposits

As of the end of the reporting period, the Bank's total customer deposits amounted to RMB10,358,029 million, representing an increase of RMB1,043,963 million, or 11.21% compared with the prior year-end.

The Bank's core liabilities grew steadily. In particular, personal deposits amounted to RMB9,095,564 million, representing an increase of RMB912,250 million, or 11.15% compared with the prior year-end. It was mainly because the Bank constantly optimized the online channels, gradually improved the customer experience, and steadily increased the scale of one-year or shorter-term deposits. Corporate deposits amounted to RMB1,259,849 million, representing an increase of RMB130,884 million, or 11.59% compared with the prior year-end. It was primarily because the Bank stepped up efforts to develop key areas of institutions and enterprises, and the contribution of new customer deposits was significant while the scale of corporate deposits increased rapidly.

Customer Deposits by Product and Customer

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Corporate deposits	**1,259,849**	**12.16**	1,128,965	12.12
Time deposit	**385,694**	**3.72**	357,931	3.84
Demand deposit	**874,155**	**8.44**	771,034	8.28
Personal deposits	**9,095,564**	**87.81**	8,183,314	87.86
Time deposit	**6,202,401**	**59.88**	5,481,019	58.85
Demand deposit	**2,893,163**	**27.93**	2,701,369	29.00
Structured deposit	**0**	**–**	926	0.01
Other deposits(1)	**2,616**	**0.03**	1,787	0.02
Total customer deposits	**10,358,029**	**100.00**	9,314,066	100.00

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

Customer Deposits by Geographical Region

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Head Office	**1,948**	**0.02**	3,727	0.04
Yangtze River Delta	**1,562,686**	**15.09**	1,399,426	15.02
Pearl River Delta	**970,623**	**9.37**	873,846	9.38
Bohai Rim	**1,639,051**	**15.82**	1,379,710	14.81
Central China	**3,177,977**	**30.69**	2,910,315	31.25
Western China	**2,220,159**	**21.43**	2,037,980	21.88
Northeastern China	**785,585**	**7.58**	709,062	7.62
Total customer deposits	**10,358,029**	**100.00**	9,314,066	100.00

Customer Deposits by Remaining Maturity

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Repayable on demand	**3,819,615**	**36.87**	3,528,475	37.88
Within 3 months	**2,105,517**	**20.33**	2,002,931	21.50
3-12 months	**3,112,622**	**30.05**	2,457,929	26.39
1-5 years	**1,320,275**	**12.75**	1,324,731	14.23
Over 5 years	**–**	**–**	–	–
Total customer deposits	**10,358,029**	**100.00**	9,314,066	100.00

Shareholders' Equity

As of the end of the reporting period, the Bank's total shareholders' equity amounted to RMB672,930 million, representing an increase of RMB128,051 million, or 23.50% compared with the prior year-end, mainly due to the issuance of perpetual bonds and the increase in retained earnings.

Composition of Shareholders' Equity

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)	December 31, 2019 Amount	December 31, 2019 Percentage (%)
Share capital	**86,979**	**12.93**	86,203	15.82
Other equity instruments – preference shares	**47,869**	**7.11**	47,869	8.79
Other equity instruments – perpetual bonds	**79,989**	**11.89**	–	–
Capital reserve	**100,906**	**15.00**	97,477	17.89
Other comprehensive income	**2,725**	**0.40**	2,319	0.42
Surplus reserve	**42,688**	**6.34**	36,439	6.69
General reserve	**130,071**	**19.33**	116,129	21.31
Undistributed profits	**180,572**	**26.83**	157,431	28.89
Equity attributable to shareholders of the Bank	**671,799**	**99.83**	543,867	99.81
Non-controlling interests	**1,131**	**0.17**	1,012	0.19
Total shareholders' equity	**672,930**	**100.00**	544,879	100.00

Off-Balance Sheet Items

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

Derivative financial instruments of the Bank mainly include interest rate contracts, exchange rate contracts and others. For details of nominal amount and fair value of derivative financial instruments, please refer to "Notes to the Consolidated Financial Statements – 17 Derivative financial assets and liabilities".

The Bank's contingent liabilities and commitments mainly consist of lawsuits and claims, capital commitments, credit commitments, mortgage and pledged assets and redemption commitment for government bonds. For details of contingent liabilities and commitments, please refer to "Notes to the Consolidated Financial Statements – 40 Contingent liabilities and commitments". Credit commitments consist of loan commitments, bank acceptances, guarantees and letters of guarantee, letters of credit and undrawn credit card limits.

Components of Credit Commitments

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Loan commitments	**277,792**	**38.73**	434,777	56.30
Bank acceptances	**38,652**	**5.39**	31,583	4.09
Guarantees and letters of guarantee	**40,226**	**5.61**	20,447	2.65
Letters of credit	**30,383**	**4.24**	17,846	2.31
Undrawn credit card limits	**330,260**	**46.03**	267,537	34.65
Total credit commitments	**717,313**	**100.00**	772,190	100.00

Analysis of Cash Flow Statement

During the reporting period, net cash inflow from operating activities of the Bank was RMB161,772 million, representing an increase of RMB135,329 million, primarily due to the increase in customer deposits and cash deposits from other banks and financial institutions.

During the reporting period, net cash outflow from investing activities of the Bank amounted to RMB122,075 million, representing a decrease of RMB51,639 million, primarily due to the increase in cash received for financial investments.

During the reporting period, net cash inflow from financing activities of the Bank amounted to RMB16,747 million, representing a decrease of RMB7,110 million compared with the prior year, primarily due to the increase in cash paid for the matured interbank certificates of deposits issued and matured tier 2 capital bonds.

Other Financial Information

Explanation of changes in accounting policies

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

Explanation of differences in financial statements prepared under domestic and international accounting standards

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

Information on corporate bonds

The Bank did not issue any corporate bonds that need to be disclosed in accordance with the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision 2017) and the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 38 – Contents and Formats of Annual Reports on Corporate Bonds.


Personal customers
Accounting for over
40% of Chinese
population


Jointly We
Step Forward
Together We
Gain Fulfilment

Business Overview

Personal Banking

Personal banking is our strategic core business for building the Bank into a first-tier large retail bank. In adherence to the business strategy featuring retail banking as the key driver with coordinated development of wholesale banking, the Bank continued to grow in size and optimize the business structure while constantly improving customer experience so as to strengthen its leading position in the market and give full play to its strength in retail banking business. In 2020, facing the impact of COVID-19, a dynamic external environment and changing customer needs, the Bank upheld the corporate spirit of "being responsible, resilient and caring". Putting customers at the core, the Bank continued to promote the systematic transformation of outlets, strengthened technology empowerment, and sped up the establishment of a three-in-one development model characterized by "attracting users, retaining customers, and delivering more value" to achieve high-quality development in retail business. During the reporting period, the operating income of personal banking business stood at RMB198,127 million, representing a year-on-year increase of 12.17%, and accounted for 69.15% of the Bank's operating income, an increase of 5.41 percentage points as compared with the prior year. Personal deposits amounted to RMB9,095,564 million, representing an increase of RMB912,250 million compared with the prior year-end. Personal loans amounted to RMB3,253,893 million, representing an increase of RMB503,105 million compared with the prior year-end. The Bank provided services covering 622 million individuals with assets under management (AUM) worth RMB11.25 trillion, representing an increase of over RMB1 trillion compared with the prior year-end.

The Bank continued to promote the systematic transformation of outlets so that it became a new driver for business development. It further advanced the building of a wealth management system and enhanced the abilities of financial consultants to keep creating more value for customers. It focused on key agency businesses including insurance, non-monetary funds, asset management and trust, etc., and provided more diversified asset allocation, contributing to a rapid and robust momentum in the sales of agency businesses. Besides, following the upgrading of the consumption structure, the Bank improved customer experiences on credit products with real-time, online services covering all customers and developed a lifecycle management model for loan businesses. It boosted customer acquisition through product innovation and scenario-based marketing and stepped up efforts in developing the credit card installment business.

The operating income of personal banking business stood at RMB198,127 million, representing a year-on-year increase of 12.17%, and accounted for 69.15% of the operating income, an increase of 5.41 percentage points as compared with the prior year.

The Bank strengthened technology empowerment and accelerated the transformation with digital technologies. It enhanced the targeted marketing and asset allocation by launching the customer management data mart and the personal wealth management system, and rolling out the customer relation management (CRM) platform. Relying on the integrated marketing performance management system, the Bank established an efficient performance evaluation system, effectively motivating marketing personnel. It optimized platforms such as mobile banking and the Customer Manager Cloud Studio, enhanced its remote services and improved the innovation and operation of online platforms. It also endeavored to develop the scenario-based "finance plus life" model, under which it kept enhancing merchant acquisition centering on "outlets plus business circles" to further promote the integration of online and offline channels and extend its service reach.

Introduction of the Model of Directly-operated Plus Agency Outlets

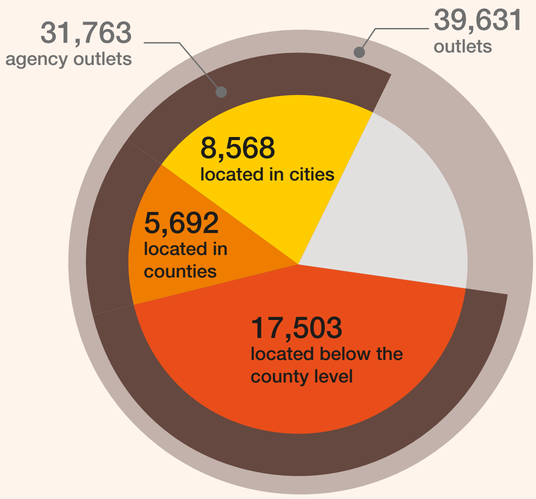
History at a Glance

The model of "directly-operated outlets plus agency outlets" is the unique characteristic of the Bank. It is an important policy support from the government to facilitate the reform and development of postal financial business. In 1986, the State Council approved the resumption of postal savings business. The former Postal Savings and Remittance Bureau of the Ministry of Posts and Telecommunications mainly engaged in basic financial businesses such as taking deposits, remittance and foreign exchange, etc. In 2005, the Notice of the State Council on Issuing the Plan for Reforming the Postal System (Guo Fa [2005] No. 27) explicitly stated that "on the basis of retaining the postal network for attracting deposits, the postal business and postal savings business shall be accounted separately, where the postal savings business shall adopt market-oriented operation and management, assume sole responsibility for its own profit or loss and actively improve conditions to speed up the establishment of Postal Savings Bank of China controlled by China Post Group Corporation, and all postal financial business shall be placed under the management of Postal Savings Bank of China". In 2006, the Letter of China Banking Regulatory Commission on Approving the Establishment of Postal Savings Bank of China (Yin Jian Han [2006] No. 288) explicitly stated that "the management model of Postal Savings Bank of China and the postal savings business outlets shall be established, and all postal financial business shall be placed under the management of Postal Savings Bank of China". In the same year, the Notice of the Ministry of Finance and the Ministry of Information Industry on the Establishment Plan and the Articles of Association of China Post Group Corporation (Cai Jian [2006] No. 542) explicitly stated that "in order to achieve the coordinated development of both postal business and postal financial business, Postal Savings Bank of China shall continue to leverage on the postal network for attracting deposits after its establishment, and develop a negotiation and cooperation mechanism as well as a standardized system between China Post Group and Postal Savings Bank of China for the purpose of clarifying the rights, responsibilities, and interests of both parties". In March 2007, Postal Savings Bank of China Limited was established along with the model of "directly-operated outlets plus agency outlets". Since the establishment of the Bank, under the guidance of the MOF, the PBOC and the CBIRC, both China Post Group and the Bank have been promoting the high-quality development of the Bank and agency financial businesses by continuously optimizing the "directly-operated outlets plus agency outlets" model and strengthening the management of agency branches to give full play to the institutional advantages of such model.

Business Model and Outlet Distribution

On September 7, 2016, the Bank and China Post Group re-signed the Framework Agreement on Agency Outlets Entrusted with Banking Services entrusting China Post Group to handle some commercial banking businesses through agency outlets, which stipulates that the agency outlets may, upon the entrustment of the Bank, act as an agent for some of the banking businesses. The scope of business includes: deposit of RMB and foreign currencies, remittance and foreign exchange, debit card business, credit card repayment, electronic banking business (including self-service banking and short message services), agency collection and payment based on the system of PSBC, agency issuance and redemption of government bonds, certification of personal deposits, bancassurance, agency sales of fund, personal wealth management and asset management plan products and other financial products, custody and management for third parties, and other businesses entrusted by PSBC.

Relying on this unique model in China's banking industry, the Bank has the largest number of outlets among commercial banks, which are deepest in penetration, extensive in coverage and balanced in layout. This network has brought a large customer base and a wide range of inclusive financial demands to the Bank, so that it is easier for the Bank to implement business strategies and form its distinctive advantages. Compared with other national commercial banks, the Bank is blessed with a more extensive and penetrating network. Compared with rural financial institutions, the Bank can provide more integrated, professional products and services. As of the end of the reporting period, the Bank had a total of 39,631 outlets, including 31,763 agency outlets, accounting for 80.15% of all outlets. Among the agency outlets, 8,568 were located in cities, accounting for 26.97% of the total; 5,692 were located in counties, accounting for 17.92% of the total; and 17,503 were located below the county level, accounting for 55.10% of the total.



Retail Banking Business

The Bank has fully leveraged its advantage in resources to focus on comprehensive services to individual customers. It made full use of technology and data, developed targeted marketing tools based on scenarios to reach its customers online and offline in all aspects, and boosted customer engagement. By utilizing big data, the Bank consolidated its customer base, enriched the tagging system and empowered the targeted marketing by branches and sub-branches with the CRM platform to increase the assets of existing individual customers. By product portfolio design, differentiated customization and customer benefits package assignment, the Bank upgraded the customer service system and continuously enhanced its capability to retain and expand customers.

Personal Deposit Business

The Bank continued to grow the personal deposit business with equal emphasis on both its quantity and quality. The Bank seized market opportunities at the right time and strengthened customer marketing and visits, which resulted in a rapid growth in personal deposits. Facing the impact of the epidemic, while properly implementing prevention and control measures, the outlets continued to deliver high-quality customer service and retained customers with maturing deposits. It constantly optimized the online customer journey, provided guidance and encouraged customers to deposit through electronic banking. It further advanced key debit card projects, vigorously promoted the merchant acquiring business, and expanded the sources of personal deposits. Moreover, the Bank further developed agency payment business for corporate and private sectors in a coordinated way. 33,500 corporations and institutions became the Bank's new clients. In addition, it carried out special marketing campaigns targeting at young customers, provided them with exclusive products and benefits, and organized cultural activities for the elderly so as to retain key customer groups. As of the end of the reporting period, personal deposits amounted to RMB9,095,564 million, representing an increase of RMB912,250 million compared with the prior year-end, with the increment marking a record high.

Debit Card Business

The Bank focused on the third-generation financial social security card, veteran service card, shining card and Meituan co-branded card to acquire more customers. It continued to deepen cooperation with government departments to promote the issuance of the third-generation financial social security card and the veteran service card. It advanced the issuance of the farmer harvest card as an active response to the state's rural revitalization strategy. The Bank integrated online and offline resources, promoted the shining card through new media, and continued to provide membership rewards and incentives. It also cooperated with Meituan to issue the pilot Meituan co-branded card, which offers exclusive discounts to attract young customers. In addition, the Bank carried out a series of Happy Weekend marketing campaigns to promote debit card consumption, and further enriched user-friendly payment scenarios with more benefits, continuously increasing the amount and frequency of consumption. During the reporting period, the number of newly-issued debit cards reached around 30,357,600 and the number of debit cards in circulation stood at 1,037 million. Consumption via debit cards amounted to RMB8.41 trillion, representing a year-on-year increase of 7.83%.

Personal Settlement Business

The Bank provides agency collection and payment services and various settlement services to individual customers. The agency collection and payment services primarily include payment of salary, benefits and allowances, collection of utility fees, and collection and payment of social security pension, etc. As an important means to serve individual customers, agency collection and payment services have brought the Bank a large number of customers and funds. During the reporting period, the Bank earnestly expanded the agency collection and payment business, with the volume of agency collection reaching RMB684,343 million and that of agency payment reaching RMB1,763,875 million. In particular, social security pension collected on an agency basis amounted to RMB62,126 million, and pension payment on an agency basis amounted to RMB949,944 million. The Bank provided individual customers with various international settlement services such as cross-border telegraphic transfer (T/T) and Western Union money transfer. The number of transactions for personal international remittance was around 742,200, with a total transaction volume of USD1,036 million.

Wealth Management

The Bank advanced the building of its wealth management system with the objectives of "exclusive products and services, professional personnel, specialized IT system and proprietary service channels". As of the end of the reporting period, the number of VIP customers was about 36,415,000, representing an increase of 17.60% compared with the prior year-end. The assets of VIP customers amounted to 67.61% of the total customer assets, up by 2.69 percentage points compared with the prior year-end. The number of affluent customers was 2.87 million, representing an increase of 16.13% compared with the prior year-end. Their assets accounted for 19.68% of the total, up by 1.33 percentage points compared with the prior year-end.

Wealth Management System

During the reporting period, the Bank took various measures to improve its wealth management together with the implementation of wealth management consulting projects. Based on customer features, the Bank promoted the refined digital customer management model, conducted multi-dimension business activities, provided differentiated products and non-financial value-added services, and continued to enhance the service for VIP customers. In terms of products, the Bank built product lines focusing on fixed income, equities, and alternatives for affluent customers, continued to launch exclusive products for customers of different layers, and rolled out customized service for high-end customers, etc. In terms of investment research, the Bank improved its investment research capability, established a research system for asset allocation with the flow of "macro policy – market – portfolio – product", and strengthened transmission of tactics to boost its expertise. In terms of team building, the Bank formed a team of VIP financial consultants and wealth advisors, optimized the team service model of "1 plus 1" for high-end customers, recruited more consultants, and put more efforts in refined management. As of the end of the reporting period, the total number of financial consultants was around 41,300, representing an increase of 5,825 compared with the prior year-end. In terms of system support, the Bank launched its personal wealth management system. With the aid of financial technologies, it could provide wealth analysis and planning for customers, enabling financial consultants to allocate assets for customers. In terms of organizational structure, a tier-2 wealth management department was set up in the Head Office to increase wealth management personnel at all levels, and the building of wealth management centers was also launched across the Bank.

The Bank will further leverage its strength in outlets, grasp the major opportunities of new-type urbanization and rural revitalization strategy, and advance the building of a wealth management system from aspects of products and services, personnel, technology support, brand image, etc. Based on the demands of customers' families and enterprises, the Bank will enrich and improve the exclusive product system for high-net-worth customers through internal collaboration among business lines and external cooperation with peer institutions, and enhance its capabilities for serving high-net-worth individuals in tier-two and tier-three cities and counties, thus forming a differentiated competitive advantage.

Personal Wealth Management

The Bank proactively implemented regulatory requirements such as the new rules on asset management and advanced the transformation of its wealth management business in a stepwise manner. Focusing on customers, the Bank was dedicated to meeting customers' needs on preserving and increasing asset value by continuously launching exclusive and net-value wealth management products. The Bank launched the optimization of customer journey to enhance the customer experience, implemented the regulatory requirements for suitability in sales, and continued to optimize whole-process customer services and investor education. As of the end of the reporting period, the balance of wealth management products for individual customers was RMB832,304 million, representing an increase of 6.33% compared with the prior year-end. Net value products for individual customers accounted for 54.83% of the total, representing an increase of 22.66 percentage points compared with the prior year-end.

Agency Businesses

The Bank further advanced the building of its wealth management system, further improved its capabilities of asset allocation and effectively promoted the development of agency businesses. During the reporting period, the Bank set up a multi-type bancassurance product system to meet customers' needs on insurance. It also stepped up efforts in business transformation, with new regular premiums amounting to RMB75,941 million. The premiums of new policies for protection-oriented products amounted to RMB71,619 million, representing a year-on-year increase of 29.49% and 51.37%, respectively. It also strengthened cooperation with best-performing fund management institutions, increased the sales of "fixed income plus" products with an absolute return strategy, proactively promoted the automatic fund investment business and improved returns for customers. Its agency sales of funds amounted to RMB152,766 million, representing a year-on-year increase of 106.74%, among which the non-monetary funds amounted to RMB129,173 million, representing a year-on-year increase of 240.98%. The Bank continued to increase the varieties of agency collective asset management plans and agency trust plans to meet the needs of mid to high-end customers on asset allocation. The agency collective asset management plans and trust plans amounted to RMB67,822 million, representing a year-on-year increase of 151.12%. Following the market trend, the Bank accelerated the transformation of precious metal business to the online marketing model so as to meet the customers' needs on the trading of precious metals and physical consumption. The transactions of precious metal business amounted to RMB42,802 million, representing a year-on-year increase of 97.11%.

Retail Credit

In line with the trend of new retail revolution and with consumer credit and personal micro loans as pillars, the Bank continued to enrich products and transform the retail credit business with digital and smart technologies based on scenarios in order to expand the scope of services, enhance processing efficiency and improve customer experience.

Consumer Credit Business

The Bank continued to transform the retail credit business with digital and smart technologies based on scenarios. It fully utilized new technologies to create a customer journey integrating online and offline services, and made it possible for consumers to apply for consumer credit through various channels with intelligent approval, creating more convenience for customers. It developed an efficient digitized operating system with smart decision making, and applied big data and financial technologies in the entire lending process. It strengthened the customer acquisition through digital means, facilitated the management of the whole lifecycle of lending and continued to optimize the operation. The Bank also actively promoted the retail credit factory model, built a digitized operation system and quickly responded to customers' needs to continuously enhance customer experience. As of the end of the reporting period, the balance of personal consumer loans amounted to RMB2.36 trillion. Among that, the balance of residential mortgage loans amounted to RMB1.92 trillion.

Micro Loan Business

The Bank fully supported the development and production of micro and small business owners, self-employed individuals, new types of entities in agriculture businesses and traditional small farmers, promoted the integrated development of primary, secondary and tertiary industries, and helped solve the difficulties in accessing affordable financing quickly. During the reporting period, the Bank vigorously promoted the transformation and upgrading of the development of micro loans through technology empowerment, and sped up the development of internet micro loans and the digital transformation of the whole process of micro loans based on mobile business terminals, so as to expand the scope of services, enhance processing efficiency and improve customer experience. It deepened cooperation with platforms such as governments, associations, enterprises, guarantee companies and insurance companies to reduce business risks and customers' financing costs. As of the end of the reporting period, the personal micro loans amounted to RMB746,252 million, representing an increase of RMB136,051 million, or 22.30% compared with the prior year-end.

Coordination with China Post Group to Develop the Local Distinctive Industries

Mangoes from Sanya were listed as the China's Featured Agricultural Product of Superiority in 2018, and ranked 22nd on the list of China's public brand value of regional fruit products in 2019, with a brand value of RMB3,082 million. The city's mango planting area is 25,333 hectares, and the production volume was about 400,000 tons.

Sanya Kaihe Fruit and Vegetable Farmers Cooperative is located in Shuinan Village, Yazhou District, Sanya City. There are 18 members at the moment, who share 187 hectares of land, with mangoes and squashes as the main types of plants.

While providing financing services to the cooperative, the Bank fully leveraged the network advantage of both China Post Group and the Bank itself to help customers develop their mango business on e-commerce platforms, and formed a development model of collaboration between China Postal Group, the Bank and the cooperative, making contributions to the creation and development of the brand of Sanya Mango.

At the same time, on the basis of serving the Sanya Kaihe Fruit and Vegetable Farmers Cooperative, through referrals and the cooperative and joint survey of the upstream and downstream of the industrial chain by China Post Group and the Bank, the Bank recognized Shuinan Village as one of its creditworthy villages, and introduced 30 creditworthy households in the village as its customers, with 19 farmer customers successfully referred for credit business. The accumulated loans granted amounted to RMB1.27 million. There were 16,600 pieces of mango packages delivered, 170 tons of agricultural fertilizer sold, and 129,300 boxes of local mangoes sold with a sales amount of RMB8,062,300. Through the coordination with China Post Group, the Bank helped to build the local specialty industry.

Credit Card Business

The credit card business is a core component of the Bank's retail banking strategy, which is attached with top priority. During the reporting period, the Bank actively mitigated the impact of the epidemic, deepened the reform of systems and mechanisms, strengthened online and scenario-based transformation, and reasonably and steadily increased the scale and quality of the credit card business. In December 2020, the Bank received the approval from the CBIRC on establishing the Credit Card Center as a specialized institution, thus laying the foundation for further improving the operation mechanism and energizing its development. During the reporting period, the number of newly issued credit cards was 7.8094 million, the number of credit cards in circulation was 36.7992 million, representing an increase of 18.32% over the prior year-end. Consumption via credit cards amounted to RMB987.193 billion, representing a year-on-year increase of 6.03%.

Accelerating the improvement of customer acquisition channels

The Bank actively built customer acquisition channels including outlets, sales teams, coordination with China Post Group and online channels to enrich sources of customer acquisition. It intensified cross-marketing among its existing customers, comprehensively optimized the cross-marketing whitelist, consolidated the retail customer base across the Bank, supported marketing in outlets, and effectively alleviated the impact of deteriorating customer acquisition during the epidemic. It enhanced the building and management of the sales team, and took a variety of measures to continue improving the team's customer acquisition capability. The Bank also increased the number of customers acquired through coordination with China Post Group, supporting the steady growth in the number of new customers. During the reporting period, new customers acquired through the sales team, coopration with China Post Group as well as online channels accounted for 50.46% of the total, representing a year-on-year increase of 33.35 percentage points.

Enhancing the development quality and economic returns

In terms of building business circles and brands, the Bank strengthened the development of the Joyous Family Day campaign in business circles and intensified the marketing among merchants with special offers to promote online and offline integrated business circles. It also held events with various themes to continuously boost the brand influence of credit cards. It established a customer management system covering links such as customer access, activation, card utilization and installment, and enhanced targeted marketing to constantly improve customer loyalty and development quality. With respect to business innovation, the Bank launched new products such as Huaruntong co-branded card, strengthened customer acquisition via scenario-based marketing, and accelerated innovation and development of installment business by optimizing its structure. During the reporting period, the credit card installment transactions amounted to RMB63,445 million, representing a year-on-year increase of 16.38%.

The number of credit cards in circulation was 36.7992 million, representing an increase of 18.32% over the prior year-end.
Consumption via credit cards registered a year-on-year increase of 6.03%.
The credit card installment transactions amount registered a year-on-year increase of 16.38%.
The Bank obtained approval on establishing the Credit Card Center as a specialized institution.

Corporate Banking

Corporate banking is an essential part of the Bank's retail banking strategy. Adhering to the customer-oriented principle, the Bank focused on the synergy between different segments and coordination between the retail and corporate banking business. It pushed forward the expansion of customer base, product upgrade, channel optimization, team building and mechanism re-engineering. All these efforts contributed to an evident breakthrough in the development of the corporate banking business with continuous optimization of structure and steady increase in scale. Regarding the transaction banking business, it constantly optimized the service process, deepened the cooperation with governments and enterprises, and gradually improved its integrated service capabilities. Regarding the investment banking business, it continued to improve the customer service mindset, actively explored customer needs, and offered customized financing packages. It strengthened the coordination between investment banking and investment, and continued to promote the collaborative development of "commercial banking plus investment banking". As of the end of the reporting period, the Bank had about 900,600 corporate customers, representing an increase of 279,000 compared with the prior year-end. Corporate loans amounted to RMB1,977,785 million, representing an increase of RMB237,221 million, or 13.63%, compared with the prior year-end. Corporate deposits amounted to RMB1,259,849 million, representing an increase of RMB130,884 million, or 11.59%, compared with the prior year-end.

In terms of customer expansion, firstly, the Bank has been actively promoting the acquisition of corporate customers in bulk by adopting methods such as platform attraction, industrial chain acquisition, and joint customer expansion, in order to achieve high-quality growth of corporate customers. Secondly, the Bank encouraged visits and communications between senior management of the Bank and the clients so as to promote continuous implementation of key projects. Thirdly, it made breakthroughs in key areas by implementing the rural revitalization strategy and seizing opportunities brought by the institutional reform of rural collective property rights. Agricultural and rural accounts increased by 26,000, representing an increase of 76.51%. The Bank took measures to contribute to the reform of the medical welfare system, and achieved a complete coverage of cooperation qualification for medical insurance E-certificate at provincial levels. The total activated medical insurance E-certificates exceeded 1 million, and the number of clients in terms of medical treatment, medical insurance and pharmacy increased by 11,600. Fourthly, the Bank actively adapted to the trend of digital transformation, and advanced the development and optimization of the customer data mart and the marketing system for corporate customers. It developed a smart marketing model, which improved its business insights, enriched marketing scenarios and achieved online customer acquisition in bulk.

Corporate loans amounted to RMB1,977,785 million, representing an increase of 13.63% compared with the prior year-end. Corporate deposits amounted to RMB1,259,849 million, representing an increase of 11.59% compared with the prior year-end

In terms of product innovation, it continued to improve the product system of “basic deposit and loan products, transaction banking and investment banking”. Firstly, it intensified the innovation of corporate credit business, innovated 16 new products such as R&D loans, water resources loans, photovoltaic loans, loans for companies listed on the STAR Market and new urbanization loans, etc. It streamlined processes in relation to credit business, promoted the construction of the credit business system with enterprise-level modeling standards, and improved the efficiency of customer service. Secondly, it improved the deposit product system, and focused on optimizing products such as certificates of deposit; achieved the application of scenarios including open payment platform, PSBC Canteen, salary payment, and merchant acquisition; optimized the account opening process for corporate clients, and continued to enhanced the efficiency of customer services. Thirdly, it innovated services focusing on customer transaction scenarios, developed corporate debit card, and enriched public settlement products; optimized the systems of both cash management and bank-enterprise interlink, and broadened the open payment channels. Fourthly, it accelerated the research and development of investment banking products; underwrote the first debt-backed financing instrument on epidemic response in the market and the first asset-backed note on “poverty alleviation plus epidemic response” in the country, contributing to the fight against the epidemic.

In terms of channel development, the Bank offered more corporate banking services at directly-operated outlets, endeavored to bring agency outlets into better play, expanded the coverage of corporate services, and unleashed the potential of outlets. As of the end of the reporting period, 5,175 outlets were able to handle corporate business, representing an increase of 1,466 or 39.24% compared with the prior year-end, where the coverage rate was 65.66%, representing an increase of 18.45 percentage points compared with the prior year-end, and resulting in an increase of corporate deposits of RMB14,045 million. The Bank actively planned for the development in the county, township and village areas, and 773 more outlets started to provide corporate banking services. The coverage of corporate business outlets in counties, towns and villages increased by nearly 30 percentage points compared with the prior year-end.

Collaboration with China Post Group to Explore the Blue Ocean of Sannong Customers

In order to fully support national strategies on rural revitalization and inclusive finance, comply with requirements on poverty alleviation via financial services, and shoulder the political and social responsibilities on the support for real economy and poverty alleviation, the Bank actively implemented the coordinative development strategy with China Post Group. By giving full play to the combined network strength of the postal financial business, the Bank and China Post Group collected 449,900 pieces of information on farmers' cooperatives, 88,000 pieces of information on family farmers, and visited 180,000 farmers to achieve customer sharing and business coordination. Through the cooperation with China Post Group, the Bank provided timely, close-at-hand and convenient financial settlement services including account opening and settlement at the nearest spot for corporate customers such as local administrations on agriculture and rural affairs, township management offices, village committees and rural collective economic organizations, facilitating breakthroughs in corporate business. As of the end of the reporting period, the increased number of agriculture-related and rural accounts amounted to 6.25 times of that in the prior year, and primary accounts accounted for 78% of all new accounts.

In terms of team building, the Bank actively advanced the institutional reform at all levels, and set up a Sannong corporate business center at the Head Office which is dedicated on agro-related corporate financial services. The branches and sub-branches continued to increase posts and personnel for corporate business. As of the end of the reporting period, the number of employees in the corporate segment across the Bank increased by 19.96%, among which the sales personnel of the segment increased by 22.93%. Secondly, the Bank continued to optimize the training mechanism, and on a regular basis, launched both online and offline training programs on topics such as institutional business, credit business, risk management, and system application. Thirdly, the Bank continued to improve skills of the employees, rolled out the professional certification for all staff, and launched the career promotion along the lines of professional posts. The Bank completed the certification for the first batch of corporate finance consultants (CFCs), made active endeavors on cultivation of leading talents at all levels, and strengthened the construction of talent pools in the segment.

Corporate Loans

The Bank provided corporate customers with products such as working capital loans, fixed asset loans, trade finance and SME loans. Firstly, the Bank focused on national strategies and pooled resources to support regional strategic plans. Secondly, the Bank served the real economy and promoted business transformation and upgrading, with priority given to credit supply in new infrastructure, new urbanization initiatives and major projects. The Bank continued to optimize financial services for strategic emerging industries. With a focus on fields such as advanced manufacturing industries and upgrading and transformation of traditional industries, the Bank expanded its medium and long-term credit supply in manufacturing industries. It also continued to provide more support to private enterprises and enhanced financial service quality and efficiency. Thirdly, the Bank practiced the inclusive development concept, supported poverty alleviation and rural revitalization, and provided credit to the construction of major projects related to people's living needs, strengthened financial poverty alleviation efforts in severely impoverished areas such as the "Three Regions and Three Prefectures", and promoted the development of green finance. Fourthly, the Bank made every effort to provide financial services for fighting against the epidemic, strengthened the management of funds and made sure that funds were used for their specific purposes. As of the end of the reporting period, a total of RMB8,944 million of special re-financing from central bank was granted to 706 key enterprises on epidemic prevention and control, with loans worth more than RMB100 billion extended to various enterprises involved in epidemic prevention and control. Meanwhile, the Bank focused on key customer groups, delivered comprehensive services to strategic customers, and set up a pool of major projects. As of the end of the reporting period, the Bank's corporate loans amounted to RMB1,977,785 million, representing an increase of RMB237,221 million, or 13.63%, compared with the prior year-end; of which, loans to strategic customers at the Head Office level amounted to RMB575.481 billion, representing an increase of RMB92.931 billion or 19.25% compared with the prior year-end.

Making Concerted Efforts to Provide Financial Support for the Epidemic Prevention and Control

Since the outbreak of the epidemic, the Bank has been actively implementing the decisions and plans of the CPC Central Committee and the State Council. The Bank immediately responded to relevant policies and provided financial support for key enterprises in epidemic prevention and control, with the measures including establishing a bank-wide joint action mechanism for fast response, improving the efficiency of credit approval and extension, opening green channels for credit approval, applying preferential pricing policies, and allocating special fund for specified purpose.

Under the principle of "special policies for special cases and quick actions for urgent cases", the Bank efficiently streamlined the underwriting process and granted a loan with the prime interest rate under special central bank lending, the first of its kind for the Bank, to a disinfection product company in Hubei Province, which was on the first list of key providers of anti-epidemic materials. The Bank offered financial support for expanding the production of medical alcohol and disinfectant by the company.

During the reporting period, the Bank granted a total of loans worth RMB8,944 million with interest cuts under the special lending policy to 706 companies producing anti-epidemic materials, medical products and daily necessities. Among them, RMB1,880 million was granted to 176 Hubei enterprises. The move gave strong support to the production and supply of various key anti-epidemic materials, such as disinfection supplies, protective clothing, temperature detectors, medicines and medical equipment nationwide, especially in Hubei Province, and made great contributions to the fight against the virus, fulfilling the Bank's social responsibilities as a major state-owned bank.

(Issued Stamp) Let's hold strong confidence, work together to overcome difficulties, and prevent and control the epidemic scientifically with precise strategy.

Corporate Deposits

The Bank provides time and demand deposits in Renminbi and other major foreign currencies to corporate customers. Firstly, it adhered to the principle of high-quality development and steadily promoted the development of deposit-taking business for enterprises, government departments and administrative institutions. Secondly, it placed emphasis on business development in key branches and sub-branches, and initiated peer-to-peer guidance and support to key city branches and weak sub-branches in developed counties. Thirdly, it focused on key fields, continued to focus on agricultural and rural areas and key projects such as medical treatment, medical insurance and pharmacy, and initiated in-depth cooperation to promote customer management and penetration of services. Fourthly, the Bank promoted business development under specific scenarios such as smart campus, smart healthcare, smart finance, smart social security and smart wholesale agricultural business and built the scenario-based financial service ecosystem. As of the end of the reporting period, the corporate deposits amounted to RMB1,259,849 million, representing an increase of RMB130,884 million or 11.59% compared with the prior year-end with the average cost of 1.23%. The demand deposits amounted to RMB874,155 million, accounting for 69.39%. In particular, the institutional client deposits amounted to RMB816,508 million, accounting for 64.81% of the total amount of corporate deposits, representing an increase of RMB69,158 million, or 9.26% compared with the prior year-end.

Transaction Banking

Focusing on the five major transaction banking product modules which included settlement and cash management, industrial chain finance, trade finance, corporate internet finance and cross-border finance, the Bank accelerated the digital transformation and continued to improve its comprehensive transaction banking services. Firstly, relying on the advantages of settlement network, the cash management business centered on such six functions as account management, payment and collection management, liquidity management, investment and financing management, funds supervision and management, and information management, assisting customers in managing their funds efficiently. During the reporting period, the number of cash management accounts was approximately 277,300, representing an increase of 38.00%. The balance of deposits connected with cash management accounts amounted to RMB429,999 million, representing an increase of 12.13%. Secondly, with digital technologies and based on scenarios, the Bank boosted the development of supply chain finance with the purpose of building an ecosystem. It adopted the "1 plus N" model and expanded upstream and downstream customers in bulk by using the online supply chain financial service platform, which improved the service efficiency. It launched a new-generation automobile supply chain finance system to continuously improve the online automobile industrial chain finance business. During the reporting period, the volume of supply chain finance business increased by RMB41,610 million, offering financing and settlement services to nearly 3,000 suppliers and distributors. Thirdly, the Bank actively promoted the building of E-service channels for trade finance and continued to advance the implementation of online services of commercial paper, letter of credit and letter of guarantee so as to comprehensively enhance the customer experience. It also conducted forfaiting transactions on cross-border blockchain platform, expanded the scope of information sharing, and enriched the cross-chain cooperation model of domestic banks. Fourthly, the Bank enhanced service capabilities and customer experience of platform banking through technology empowerment. Leveraging the integration and universality of open payment platform, the Bank enriched the personal payment scenarios and explored the market of corporate online payment. It also implemented the inclusive finance concept in areas such as public utilities, non-tax service and social insurance, education and training in third-tier and lower-tier areas. As of the end of the reporting period, it acquired 5,550 institutional customers with substantive business cooperation, 82% of which were in county areas and below, with the transaction amount exceeding RMB10 billion and number of users more than 5 million. Fifthly, the Bank strengthened its cross-border financial service capability and enhanced the financial support for the Belt and Road Initiative. It enhanced cooperation with international multilateral financial institutions to provide cross-border financing services to customers in industries such as agriculture, household appliances and shipping, and supported Chinese enterprises in going abroad. Moreover, the Bank launched trade facilitation measures, joined the cross-border financial blockchain platform of the State Administration of Foreign Exchange and the Single Window Initiative of the Customs, and participated in the Cross-border Interbank Payment System (CIPS) of the PBOC as a direct participant to improve the foreign exchange settlement of corporate online banking.

Investment Banking

The Bank continued to focus on the businesses such as bond underwriting, syndicated financing, financial advisory, M&A loan and asset-backed securitization. It continued to form a coordinated development mechanism between commercial banking and investment banking. Firstly, the Bank vigorously promoted the underwriting of financial institution bonds and local government bonds, and steadily expanded the scale of bond underwriting. It intensified product innovation and promotion, designed a variety of financing products for epidemic control, and successfully underwrote the first debt-backed financing instrument on epidemic response in the market and the first asset-backed note on "poverty alleviation plus epidemic response" in the country. During the reporting period, the Bank underwrote a variety of bonds with a total amount of RMB331,171 million, and its underwriting fee income increased by 39.42% on a year-on-year basis. Secondly, the Bank took major steps to develop syndicated loans. The fee income of syndicated loans increased by 152.71% year on year. Thirdly, focusing on financial advisory, the Bank has facilitated the integration between think tanks and business development, strengthened synergies between asset businesses and the marketing of a full range of products, innovated businesses such as cooperation with financial leasing companies and investment matchmaking, and boosted the steady growth of intermediary business income. Fourthly, the Bank took the initiative to expand the M&A loans in key industries and areas, and actively supported major projects in areas such as mixed-ownership reform of SOEs, transformation of manufacturing industries and upgrading of medical and healthcare industries.

PSBC supports the development of the Hainan Free Trade Port

Treasury and Asset Management Business

In terms of the treasury and asset management business, the Bank focused on serving the real economy and the supply-side reform objectives, readily followed the regulatory guidance, constantly strengthened capacity building, and continuously promoted the high-quality development of business, which served as a ballast and a stabilizer in the process of building a first-tier modern retail bank. In 2020, facing the severe and complicated market environment, the Bank adhered to rational judgement, continuous innovation as well as collaboration and coordination, enhanced its comprehensive service capacity in a customer-centric approach, and promoted the transformation of treasury and asset management business. As of the end of the reporting period, the Bank provided non-credit financial services to 615 financial institutions that were active customers for the Bank. Investment instruments amounted to RMB3,914,650 million, representing an increase of RMB239,620 million, or 6.52% over the prior year-end. The AUM of wealth management amounted to RMB1,001,431 million, representing an increase of 8.22% over the prior year-end. Assets under custody were RMB4,274,117 million, representing an increase of RMB297,041 million over the prior year-end.

The Bank continued to promote in-depth development of interbank customer management and cooperation. It valued expansion of strategic customers, established mechanisms for mutual visits among senior management, strengthened multi-layered cooperation and exchanges, and launched the development of an ecosystem among financial institutions to further widen our circle of friends and provide opportunities for business cooperation. It strove to make breakthroughs in business cooperation with financial institutions that were not customers of the Bank yet, and to expand the coverage of customers. It explored customer needs and deepened cooperation to improve comprehensive benefits for financial institution customers.

Investment instruments amounted to RMB3,914,650 million, representing an increase of 6.52% over the prior year-end.
The AUM of wealth management exceeded RMB1 trillion, representing an increase of 8.22% over the prior year-end.
Assets under custody amounted to RMB4,274,117 million, representing an increase of RMB297,041 million over the prior year-end.

In the face of new regulatory situation and new development landscape in the industry, the Bank upheld the philosophy of solidifying the foundation and intensifying cultivation, kept enhancing its abilities in developing treasury and asset management business, and constantly sharpened its core competitiveness. Firstly, it valued product innovation, obtained the qualification for Bond Connect, became one of the first participating institutions for interest rate options and launched the online "PSBC E Discounting". Secondly, it strengthened technological support and improved functions of the new-generation treasury business platform, asset management business platform as well as custody business system. It launched the development of the market-making and quotation system for bonds and derivatives as well as the platform for cooperation with financial institutions. Thirdly, it buttressed the bottom line for risk prevention and control and acted in line with regulatory requirements. It regularly assessed business risks, continuously optimized the product system and business procedures, kept improving risk monitoring, and gave full play to functions of the first line of defense. Fourthly, it enhanced team building, recruited more professionals in capital and asset management, established the structure of product managers at the Head Office working together with customer managers at branches, enhanced information sharing and guidance on communication, and improved branches' business abilities through practices.

Interbank Business

The Bank deeply participated in the interbank market, and accumulated profound experience in interbank investment, financing and bills, with rich business varieties and wide customer coverage. During the reporting period, the Bank earnestly implemented regulatory requirements, adhered to the concept of serving the real economy as its original aspiration, operated in a compliant and sound manner, and actively promoted the optimization and adjustment of the interbank business structure. It also launched the building of an interbank ecosystem, which further enhanced the Bank's market influence.

Interbank Financing Business

As an important fund provider in the financial market, the Bank was keen to seize market opportunities, optimized the layout of high-yield interbank lending business and improved the efficiency of fund use. It actively carried out the business of interbank liabilities, and strengthened the two-way trading capability. As of the end of the reporting period, the balance of deposits and placements with banks amounted to RMB292,078 million, and the balance of investments in interbank certificates of deposits amounted to RMB233,609 million. During the reporting period, the issuance of interbank certificates of deposit increased by RMB59,470 million.

Interbank Investment

The Bank strictly followed the regulatory guidance and continuously promoted the optimization of the business structure. It increased the proportion of standardized high-yield assets on the basis of return on economic capital, and strictly controlled and reduced the proportion of non-standardized assets. The Bank focused on developing products such as asset-backed securitization and debt fund based on the amortized cost method to increase the return on investment. At the same time, the Bank fully explored the potential of coordinated development between investment and trust as well as between investment and lending, and enhanced the overall contribution to the business development of the Bank. As of the end of the reporting period, the investment in trust investment plans, asset management plans, securities investment funds and wealth management products of financial institutions amounted to RMB505,973 million, representing an increase of RMB244,685 million or 93.65% as compared to the end of the previous year.

Billing Business

In response to market demands, the Bank deepened the reform by adhering to the principle of integrated operations, and continued to facilitate the innovation of bill products and optimization of management mechanisms. It launched the online discounting service of "PSBC E Discounting", improved the product system of billing business, enhanced customer experience, and expanded customer acquisition channels. In addition, the Bank consistently improved the linkage mechanism between direct and transfer discount to effectively put idle assets to better use. During the reporting period, the interbank resale of direct bills amounted to RMB147,417 million, representing an increase of RMB123,635 million compared with the same period of the prior year, and realized a comprehensive interest spread income of RMB471 million.

Treasury Depository Business

The Bank forged closer cooperation with financial institutions and expanded participation in the capital market and financial market to meet partner institutions' various needs for depository and settlement of securities, futures and insurance. And this helped meet the needs of the Bank's retail and institutional customers and optimize the deposit structure. During the reporting period, the Bank launched the depository business for the fund of securities as a clearing bank and obtained the qualification as the designated depository bank for futures margin of Zhengzhou Commodity Exchange. The number of accounts of depository business for the fund of securities increased by 26.26% compared with the prior year-end, and the balance of treasury accounts by securities companies increased by 82.39% compared with the prior year-end.

Financial Market Business

The Bank has acquired various licenses in China's interbank market, and is mainly engaged in products of monetary market, fixed income, foreign exchange, derivatives and precious metals, covering 23 trading categories in 11 currencies. The Bank is therefore qualified for and capable of trading on major products. During the reporting period, the Bank actively expanded its counterparties, enriched its trading categories, and continued to optimize its asset and liability structure.

Trading Business

As a major participant in the interbank market, the Bank serves as a primary dealer, market maker, SHIBOR and USD-CIROR quoting bank in the open market of the central bank. It actively provided liquidity to the interbank market, took the initiative to transmit monetary policies, and strengthened active operation and improved the efficiency of fund use as well as liquidity management on the basis of ensuring the stability of positions. During the reporting period, the Bank was among the first commercial banks to obtain the qualification of trading interbank RMB interest rate options and officially obtained the qualification for Bond Connect. The number of money market transactions in RMB and foreign currencies totaled approximately 68,500 with the total volume of RMB49.16 trillion. The trading volume of precious metals increased by 107.11% on a year-on-year basis. The Bank was awarded the titles of RMB Core Dealer and the Best Foreign Currency Trading Bank.

Kicking Off the Building of Interbank Ecosystem

In 2020, the Bank continued to deepen the strategic cooperation with various institutions in the industry and promoted the building of interbank ecosystem. Besides, the Bank cooperated with other banks to shoulder the important responsibilities of implementing the financial policies of the CPC and the state, serving the real economy and preventing financial risks.

In the second half year of 2020, the Bank held the bank coorperation forum for the East China region, the bancassurance cooperation and development forum, and the bancassurance and bank-fund cooperation forum with the theme of “PSBC with You” in Shanghai, Shenzhen and Beijing respectively. These forums covered financial institutions such as urban and rural commercial banks, insurance companies and insurance asset management companies in 18 provinces, municipalities and autonomous regions in East China, South China and Central and South China. The Bank carried out in-depth exchanges with peers on the topics such as the current market situation, broadening cooperation fields, innovating cooperation models and creating long-term value for customers, and received warm response from peers. The Bank also kicked off the building of an interbank ecosystem through series of activities with the theme of “PSBC with you”, which significantly deepened the cooperation between the Bank and regional banks, insurance institutions and fund companies in terms of agency sales, interbank investment and financing, and asset custody, etc. The Bank further consolidated the cooperation relationships with the peers and improved its market influence significantly.

Looking forward, the Bank will continue to promote transformation and development, strengthen liaisons with more institutions, and bring about an interbank ecosystem where online business is merged with offline business. The Bank aims to forge an ecosystem on interbank cooperation, in order to further leverage on advantages of all parties involved and deepen the cooperation.

Bond Investments

In terms of bond investment, guided by the principle of “grasping opportunities, preventing risks and improving returns”, the Bank proactively captured market opportunities by continuously strengthening market analysis and judgment as well as closely tracking interest rate trends. It adjusted the pace of investment reasonably and selected investment categories and duration in a flexible and scientific way. On the basis of strengthening investments in major products such as bonds issued by policy banks and local government, the Bank constantly expanded investment in credit bonds of high-rated central government-owned enterprises and industry-leading enterprises, strictly adhered to the bottom line of credit risks and continued to improve portfolio returns. As of the end of the reporting period, the bond investments of the Bank amounted to RMB3,163,156 million, representing an increase of RMB17,496 million or 0.56% compared with the prior year-end.

Asset Management Business

The Bank adhered to the operation and management objectives of stabilizing growth, promoting transformation, controlling risks, and actively and steadily promoting reform in its asset management business. It focused on building three product systems featured "inclusion, wealth, and uniqueness". It continued to enhance its investment and research capabilities, strictly controlled risks and optimized the structure of systems and mechanisms. With diversified products and professional asset allocation, the Bank provided all-round value-added asset services to the investors and boosted the stable transformation of wealth management business. As of the end of the reporting period, the AUM for wealth management exceeded RMB1 trillion, representing an increase of 8.22% as compared with the prior year-end. The rate of net-value-based products amounted to 55.31%, represented an increase of 24.18 percentage points as compared with the prior year-end. The number of long-tail customers and affluent customers increased steadily, and the number of wealth management customers increased by 17.76% as compared with prior year-end.

Custody Business

Taking advantage of market opportunities arising from the transformation of the asset management industry, the Bank innovated its marketing model and strengthened its ability in expanding the customer base, realizing a growth in both the scale and income of custody business as well as the breakthrough in the growth of its major businesses. As of the end of the reporting period, the assets scale under the Bank's custody was RMB4,274,117 million. Insurance funds under custody exceeded RMB500 billion for the first time and reached RMB567,198 million. The assets of mutual funds under custody exceeded RMB300 billion for the first time and reached RMB382,401 million, representing an increase of 109.74%, ranking second among domestic custodian banks in terms of growth. At the same time, the Bank continued to strengthen the ability to prevent and control risks in custody business, obtaining the unqualified ISAE 3402 report on internal control.

Inclusive Finance

From the philosophy of "working on the trivial work even others despise; working towards stability rather than big profits" that the postal savings business has been adhering to since its start over a century ago, to the market positioning of "serving Sannong customers, urban and rural residents and SMEs" that the Bank has been holding fast to since its establishment, the Bank has been playing the roles of advocator, forerunner and promoter of inclusive finance, with the genes of "inclusiveness" and "steadiness" deeply rooted in its corporate values. Today, the Bank is making headway on the path of sustainable business development characterized by differentiation and uniqueness.

The Bank earnestly implemented the decisions and deployments of the CPC Central Committee and the State Council, resolutely worked on ensuring stability on the six key fronts and maintaining security in the six key areas, actively fulfilled its responsibilities as a major state-owned bank, and provided customers with services that were "responsible, resilient and caring". The Bank relied on digital transformation, accelerated the intelligent transformation of outlets, continued to optimize the electronic channel systems mainly consisting of mobile banking and online banking, continuously increased the convenience of online channels and comprehensively upgraded inclusive financial services. It took advantage of the location of its directly-operated and agency outlets, distributed its outlet resources to national strategic new areas and areas with inadequate financial services, constantly strengthened the service ability for residents in urban and rural areas, and supported the development of inclusive finance with care and technology. It improved the basic financial services in poverty areas, further strengthened support for key fields such as rural revitalization, and fully served in poverty alleviation and rural revitalization. As of the end of the reporting period, the proportion of the balance of loans to micro and small enterprises with credit lines of RMB10 million or below to the aggregate loan balance of the Bank was in a leading position among all major banks in China, with the balance of the former increased by RMB148,062 million compared with the prior year-end. The balance of the Bank's targeted poverty alleviation loans[1] (including loans to those already out of poverty and loans to those contributing to poverty alleviation efforts) increased by RMB18,065 million compared with the prior year-end.

Shanghua Village of Gaoniang Town in Tianzhu County, Qiandongnan Miao and Dong Autonomous Prefecture, Guizhou Province has been completely lifted out of poverty under the support of PSBC

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

Assisting in Financial Poverty Alleviation with "Lushi Model"

Background of "Lushi Model"

Lushi County is located in the western part of Henan Province. It is the largest county in Henan Province, with the lowest population density and the highest average altitude in the deep mountainous region. At the beginning of 2016, Lushi County had 19,700 registered poor households and 63,100 registered poor individuals, with the poverty incidence reaching 18.9% and 118 villages affected by extreme poverty. It was the county with the highest poverty incidence and most affected by extreme poverty in Henan Province. Therefore, it was exceptionally difficult and urgent to accomplish poverty alleviation as scheduled.

Since 2017, the Bank has granted RMB1,381 million of loans to Lushi County and disbursed "Lushi Model" loans of RMB172 million, lifting 63,100 registered poor households out of poverty. The poverty incidence in Lushi County dropped from 18.9% in the end of 2016 to 0.98% in the end of 2019, a decrease of 17.92 percentage points. On February 26, 2020, Lushi County was officially lifted out of poverty.

Practices of the "Lushi Model"

The Bank worked closely with the local government, and entered into a Cooperation Agreement on Financial Assistance to Lushi Poverty Alleviation Pilot Zone. Guided by the idea of "cooperation between government and bank, risk sharing, multiple participants, and mutual benefits", the Bank kept offering more favorable policies and resources, and enhanced innovation in products and services through the building of four systems for financial services, credit evaluation, industry support and risk prevention and control, giving full play to the supporting role of financial services to fight against poverty.

The Bank identified the distinctive industries in the local area with shiitake mushroom cultivation as a breakthrough point, and extended its services to community level to accurately target the needs of poverty alleviation. It promoted the participation of multiple parties, where the general manager, deputy general manager, and manager of the Sannong finance department of the county sub-branch joined hands with the leaders of the county, township and village, respectively, and other units such as financial office, poverty alleviation office and provincial agricultural credit guarantee companies. It continuously optimized cooperation process and improved the risk compensation mechanism.

Key Results of the "Lushi Model"

The first was to effectively promote the development of shiitake mushroom industry. The Bank strongly supported the development of distinctive industries in the local area such as shiitake mushrooms, promoted large-scale production and operation of shiitake mushroom industry, and boosted the scale of shiitake mushroom cultivation from 3,000 bags/household to 20,000 bags/household in local places such as Shuanghuai Village, thus increasing their income from RMB20,000 to RMB80,000-90,000 per year.

The second was to form a better replication effect of the practice. "Lushi model" was highly recognized by the CPC Committee and the government of Henan Province. Currently, "Lushi model" poverty alleviation loan business is available in 53 impoverished counties in the province, helping the impoverished counties across the province to overcome and get rid of poverty.

The third was to provide useful experience for continuous poverty alleviation through financial services. For financial poverty alleviation in key impoverished areas, the "Lushi model" helped the Bank discover an effective development model featuring micro loans under multilateral cooperation among banks, governments and guarantee companies.

Providing Targeted Support for Poverty Alleviation with Responsible Financial Services

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

Targeted Poverty Alleviation

According to the goal that "rural poor people are free from worries over food and clothing and have access to compulsory education, basic medical services and safe housing" and the basic policy of "targeted poverty alleviation and poverty eradication", the Bank took poor households as target customers and developed micro loans business for poverty alleviation, which featured "below RMB50,000, up to three years of maturity, without guarantee or mortgage, and at benchmark interest rates", in order to support registered poor households, those already out of poverty but still enjoy preferential policies and the marginalized groups to involve in production. As of the end of the reporting period, a total of RMB16,400 million of micro loans for poverty alleviation were granted. With the aid of a professional credit team, the Bank innovatively launched featured products in impoverished areas to fully support the development of industries with distinct local characteristics. It placed emphasis on the

PSBC established the "PSBC Love Public Welfare Platform" to develop a long-term mechanism for charity events.

support for family farms, specialized cooperatives, micro and small enterprises and other entities which could exert a positive effect on local poverty alleviation. Besides, it encouraged all kinds of entities to employ poor families and enter into transaction agreements with them, and promoted joint production. The Bank fully supported the construction of projects in poverty-stricken areas, served the impoverished areas in line with their development plans, and stepped up its efforts to support infrastructure construction and people's livelihood projects in such areas, in order to remove the development bottlenecks. As of the end of the reporting period, the balance of the Bank's targeted poverty alleviation loans reached RMB100,521 million, representing an increase of RMB18,065 million compared with the prior year-end.

Achievements of targeted poverty alleviation in 2020

I. Overview	
1. Balance of targeted poverty alleviation loans	RMB100,520,979,200
2. Worth of supplies	RMB27 million (cumulative)
3. Number of people benefiting from the Bank's poverty alleviation efforts	8,548,361
II. Details	
1. Poverty alleviation by development of local industries	
Number of loans	4,090
Loan balances	RMB30,940,958,100
Number of people benefited from the loans	17,637
2. Poverty alleviation by relocation	
Amount of loans	RMB99.60 million
3. Poverty alleviation by education	
3.1 Donations to impoverished students	RMB405.5543 million (cumulative)
3.2 Number of students supported	59,880 (cumulative)
4. Poverty alleviation by society	
4.1 Amount of funds contributed to poverty alleviation designated regions	Various loans worth RMB1,205.66 million granted to designated regions of poverty alleviation in Shangzhou District and Luonan County in Shaanxi province
4.2 Public Welfare Fund for Poverty Alleviation[1]	RMB32,222,900 (cumulative)

1 The Bank actively contributes to public welfare and poverty alleviation and fulfills its corporate social responsibility by establishing the PSBC Love Charitable Foundation together with China Foundation for Poverty Alleviation, launching PSBC Love Class of Self-Commitment program to provide financial support for education and development of high school students in poverty. In 2020, the first batch of 1,650 high school students in poverty from 33 classes of PSBC Love Class of Self-Commitment in 18 provinces sponsored by the PSBC Love Charitable Foundation took the National College Entrance Examination. The Bank rolled out its second PSBC Love Class of Self-Commitment program to 38 schools in impoverished areas (some from the Three Regions and Three Prefectures), and 1,900 high school students in poverty will receive subsidies on tuition and miscellaneous fees for three consecutive years. As of the end of the reporting period, the PSBC Love Charitable Foundation raised a total of RMB32,222,900.

	5. Loans of targeted poverty alleviation by projects	
	5.1 Number of loans	310
	5.2. Loan balances	RMB13,331,856,400
	5.3. Number of people benefited from the loans	8,175,425
III.	Honors & Awards	
	1. The Bank's case of "Assisting in Financial Poverty Alleviation with 'Lushi Model'" and "Roll up Our Sleeves to Work Harder on the Road to Revive Wenxing Town" were selected as the model case of excellent organization and model case of dedication to poverty alleviation respectively in China's banking and insurance industry.	
	2. The Bank's case of "Remain True to Our Original Aspiration and Keep Our Mission Firmly in Mind on the Road to Poverty Alleviation of PSBC" was selected into "Best 50 Comprehensive Cases of Targeted Poverty Alleviation by Chinese Enterprises (2019)" initiated by the State Council Leading Group Office of Poverty Alleviation and Development and organized by the Chinese Academy of Social Sciences.	
	3. The Bank was named "Best Bank for Poverty Alleviation of the Year" by Financial News.	
	4. The "Caichuan Model" adopted by the Bank to assist in financial poverty alleviation was included in the course developed by the United Nations for poverty alleviation in developing countries.	
	5. In the National Poverty Alleviation Summary and Commendation Conference held on February 25, 2021, three employees of the Bank, namely Luo Mingyuan, Yang Zhenghai and Tashi Naowu, were awarded the title of "National Role Models of Poverty Alleviation".	

Three employees, namely Luo Mingyuan, Yang Zhenghai and Tashi Naowu, were awarded the title of "National Role Models of Poverty Alleviation"

Luo Mingyuan sharing the financial poverty alleviation policy with the villagers of Shanghua Village
Luo Mingyuan (second from left): Head of Service Department of Taijiang County Sub-branch in Guizhou Province, and Chief Secretary to Shanghua Village of Gaoniang Town in Tianzhu County, Guizhou Province

Yang Zhenghai visiting farmland to understand the situation of the villagers
Yang Zhenghai (center): Accountant of Pu'er City Branch in Yunnan Province

Tashi Naowu sharing the financial policy with farm households
Tashi Naowu (first from right): Head of Banma County Sub-branch in Golog Tibetan Autonomous Prefecture, Qinghai Province, and Chief Secretary to Nianzha Village of Xiadawu Township in Maqin County, Qinghai Province

Follow-up plan of targeted poverty alleviation

At present, all poverty-stricken counties have been officially removed from the poverty list, yet it remains necessary to maintain the stability of financial poverty alleviation policies for deeply impoverished areas, newly developed poverty alleviation industries, households that have not been completely lifted out of poverty and marginalized households that are prone to be stricken by poverty. In line with the requirements of the CPC Central Committee to align efforts to consolidate and expand the achievements in poverty alleviation with efforts to promote rural revitalization during the 14th Five-Year Plan period, the Bank will adhere to serving Sannong customers as always, keep the support to the original industry-based poverty alleviation and policies unchanged, and enhance the product support to those already out of poverty, technological empowerment of financial services and the training and building of talent team, to help the majority of rural residents live a better life.

Reaching into the Rural Areas, Promoting Revitalization and Providing Resilient Financial Services

The Bank applied advanced technologies such as big data, internet and mobile communication to promote business transformation and upgrading, further implemented the rural revitalization strategy, and steadily promoted the ecosystem of supporting agriculture with synergetic policies, with focuses on improving basic financial services in rural areas. It established an internal and external collaborative mechanism to create a coordinated ecosystem on agriculture support. Internally, various business lines cooperated to integrate products and services to meet the diversified financial service needs of Sannong customers. Externally, it strengthened cooperation with governments, enterprises, associations, insurance companies, and guarantee companies, in building an integrated service ecosystem of Sannong through system interconnection, customer data sharing and various scenarios embedded. During the reporting period, the balance of agro-related loans reached RMB1.41 trillion, representing an increase of RMB149,676 million over the prior year-end; the average amount of micro-loans of the Bank only amounted to RMB109,200, and the number of micro-loans customers was 3.6903 million; the interest rate of new personal micro loans was 5.88% per annum, and the non-performing loan ratio was 2.00%.

Strengthening organizational guarantee and enhancing development momentum

The Bank further deepened the reform of the Sannong Finance Department, and adjusted the organizational structure and responsibilities of the Sannong Finance Department according to the new situation and new requirements. It increased headcount in the Sannong Finance Department to enhance the ability in rural revitalization and poverty alleviation. It intensified preferential policies, and set forth implementation rules to be more tolerant to non-performing agro-related loans and poverty alleviation loans, so as to ensure no one who has fulfilled their duties is held liable. The Bank also rolled out guidelines on credit policies for rural revitalization and targeted poverty alleviation, offered more "green channels" for credit application, established rural revitalization (targeted poverty alleviation) review teams and put forward other supporting policies. The Bank made more efforts in team building, reinforcing the team of customer managers in branches, strengthening business training, and improving the professional skills of staff in each position.

Technology empowerment to improve customer service efficiency

The Bank actively promoted the integration of traditional operations with advanced technologies. Underpinned by the cutting-edge technologies, we accelerated the development of inhouse Internet loans and vigorously developed the industrial chain-based online loans in cooperation with core enterprises. Meanwhile, we went all out to promote the whole-process digital transformation of micro credit which was expanded via mobile business terminals. Via mobile business terminals, a host of technologies such as facial recognition, big data analysis and mobile positioning were used to digitize the whole process of micro credit including loan application, approval, disbursement, post-lending management and archives management. In this way, the original "counter service" was replaced by the present "doorstep service", allowing rural customers to enjoy financial services without leaving their homes. For the Bank, businesses were handled more efficiently, and customer experiences got further improved. As of the end of the reporting period, the number of micro loans disbursed online as a share of the Bank's total micro loan disbursements went up to 92.34%, and the net increase of online loans surged by 513.87% year-on-year.

Increasing support in key areas of rural revitalization

The Bank continuously promoted the "Ten Business Modes" to support the implementation of the rural revitalization strategy, focusing on the key areas of the strategy, such as the supply of important agricultural products, building of beautiful countryside, circulation of rural commodities, and construction of rural infrastructure. We cemented cooperation with the national agricultural credit guarantee system. As of the end of the reporting period, a total of RMB82,000 million of loans were granted through such cooperation, with a balance of RMB35,011 million. We took major steps to realize synergy between the wholesale and retail businesses and continuously strengthened the cooperation with platforms including core enterprises. We carried out a pilot cooperation program for the online industrial chain loans including "PSBC Merchant Loan", "PSBC Enterprise Link" and "Breeding Industry Loan". We accelerated the accumulation of transaction data via co-building of a trading system and promoted the "market plus merchant" integrated financial services. In the area of rural environmental protection, we boosted the development of, for instance, waste incineration and sewage treatment industries.

Continuously improving basic financial services in rural areas

Through extending outlet services to rural areas and creating online trading service platforms, the Bank developed an "online plus offline" integrated service network. The Bank promoted the New Rural Endowment Insurance ("NREI") and the New Rural Cooperative Medical Service ("NRCMS"), providing comprehensive and multi-level financial services for rural residents. As of the end of the reporting period, the Bank had 101,700 sets of self-service equipment and 45,900 financial service stands for agriculture at and below the county level. During the reporting period, the Bank acted as the collection agency for 3.047 million NREI transactions with a volume of RMB1,099 million, as the payment agency for 201 million NREI transactions with a volume of RMB33,398 million, and as the payment agency for 532,000 NRCMS reimbursement with a volume of RMB290 million.

Focusing on Micro and Small Enterprises and Easing Their Difficulties by Providing Financial Services with Human Touch

The Bank's micro and small finance focused on the target of "increasing the volume and expanding the business scope, improving quality and cutting costs", adhered to customer-oriented philosophy and promoted supply side reform of the product end. It enabled the four major systems of products, marketing, operations and risk control with technology, and pushed forward the development of micro-finance business towards "digitalization, intelligence, openness and agility". As of the end of the reporting period, the Bank's balance of loans to micro and small enterprises with credit lines of RMB10 million or below amounted to RMB801,247 million, representing an increase of RMB148,062 million compared with the prior year-end. The number of accounts with loan balances increased by 94,500 compared with the prior year-end. The average interest rate for new loans in 2020 was 5.46%, a year-on-year decrease of 72 bps, and the non-performing loans ratio was 2.01%. The quality of assets remained stable.

Implementing multiple measures to support the fight against covid-19

Ever since the outbreak of the epidemic, the Bank acted swiftly and continued to increase its credit support in fields relevant to the prevention and control of the epidemic.

Apart from the list of key enterprises engaged in national epidemic prevention and control, the Bank established a list of key enterprises among its own customers, implemented differentiated credit policies, set up green channels, implemented interest rate concessions, and disbursed over RMB12 billion of epidemic relief loans to micro and small enterprises, in order to nourish the "body" of real economy with financial "blood".

The Bank actively implemented the temporary policy of delaying the repayment of principal and interest for micro, small, and medium enterprises (MSMEs) and support them in resuming production. For micro and small enterprises who were affected by the epidemic with temporary difficulties in repayment, on premise of keeping in mind of substantial risks of customers, the Bank reasonably provided relief and assistance through adjusting the principal and interest repayment arrangements, extending or renewing loans and other means, to overcome the difficulties together with micro and small enterprises. Meanwhile, the Bank tracked and traced high-risk customers, and adopted differentiated risk control and mitigation measures to ensure the asset quality was stable and controllable.

Reinforcing digital transformation of products

Through best-bet big data products such as the "Easy Small and Micro Loan" and micro "Speedy Loan", the Bank continuously enriched digitalized product supply and promoted the upgrade and transformation of micro-finance services. It kept on promoting the business model of Easy Small and Micro Loan, expanded the coverage of Project Easy Loan to 32 tier-1 branches, introduced online mortgage and online guarantee based on tax, invoice, comprehensive contribution and the model of Project Easy Loan to form a "4 plus 2" development framework. The Bank accessed to the PBOC's CRC Accounts Receivable Financing Service Platform, and launched the "Online Government Procurement Loan" business on a pilot basis. With nearly 40,000 outlets spread throughout the urban and rural areas, the Bank pushed forward the intensified integration of online and offline service channels, and further expanded the coverage of its micro-finance services. As of the end of the reporting period, the balance of the online loans to micro and small enterprises was RMB457,070 million, representing an increase of RMB252,052 million or 122.94% compared with the prior year-end.

Promoting upgrade of intelligent risk control

The Bank continued to improve "all aspects, whole process and entire staff" comprehensive risk management system, and extensively introduced data such as the industrial and commercial, judicial, taxation, invoice and state grid. Relying on big data practices and financial technologies, the Bank optimized the whole-process measuring model for pre-lending investigation, approval during lending and post-lending risk warning, accurately identified the characteristics of the risks of small and micro customers, assisted in manual decision-making and further enhanced the capability of risk prevention and control, in order to ensure asset quality was stable and under control.

Promoting platform openness

The Bank continued to expand data access with the National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Science and Technology, local taxation and other departments, and achieved direct banking-taxation connection in 34 tier-1 branches. Based on internal and external data, the Bank developed accurate marketing model, discovered potential high-quality customers and continuously improved customer acquisition capacity. It actively explored the creation of an ecosystem in which online and offline services are integrated and financial and non-financial lines interact with each other. It also explored the building of a PSBC operation service platform to serve business customers, aiming to provide micro and small enterprises with online financial and non-financial services covering "import, sales, inventory, human resources, capital and goods", and to provide business integration support for micro and small enterprises on the basis of financing services.

Enhancing agile operation

Upholding the "customer-oriented" service concept, the Bank continued to enhance customer experience by customer journey optimization. It accelerated the promotion of mobile business terminal and online drawdown, introduced online drawdown of working capital loans for high quality customers in people's livelihood sector, and enhanced efficiency and reduced operating cost of financial services to micro and small enterprises. By reducing the operating costs to benefit micro and small enterprises, it provided convenient and efficient financing services with better prices for micro and small enterprises.

Promote the “Project Easy Loan” to Support the Resumption of Production

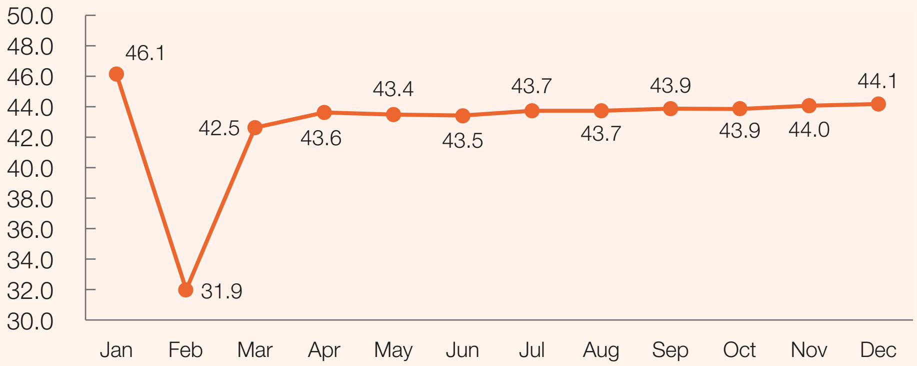
As one of the first financial institutions in China to join the national platform celoan.cn, the Bank took the lead in the innovative R&D of “Project Easy Loan”, a big data product for engineering industry. With the technologies of internet and big data, combined with the industry credit report provided by the Credit Big Data Innovation Center, the Bank conducted comprehensive scoring and credit evaluation on micro and small enterprises, provided online credit financing services to micro and small enterprises in the engineering industry in a self-service manner, granting credit amounting to more than RMB9 billion, which greatly eased the financing difficulties of micro and small enterprises in the engineering industry.

The Bank fully utilized the “Project Easy Loan” to provide convenient, efficient and safe services for loan applications to micro and small enterprises in the engineering industry, which has been launched in 32 tier-1 branches nationwide. During the epidemic, the “Project Easy Loan” turned to be crucial in supporting enterprises to resume work and production. In April 2020, an engineering company in Xiamen was faced with short-term liquidity pressure after winning the bidding for a project. Coupled with the epidemic impact, the application for conventional credit products were hindered. Upon learning about the situation, Xiamen Branch recommended timely the “Project Easy Loan” to the company, which can be applied on a mobile phone and free of collateral. The company successfully applied for a credit line of RMB3 million within just ten minutes, and online drawdown within five minutes, with its corporate financing difficulty alleviated.

Deepening Micro-finance Research to Assist with the Healthy Development of Micro and Small Enterprises

Since 2015, the Bank and The Economic Daily jointly released the Economic Daily-PSBC Small and Micro-sized Enterprise Operating Index, which comprehensively reflects, on a monthly basis, operation and development of micro and small enterprises and household businesses. The index includes six regional indices, seven industrial indices and eight sub-indicators[1], and forms a unique three-dimensional structure of "6 plus 7 plus 8", which fills the gap of monthly release of domestic small and micro operation indices. At the same time, the Bank cooperated with Renmin University of China to establish a research group on the index of micro and small enterprises, and made continuous improvements on the index in terms of indicators, modeling, sampling, questionnaire design and data validation while taking into account the socio-economic and micro and small enterprises development changes.

As of the end of the reporting period, the index has been released for more than 5 consecutive years, with 68 issues released in total. It comprehensively demonstrated the current development status of micro and small enterprises, and received much attention from society. It provided micro and small enterprises with intellectual support on making decisions in areas such as structural adjustment of production, delivered full and reliable data for academic researches, and provided useful references for the policy making and industrial planning of the country. The index has become an important indicator for observing the development of micro and small enterprises in China. In particular, during the epidemic, it objectively and comprehensively reflected the business development of micro and small enterprises under the impact of the epidemic, providing important reference for the formulation and implementation of relevant policies.



In February 2020, most of micro and small enterprises could not resume business due to the epidemic, and the index substantially decreased. As the epidemic began to ease, micro and small enterprises gradually resumed business with operation continuing to improve, thus the index rebounded significantly.

[1] The six regional indices include six regional sub-indices for Northeast China, North China, East China, Northwest China, Central & South China and Southwest China; the seven industrial indices include seven industrial sub-indices for manufacturing, wholesale & retail, construction, services, transportation, accommodation & catering, and agriculture, forestry, animal husbandry & fishery; the eight indicators include market indicator, performance indicator, expansion indicator, procurement indicator, risk indicator, financing indicator, confidence indicator and cost indicator.

Green Finance

The Bank further implemented the concept of green development and vigorously developed green finance and climate financing. By benchmarking international best practices to support green and low-carbon development and to promote the harmonious coexistence between human and nature, the Bank made improvements in terms of corporate governance, system establishment, incentives and restraints, product innovation, risk management, etc. so as to facilitate the goals of peak carbon dioxide emissions before 2030 and carbon neutrality before 2060. As of the end of the reporting period, the Bank's balance of green loans amounted to RMB280,936 million, representing an increase of RMB65,158 million, or 30.20% compared with the prior year-end, which was 9.9 percentage points higher than the average growth rate of the banking industry. Specifically, the balance of corporate green loans amounted to RMB271,459 million, accounting for 13.73% of corporate loans in the corresponding period, which was 2.93 percentage points higher than the industry average. The Bank increased its underwriting and investment in green bonds, with the balance of green bonds investment worth RMB24,091 million. The Bank has been awarded the title of "Outstanding Institution of Green Bank" by China Banking Association, and given a high rating by MSCI in terms of environmental, social and governance ("ESG").

Strengthening Top-Level Design and Improving Green Governance

The Bank promoted the building of a green bank and climate-friendly bank from a strategic perspective, implemented the concept of green development, and incorporated the development of green finance into its strategic outline for medium and long-term development. The Board of Directors, the Social Responsibility and Consumer Rights Protection Committee, the Senior Management, and the steering group for green bank building heard reports on the building of green bank on a regular basis, studied and planned key tasks, and promoted the progress in green bank building. The Bank established Wuxing Green Sub-branch in Huzhou, Zhejiang, and Huadu Sub-branch in the pilot zone for green finance reform and innovation zone in Guangzhou. It entered into a cooperation framework agreement with Huzhou to make HuZhou Branch a Head Office-level green finance reform and innovation pilot, strongly supporting the green development in the pilot zone.

Optimizing Policy System and Improving Management Mechanism

The Bank constantly optimized the guidelines on credit policies regarding green finance and the prevention and control of pollution, set strict customer access standards, and continuously optimized its credit structure. It classified industries such as wind power, photovoltaic power, garbage power, hydropower, energy conservation and environmental protection, new energy vehicles, railways, and rail traffic as industries encouraged to finance, and industries with high pollution, high energy consumption and overcapacity, such as coal, coal power and steel, as industries supported with prudence. The Bank developed measures for environment and social risk management, incorporated ESG into the whole credit approval process, and strengthened the protection of biodiversity. It also put forth specific environmental and social risk management requirements for credit business in terms of due diligence, review and approval, contract signing, disbursement review and post-lending management according to the principle of "full process, full elements, full range, and full coverage".

Improving the Incentive and Restraint Mechanism and Optimizing Resource Allocation

The Bank improved the incentive and restraint mechanism in terms of performance evaluation, product innovation, credit scale, economic capital, internal funds transfer pricing (FTP), loan pricing, review and approval, internal audit, on-site inspection, etc., and strengthened resource allocation to provide strong support for key areas of green finance such as low-carbon transportation, renewable energy, clean energy, green buildings, energy conservation, environmental protection, etc. The Bank also incorporated the granting of green loans into the performance evaluation of business lines and branches, and gave 10 bps discount on FTP of green loans and green bonds. A “green channel” was adopted for the review and approval of green loans so as to ensure such loans would be prioritized in terms of credit granting.

Supporting Green and Low-carbon Development of Huzhou

The Bank earnestly implemented the concept that lucid waters and lush mountains are invaluable assets and strongly supported the green development in pilot zones for green finance reform and innovation. The Bank entered into the Cooperation Framework Agreement to Support Huzhou City in Building a High-quality National Pilot Zone for Green Finance Reform and Innovation with the Huzhou Municipal Government. The Bank designated Huzhou Branch of Zhejiang Province as a Head-office level pilot for the green finance reform, which would make pilot efforts in aspects such as institution setting, product innovation, process optimization, fund pricing, approval authorization, and fund allocation. Wuxing Green Sub-branch, the first green sub-branch of the Bank in Huzhou, formulated a plan for the promotional campaign with the theme of “Turning Green Development into Assets”, established a green finance team, launched innovative product and services, expanded the scale of green credit, developed a green product system and expanded the scope of green development. As of the end of the reporting period, the balance of green credit of Wuxing Green Sub-branch amounted to RMB557 million, representing a year-on-year increase of RMB314 million or 129.16%. Green credit accounted for 76.26% of the total loans issued by Wuxing Sub-branch.

Lucid waters and lush mountains are invaluable assets.

Empowering Customers' Green and Low-carbon Development

The Bank integrated the environmental protection data of the Blue Map into the "Jinjing" (Gold Eye) credit risk monitoring system, and actively explored the establishment of an environmental risk tracking and evaluation model with dynamic real-time monitoring of the entire process. By using the Blue Map environmental database and the dynamic environmental credit risk evaluation system of enterprises, the Bank achieved dynamic monitoring and evaluation as well as visual and quantifiable management of customers' environmental and climate risks. It measured environmental emissions and energy consumption data of existing credit customers, encouraged customers to disclose environmental information and to formulate effective environmental protection measures, and promoted energy conservation, emission reduction and industrial upgrading. In doing so, the Bank effectively improved its environmental and climate risk management capability. As of the end of the reporting period, under the guidance and encouragement of the Bank, 197 enterprises actively fulfilled their responsibilities in pollution prevention and control, made public disclosures on past environmental violations, and achieved good results during rectification. At the same time, more than 200 customers used the Blue Map platform and tools to measure and disclose data of resources and energy, including freshwater consumption, waste water emission and greenhouse gas emission.

Enhancing Product Innovation and Supporting Green Development

With the advantages of capital and network and in order to actively promote the development of green inclusive finance, the Bank researched, developed and promoted green finance products tailored to the needs of micro and small enterprises, consumers and farmers in the fields of pollution prevention, energy conservation and environmental protection, ecological agriculture, green building, and green consumption, including photovoltaic poverty alleviation loans, small hydropower loans, clean loans, loans pledged by the right over compensation for ecological non-commercial forests, loans pledged by the right over garbage charges, loans pledged by the right over future incomes based on contractual projects of energy management, Speedy Loans, Easy Small and Micro Loans and others. In addition, the Bank launched innovative climate-friendly green financial products, and developed Zhejiang Yuhang Zhongtai carbon absorption loan, Guizhou single-plant carbon sink targeted poverty alleviation project, Dalian flow battery energy storage project loan, CECEP Beijing-Tianjin-Hebei regional emission reduction and air pollution prevention L/G, etc.

Applying Fintech and Strengthening ESG Risk Management

The Bank applied big data and artificial intelligence technology to integrate ESG factors into the whole process and all links of credit granting with the aim of strengthening ESG risk management. The Bank took the lead in cooperating with the Institute of Public and Environmental Affairs (IPE) to integrate the environmental protection data of the Blue Map into the "Jinjing" (Gold Eye) credit risk monitoring system, enhanced climate risk management and actively promoted environmental credit restoration with customers by leveraging the Bank's advantage of proximity to customers to communicate green development philosophy. It incorporated borrowers' environmental and social risk commitments and declaration in the contract clauses, enhancing the rigid binding force. The Bank carried out special investigations on ESG risks for four consecutive years, formulated specific risk management measures based on each customer's account, and effectively prevented and mitigated potential risks.

Advocating Green Concepts and Strengthening Green Operations

The Bank advocated green environmental concepts and promoted energy conservation and emission reduction. It strengthened institutional management, issued energy management rules, incorporated energy saving goals into daily tasks, promoted a paperless work environment, avoided office equipment with high energy consumption and low energy efficiency, and reduced total energy consumption. Hefei Data Center was awarded the 2020 National Green Data Center, which was jointly evaluated by six government departments and agencies including the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Commerce, the National Government Offices Administration, the CBIRC and the National Energy Administration. It advocated waste classification, and evaluated, classified, decomposed and centralized storage of discarded equipment from a lifecycle perspective of the products, in order to reduce the impact on the environment and to fulfill the Bank's social responsibility. It also held green charity events. As of the end of the reporting period, a total of 5,307 employees participated in the tree planting event and 104,012 trees were planted.

Building of a Scenario-based Ecosystem

The Bank accelerated the building of a digital scenario-based ecosystem, incorporated more features of postal services, and strengthened alignment with external scenarios. It gradually embedded financial services into daily-life consumption scenarios and explored new ideas of online and offline user operation to meet the diversified customer needs for scenario-based services.

In terms of online platforms, the Bank established the twin engines of “finance plus life”. It continued to intensify ecosystem layout with characteristics of “PSBC Canteen + postal services + life scenarios” in mobile banking, in which the Bank focused on promoting the building of new scenarios, new ecosystems and new channels of PSBC Canteen. As of the end of the reporting period, registered users on PSBC Canteen was approximately 50,942,200, representing an increase of 347.37% from the prior year-end. It developed and optimized postal services and life scenarios of mobile banking, and launched postal service scenarios such as online Worldwide Express Mail Service, EMS Fresh Express, Ule.com and 183 Read as well as life scenarios such as Meituan Takeaway and movie tickets in mobile banking. At the same time, the Bank launched the PSBC Life benefit platform, strengthened synergy with its main business, and enhanced the convenience and coverage of its financial services.

PSBC deepened opening-up and cooperation by developing “PSBC Pay” smart payment services in accordance with the characteristics of the industry

In terms of offline platforms, the Bank established an “outlet plus business circle” customer acquisition system. By taking merchant expansion and acquiring business as its basic and strategic points, relying on the advantages of offline outlets and focusing on the characteristics of county areas, the Bank enriched application of “acquiring plus”, and thoroughly explored business in “acquiring plus business circle”, “acquiring plus integrated finance” and “acquiring plus industry”. Relying on business circles to carry out a variety of operational activities, the Bank promoted the connection with merchants and customers and transformed business circles into a new scenario that can extensively acquire customers. It acquired merchants in eight key fields of retail, catering, transportation, hotel, medical care, education, administration services and utility bill payment, and cooperated with service providers in vertical sectors of industries to provide comprehensive solutions for merchants. The Bank promoted “PSBC Pay” nationwide, an integrated payment and acquiring product, providing merchants and customers with convenient experience on settlement and mobile payments. As of the end of the reporting period, the number of merchants using QR code payment was approximately 2,018,300, representing an increase of 177.15% compared with the prior year-end.

Integrated Layout of Digital Finance

The Bank continued to explore and push forward the digital transformation by creating new momentum, seeking development opportunities amidst changes, and constantly integrating the idea of "addition, subtraction, multiplication and division" into business development: "addition" refers to connection, i.e. channel integration; "subtraction" means to reduce burden by technology; "multiplication" refers to superposition, i.e. service expansion; and "division" refers to segmentation, i.e. providing targeted services.

"Addition": online and offline channel integration

Service channel is the first window to connect with customers, and the first channel to engage with customers. The Bank responded to the trend of online migration of financial services and established a team for in-depth integration of business technology. It fully utilized the advantages of agile development and launched mobile banking 6.0 to continuously accelerate the upgrade and iteration of mobile banking. As at the end of the reporting period, the Bank had 299 million mobile banking customers, with over 40 million of monthly active users (MAU), and the value of online channels continued to emerge. The sales volume of wealth management and fund products in mobile banking accounted for over 90% of the Bank's total sales volume, showing rapid increase of online business. For details, please refer to "Distribution Channels - Electronic Banking Channels".

The Bank further reinforced the complementarity between online and offline services, where online access served as medium and interface and offline delivery served as core and uniqueness. Customer Manager Cloud Studio created during the COVID-19 provided customer managers with a round-the-clock and touchless digital service channel. As of the end of the reporting period, approximately 128,600 customers registered for the Cloud Studio and attracted around 10,510,400 visitors with over around 29,248,200 cumulative visits.

"Subtraction": technology and innovation empower burden reduction

While technology challenges the traditional business models in the banking industry, it also brings a new vitality to the industry. The Bank actively elevates its support of information technology, and the leading role of fintech for business development continues to emerge.

Firstly, the database was strengthened. Relying on the big data platform and six data marts, the Bank built four service systems, namely data service, model service, real-time decision-making service and visualization service. It fully implemented the strategy on middle-office data services and incorporated data service into the business process to improve service efficiency, which helped to reduce the cost of online loans to about 10% that of traditional loans. The Bank built the system of management cockpit, developed visual analysis applications for operation analysis, risk prevention and control, and operation and management, transforming data capabilities into solid operational capabilities.

Secondly, the technology capabilities were enhanced. The Bank developed a cloud platform with fully standardized process and centralized management. The intelligent customer service based on deep learning handled 63.59% of the total inquiries on the service hotline. Based on the blockchain technology, the Bank built platforms on fund management for project construction in Xiongan New Area and on non-tax fiscal income, in a bid to facilitate the building of a smart city. The Bank developed the PSBC Brain, and developed three underlying platforms of machine learning, knowledge graph and Internet of Things ("IoT") and realized six capabilities, which are machine vision, language and speech, knowledge graph, intelligent decision-making, biometric identification, and smart IoT.

"Multiplication": finance overlays with service expansion

The Bank extended the coverage and types of services in response to customer demand, and restructured its financial services and combined them with scenarios, worked together with its partners to provide customers with diversified and comprehensive "Finance plus" services, integrating financial services into various scenarios in life and business.

Firstly, finance is combined with services in life. Starting with PSBC Canteen, the Bank continued to promote the development of its new scenarios, ecosystems and channels. As of the end of the reporting period, the total number of users on PSBC Canteen was around 50,942,200, an increase of 347.37% from the end of the previous year. During the reporting period, the Bank launched the PSBC Life benefit platform, integrated a variety of scenarios to provide customers with diversified and multi-dimensional services such as clothing, food, housing, transport, healthcare, education, culture and sports, and comprehensively enhanced customer experience in areas of key scenarios, financial products and membership services. Besides, by adhering to the concept of openness, sharing and benefits for all and operating in strict compliance with regulatory requirements as well as keeping risks under control, the Bank focused on areas such as co-branded cards, e-payments and scenario-based cooperation, etc., facilitated the Bank's digital transformation and enhanced its service for inclusive finance.

Secondly, finance is combined with services in business. With the continuous promotion and application of technologies such as 5G, blockchain and IoT, the industrial chain becomes more and more integrated and connective, and the demand for finance combined with services in business is also continuously increasing. The Bank strengthened cooperation with domestic leading enterprises, and provided them with a package of services combining technology, finance, logistics and e-commerce via bank-enterprise interlink. The Bank integrated information of industrial chains and achieved mutual recognition and access on flows of products, information and capital from upstream and downstream sources so as to put all the data assets of industrial chains into use and promote online migration of the entire closed-loop process including technical consultation, material procurement, financing and settlement as well as merchandising.

"Division": precise and tailor-made services

The core of digital transformation lies in the change of service concept, which is to change from being product-oriented as in traditional banks to being customer-oriented as in the digital age. The Bank launched a comprehensive digital transformation, upgraded the entire process and chain of business, and integrated and connected with multiple products and channels.

Firstly, navigated by user profiles. By creating a CRM platform, enriching the customer labeling system and creating 360-degree customer portraits, the Bank strived to match products and services to cater for individual needs, and provided customers with customized products and tailor-made services. By using innovative business models such as relationship mapping, virtual community banking and private domain traffic management, the Bank was able to build a sustainable relationship with its customers.

Secondly, guided by customer experiences. The Bank launched the optimization of end-to-end customer journey in full, established a closed-loop management mechanism for customer experience improvement based on "from experience to improvement, then experience to improvement", focused on the most direct and real feedback from customers on service to achieve real-time perception, analysis and prediction of user demands.

Thirdly, fueled by network penetration. The powerful presence of outlets will serve as the supporting stands for online services. The Bank fully utilized the influence of outlets, promoted the transformation of outlets and turned them into "micro business circles", "micro customer bases" and "micro communities", created a solid base for customer relationship management and introduced regional attributes and cultural characteristics into the financial services.

Integrated Operation

PSBC Consumer Finance: Forging Ahead for Five Years with Innovative Consumer Finance

PSBC Consumer Finance actively practiced the idea of inclusive finance, and dedicated to promoting the potential public consumption, facilitating the integration of industry and finance, and encouraging the upgrade of retail consumption industry with the development vision of "life with credits, fun in your hands". It was committed to building an online-offline integrated consumer finance service platform using technological innovation in order to drive the economy with consumption with the core values of integrity, professionalism, innovation, and win-win.

After five years, PSBC Consumer Finance has established regional marketing centers in 16 provinces and cities, continued to expand its coverage of areas and extend the service scope of inclusive finance. PSBC Consumer Finance continued to strengthen technological innovation and application, established online-offline integrated customer acquisition channels and comprehensive risk management systems that cover pre-lending, lending and post-lending, and enhanced the penetration and spread of inclusive finance. It actively implemented the coordinated development strategy and carried out marketing activities together with the Bank on a regular basis to promote the development of mobile banking "PSBC Loan", creating a benchmark for coordination development.

During the reporting period, PSBC Consumer Finance adhered to high-quality development and continuously strengthened its core competitiveness, achieving better operating results. Firstly, it expanded fintech application to meet the financial needs of customers in terms of convenience and speed. It set up an independent R&D team that has the ability to act swiftly to business needs and operate promptly and efficiently, and applied technological innovation to support business development. Secondly, it strengthened the cornerstone of sustainable operation and promoted the upgrade of risk control system in all aspects. It strived to build a comprehensive risk management system covering "all aspects, whole process and all staff" and laid out a "horizontal to the edge, vertical to the base" risk compliance management matrix in grid format. It withstood the test in aspects such as marketing and customer acquisition, risk management, post-lending collection, achieved a steady growth in business scale and both the non-performing balance and ratio recorded decrease, accomplishing well-performing operating results. Thirdly, it shouldered the role of licensed institution and always upheld the mission of inclusive finance. It continued to lower the interest rates on products and make interest concessions to the real economy by extending loans, reducing or waiving service fees for customers affected by the epidemic. While serving the real economy and boosting the potential consumption of the public, PSBC Consumer Finance continued to enhance the penetration and spread of financial services, actively contributed to society and shouldered the social responsibility.

In 2021, under the themes of operational compliance and high-quality development, PSBC Consumer Finance will continue to implement the coordinated development strategy and strengthen its ability to acquire customers independently. Also, it will constantly consolidate its core competitiveness by working on structural adjustment, risk control and efficiency improvement and keep promoting the inclusive finance development to serve the real economy.

PSBC Wealth Management: Comprehensively Enhancing Core Competitiveness to Support the Bank's Strategic Transformation

The year 2020 is the first year of transformation for PSBC Wealth Management (WM). Focusing on wealth management business, PSBC WM has comprehensively enhanced its core competitiveness, adhered to the objectives of "maintaining steady growth, promoting transformation, preventing risks, and actively and prudently pursuing reform", delivered steady increase of the scale of wealth management and actively promoted its reform and transformation.

Firstly, with transformation as the core, PSBC WM aimed to build a first-class asset management company in the banking industry that is customer-oriented, prudent and stable, professional and open, innovative and pioneering, and with exceptional value. Secondly, it strengthened synergetic effect, promoted transformation and upgrade of retail business and worked with others to advance the development of a wealth management system to meet diversified investment and financing needs of corporate customers, as well as building a multi-level financial service system. Thirdly, its capability in customer services was significantly enhanced, and its inclusive customers and affluent customers served increased by 240.58% and 16.13% respectively compared with the prior year-end. Fourthly, it enriched the product system featuring "inclusion, wealth and uniqueness" and promoted the integrated layout of investment and research. It enhanced product innovation, researched and developed "fixed income plus" and mixed products, and significantly increased the number of products issued and strategies implemented, with the percentage of NAV-based products increased from less than 2% before the issuance of new rules on asset management to 55.31% now. Fifthly, it continuously consolidated basic management, comprehensively improved risk management system, vigorously promoted fintech development and constantly improved the efficiency of operational support.

The year 2021 is the final year of the transitional period for new rules on asset management, as well as a critical year for the transformation and exploration of wealth management business. PSBC WM will continue to uphold the concept of high-quality development, fully leverage the coordinated and synergetic effects to serve the Bank's retail transformation strategy and the building of wealth management system, in a bid to fulfill its social responsibility to serve the real economy, and meet the public's demand for wealth management.

PSBC online: A Direct Bank with Independent Legal Person Status in Preparation under Regulatory Approval

On December 21, 2020, the Bank received the formal approval from the CBIRC for the establishment of a direct bank, making it the first major state-owned commercial bank to participate in the direct banking pilot program. With PSBC online as its proposed name, the direct bank is planned to have a registered capital of RMB5 billion with the registered place in Shanghai, in which the Bank holds a 100% stake.

The establishment of a direct bank is an important step for the Bank to deepen its institutional reform and explore fintech innovation, which aligns with the orientation of regulatory policies, the trend of digital transformation and the Bank's business development needs. By leveraging technologies and following the idea of inclusive finance and market-oriented operation, PSBC online will fulfill its mission of serving Sannong customers, assisting micro and small enterprises and bringing benefits to the general public. It will actively explore new Sannong financial service model and meet the financial service needs in rural and county areas; focus on micro and small enterprises, making use of fintech to help them solve such problems as difficulties in accessing affordable, quick financing, providing a package of financial services. It will proactively extend the penetration of its services to promote consumption upgrade with inclusive finance, and build an innovation platform for supporting rural revitalization with financial services and achieving a better life with technology.

Besides, fully performing its role as the testing ground of PSBC and on the premise of "independent operation and risk isolation", PSBC online will build a more flexible and efficient market-oriented system and mechanism, promote development with platformization and openness as the key direction, and actively explore new models of diversified cooperation with the Bank as well as the online and offline coordinated development. It will also strive to become an innovative financial service institution with social influence and develop the second curve of the Bank's transformation to better serve the rural revitalization strategy, support the real economy and put digital inclusive finance into practice.

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Capability Building

Information Technology

Following the philosophy of invigorating the Bank through technology and with the purpose of securing a satisfactory conclusion of the IT Planning for the 13th Five-Year Plan period, the Bank accelerated the team building and built the underlying IT platforms. It advanced the building of a new generation core system for personal banking business and enhanced its independence and controllability. It strengthened application of big data and improved capability in financial technology innovation. The Bank prioritized the development of technology and continued to increase its IT spending. During the reporting period, its IT spending amounted to RMB9,027 million, representing a year-on-year increase of 10.35%, which was equivalent to 3.15% of its operating income.

Information Technology Development

It strived for the satisfactory conclusion of the IT Planning for the 13th Five-Year Plan period. During the reporting period, the Bank carried out 333 IT projects, focused on 10 major projects of new generation core system in personal banking, credit card, online banking, corporate banking, treasury and custody, operation management, technology innovation, risk management, big data, etc. It successfully completed tasks under the IT Planning for the 13th Five-Year Plan period, among which, 16 enterprise-level platforms such as the credit business platform and two bus systems had been put into use. These platforms and systems played an important role in enterprise-level process integration, rapid product innovation, ecosystem development and customer experience improvement, etc., fully showcasing the business value of IT planning. During the 13th Five-Year Plan period, it built eight new platforms related to process integration, credit business, internet finance, treasury business, combination transactions, CRM, internal rating and open service platform as well as 145 new information systems. Through the implementation of the IT Planning for the 13th Five-Year Plan period, it built four underlying IT capabilities such as enterprise-level service sharing, significantly improved seven business capabilities such as customer services, channel collaboration and product innovation, etc., and built an enterprise-level application architecture so as to realize the blueprint of the Bank's business architecture.

IT spending amounted to RMB9,027 million, representing an increase of 10.35% over the prior year.
The IT headcount at the Head Office doubled over the prior year.
We secured a satisfactory conclusion of the IT Planning for the 13th Five-Year Plan period, and launched 16 enterprise-level platforms including the credit business platform.

IT team building

The Bank improved the organizational structure and sped up IT team building. It set up a new R&D sub-centre in Xi'an and formed a "1 plus 4 plus N" independent R&D system which included one R&D centre in the Head Office, four sub-centres and a number of R&D centres in branches, further improving its organizational system. It set up a test centre as a tier-2 department to enhance its professional testing capability. It also formulated the implementation plan for the project of IT professionals in 2020, carried out regular recruitment, and built professional teams engaging in areas related to demands, development and testing, achieving rapid productivity. It introduced top IT personnel, and solved key and difficult issues in IT development. The IT headcount at the Head Office doubled compared with that at the prior year-end. It improved the general band structure for IT staff and formed seven IT sub-classes, namely architecture, demands, R&D, technical testing, operation and maintenance, data analysis, and technology risks, thus optimizing the development path for IT personnel. It further improved the cultivation mechanism for IT personnel, organized professional and technical trainings and strengthened the development of top talents and innovation teams. It formulated differentiated performance assessment methods and special incentive plans to arouse their enthusiasm and stimulate their creativity.

Building technology platforms

The Bank strengthened the building of underlying technology platforms. By starting the platform and application together with agile iteration, it built and put into production a blockchain service platform, realized the hosting of U-chain forfaiting blockchain network, and completed the first cross-chain forfaiting transaction. The platform also output capacity and services for the cross-border financial blockchain system and U-chain supply chain system. The Bank advanced the building of cloud platforms, sped up the migration to the cloud and containerization, and constantly improved the standardization of cloud platform and container technology to meet the needs of agile development, fast iteration and rapid business development. It has formed a big data support system composed of big data platforms, data marts, big data portals, and data laboratories, significantly improving the data services capability. The roll-out of the independently developed platforms was effective, especially in supporting the development of the CRM platform, open payment platform, PSBC Life, etc. The speed of project development was raised by more than 30%, thus significantly improving the efficiency of product iteration and innovation. Focusing on keeping the systems safe and stable, it built a new generation monitoring platform and integrated operation and maintenance management platform to transform to active operation and maintenance, enhancing the ability of managing and controlling technology risks.

Enhanced independence and controllability

The Bank stepped up its independent R&D efforts on key systems with new capabilities such as the independent development of unified credit system and operational risk system. It continued to deepen the integration of business and technology, responded promptly to the market demands, and carried out agile research and development in internet finance, retail credit, transaction banking and other business areas, transforming business with smart technologies. It implemented the concept of integrated DevOps (development and operation), optimized research and development methods, and steadily enhanced the capability of continuous integration, testing and delivery. It created open service platforms, facilitated digital transformation and made every effort to create a financial ecosystem. On the basis of a sound, secure open mechanism, it continued to broaden the business scope and continued to launch financial products such as non-physical account services, payment settlement and personal reward points. It provided portals for partners to quickly access the Bank's standardized financial products. During the epidemic, the Bank immediately set up a remote collaborative development platform. It set up a desktop cloud system in a distributed way in multiple centres across China that can provide remote development and testing environment for more than 6,000 staff, effectively coordinating the work by onsite and remote workers, which provided strong support to the resumption of work and production.

Strengthening data capabilities

The Bank enhanced the data capability building and used the big data in an in-depth way. It spared no effort to promote the implementation of a new round of big data development plan for the next five years (2020-2024). The big data platform has access to more than 100 important business systems in the Bank, with a data volume of more than 8PB, providing data support for more than 50 application systems in the Bank. It generated Hadoop mega cluster and significantly enhanced the data computing and processing capability, which effectively improved the operational efficiency of data applications. It pushed forward the building of six data marts and supported application in such key areas as customer analysis, financial management and risk management and control, establishing and improving the retail customer tagging system across the Bank. It improved the blueprint of application scenarios and completed 72 analysis projects in 9 areas, including customer analysis, marketing management and risk monitoring, etc. It held the first data modelling competition that focused on business priorities and difficulties to enhance the Bank's data application capabilities. It built a structurally sound data governance system with clearly-defined responsibilities and a multi-layered, interconnected operational mechanism. It established an institution system covering organizational structure, data management, data quality and data application. Based on the master data, it realized the unified identification of the core data assets.

Establishment of a new generation core system for personal banking business

The Bank deepened the integration of business and technology and adhered to independent control. It established the new generation core system for personal banking business by adopting advanced enterprise-level business modelling and distributed micro-service structure, and committed to building new capability required for the transformation towards digital retail banks in the future, empowering the business development and creating more value for investors. During the reporting period, on the basis of meeting business requirements and delivering technical solutions for the new generation core system for personal banking business, the Bank boosted system design and software development and pooled efforts to tackle problems in key technologies related to distributed structure and micro-service framework, thus its core functions of the distributed technology platform were basically completed and had realized independent control over core technology.

The business and development of PSBC are powered by top-notch IT capabilities in all aspects.

Progress on the New Generation Core System for Personal Banking Business

Following the trend of digital transformation, upholding the customer-centred philosophy and centring on products and services such as personal deposits, bank remittance and settlement accounts, the Bank is building a super-large-scale new generation core system for personal banking business by adopting distributed technology and enterprise-level business modelling. The system will bring excellent customer experience, IT independence and controllability as well as efficient and stable operation, which is expected to support 600 million customers and 1.8 billion accounts.

Since entering the development stage in January 2020 and despite the impact of the epidemic, the Bank pooled advantageous resources and strengths from all sides to tackle difficulties regarding the distributed technology and solve problems related to the effective connection between enterprise-level business modelling and micro-service design. Currently, the core functions of the distributed technology platform are basically completed, and the development of major functions of the application system is initially completed.

Enterprise-level modeling and business and technology integration stir up innovation vitality

According to the design concept of "decoupling, refactoring and reusing", the Bank adopted the advanced enterprise-level business modelling, and brought the strong momentum rising from business and technology integration into full play. It focused on panoramic application scenarios, restructured business and service process, and drove business agility with technology agility. Through structured and module-based design, it achieved flexible assembly for products, rapidly responded to market demands, and facilitated the transformation and upgrading of personal business. It integrated online and offline channels, actively built a multilevel account system, simplified the process of high-frequency trading and created the ultimate user experience with more value for customers. Besides, it made a comprehensive plan for data service capability, enhanced data standardization, met multiple requirements from regulatory authorities, internal management and customers, and achieved data-driven development with high qualities.

Distributed design provides stronger system support.

The new generation core system for personal banking business, which is based on x86 server with cloud architecture and supports the processing of enormous amount of transactions, is the first distributed core banking system among large-scale commercial banks domestically. Tackling technical problems, the Bank made an innovation in designing standardized, distributed service unit, and decoupled technology platform and business application completely. The processing capacity when put into production is estimated at 55,000 transactions per second, and 2 billion per day. Through a series of forward-looking designs and the micro-service modules within the unit, it supported flexible horizontal expansion on the basis of ensuring the high availability of the system. It is able to quickly locate and isolate faults to meet the requirements for automatic operation and maintenance, effectively reducing the complexity of distributed operation and maintenance.

With independence and controllability, underlying technologies become more stable and mature.

The new generation core system for personal banking business is conducive to further promoting the Bank's independence and controllability over key core technologies as well as technical innovation capability. On one side, the new generation core system for personal banking business fully adopts the technology architecture of the x86 server and cloud platforms, further deepening the distributed technology capability. On the other side, the Bank has conducted enhanced independent R&D on database, middleware and other open source database products, established distributed technology platform and distributed operation and maintenance platform. Thus, it has realized the full-chain tracking on transactions from front-end to back-end, from service interface to internal components, and laid a solid foundation for the transformation of IT architecture. Several technical testings carried out have proved the stability and high availability of the distributed technology platform.

Taking the development of the new generation core system for personal banking business as an opportunity, and relying on independent R&D and independent innovation, the Bank accumulated best practices for the information development and formed the solution on the distributed core system with intellectual property rights, which has important exemplary effects and may be used as reference for mid- to large-sized banks regarding the building of core systems.

Application of New Technologies

The Bank adhered to the innovation concept that fintech should be driven by innovation and led by technology and coordinated and promoted the development of technology innovation layout. It actively promoted the implementation of the technology innovation plan, and accelerated the application of new technologies in various business areas, so as to constantly energize the transformation and upgrading in the Bank.

In terms of artificial intelligence (AI), centering on the PSBC Brain, the Bank enhanced the basic capability building in AI such as perception and observation, initially established machine learning platforms and achieved centralized management of AI resources such as data, computing power and model, so as to promote the application efficiency of intelligent innovation. PSBC Brain has been already put in place in several business scenarios to support the development of a smart risk control platform, and formed risk feature database and risk control model database which meet the requirements of advanced methods of capital management. During the epidemic, the intelligent customer service handled approximately 586,300 person-times of business inquiries every day with response accuracy reaching 95.91%, so as to provide customers with intelligent and convenient financial services with human touch. Over 100,000 bills were processed by the smart bill identification system every day, significantly improving the quality and efficiency of centralized operation.

In terms of blockchain, the Bank actively responded to the national strategic plans and fully supported the development of Xiongan New Area, and became the contracting bank of Xiongan New Area non-tax e-bill blockchain project. As at the end of the reporting period, U-chain forfeiting business system has been connected with 12 partners in the industry with the transaction scale exceeding RMB30 billion. The number of bills on the Xiongan New Area non-tax e-bill blockchain exceeded 50,000.

In terms of Internet of Things (IoT) and 5G, the Bank launched the management system pilot project in Beijing, Jiangsu, Hainan and Chongqing branches for cash and important physical goods based on IoT technologies, and realized the electronic document handover and the whole-process tracking in and out of the warehouse, greatly improving the efficiency of the business library and reducing the operation risk. 5G technologies have helped the development of intelligent outlets in Beijing, Shanghai, Shenzhen and other cities, connected online and offline financial scenarios and advanced the borderless financial services.

In terms of cloud computing, the Bank built a "two locations, three data centres" cloud service system based on the OpenStack opensource cloud platform, which achieved rapid business innovation, deployment and launching, and constantly and efficiently empowered business development. The Bank has deployed 156 systems on the private cloud, which include systems of mobile banking, online banking and open service platform. The number of systems on cloud increased by 160% compared with the prior year-end. The average daily transactions of cloud platforms reached 441 million, accounting for 86.26% of the total transactions of the Bank.

A "two locations, three data centres" cloud service system was built. The number of systems on cloud increased by 160%. The average daily transactions of cloud platforms reached 441 million, accounting for 86.26% of the total transactions of the Bank.

Distribution Channels

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

Physical Distribution Channels

Business outlets are where the Bank's traditional strength lays. Despite the trend of online banking and digitalization in the banking sector, physical outlets still enjoy comparative advantages in building customer trust, selling complex financial products and providing services with a human touch. The Bank closely followed the trend of digital development, focused on customer needs and carried out outlet transformation.

The Bank launched the systematic outlet transformation project at the beginning of 2019, moved faster to transform outlets into marketing and service centers as well as customer experience centers. It strived to enhance the outlet capacity in maintaining customer relationships and providing wealth management and integrated financial services. In 2019, focusing on improving the core capabilities, the Bank emphasized on top-level design and system improvement, and carried out the pilot project of transformation in an orderly manner. In 2020, focusing on making breakthrough with smart technologies, the Bank strengthened data-driven and service-empowered development to improve service efficiency. It revamped outlets to build a new service image. As of the end of the reporting period, 25,812 outlets were transformed, accounting for 65.13% of all outlets.

Transformation into marketing and service centers

Firstly, enhancing the precision and comprehensiveness of marketing services. The Bank continued to roll out the CRM platform and the management system for integrated marketing performance. It launched a customer data management mart and a personal wealth management system to further integrate customer relationship data, and accurately identified and understood customers to provide them with more appropriate solutions. Secondly, improving differentiated professional services. The Bank built a professional team of wealth managers, provided more diversified investment and wealth management products and supply, and built a hierarchical and differentiated customer service mode. In addition, a wealth center was initiated to improve the development of our wealth management system, which significantly enhanced the Bank's wealth management capability. As of the end of the reporting period, we had 41,300 wealth managers in total, with an increase of 5,825 compared with the prior year-end. The number of VIP and affluent customers maintained rapid growth, increasing 17.60% and 16.13% compared with the prior year-end, respectively. During the reporting period, the average amount of agency sales business per outlet of the Bank increased by 19.28% year-on-year. Thirdly, enhancing the comprehensive financial service capabilities of the outlets.

A total of 25,812 transformed outlets, accounting for 65.13% of all outlets.

A total of 41,300 wealth management managers across the Brank, representing an increase of 5,825 compared with the prior year-end.

The number of MAU of the mobile banking exceeded 40 million.

The Bank expanded its coverage of retail credit services and corporate business by outlets to meet the "one-stop" financial service needs of customers. As of the end of the reporting period, the Bank had 5,175 outlets that could handle corporate business, an increase of 1,466 compared with the prior year-end. Fourthly, promoting ecosystem-based outlet services. The Bank implemented the strategy of "acquiring plus business circles", and developed a marketing and service system in business circles around outlets to serve shopping customers and active corporate clients, in order to increase the flow and increment of acquiring transactions, and thereby promoted the rapid growth of merchants' overall financial assets.

Transformation into customer experience centers

Firstly, the Bank improved the service efficiency at outlets. The Bank unified the interface of counter processing system, with 8 business segments such as corporate business, wealth management and cash management incorporated into the counter system. Customers no longer need to fill in forms at counters and electronic receipts are available for personal banking business. The time spent in businesses such as individual card opening, electronic channel signing, personal credit certification, personal remittance and transfer was shortened by more than 40%. Online booking was available for corporate account-opening which saved more than 50% of the time at the counter. It increased the type of businesses on self-service equipment, and focused on improving the capability to handle corporate banking business. Compared with the prior year-end, 39 functions were added to the ITM, leading to a total of 239 functions available on it. It boosted the upgrading of traditional equipment by smart technologies, and increased the function of transactions by face recognition and passbook cash transactions. The number of traditional cash equipment with face recognition reached 21,000, and

PSBC Xiangshuwan Sub-branch in Hefei City with a brand new look that of equipment supporting passbook cash transactions reached 15,000. The Bank accelerated the business expansion by using mobile business terminals, and expanded the coverage of outlets to provide products and services such as personal settlement, e-banking, credit card, and consumer credit, etc. Secondly, it added a human touch to outlet services. The Bank strengthened the team building of lobby managers, increased the number of staff at the lobby. It enhanced lobby managers' skills in steering the traffic and answering inquiries. It also elevated their service awareness and closed-loop management on outlet service quality. In the Forerunner campaign jointly organized by the PBOC, the CBIRC and the CSRC in 2020 on standards of enterprises in the finance sector, PSBC was shortlisted as one of the Forerunners for outlet service standards. Thirdly, the Bank worked hard on operating outlets with smart technologies. The Bank developed and piloted projects of smart counters and mobile authorization issued by managers. It carried out the pilot project of smart queuing application in outlets, and provided more targeted service to customers in outlets with the purpose of building smart outlets. As of the end of the reporting period, the Bank had a total of 39,631 outlets, including 12,097 outlets in cities, 8,669 outlets in counties and 18,865 outlets in rural areas, accounting for 30.52%, 21.88%, 47.60% of all outlets respectively. The Bank's existing self-service equipment numbered 149,713 sets, among which, there are 49,760 sets of intelligent teller machines (ITM), accounting for 88.97% of the non-cash equipment. There are 51,552 sets of Internet-connected mobile business terminals.

Fighting Against the Epidemic while Ensuring Services

Since the outbreak of the epidemic, the Bank has earnestly implemented the decisions and plans of the CPC Central Committee and the State Council, firmly implemented the requirements of the PBOC and the CBIRC for epidemic prevention and control, made rapid responses, and supported such measures through financial services.

Ensuring the delivery of basic financial services

The Bank, while taking adequate measures for epidemic control, made efforts to ensure the delivery of basic financial services. Firstly, it leveraged the advantage of network to serve the people's living needs. During the epidemic, it made proper arrangement for the business operation of outlets, giving full play to their roles in meeting customers' demand for financial services. Secondly, it encouraged customers to avoid peak hours for pension withdrawal through various ways such as advance notices, online guidance and notices at outlets.

Enhancing credit support to the epidemic prevention and control

The Bank responded to the call for epidemic control on short notice, helped customers to get through the tough time, and stepped up credit supports. Firstly, it streamlined business process, continuously provided customers with credit supports, and strictly implemented the policy of "not withdrawing, cutting off and postponing loans". Secondly, it provided interest cuts for some loan applicants who were in great difficulties during the epidemic, and initiated services such as green channels. Thirdly, it implemented the flexible repayment policy, offered loan extension or froze interest payment for recipients of micro loans for poverty alleviation who suffered from the epidemic as well as customers who lost their source of income. It reduced or exempted interest payment for credit cards, credit repair and other services for medical workers and government staff who combated the epidemic as well as infected and isolated people. In addition, it also reasonably postponed the repayment of credit card and retail credit customers, and made differential arrangements for principal and interest repayment in Hubei.

Visiting merchants in Ancient City of Ping Yao

Constantly innovating the online financial service model

The Bank responded proactively to the customers' needs for online transactions during the epidemic, and promoted the contactless service model to facilitate the virus control in China. Firstly, it guided customers to do transactions online through open payment platform as well as other tools. Secondly, it launched services for customers who work from home, and provided consultation and other services through both call center operators and smart robots. Thirdly, it enhanced efforts on promoting online loan products, and enabled customers to conduct loan application, contract signing and cash withdrawal through offline channels such as the Internet. Fourthly, it introduced agency payroll payment through virtual accounts to provide a more secure and convenient service to micro and small enterprises. Fifthly, it launched the Customer Manager Cloud Studio to integrate online scenarios with the advantages of offline outlets in a bid to provide round-the-clock and contactless service.

Securing safety in lobbies of outlets and enhancing service availability

Firstly, the Bank put the safety of employees and customers first. During the epidemic, the Bank built three lines of defense in front of the outlet, in the lobby and at the counter, specified epidemic prevention measures to secure safety in the lobbies. Secondly, it made efforts to improve the services of outlets. During the epidemic, more counters were made available at peak hours. Customers were guided and diverted in time, and more emphasis was put on the code of conduct to ensure high-quality services.

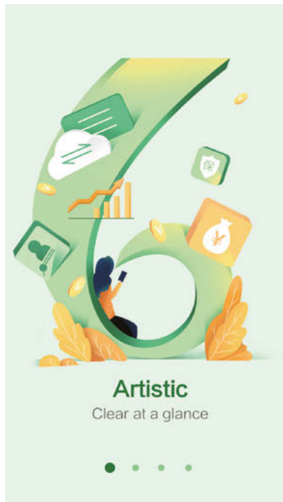
Electronic Banking Channels

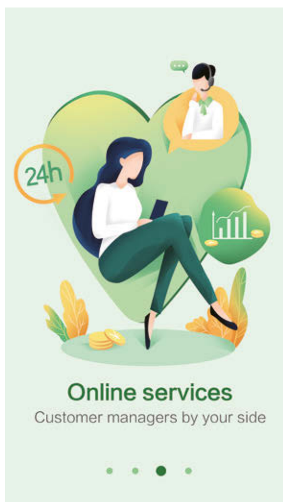
The Bank enhanced the management of and support to services on the electronic banking channels such as mobile banking, online banking, telephone banking and WeChat banking, accelerated the iteration and innovation of products, and promoted the integration of online and offline channels to provide high-quality, convenient services to customers. The size of e-banking customers and their transaction amount grew rapidly, with much higher user activity. As of the end of the reporting period, the Bank had 355 million electronic personal banking customers and the total number of bank-enterprise interlink customers and online corporate banking customers was 580,000. During the reporting period, transactions through personal electronic banking amounted to RMB27.75 trillion, representing a year-on-year increase of 22.26% and the Bank's substitution ratio of personal electronic banking was 95.69%, representing an increase of 3.25 percentage points compared with the prior year-end. The number of online corporate banking transactions and the transaction volume increased by 60% and 117% over the previous year, respectively.

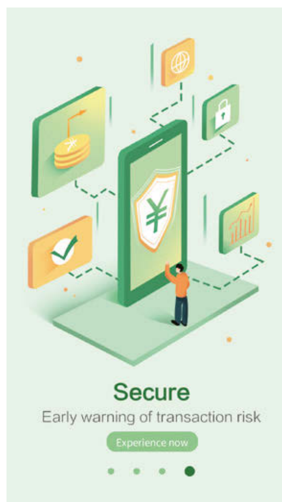
Mobile Banking

During the reporting period, the Bank's Mobile Banking App 6.0 was launched, where more smart technologies were applied, and functions such as voice-enabled transfer and fuzzy search were added. The new version highlighted visual experience enhancement, reconstructed five main interfaces, and added new product features such as WeChat quick login. The App also promoted channel integration to incorporate the Customer Manager Cloud Studio, optimized interaction experience and improved basic functions such as details inquiry. Being customer-centred, we established a closed-loop management mechanism for the pool of issues on user experience with the App to make every effect to improve customer experience.

As of the end of the reporting period, the Bank had 299 million mobile banking customers. During the reporting period, the transaction amount of mobile banking stood at RMB11.16 trillion, representing a year-on-year increase of 57.42% and the number of monthly active users (MAU) of mobile banking exceeded 40 million.







Credit Card App

During the reporting period, the Bank launched the PSBC Credit Card App 2.0 that offers account inquiry and repayment, installment application, redemption of points, membership benefits and integrates consumption scenarios. It gradually enriched the ecosystem of scenarios for consumers, and constantly improved service capacity. As of the end of the reporting period, the total number of the App users was 3,641,200, representing an increase of 116.84% compared with the prior year-end. The number of monthly active users (MAU) was 1,515,500, representing an increase of 103.10% compared with the prior year-end.

Online Banking

The Bank continued to improve the ability of personal online banking services, including optimizing the first-time login activation process, adding QR code-scanning login guidelines, simplifying transfer process, and so on. As of the end of the reporting period, there were 243 million personal online banking customers. We launched the brand new online corporate banking 2.0 with 23 new products added such as intelligent transfer routing, smart payroll services, prefilled online forms, electronic payroll receipt, electronic invoice management, interest rate management. It upgraded the system in all aspects including business contract, login installation, operation and information service, etc. to make it more user friendly, enhanced the system interaction and response to constantly enrich financial and non-financial service scenarios, and built a one-stop and comprehensive online financial service platform. As of the end of the reporting period, the Bank had 579,100 online corporate banking customers, representing an increase of 80.48% compared with the prior year-end. Online corporate banking customers account for 71.71% of the total corporate customers, representing an increase of 17.73% compared with the prior year-end. Customers are increasingly active in online transactions.

Remote Service Channels

Remote Banking Centre

The Bank continued to transform the remote banking centre by focusing on providing integrated, value-added service through using smart technologies. It integrated channels such as mobile banking and telephone banking to quickly respond to customer needs, and ensured 24/7 remote service during the epidemic. It improved service efficiency and quality, as well as service capacity and customer experience through both call center operators and smart robots, meeting the diverse financial needs of customers while handling their inquiries. During the reporting period, the manual response rate in the remote banking centre was 95.66%, and the intelligent customer service volume accounted for 63.59% of all the business volume in the center, with the accuracy in answering questions at 95.91%.

Credit Card Customer Service Centre

During the reporting period, the Bank's credit card customer service centre provided customers with online, smart, real-time and comprehensive services, and realized 24/7 multimedia and multichannel access to improve customer experience. During the epidemic, the Bank opened green channels on short notice, responded to requests of customers affected by the epidemic, and improved contactless online services to secure consistent, high-quality customer service. It rolled out the intelligent voice navigation on all channels, iterated and upgraded intelligent customer service robots, and further improved the smart service. During the reporting period, the manual response rate in the credit card customer centre reached 95.36% and the customer satisfaction rate reached 99.76%.

Helping the Elderly to Embrace the Digital Age

The Bank understands the importance of its social responsibility as a major state-owned bank. It places equal emphasis on the innovation of traditional services and the development of smart services and their integrated development, with a special focus on solving the problems and difficulties faced by the elderly in accessing financial services.

During the reporting period, the Bank fully investigated the actual needs and difficulties of the elder customers in accessing services through mobile banking, visiting the outlets, using self-service equipment, etc. It focused on optimizing the mobile banking with large fonts and special counter services for the elderly, increased efforts to invest in self-service cashing equipment with deposit receipt or passbook reading function, which effectively improved the smart services based on the needs of the elderly. During the epidemic, the channel for people with no health QR codes was set up for special circumstances, and the all-in-one epidemic prevention machine was introduced as a pilot, providing green channels such as paper registration, face recognition and identity card verification for the elderly who did not use smart phones. It adhered to the philosophy of "full attention, priority service and active assistance", and provided elderly customers with considerate and comprehensive traditional financial services. It built an ecosystem of products and services for the elderly, carried out photography competition, communicated the prevention of financial fraud, organized birthday parties and other special activities based on the Golden Sunlight Club, thus providing emotional care and communication platform for the elderly and helping them bridge the digital divide.

The Bank will continue to refine services for the elderly in terms of improving traditional services and smart services, strengthening communication and trainings, strictly controlling data risks and strengthening closed-loop management, so as to add human touch to the digital transformation.

Jointly We Step Forward, Together We Gain Fulfilment.

Human Resources Management and Institution Management

Human Resources Management

The Bank implemented the strategy of building a strong bank with talents and improved the talent development system. It formulated the 2020-2022 PSBC talent development plan. The plan focused on PSBC's development strategy in the new era, followed the law on development of the enterprise and talents, and built a talent development system with PSBC characteristics. It streamlined the staff banding system across the Bank, set up 4 categories and 15 lines of professional posts, and built an employee career path that encouraged vertical promotion and horizontal development. It broke through the barrier of mobility between posts and encouraged employees to choose appropriate development path according to their personal characteristics and expertise, so as to avoid "severe competition for limited posts" and give full rein to their initiative.

The Bank adhered to an open attitude towards talents and strengthened the team building. It advanced the strategy of building a strong Head Office, continued to recruit talents for the Head Office and improved its leading ability. Focusing on the goal of strategic transformation, the Bank focused on strengthening the IT team building, and the number of technology personnel of the Head Office doubled over the end of 2019. Besides, it actively promoted the development of key teams, such as the intelligent risk control team and the preparatory team for PSBC online, and introduced a number of high-end professional talents. The talent team structure was effectively optimized, and the ability was further improved. During the epidemic, flexible recruitment and management mechanisms were put in place, together with active online promotion, online examinations, online interviews, online orientation and flexible work arrangements, caring for employees and ensuring a steady and orderly introduction of talents.

The Bank adhered to the right approach in selecting and appointing managers, and improved the cadre selection mechanism. It actively built the talent pool for head and deputy posts in tier-1 branches and for division heads in the Head Office. A number of competent cadres with integrity and ability as well as ideas, vitality and potential stood out from the selection, providing cadre talent reserve for transformation of PSBC.

Focused on employee empowerment, the Bank built a multi-channel and multi-level training system. It continued to deepen talent development and training and strengthened compliance and risk training. It emphasized broadening professional horizons, continuously enriched the knowledge structure of professionals, and built its core competitive advantages. Besides, it improved a talent training and development system with face-to-face training and remote training as major approaches and Party School training and qualification certification as supplementary ones. The building of faculty, courses and mobile learning was strengthened, and teaching materials and training platforms were enriched to enhance the role of training in supporting and ensuring development.

With the emphasis put on the importance of creating return and value, the Bank improved the renumeration distribution mechanism. Its remuneration allocation focused on efficiency and value to continuously improve the efficiency of input and output of resources. In addition, it explored the market-based remuneration mechanism and improved the incentive and constraint mechanism to encourage enthusiasm, initiative and creativeness of employees. The Bank improved welfare management policies, and continued to enrich the welfare system and improve standards of employee benefits in accordance with national policies and requirements. For details of the employee remuneration of the Bank, please refer to "Notes to the Consolidated Financial Statements – 32(1) Employee benefits payable".

Building Talent Pools under the "Pilot Project"

In 2020, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the general principle of "selecting officials on the basis of both integrity and ability with priority given to integrity, and on the basis of merit regardless of background; ensuring that those who are dedicated, impartial, and upright should be appointed", the Bank issued the implementation plan for the "Pilot Project" talent pool building to establish a three-tier talent pool across the Bank. It will build a 350-people senior management talent pool, a 4,000-people medium-level management talent pool and a 15,000-people primary-level talent pool by 2022. These talents will be managed differently and dynamically based on their potentials, so as to provide solid talent support for the Bank's high-quality development.

According to the general plan for the project, the senior management talent tool building was started in 2020, with the goal of cultivating senior executives who can lead branches or business lines to compete in the market. The opportunity and platform for employees to show their talents were provided by expanding the vision of selecting and appointing personnel, breaking rule of seniority and balanced consideration. Competent cadres with integrity and ability as well as ideas, vitality and potential, regardless of their places of origin or departments, were given an opportunity to stand out, becoming strategic talent reserve for the Bank. It effectively enriched the talent team's major, education, experience and age, and provided a strategic reserve for the backbone team of the Bank. Besides, to implement the strategy of building a strong Head Office, the Bank recruited for deputy general managers in departments of the Head Office and PSBC Wealth Management. Therefore, a batch of excellent and well-developed cadres were allocated to leadership posts, providing reserve and talent guarantee for a learning-oriented, innovation-driven and service-based Head Office.

To be completed in 2022

350 people in the senior management talent pool

4,000 people in the medium-level management talent pool

15,000 people in the primary-level talent pool

Employees

As of the end of the reporting period, the Bank had a total of 194,527 employees, among which, 177,797 were contracted employees (including 1,175 at majority-owned subsidiaries). The number of dispatched employees was 16,730. The number of retired employees of the Bank was 18,790.

The Bank's Employees[1] by Function Lines

Item	Number of employees	Percentage (%)
Management	5,916	3.33
Personal banking	74,968	42.16
Corporate banking	13,926	7.83
Treasury business	1,357	0.76
Finance and operation	14,649	8.24
Risk management and internal control	11,813	6.64
Others[2]	55,168	31.03
Total	**177,797**	**100.00**

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

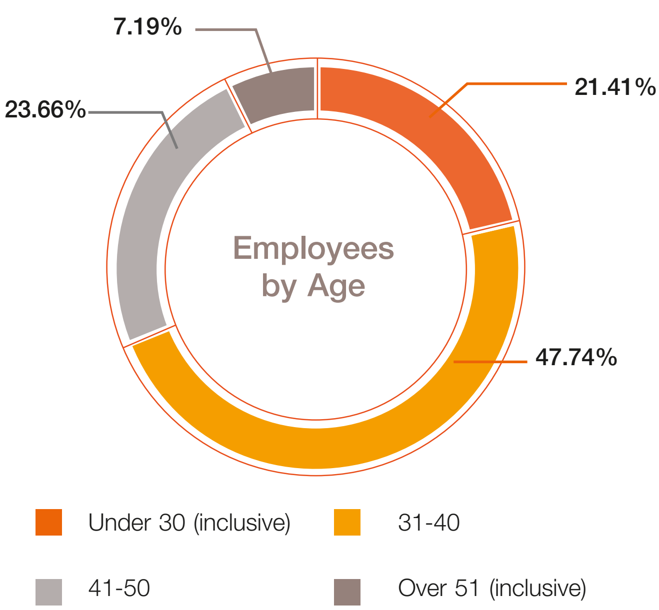
Note (2): Others include administration, information technology and other supporting functions.

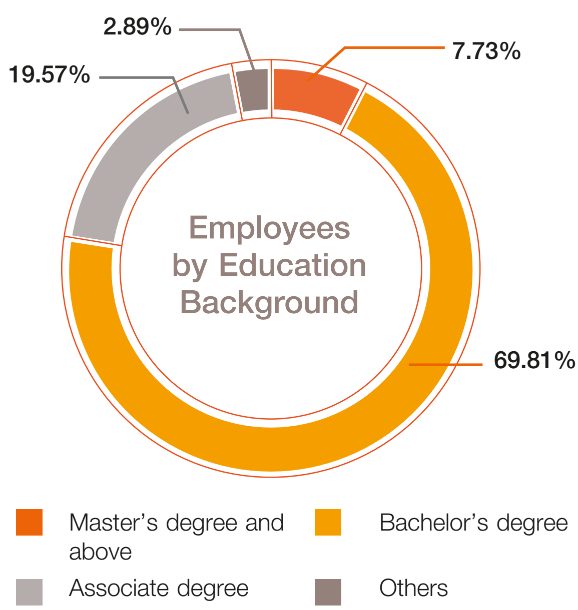
The Bank's Employees by Age

Item	Number of employees	Percentage (%)
Under 30 (inclusive)	38,070	21.41
31-40	84,882	47.74
41-50	42,060	23.66
Over 51 (inclusive)	12,785	7.19
Total	**177,797**	**100.00**

The Bank's Employees by Education Background

Item	Number of employees	Percentage (%)
Master's degree and above	13,744	7.73
Bachelor's degree	124,122	69.81
Associate degree	34,788	19.57
Others	5,143	2.89
Total	**177,797**	**100.00**





Institution Management

The Head Office of the Bank is located in Beijing, being the hub for decision-making and management of the Bank. The Bank has established tier-1 branches in the capital cities of provinces, autonomous regions, municipalities and cities with independent planning status. As the operation management center 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. Tier-1 sub-branches primarily undertake the functions of business operation and outlet management, and report to their supervisory tier-2 branches. Tier-2 sub-branches primarily undertake the function of business operation.

Regarding organizational structure, the Bank implemented the transformation strategy and continued to improve its organizational setup. It adjusted the internal organization setup at times, and strengthened the organizational support for business development. Besides, it gradually optimized the distribution of branches to improve the efficiency of organizational resource allocation. The organizational structure of the Bank continued to be improved, and the operational efficiency was effectively improved. As of the end of the reporting period, the Bank had 8,181 institutions, including the Head Office, 36 tier-1 branches, 324 tier-2 branches, 2,062 tier-1 sub-branches, 5,756 tier-2 sub-branches and others, and two majority-owned subsidiaries.

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

In millions of RMB, except for percentages or otherwise stated

Region	Asset size	Percentage[1] (%)	Number of institutions	Percentage (%)	Number of employees	Percentage (%)
Head Office	4,723,307	29.35	1	0.01	5,018	2.82
Yangtze River Delta	1,728,335	10.74	934	11.42	19,235	10.82
Pearl River Delta	1,134,851	7.05	769	9.40	19,212	10.81
Bohai Rim	1,836,351	11.41	1,124	13.74	26,779	15.06
Central China	3,424,621	21.28	2,397	29.29	45,301	25.48
Western China	2,402,606	14.93	2,112	25.82	41,385	23.28
North-eastern China	843,684	5.24	844	10.32	20,867	11.74
Offsetting and deferred income tax assets	(4,740,492)	–	–	–	–	–
Total	**11,353,263**	**100.00**	**8,181**	**100.00**	**177,797**	**100.00**

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

Note (2): Other than the number of institutions disclosed above, the Bank has submitted its application to the CBIRC and received approvals for the establishment of one direct bank and one specialized institution for Credit Card Center.

Majority-owned Subsidiaries

PSBC Consumer Finance Co., Ltd.

PSBC Consumer Finance was established on November 19, 2015 with a registered capital of RMB3 billion, of which the Bank held 70.50% of equity. Its business scope is as follows: granting personal consumer loans; accepting deposits from shareholder's domestic subsidiaries and domestic shareholders; borrowing from domestic financial institutions; issuing financial bonds with relevant approval; domestic interbank funding; consumer financing advisory and agency services; agency sales of consumer loan-related insurance products; investment in fixed income securities.

As at the end of the reporting period, PSBC Consumer Finance had total assets of RMB34,006 million and net assets of RMB3,836 million, and recorded a net profit of RMB402 million for the year.

PSBC Wealth Management Co., Ltd.

PSBC Wealth Management was established on December 18, 2019 with a registered capital of RMB8 billion, of which the Bank held 100% of the shares. Its business scope is as follows: providing unspecified general public with wealth management products, and investing and managing properties entrusted by investors; issuing private wealth management products to eligible investors, and investing and managing properties entrusted by investors; financial advising and consulting services; other businesses approved by the CBIRC.

As at the end of the reporting period, PSBC Wealth Management had total assets of RMB9,852 million and net assets of RMB9,160 million and recorded a net profit of RMB1,187 million for the year.

Risk Management

Risk Management Organizational Structure

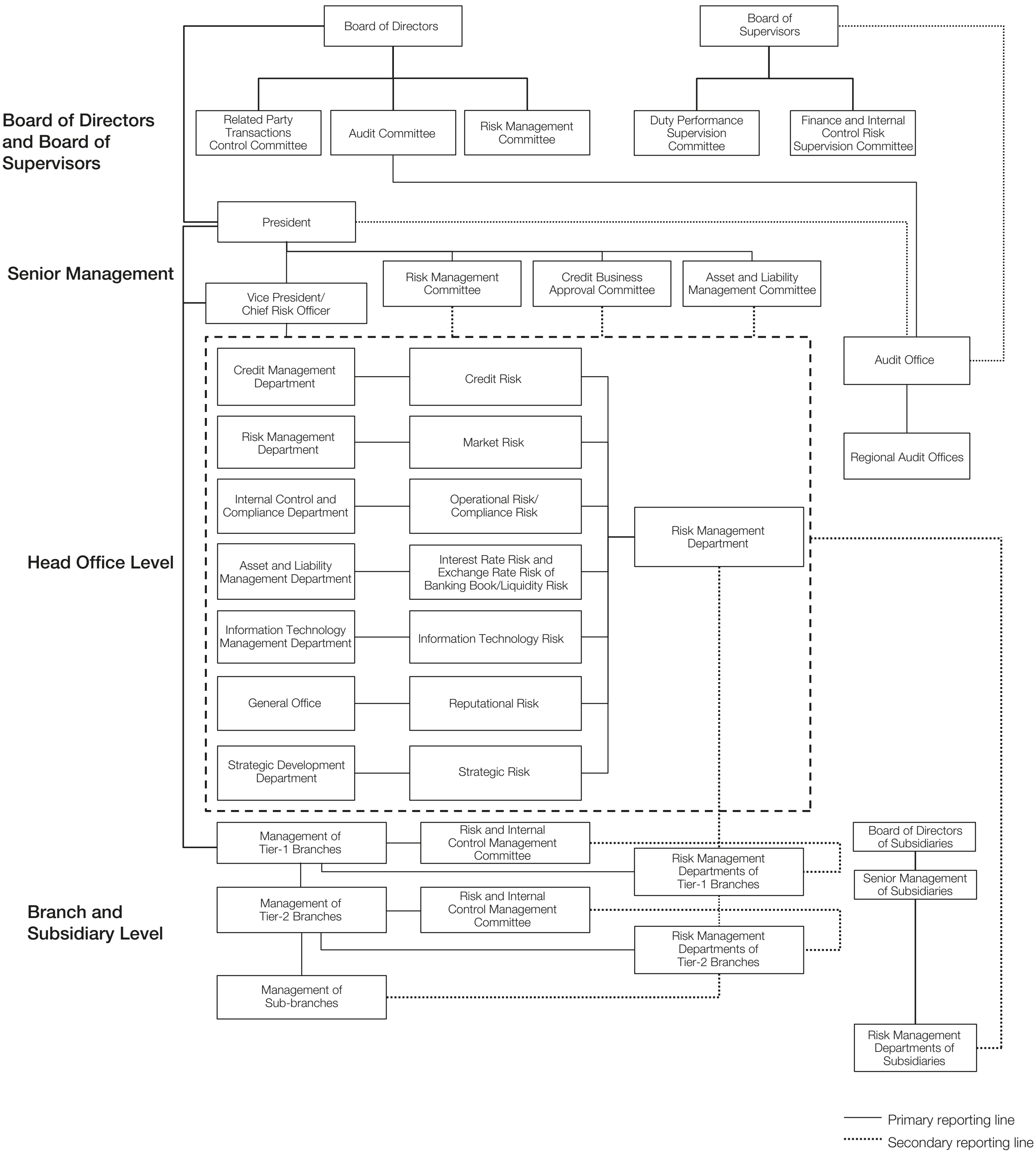
The Board of Directors assumes the ultimate responsibilities for comprehensive risk management. It is responsible for establishing risk culture, formulating and approving risk management strategies, setting and approving risk appetites and ensuring the establishment of risk limits, reviewing and approving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

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

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

Non-performing loan ratio was 0.88%;
Overdue loan rate was 0.80%;
Allowance to NPLs ratio was 408.06%;
Advanced approaches for capital management were progessively implemented.

Risk Management Organizational Structure



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

Comprehensive Risk Management

During the reporting period, the Bank adhered to the risk-based approach and completed the main tasks of the three-year plan on preventing and defusing major risks. It formulated the implementation plan for the advanced approaches on capital management, and took an orderly step to put these measures into practice. The Bank continued to improve the "all aspects, whole process and entire staff" comprehensive risk management system, and established basic policies and a management framework for comprehensive risks and main substantial ones. The Bank kept deepening the implementation of risk appetite transmission for higher risk management effectiveness at the group level. It made comprehensive efforts to consolidate and enhance the quality and efficiency of professional risk management, focused on forestalling and defusing the risks in key areas, and strictly controlled asset quality. With the concept of developing through technology, the Bank actively promoted the development of intelligent risk control and strengthened the risk control measures for the embedded business processes.

Three Lines of Defense

To establish a solid and effective risk management environment, the Bank kept improving the mechanism of "three lines of defense" for internal control and set clear definitions based on main substantial risks. During the reporting period, the Bank further refined the risk management mechanism featuring clear responsibilities, interconnection, and effective checks and balances. The Bank activated the three-year plan for quality and efficiency improvement in internal control and compliance management, deepened the whole staff's awareness of active compliance and value creation through compliance, and developed an internal control and compliance culture where top managers set examples and every employee performs their duties. The Bank continuously strengthened risk information sharing among the three lines of defense to perfect the joint risk prevention and control mechanism.

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

Risk Appetite

Risk appetite is the type and level of risks that the Bank is willing to bear while pursuing its strategic business objectives, and is decided by the Board of Directors. It represents a balance among income, capital and risk, and enables the Bank to undertake the risk compatible with its business strategies and management capabilities and to create value through risk management. During the reporting period, the Bank followed the requirements of a prudent and sound risk appetite and its own strategic positioning to set the management objectives against profits, capital and major risks in credit, market, operation and other areas and to support the stable operation and development of all businesses. The Bank kept refining the risk appetite management system and optimizing relevant procedures such as the formation, adjustment, transmission, monitoring and reporting of risk appetite. Such efforts were aimed to ensure the risk appetite could be fully put into practice in the group.

Intelligent Risk Control

The Bank continues to increase its investment in the field of financial technology to advance the transformation of traditional risk management with smart technologies. During the reporting period, the Bank recruited professionals with both financial and technology background to build an intelligent risk control team with solid professional strength. The Bank built an intelligent risk control platform based on PSBC Brain to achieve the integration of model development, testing and deployment, and significantly shortened the time between development and launch. It made active use of big data and machine learning approaches to develop models and applied them broadly in the risk control process of the Bank's retail credit business. It created a corporate relationship map based on internal and external data to improve the efficiency of post-lending management and early warning effect for corporate loan business. It established a multi-dimensional customer risk profile to achieve timely and effective customer risk monitoring. In the areas of internal control and compliance risk, anti-money laundering and so on, it actively explored the application of natural language processing and graph processing technology to achieve cost reduction and efficiency improvement.

Stress Testing

During the reporting period, the Bank made active efforts to cope with the severe and complicated internal and external risk situations. It kept refining the stress testing system and methodology. The Bank timely carried out comprehensive risks stress test and some structrued stress tests focusing on the impact of epidemic, real estate and other key risk areas. The Bank carefully evaluated and judged its asset quality, profitability, and capital and liquidity levels under various stress scenarios. As the results showed, under mild and moderate stress scenarios, the Bank maintained a stronger overall resilience, with all risks under control and capital adequacy not significantly affected. Under extreme scenarios, the Bank could apply various recovery measures to cover the capital and liquidity gaps effectively.

Major External Risks and Countermeasures

Risks from Epidemic Impact

In 2020, the outbreak of the epidemic led to global shutdown in operation and production and supply chain disruptions, resulted in a significant decline in the global economic growth. Industries such as domestic transportation, warehousing and postal services, hotel and catering, wholesale and retail, sports, culture and entertainment, as well as micro and small enterprises were exposed to risks such as reduced cash flows, reduced profitability and broken upstream and downstream capital chains. The personal loan segment also suffered from increased non-performing loans due to the residents' declining debt-servicing capacity. At the same time, the continued impact of the epidemic has brought about different kinds of derivative risks that should not be neglected, and the banking industry faced serious challenges in terms of business development, asset quality and risk prevention and control.

During the reporting period, the Bank made active responses. It earnestly implemented the decisions and plans of the CPC Central Committee and the State Council and provided greater financial support to ensure stability on six key fronts and maintain security in six key areas. It kept improving the standardization of the credit business processes, dynamically optimized credit policies, and strengthened customer access management. It also intensified early warning and screening, identified all existing and potential risks, limited the number of high-risk customers and exited some of them, and made dynamic and forward-looking judgments on risk trends. The Bank devoted greater efforts to risk disposal, promoted risk dissolution, and efficiently resolved non-performing assets. It took multiple measures to forestall and defuse financial risks and to maintain stable asset quality. The Bank continuously improved operational risk prevention and control, operation management and safety precautionary measures during the epidemic, strengthened business auditing and employee conduct management, and ensured stable business compliance during the epidemic; at the same time, it studied and assessed internal and external risks in a more prudent manner, implemented forward-looking impairment plans, and maintained a high level of risk compensation capability.

Market Fluctuation

In 2020, as a result of the epidemic, the slow recovery of the global economy and the increase in potential risks in the global financial market (such as foreign exchange and commodity market) adversely affected the value of certain financial assets of the banking market and increased the potential risk of fluctuations in banking revenues and profits.

During the reporting period, the Bank established a forward-looking market risk research system and continued to improve the intensity, the coverage and the frequency of market risk monitoring to track fluctuations in domestic and international financial markets; quickly responded to changes in the financial market environment and adjusted business strategies accordingly; proactively carried out investigation and analysis in conjunction with major risk incidents in the industry and deployed risk control measures; and launched market risk management system and created an internal market risk modeling system to continuously enhance market risk measurement and analysis capabilities and management refinement level.

Credit Risk

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

The organizational system of the Bank on credit risk management is as follows: the Board of Directors undertakes the ultimate responsibilities for credit risk management, the Board of Supervisors undertakes the supervisory responsibilities for credit risk management, while the senior management undertakes the responsibilities for implementation of credit risk management, and is responsible for the implementation of resolutions approved by the Board of Directors on credit risk; under the senior management, the Risk Management Committee is responsible for credit risk management and the Credit Business Approval Committee for approving credit matters within the scope of authorization respectively; each business department shall bear the primary responsibility for credit risk prevention and control, and implement policies, standards and requirements of credit risk management in its field of business in accordance with the division of functions; departments of credit management, risk management, credit approval, internal control and compliance, legal affairs and others are responsible for the overall planning, supervision and review of credit risk prevention and control, of which the Credit Management Department is the leading department of credit risk management, and internal audit department exercises independent and objective supervision of the performance of duties in credit risk management.

With worst-case scenarios in mind, the Bank highly valued the work of forestalling and defusing financial risks and actively coped with the epidemic impact. It made continued efforts to well identify and monitor credit risks, warn against them in advance, and make solid judgments on and responses to these risks. It strengthened access management, optimized credit policies, intensified risk prevention and control in key areas, and worked faster to resolve distressed assets.

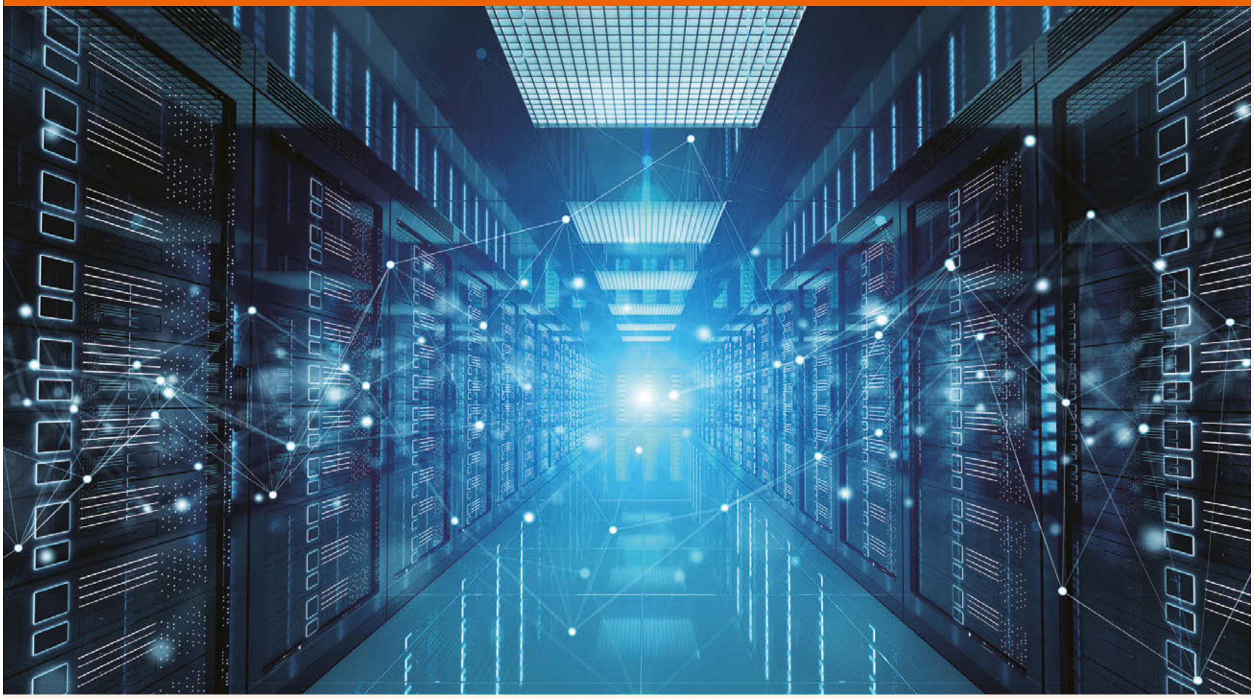
Following Strategic Guidance to Optimize Credit Structure

The Bank follows the market positioning of serving Sannong, urban and rural residents and SMEs and the business strategy of “taking retail as the mainstay supported by wholesale” to continuously optimize its credit structure. It has implemented the following differentiated credit policies. Firstly, the Bank gave preferential credit and regional financing policies to key enterprises involved in epidemic prevention and control, manufacturers, micro and small enterprises, private businesses and the like, in a bid to fully support epidemic prevention and control as well as economic and social recovery. Secondly, the Bank actively implemented the national strategic plans, industrial policies, and special governance requirements from regulators to guide and optimize the allocation of credit resources. It intensified its support for the key areas such as the Belt and Road Initiative, the coordinated development of Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt, Xiongan New Area, the development of Guangdong-Hong Kong-Macao Greater Bay Area, Hainan Free Trade Port, the integration of the Yangtze River Delta, ecological protection and high-quality development of the Yellow River basin, and Chengdu-Chongqing economic circle. In serving the real economy, the Bank provided greater targeted support for key areas such as new infrastructure and new urbanization initiatives and major projects, advanced manufacturing, strategic emerging industries, rural revitalization, technological innovation, inclusive finance, private economy, green finance and modern service industry. Thirdly, the Bank strengthened the risk control in key areas, raised the access standards and management requirements, and exercised prudence before entering sensitive areas such as real estate, coal, coal power, etc.

Relying on Technology Empowerment to Innovate Management Mechanism

In line with the trend of digital transformation, the Bank has devoted ever-increasing efforts to develop financial technology and to enrich the credit risk control tools, thus making the credit risk management more proactive, timely and prospective. In terms of retail credit, the Bank strengthened the access control for retail credit customers through parallel operations of product innovation and credit strategy monitoring. It moved faster to implement the automated approval process for retail credit businesses, pressed ahead with the application of the retail credit scoring model in credit line control, approval decision-making, and post-lending management, and finally achieved higher approval efficiency and better customer experience. In terms of corporate credit, the Bank imported the data from the administrations for industry and commerce, judicial bureaus, credit reporting systems, tax bureaus, invoice management systems and the like to establish customer evaluation models and scientific access criteria for pre-lending customers. It refined the rules of post-lending early warning, transforming the post-lending inspection mode from “regular” into “triggered”. The Bank established a differentiated and multi-layered “Jinjing” (Gold Eye) credit risk monitoring system. This system deeply integrates natural language understanding technologies, such as big data, public opinion monitoring, and correlation graphs to generate accurate customer risk profiles and to conduct smart monitoring and early warning analysis, with a greater focus on the prevention and control of credit risk in the key industries, regions, customers and products. The Bank developed a non-performing asset management system and a debt collection system, and promoted the mobile integrated terminal, thus achieving the united smart collection of overdue assets and the unified fine management of non-performing assets.

Applying the "Jinjing" (Gold Eye) System and Strengthening Smart Risk Control



The Bank implemented the philosophy of invigorating the Bank through technology, strengthened the use of financial technologies, enhanced smart risk control, and continued to increase the application of financial technologies such as big data, public opinion monitoring, correlation graph, machine learning model in credit risk management. In 2020, the Bank launched the "Jinjing" (Gold Eye) credit risk monitoring system, introduced data such as credit reference, credit reporting, anti-fraud, anti-money laundering, defaulters, environmental protection, internet public opinion, power grid and electricity, legal proceedings, and administrative penalties. It applied rules and models for warning risks related to applied finance, environmental issues, credit reference, legal issues, frauds, and flow of funds. It carried out accurate customer risk profiling, smart monitoring and early-warning analysis, and effectively strengthened credit risk prevention and control in key risk areas, industries, regions, customers and products. The Bank used the "Jinjing" (Gold Eye) credit risk monitoring system to access power grid and electricity data, conducted regulatory sandbox projects such as "State Grid smart graph risk control products" and "chain-based risk management platform for enterprises", which were included in the pilot projects of innovative regulation on fintech at the People's Bank of China Operations Office (Beijing) and Shijiazhuang Central Sub-branch in Xiongan New Area in Hebei. In the future, the Bank will extend the application of the "Jinjing" (Gold Eye) system, continue to optimize and iterate the rules and models, accelerate the development of the system in the second phase, and focus on improving the smart risk monitoring for personal customers. It will further strengthen the intensive, smart and multi-dimensional monitoring of the Bank's credit business, achieving early identification, early warning, early disposal and early resolution of credit risks, and enhancing the management in a more proactive, timely and forward-looking manner.

Taking Multiple Measures to Intensify Joint Prevention and Control

The Bank has made continued efforts to refine its credit risk governance systems, to improve credit risk management measures, to refine the mechanism of principal responsible persons for operations, and to strengthen the execution of five unifications in "business initiation, credit granting, approval, industry control, and post-lending (post-investment) management". The Bank devoted all-round efforts to strengthen the whole-process credit management rules and to refine the basic policies on unified credit granting, credit granting involving interested parties, risk monitoring and early warning, credit supervision and inspection, credit compliance, collateral management, loan review, non-performing asset disposal, bad debt write-offs, etc. The Bank strengthened the control of asset quality and quantity limit, established reasonable control targets of asset quality and quantity limit and adjusted flexibly, and developed a multi-dimensional limit management network for products and regions regarding key risk areas such as industries with "high pollution, high energy consumption and overcapacity" and real estate. It also strengthened the strict restriction, supervision and assessment of the limit target, and effectively realized proactive monitoring, precise communication, timely measures and effective control. The Bank deepened the list-based management for risk customers in large-amount credit granting, kept improving the mechanism of reducing and removing risk businesses and solidifying risk businesses in large-amount credit granting, and identified all existing and potential risks. The Bank carried out special screening in the key areas such as online loans, liquidity support agreements and loan commitment letters, loans granted to local governments and anti-epidemic companies, credit risk from infirm enterprises, ESG risk as well as in weak links, so as to consolidate asset quality. The Bank established a mechanism to analyze the causes of bad debts. That contributed to the intensified traceability management and improved the quality and efficiency of credit risk prevention and control.

Aiming at the Efficiency and Effectiveness and Moving Faster to Dispose Non-performing Assets

The Bank carried out targeted settlement and collection activities to collect as many non-performing assets as possible in a speedy manner, thus improving the disposal efficiency. The Bank raised its basic management capabilities in protecting and securing its assets and optimized its working mechanisms. It actively expanded disposal channels and made all-round efforts to promote the disposal of large-amount non-performing assets. It also sped up the pace of bad debt write-offs and boosted the enterprise restructuring as well as utilization of existing assets. As a result, the Bank achieved remarkable results in defusing the risks of non-performing assets. During the reporting period, the Bank settled and collected a total of RMB37,924 million of non-performing assets, a year-on-year increase of 27.26%. Among that, RMB18,192 million came from cash collection, RMB14,721 million from write-offs, and RMB5,011 million from other means.

Credit Risk Analysis[1]

Non-Performing Loans Structure by Collateral

In millions of RMB, except for percentages

Item	December 31, 2020 Amount	December 31, 2020 Percentage (%)[(1)]	December 31, 2019 Amount	December 31, 2019 Percentage (%)[(1)]
Unsecured loans	**9,721**	**19.30**	9,702	22.64
Guaranteed loans[(2)]	**8,862**	**17.59**	7,621	17.79
Loans secured by mortgages[(2)(4)]	**24,589**	**48.82**	24,557	57.32
Loans secured by pledges[(2)(3)]	**7,185**	**14.27**	954	2.23
Discounted bills	**10**	**0.02**	10	0.02
Total	**50,367**	**100.00**	42,844	100.00

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

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

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

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

As of the end of the reporting period, in the Bank's non-performing loans structure by collateral, the proportion of loans secured by pledges increased by 12.04 percentage points compared with the prior year-end, and the proportion of loans secured by mortgages, unsecured loans and guaranteed loans decreased by 8.50, 3.34 and 0.20 percentage points, respectively. The amount of non-performing loans secured by pledges and guaranteed loans increased by RMB6,231 million and RMB1,241 million respectively, accounting for 99.32% of the new non-performing loans.

[1] Starting from 2020, the total loans to customers in the section headed "Credit Risk Analysis" in this Report exclude accrued interest, and the comparative period data have been restated.

Aging Analysis of Overdue Loan Structure

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for 1 to 90 days	**13,553**	**0.24**	22,046	0.44
Overdue for 91 days to 180 days	**5,716**	**0.10**	5,411	0.11
Overdue for 181 days to 1 year	**8,408**	**0.15**	6,949	0.14
Overdue for 1 to 3 years	**13,541**	**0.24**	12,986	0.27
Overdue for over 3 years	**4,161**	**0.07**	3,691	0.07
Total	**45,379**	**0.80**	51,083	1.03

As of the end of the reporting period, the balance of the Bank's overdue loan was RMB45,379 million, representing a decrease of RMB5,704 million compared with the prior year-end. It recorded an overdue loan rate of 0.80%, representing a decrease of 0.23 percentage point as compared with the prior year-end. Specifically, the balance of loans overdue for 1 day to 90 days was RMB13,553 million, of which the percentage of total loans decreased 0.20 percentage point compared to the prior year-end; the balance of loans overdue for 91 days to 180 days was RMB5,716 million, of which the percentage of total loans decreased 0.01 percentage point compared to the prior year-end; the balance of loans overdue for 181 days to 1 year was RMB8,408 million, of which the percentage of total loans went up by 0.01 percentage point compared to the prior year-end; the balance of loans overdue for 1 year to 3 years was RMB13,541 million, of which the percentage of total loans decreased 0.03 percentage point compared to the prior year-end; the balance of loans overdue for over 3 years was RMB4,161 million, of which the percentage of total loans remained unchanged compared to the prior year-end.

Overdue Loans to Customers by Geographical Region

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	**3,555**	**7.83**	2,759	5.40
Yangtze River Delta	**6,595**	**14.53**	4,913	9.62
Pearl River Delta	**4,262**	**9.39**	3,702	7.25
Bohai Rim	**5,113**	**11.27**	9,083	17.78
Central China	**10,967**	**24.17**	9,867	19.31
Western China	**10,745**	**23.68**	16,140	31.60
Northeastern China	**4,142**	**9.13**	4,619	9.04
Total	**45,379**	**100.00**	51,083	100.00

Loan Concentration

In millions of RMB, except for percentages

Top ten single borrowers	Industry	Amount	Percentage of total loans (%)	Percentage of net capital (%)[1]
Borrower A[2]	Transportation, storage and postal services	182,089	3.19	23.21
Borrower B	Transportation, storage and postal services	14,126	0.25	1.80
Borrower C	Transportation, storage and postal services	12,811	0.22	1.63
Borrower D	Transportation, storage and postal services	11,692	0.20	1.49
Borrower E	Leasing and business services	11,302	0.20	1.44
Borrower F	Transportation, storage and postal services	8,698	0.15	1.11
Borrower G	Transportation, storage and postal services	8,495	0.15	1.08
Borrower H	Transportation, storage and postal services	7,350	0.13	0.94
Borrower I	Financial services	7,120	0.12	0.91
Borrower J	Transportation, storage and postal services	6,910	0.12	0.88

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

Note (2): Percentage of loans to the largest single borrower = total loans to the largest borrower/net capital×100%. The largest borrower refers to the customer with the highest balance of loans at the period end. As of the end of the reporting period, China State Railway Group Co., Ltd. was the Bank's largest single borrower. The outstanding loan balance with China State Railway Group Co., Ltd. was RMB182,089 million, accounting for 23.21% of the Bank's net capital. The credit line the Bank extended to China State Railway Group Co., Ltd. includes the legacy credit line of RMB240 billion which was approved by relevant regulatory authorities. As of the end of the reporting period, the outstanding loan balance under such credit line for China State Railway Group Co., Ltd. was RMB165 billion. After deduction of this RMB165 billion, the Bank's balance of loans to China State Railway Group Co., Ltd. represented 2.18% of the Bank's net capital.

Distribution of Loans by Five-Category Classification

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Normal	**5,616,782**	**98.58**	4,879,918	98.48
Special mention	**30,566**	**0.54**	32,689	0.66
Non-performing loans	**50,367**	**0.88**	42,844	0.86
Substandard	**14,106**	**0.25**	14,972	0.30
Doubtful	**13,804**	**0.24**	6,375	0.13
Loss	**22,457**	**0.39**	21,497	0.43
Total	**5,697,715**	**100.00**	4,955,451	100.00

As of the end of the reporting period, the Bank's non-performing loan balance amounted to RMB50,367 million, representing an increase of RMB7,523 million compared with the prior year-end. The non-performing loan ratio was 0.88%, representing an increase of 0.02 percentage point compared with the prior year-end. The balance of special mention loans amounted to RMB30,566 million, representing a decrease of RMB2,123 million compared with the prior year-end. Special mention loan ratio was 0.54%, representing a decrease of 0.12 percentage point compared with the prior year-end. The ratio of special mention and non-performing loans was 1.42%, representing a decrease of 0.10 percentage point compared with the prior year-end. Overall asset quality remained stable.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

	December 31, 2020			December 31, 2019		
Item	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]	Non-performing loan balance	Percentage (%)	Non-performing loan ratio (%)[1]
Corporate loans						
Working capital loans	**16,716**	**33.19**	**2.21**	11,477	26.79	1.74
Fixed asset loans	**198**	**0.39**	**0.02**	2,189	5.11	0.27
Trade finance loans	**285**	**0.57**	**0.13**	313	0.73	0.13
Others[2]	**1,450**	**2.88**	**9.17**	1,523	3.55	7.85
Subtotal	**18,649**	**37.03**	**0.95**	15,502	36.18	0.89
Discounted bills	**10**	**0.02**	**0.00**	10	0.02	0.00
Personal loans						
Consumer loans						
Residential mortgage loans	**9,044**	**17.95**	**0.47**	6,489	15.15	0.38
Other consumer loans	**5,182**	**10.29**	**1.18**	3,919	9.15	1.24
Personal micro loans	**14,832**	**29.45**	**2.00**	14,782	34.50	2.44
Credit card overdrafts and others	**2,650**	**5.26**	**1.83**	2,142	5.00	1.74
Subtotal	**31,708**	**62.95**	**0.98**	27,332	63.80	1.00
Total	**50,367**	**100**	**0.88**	42,844	100	0.86

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

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

As of the end of the reporting period, the Bank's balance of non-performing corporate loans was RMB18,649 million, representing an increase of RMB3,147 million compared with the prior year-end, and the non-performing loan ratio was 0.95%, representing an increase of 0.06 percentage point compared with the prior year-end, which are mainly due to deterioration in operation of certain customers in the transportation and logistics industry. The balance of the Bank's non-performing personal loans amounted to RMB31,708 million, representing an increase of RMB4,376 million compared with the prior year-end, and the NPL ratio of personal loans was 0.98%, representing a decrease of 0.02 percentage point compared with the prior year-end. Due to the impact of the epidemic, a small amount of the Bank's personal customers had weakened solvency and failed to repay in a timely manner. With the epidemic under effective control, the resumption of work and production in an orderly manner, and the gradual recovery of the consumer market, the growth of non-performing consumer loans gradually slowed down.

Distribution of Non-Performing Loans by Geographical Region

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Head Office	**2,653**	**5.27**	2,142	5.00
Yangtze River Delta	**6,481**	**12.87**	5,803	13.54
Pearl River Delta	**4,693**	**9.32**	3,180	7.42
Bohai Rim	**6,510**	**12.93**	4,226	9.86
Central China	**14,902**	**29.58**	7,496	17.50
Western China	**10,901**	**21.64**	15,683	36.61
Northeastern China	**4,227**	**8.39**	4,314	10.07
Total	**50,367**	**100.00**	42,844	100.00

As of the end of the reporting period, due to the changes in the quality of assets of particular large corporate customers, the Bank's non-performing loans increased in Central China and Bohai Rim, and the balance of non-performing loans increased by RMB7,406 million and RMB2,284 million compared with the prior year-end, respectively, and the percentages increased by 12.08 and 3.07 percentage points compared with the prior year-end, respectively. The balance of non-performing loans in Western China and Northeastern China decreased by RMB4,782 million and RMB87 million compared with the prior year-end, respectively, and the percentages decreased by 14.97 and 1.68 percentage points compared with the prior year-end, respectively.

Non-Performing Domestic Corporate Loans by Industry

In millions of RMB, except for percentages

	December 31, 2020		December 31, 2019	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Transportation, storage and postal services	**7,759**	**41.61**	118	0.76
Manufacturing	**5,273**	**28.27**	9,686	62.49
Wholesale and retail	**3,732**	**20.01**	3,983	25.69
Leasing and business services	**456**	**2.45**	445	2.87
Agriculture, forestry, animal husbandry and fishery	**432**	**2.32**	451	2.91
Construction	**382**	**2.05**	162	1.05
Hotels and catering	**158**	**0.85**	174	1.12
Others[1]	**153**	**0.82**	101	0.65
Production and supply of electricity, heating, gas and water	**116**	**0.62**	107	0.69
Information transmission, computer services and software	**78**	**0.42**	84	0.54
Residential services and other services	**26**	**0.14**	72	0.46
Water conservancy, environmental and public facilities management	**25**	**0.13**	31	0.20
Mining	**23**	**0.12**	57	0.37
Culture, sports and entertainment	**19**	**0.10**	19	0.12
Real estate	**17**	**0.09**	12	0.08
Financial services	**–**	**–**	–	–
Total	**18,649**	**100.00**	15,502	100.00

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

During the reporting period, the increase in the balance of non-performing corporate loans of the Bank mainly came from transportation, storage and postal services. As of the end of the reporting period, among corporate loans, the balance of non-performing corporate loans from transportation, storage and postal services was RMB7,759 million, representing an increase of RMB7,641 million compared with the prior year-end. Other industries suffering severe impact from the epidemic include manufacturing, wholesale and retail, hotels and catering, culture, sports and entertainment. In this regard, the Bank has been actively promoting risk mitigation and has launched a list-based management system for high risk customers, implemented tailored policies for different enterprises and monitored each account specifically. As of the end of the reporting period, the total balance of non-performing loans for businesses in the industries mentioned above was RMB9,182 million, representing a decrease of RMB4,680 million compared with the prior year-end.

Movements of Allowance for Impairment Losses on Loans

Allowance for Impairment Losses of Customer Loans at Amortized Cost

In millions of RMB

	December 31, 2020			
Item	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	114,698	13,101	38,325	166,124
Transfers:	–	–	–	–
Transfer to stage 1	861	(630)	(231)	–
Transfer to stage 2	(3,528)	3,561	(33)	–
Transfer to stage 3	(6,503)	(5,487)	11,990	–
Changes of ECL arising from transfer of stages	(799)	3,414	14,996	17,611
Financial assets derecognized or settled during the period	(37,713)	(2,244)	(8,541)	(48,498)
New financial asset originated or purchased	89,274	–	–	89,274
Remeasurement	(7,862)	288	1,681	(5,893)
Write-offs	–	–	(14,721)	(14,721)
Loss allowance as at December 31, 2020	148,428	12,003	43,466	203,897

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

In millions of RMB

	December 31, 2020			
Item	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at January 1, 2020	646	44	40	730
Transfers:	–	–	–	–
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(11)	11	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the period	(646)	(44)	(30)	(720)
New financial asset originated or purchased	847	–	–	847
Remeasurement	773	–	–	773
Write-offs	–	–	–	–
Loss allowance as at December 31, 2020	1,609	11	10	1,630

Market Risk

Market risk refers to the risk of losses in on- and off-balance sheet risk positions arising from movements in market prices (including interest rate, exchange rate, stock price and commodity price). The Bank is primarily exposed to interest rate risk and exchange rate risk (inclusive of gold). During the reporting period, the overall market risk remained stable.

Classification of Trading Book and Banking Book

The Bank classifies on-and off-balance sheet assets and liabilities into banking book and trading book. The trading book includes financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

Market Risk Management of the Trading Book

The Bank manages the market risk of trading book by adopting multiple methods including limit management, sensitivity analysis, exposure analysis and stress testing. During the reporting period, the Bank continued to advance the market risk management of the trading book, closely traced the fluctuations of main domestic and foreign financial markets, and stepped up efforts in the study and analysis of material external market risk events. The Bank paid attention to the market risk of businesses done on behalf of customers and agency businesses, and actively applied stress testing tools to assess changes in market risk under the drastic fluctuations of the market. It proactively pushed forward the development of the internal model approach system for market risk, improved the market risk management policy system, launched the market risk management system, added market risk limit indicators, standardized actual profit and loss measurement, and strengthened market risk monitoring and reporting. The Bank also tracked the market risk requirements of new international rules for capital regulation, and improved its capacity for systematic quantitative calculation.

Market Risk Management of the Banking Book

Interest Rate Risk Management for Banking Book

Interest rate risk refers to the risk that may cause losses to the Bank due to adverse changes in interest rate, maturity structure, etc., or affect the income or economic value of the Bank. The interest rate risk of the Bank's banking book mainly arises from the mismatch of the remaining maturities or repricing periods of the interest rate-sensitive assets and liabilities in the banking book and the inconsistent changes in benchmark rates that assets and liabilities are priced on. During the reporting period, the interest rate risk of the Bank's banking book was generally stable and the impact of interest rate fluctuation on the net interest income and economic value of the Bank was within an acceptable range.

During the reporting period, the Bank measured and analyzed the interest rate risk of the banking book by using the repricing gap analysis, sensitivity analysis on net interest income and economic value, duration analysis and stress testing and other methods, and managed the interest rate risk of the banking book by adjusting the repricing period structure of assets and liabilities and matching asset and liability portfolios. The Bank proactively dealt with the impacts and challenges brought about by interest rate liberalization and the COVID-19 epidemic, paid close attention to changes in external interest rate environment, and continued to improve the internal and external pricing mechanisms. It upgraded its interest rate risk limit system accordingly and monitored interest rate risk conditions regularly. To better implement the latest regulatory requirements on interest rate risk management of the banking book, the Bank actively improved the banking book interest rate risk management framework, promoted the improvement of the interest rate risk management system, and constantly enhanced refined interest rate risk management.

Interest Rate Risk Analysis

Interest Rate Risk Exposure

In millions of RMB

Item	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
December 31, 2020	**(61,230)**	**(241,033)**	**(402,776)**	**194,284**	**855,633**	**256,109**
December 31, 2019	280,121	(273,971)	(436,676)	210,087	560,845	136,502

Interest Rate Sensitivity Analysis

In millions of RMB

Movements in yield rate basis points	Movements in net interest income as at December 31, 2020	Movements in net interest income as at December 31, 2019
Increased by 100 basis points	**(4,171)**	(1,262)
Decreased by 100 basis points	**4,171**	1,262

Exchange Rate Risk Management

Exchange rate risk refers to the risk of loss in foreign exchange exposure arising from unbalanced foreign exchange assets and liabilities due to adverse movements in exchange rates. During the reporting period, the Bank's overall exchange rate risk increased, but was overall controllable.

As the epidemic continued to spread overseas since the second half of 2020, the interest spread between China and the United Sates widened. The US dollar continuously depreciated against the Renminbi, resulting in greater pressure of exchange rate risk. The Bank paid close attention to market exchange rate trends, timely monitored the changes in exposures, regularly assessed and reported exchange rate risks level, conducted stress testing, actively carried out research and analysis on risk hedging methods, investigated and formulated risk limits and carried out limit management, to ensure the foreign exchange risk of the Bank is within an acceptable range.

Exchange Rate Risk Analysis

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

Currency Concentration

In millions of RMB

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

	As at December 31, 2019			
Item	**USD (in RMB equivalent)**	**HKD (in RMB equivalent)**	**Others (in RMB equivalent)**	**Total**
Spot assets	57,293	682	5,627	63,602
Spot liabilities	(22,742)	3,093	(1,091)	(20,740)
Forward purchases	284,803	0	995	285,798
Forward sales	(287,854)	(2)	(5,964)	(293,820)
Net long/(short) position	31,500	3,773	(433)	34,840

Liquidity Risk

Liquidity Risk Management

Liquidity risk refers to the risk of failure to obtain sufficient funds by commercial banks at a reasonable cost in a timely manner to repay matured debts, fulfill other payment obligations and meet other financial needs of normal operation. Liquidity risk of the Bank may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by borrowers, overdue payment of debtors, excessive maturity mismatch, difficulties in liquidating assets, and weakening in financing ability, etc.

Liquidity Management Governance Structure

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

Strategy and Policy of Liquidity Risk Management

The objective of liquidity risk management of the Bank is to identify, measure and control liquidity risk in a timely manner via the establishment of a scientific and comprehensive liquidity risk management system, and to ensure the liquidity demand is satisfied and its payment obligation to external parties fulfilled under the normal business scenario and the stress scenario. The Bank adheres to a prudent and steady liquidity risk management strategy to strike a balance between fund sources and utilization in terms of their amount, 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, intraday liquidity management, stress testing and contingency plans, manages the liquidity risk of the Bank in a centralized manner and clarifies that the affiliates assume primary responsibilities for their own liquidity risk management. The Bank actively monitors the macroeconomic situation and the impact of the epidemic, guided by monetary policies, closely monitors market liquidity conditions and strictly carries out the policy on risk limits, to effectively maintain balance among safety, liquidity and profitability.

Liquidity Risk Stress Testing

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

Liquidity Risk Analysis

During the reporting period, the Bank's liabilities were stable, as its major source of funds was retail deposits. Its assets were highly liquid, with a relatively large proportion of qualified high-quality bonds. Its overall liquidity position was sufficient, safe and under control. As of the end of the reporting period, the liquidity ratio of the Bank was 71.61%, the liquidity coverage ratio was 234.61% and the net stable funding ratio was 162.41%, all meeting the regulatory requirements.

Liquidity Gap Analysis

Net Position of Liquidity

In millions of RMB

Item	Overdue	Repayable on demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
December 31, 2020	**9,428**	**(3,734,107)**	**(10,149)**	**(807,104)**	**(814,869)**	**1,595,192**	**3,218,206**	**1,144,390**	**600,987**
December 31, 2019	10,417	(3,365,796)	(68,107)	(936,076)	(386,235)	1,499,165	2,656,822	1,066,718	476,908

Liquidity Coverage Ratio

In millions of RMB, except for percentages

Item	As at December 31, 2020	As at December 31, 2019
High-quality liquid assets	**2,227,634**	2,087,050
Net cash outflow for the next 30 days	**949,497**	892,514
Liquidity coverage ratio (%)	**234.61**	233.84

Net Stable Funding Ratio

In millions of RMB, except for percentages

Item	As at December 31, 2020	As at September 30, 2020	As at June 30, 2020
Total available stable funding	**9,753,568**	**9,410,796**	**9,260,631**
Total required stable funding	**6,005,513**	**5,853,735**	**5,638,577**
Net stable funding ratio (%)	**162.41**	**160.77**	**164.24**

The net stable funding ratio ("NSFR") is introduced to ensure commercial banks have sufficient stable sources of funding to meet the needs for stable funding of all types of assets and off-balance sheet risk exposures. According to the minimum regulatory standard set by the Rules on Liquidity Risk Management of Commercial Banks, NSFR should be no less than 100% from July 1, 2018.

The formula for calculating the NSFR is:

Net stable funding ratio = available stable funding (ASF)/required stable funding (RSF) x 100%

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

Operational Risk

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

During the reporting period, the Bank improved the operational risk management system in an all-round manner, pushed forward the implementation of operational risk management tools in institutions at all levels, successfully launched the operational risk management system, and carried out the identification and assessment of operational risk and control. It set key risk indicators, promoted standardized collection of operational risk event and loss data, and continuously refined operational risk management through describing the operational risk profile, accurately preventing and controlling operational risk and taking targeted measures. It strengthened operational risk control in key business areas, improved the operational risk monitoring and early warning mechanism, carried out tiered and classified trainings on operational risk management, and established a correct operational risk management concept. It continuously refined the internal control management mechanism, upgraded the organizational structure at the primary level, strengthened staff and outlet management, and effectively enhanced the internal control management capabilities of institutions at the primary level.

Legal Risk

Legal risk refers to the risk of commercial banks suffering from adverse legal consequences including legal liabilities, loss of rights and reputational damage due to violation of laws and regulations or terms of contract of its business operations, non-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 overall legal risk of the Bank was manageable.

The Bank continued to improve the legal risk management system, and consistently enhanced the capacity for legal risk management, prevention and control. It advanced the process of legal risk prevention and control, and incorporated legal risk prevention and control into business processes including but not limited to financial product design, business negotiation, contract signing and execution. It strengthened the professional legal support and constantly conducted legal reviews in a more professional manner; enhanced the standardized operation and management of the Bank by consistently standardizing form contracts; carried out analysis of defeated cases to effectively prevent and control litigation risks, and improved the full-process contract management mechanism. By developing and applying a new legal affairs system, the Bank established a full-process online platform to manage processes from contract completion, cosign, legal review to permission, printing and sealing contracts, and effectively prevented and controlled legal risks of contracts. It organized and carried out learning and promotion activities on important laws and regulations to raise employees' legal awareness and enhance their ability to solve problems. It completed the establishment of a lawyers' pool across the Bank, and improved standards on the management of outside counsels and in-house counsels. It improved management standards on authorization, and optimized annual authorization to enhance operation and management; formulated measures for the administration of intellectual property rights, developed full-process intellectual property rights management, and set up a patent reward mechanism to promote innovation on technology.

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties and significant financial and reputational losses as a result of the commercial bank's failure to comply with laws, regulations and rules. During the reporting period, the Bank continued to properly prevent and control compliance risks, and the overall compliance risk was controllable.

During the reporting period, the Bank continued to improve the compliance management mechanisms and earnestly carried out compliance review of new systems, new products and new businesses, ensuring full support for business development. It made compliance review a mandatory procedure for the formulation of rules and regulations, decision-making on major issues, operation of major projects and other business management behaviors, and enhanced the coverage and extent of compliance review services. It strengthened compliance risk monitoring, issued briefings about new rules on the Bank's portal, regularly kept track on release of regulatory and the Bank's laws, regulations and systems, delivered the latest compliance requirements in a timely manner, issued compliance risk warnings, prevented and controlled compliance risks and carried out epidemic prevention and control. It comprehensively strengthened the management and control of regulations and process, formulated procedures for regulation approval, improved the efficiency of regulation decision-making and regulation management level, and optimized regulation system. It continued to carry out the regulation assessment, review and planning, established a pool of rules and policies of the Bank and improved the IT application in system management.

Anti-Money Laundering

Money laundering risk refers to the risk arising from illegal activities such as money laundering, terrorist financing and proliferation financing caused by the use of business and products by illegal criminals. During the reporting period, the Bank did not have any significant money laundering incidents, and the Bank's money laundering risks were overall controllable.

During the reporting period, in strict compliance with the national anti-money laundering (AML) laws and regulations, the Bank earnestly upheld the risk-based management concepts of AML, and sincerely fulfilled the legal obligations and social responsibilities concerning AML. During the reporting period, the Bank continued to improve the compliance management level of AML and sanctions, improved the AML management framework, and promoted the improvement of AML system and working mechanism. The Bank built a money laundering risk management system based on "customers, products and institutions", effectively identified and strengthened the control of high risk areas of money laundering, further promoted customer information quality management, and carried out investigation of money laundering risk in corporate accounts. It carefully fulfilled the obligation of customer identification, and strengthened the management and control of high-risk customers and businesses. It further improved the reporting mechanism for large-amount transactions and suspicious transactions, continuously optimized the AML system functions, increased the investment in building the AML suspicious transaction model, and carried out AML data governance in an in-depth manner. It also conducted multiple money laundering risk inspections, and focused on preventing and controlling money laundering risks. It carried out multi-level AML publicity and training, raising the compliance awareness and ability of the Bank.

Information Technology Risk

Information technology risk refers to the operational, reputational, legal and other risks caused by the natural and human factors, technological loopholes and management flaws when applying information technology. During the reporting period, the Bank's operation of the information system was overall stable, and various monitoring indicators of information technology risks remained normal.

During the reporting period, the Bank continued to strengthen the institutionalized, regular and systemic development of information technology risk management, initiated activities to upgrade the quality of information technology risk management, and conducted information technology risk assessment. It improved the R&D security and automated operation and maintenance capabilities; continuously strengthened the development of a comprehensive network security prevention and control system and enhanced the ability to respond to operational security threats; reinforced data security management and customer data protection, organized special training sessions on data security, and carried out special assessment on customer data security; refined the business continuity management system and improved the daily workflow of business continuity management; and accelerated the development of a disaster recovery system to expand the coverage of disaster recovery.

Reputational Risk

Reputational risk refers to the risk resulting from negative reports or comments on the Bank's businesses, operation, management, personnel matters and other actions it takes, or external events relating to it. During the reporting period, public opinions about the Bank remained overall stable, and there was no material reputational risk event.

During the reporting period, the Bank continued to implement the reputational risk management concept of "addressing both the symptoms and root causes, with focus on root causes", and pressed ahead the management of reputational risk at earlier steps. The Bank carried out comprehensive reputational risk screening and special screening of key nodes to accurately grasp hidden points and root causes to eliminate risk hazards. It continuously conducted 24/7 monitoring, stratification and classification, judgment and treatment of public opinions, and established a closed-loop management mechanism of "monitoring of public opinions – prompt of public opinions – handling of public opinions – feedback of public opinions". The Bank also continuously improved the public opinion database and heat indicator, and utilized information technology to improve the quality and efficiency of reputational risk management. Focusing on the themes such as targeted poverty alleviation, serving Sannong customers, facilitating rural revitalization, supporting micro and small enterprises, innovating financial services and developing green finance, the Bank told PSBC stories based on typical cases in the industries, and organized a series of influential events to enhance its brand image.

Strategic Risk

Strategic risk refers to the risk of adverse impact on the bank's profitability, capital, reputation, market status, etc., arising from improper business and management strategy, strategy implementation deviation or failure to respond to changes in external environment in a timely manner. During the reporting period, the Bank continued to enhance its capabilities in executing strategies as well as managing and controlling strategic risks. The strategic risks were largely under control.

During the reporting period, the Bank comprehensively assessed the implementation of strategies, and effectively improved the efficacy of strategy management. In response to changes in internal and external business environment, the Bank formulated sub-plans such as big data, digital transformation and talent development, and continuously improved the strategic planning system. It enhanced comprehensive strategic research on major issues including the status of the economy and the financial sector, the development trend of the banking industry, the impact of the epidemic and enhancement of headquarters capabilities, launched the preparation of the 14th Five-Year Plan, and provided strong support for the Bank's decision-making in important areas. At the same time, the Bank continued to promote the implementation of the retail banking strategy, increased innovation of products and services and integrated marketing efforts, strengthened the application of big data, and accelerated the building of smart ecosystem, resulting in rapid growth in retail financial services. It improved the quality and efficiency of personal financial business, reached a record high in new personal deposits, and kept the funding cost at a level better than others in the industry. For retail credit business, the Bank promoted digital transformation and scenario-based customer acquisition to continuously enrich product types. Inclusive finance business was steadily promoted, and the proportion of the agro-related loans and that of inclusive corporate loans to micro and small enterprises in its loan book were quite high compared to other major state-owned banks in China. For the internet banking business, the Bank improved online service channels, and strengthened the cooperation with external parties to establish a smart ecosystem of “finance plus life”.

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 suffered by the bank in that country or region due to changes and incidents occurred in its economy, politics and society. During the reporting period, the Bank's country risk exposure mainly concentrated in low-risk countries or regions, and country risk level was generally controllable.

In strict compliance with country risk policies and relevant regulatory requirements, the Bank continued to improve its country risk management system based on its business development needs and management capability, strengthened the identification, measurement, monitoring and control of country risk, and improved the cross-border business plans. Facing the increasingly complex international political and economic situation and the increasingly serious impact of the epidemic, the Bank paid close attention to the changes in country risk of various countries or regions, and dynamically adjusted country risk ratings and limits. It fully set aside country risk reserves based on full consideration of the impact of country risk on asset quality.

Risk Consolidated Management

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

The Bank strictly followed national policies and regulatory requirements and continuously promoted the development of the mechanism for risk consolidated management. With reference to the overall development strategy of the Group and the development direction of its subsidiaries, the Group formulated relevant regulations for risk consolidated management, included its affiliates in the risk appetite of the bank group, defined the core risk indicators, and set the risk limit requirements. It strengthened the guidance, supervision and evaluation of risk management of its affiliates, supervised and guided its affiliates to continuously improve their comprehensive risk and various professional risk management systems.

Capital Management

The objective of the Bank's capital management is to maintain a stable and reasonable capital adequacy level, continuously meet regulatory policies and macro-prudential requirements; to comprehensively establish and apply a value management system centered on economic capital, strengthen capital constraints, communicate the concept of value creation, continuously consolidate the capital base of the Bank, constantly enhance the supplementation capacity of endogenous capital and proactively expand channels for external capital replenishment. As of the end of the reporting period, the Bank's capital indicators stayed within the reasonable range, and the capital adequacy ratio and leverage ratio continued to meet regulatory requirements and remained at sound and reasonable levels.

Capital Planning and Capital Adequacy Ratio Management Plan

Pursuant to the regulatory requirements of the Capital Rules for Commercial Banks (Trial), the Bank made capital planning based on factors such as economic and financial situation, development strategy and risk preference and determined the capital management objectives and management measures, to ensure that the capital level of the Bank continues to fulfill the regulatory requirements, and is in line with the requirements of long-term sustainable development and shareholder return. It formulated the Three-year Rolling Capital Plan 2021-2023 for Postal Savings Bank of China and the Capital Adequacy Ratio Management Plan 2021 for Postal Savings Bank of China and submitted them to the Board of Directors for approval. During the plan period, the Bank will strengthen the coordinated management of capital, further improve the capital management system and enhance refined management level. The Bank will focus on the combination of both internal and external sources, promote capital replenishment through multiple channels and in multiple ways, further consolidate capital strength, and continually enhance its ability to serve the real economy, and effectively support the sound development of various businesses.

Capital Adequacy Ratio

According to the requirements of the Capital Rules for Commercial Banks (Trial) and its supporting policy documents issued by the CBIRC, the Bank measured credit risk by weighted approach, market risk by standardized approach, and operational risk by basic indicator approach. As of the end of the reporting period, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.60%, 11.86% and 13.88% respectively, details of which are as follows:

Core tier 1 capital adequacy ratio was 9.60%;
tier 1 capital adequacy ratio was 11.86%;
capital adequacy ratio was 13.88%.

Capital Adequacy

In millions of RMB, except for percentages

Item	December 31, 2020 The Group	December 31, 2020 The Bank	December 31, 2019 The Group	December 31, 2019 The Bank
Core tier 1 capital – net	**542,347**	**529,574**	492,212	481,244
Tier 1 capital – net	**670,301**	**657,432**	540,160	529,113
Net capital	**784,579**	**771,166**	671,834	660,443
Risk-weighted assets	**5,651,439**	**5,615,106**	4,969,658	4,950,560
Credit risk-weighted assets	**5,193,789**	**5,165,186**	4,582,338	4,567,277
Market risk-weighted assets	**94,964**	**94,964**	52,655	52,655
Operational risk-weighted assets	**362,686**	**354,956**	334,665	330,628
Core tier 1 capital adequacy ratio (%)	**9.60**	**9.43**	9.90	9.72
Tier 1 capital adequacy ratio (%)	**11.86**	**11.71**	10.87	10.69
Capital adequacy ratio (%)	**13.88**	**13.73**	13.52	13.34

Market Risk Capital Requirements

In millions of RMB

Item	December 31, 2020	December 31, 2019
Interest rate risk	**2,120**	1,832
Exchange rate risk	**5,477**	2,380

Leverage Ratio

As of the end of the reporting period, the leverage ratio calculated by the Bank pursuant to the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) issued by the CBIRC was 5.68%, meeting the regulatory requirements. For details of leverage ratio, please refer to "Appendix I: Supplementary Financial Information".

Economic Capital Management

The Bank continued to improve the level of refined management of economic capital and consolidated the active management mechanism of economic capital. It improved the capital allocation mechanism with risk-adjusted return on capital (RAROC) as the core indicator. The Bank guided resources to favor businesses with high capital returns and strictly controlled the growth of inefficient assets. The awareness of saving capital and value creation across the Bank has been further enhanced, and business structure continuously improved.

Capital Financing Management

On the basis of capital replenishment through retained earnings, the Bank comprehensively utilized external financing instruments to replenish its capital, and actively explored innovative capital replenishment channels.

In order to further consolidate capital strength, ensure the continuity of stable and healthy development of business, build domestic and overseas financing platforms, and establish a long-term and effective capital replenishment mechanism, the Bank was listed on the main board of the SSE on December 10, 2019. On January 8, 2020, the joint lead underwriters fully exercised the over-allotment option.

The Bank convened a Board meeting on November 30, 2020 to review and approve the Proposal on the Non-public Issuance of A Shares by Postal Savings Bank of China in accordance with its capital requirements and capital replenishment plan. The resolution was submitted to the Shareholders' General Meeting on December 21, 2020 for review and approval. Under approval of CSRC, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares in March 2021 at an issue price of RMB5.55 per share, raising a total of RMB30 billion. After deducting the issuance cost, actual net proceeds were approximately RMB29,985.92 million. Please refer to "Changes in Share Capital and Shareholdings of Shareholders" for details.

The Bank publicly issued RMB80 billion of write-down undated capital bonds in the national Interbank Bond Market in March 2020. The proceeds, after deducting the issuance cost, will all be used to replenish other tier 1 capital in accordance with applicable laws and approval of the competent authorities. The Bank convened a Board meeting on April 28, 2020 to review and approve the Proposal on the Issuance of Write-down Undated Capital Bonds by Postal Savings Bank of China, which was submitted to the Shareholders' General Meeting on May 28, 2020 for review and approval. In August 2020, the Bank was approved by the PBOC to issue write-down undated capital bonds with total amount not more than RMB60 billion in the national Interbank Bond Market. In March 2021, the Bank publicly issued RMB30 billion write-down undated capital bonds in the national Interbank Bond Market, with all proceeds after deducting the issuance cost be used to replenish other tier 1 capital in accordance with applicable laws and approval of the competent authorities.

In September 2020, the Bank fully redeemed tier 2 capital bonds of RMB25 billion issued in 2015. The Bank convened a Board meeting on January 28, 2021 to review and approve the Proposal on the Issuance of Write-down Qualified Tier 2 Capital Instruments by Postal Savings Bank of China, with proposed issuance of write-down qualified tier 2 capital instruments with total amount no more than RMB150 billion (inclusive) or equivalent in foreign currency. All proceeds will be used to replenish the Bank's tier 2 capital in accordance with the applicable laws and approval of the competent authorities. The issuance plan is subject to scrutiny and approval at the Shareholders' General Meeting of the Bank, and the approval of relevant regulators subsequently.


Approximately
40000 outlets
Covering
99% of
counties
(cites)
across
China
中国邮政储蓄银行
POSTAL SAVINGS BANK OF CHINA

Jointly We Step Forward Together We Gain Fulfilment

Focuses of the Capital Market

Response to the Epidemic and Its Impact

In 2020, under the strong leadership of the CPC Central Committee, China made great achievements in epidemic prevention and control as well as economic and social development, and the economy returned to normal step by step. The Bank has been determined to implement the decisions and plans of the CPC Central Committee and the State Council as well as the requirements of regulatory authorities. It focused on serving the real economy and accelerated the development and transformation of retail banking business. It optimized the asset and liability allocation, strengthened risk prevention and control, and enhanced technological support. Through these efforts, it effectively mitigated the impact of the epidemic on business development and achieved steady, sustainable and high-quality development of businesses on both asset and liability sides. As of the end of the reporting period, its credit assets accounted for 50.35%, representing an increase of 1.66 percentage points compared with the prior year-end; the loan-to-deposit ratio was 55.19%, an increase of 1.78 percentage points compared with the prior year-end. The quality of assets remained stable, with a NPL rate of 0.88%, representing an increase of 0.02 percentage point compared with the prior year-end. The allowance to NPLs ratio was 408.06%, an increase of 18.61 percentage points compared with the prior year-end. The risk compensation capacity was further enhanced.

The Bank pursued faster development and transformation and actively responded to the impact of the epidemic with the following key efforts:

Firstly, the Bank fulfilled its responsibilities as a major state-owned bank in supporting the real economy. In line with the overall plan of the CPC Central Committee for epidemic prevention and control, it made reasonable arrangements for business hours at outlets and gave full play to its network to guarantee basic financial services to the largest extent. It made solid efforts to implement the special relending policy, dynamically optimized the credit policy, and provided stronger financial support for key enterprises fighting against COVID-19. It leveraged its unique advantages to help micro and small businesses to resume work and production. Secondly, the Bank adhered to the retail banking strategy and vigorously transformed toward the New Retail model. It acted swiftly in response to the epidemic and changes in the post-epidemic era by innovating the customer relationship management and service models, and accelerating the building of a digital scenario ecosystem. It established a customer-oriented daily life service platform, strengthened the synergy with its main business, and improved the convenience and coverage of financial services to create a financial ecosystem with integrated online and offline development. Thirdly, the Bank optimized the structure of assets and liabilities, and eased the downward pressure on the interest spread. On the asset side, it increased the proportion of credit assets, especially medium and long-term credit assets, among the total assets. It also improved the proportion of high-yield non-credit assets and stabilized the proportion of retail credit. On the liability side, the Bank vigorously optimized the structure, reduced high-cost deposits, pushed forward with high-quality development of deposit business, and appropriately used low-cost proactive liabilities to meet the needs for high-yield asset allocation. Fourthly, the Bank safeguarded the line of defense against risks and held fast to the comprehensive risk management concept. It adopted differentiated credit policies and standards, carried out in-depth investigation of risks on all aspects, and strengthened monitoring and diffusion of risks during the epidemic. It researched and assessed internal and external risks in a more prudent manner, conducted forward-looking provisioning for asset impairment and strengthened the ability to resist risks. Fifthly, the Bank was dedicated to promoting the digital transformation and upgrade and leading the transformation and development of business with technological innovation. It proactively responded to the customers' needs for online transactions, innovated and widely promoted contactless services, launched the mobile banking 6.0 together with the Customer Manager Cloud Studio, and promoted the integration of online and offline services, responding to and meeting customer needs in a timely manner.

Net Interest Margin

In 2020, the Bank's net interest margin was 2.42%, a year-on-year decrease of 11 basis points due to factors such as the decrease in market interest rates, declining loan yields and rigidity of deposit costs.

Looking ahead into 2021, the interest rate will go up, easing the downward pressure on interest margin of the Bank. In terms of loans, policies mainly focus on consolidating achievements in making interest concessions and steadily decreasing corporate financing cost. The interest rate of new loans will continue to decline during the year. In addition, as the conversion of the pricing benchmark on loans began last year but will mostly take effect this year, it will drag down the lending rate, thus creating a downward pressure on loan yields throughout the year, yet to a gradually smaller extent. In terms of deposits, policies are aimed at regulating pricing behaviors. In particular, regulations were imposed on behaviors such as setting interest rates on innovative deposits in a non-standard way as well as absorbing high-cost deposits across regions via internet platforms, so as to help rationalize market competition and curb the rising trend of funding cost. In terms of investment, monetary policies put emphasis on the general matching of the growth rate of money supply and that of social financing scale with the nominal GDP growth rate, and maintain macro leverage ratio generally stable. Major market interest rates such as the interest rates of government bonds and financial bonds have rebounded to the level of 2019 since the prior year-end, with a higher interest rate median compared with the prior year. Based on all the above factors, the interest margin of the Bank in 2021 is expected to continue its narrowing trend but in a slower pace.

To cope with the downward pressure on interest margin, the Bank will continue to follow the high-quality development strategy, center on the structural adjustment as a key driver, refine management measures so as to offset the impact of interest rate changes through structural adjustment to ease such downward pressure. In terms of asset allocation, the Bank will remain committed to "three increases and one stabilize", namely increasing the proportion of credit assets, increasing the proportion of medium and long-term credit assets, increasing the proportion of high-yield non-credit assets and stabilizing the proportion of retail credit. In particular, the commitment to increasing the proportion of credit assets, increasing the proportion of medium and long-term credit assets, and stabilizing the proportion of retail credit is in line with the Bank's implementation of the central government's policies on better serving the real economy, increasing medium and long-term manufacturing loans and constantly improving financial services for micro and small enterprises, which are also important areas for the Bank to fulfil its social responsibilities while improving the economic returns. In terms of liability management, the Bank will continue to improve the quality and reduce the costs of liabilities, and strictly control the increase in medium and long-term deposits with high interest rates and promote the structural optimization of deposits through a variety of measures such as tightening of the interest rates with special authorization for medium and long-term deposits, guidance via internal FTP and performance assessment, and limits on high-cost deposits. The Bank will also carry out interbank liabilities in accordance with the principles of "interest rate determined based on loan rates, risks under control, lower costs and promising yields" to reduce funding costs.

Cost to Income Ratio

During the reporting period, cost-to-income ratio of the Bank was 57.86%, representing a year-on-year increase of 1.57 percentage points, which was mainly attributed to: (1) increase in operating income by 3.40% year-on-year, representing a slower growth, due to the impact of factors like the epidemic and low market interest rates; (2) increase in deposit agency fees and others by 8.09% year-on-year due to increase in average daily balance of deposits at agency outlets by 9.64% year-on-year, despite which, the deposit agency fees continued to decline in the past years; (3) strengthening talent recruitment, product innovation support and IT spending to lay a solid foundation for high-quality development.

In 2021, the Bank will deepen business transformation, and improve quality and effectiveness of development. In terms of increasing income, it will push interest margin and grow income from intermediary business to achieve growth of operating income. First is to maintain stable growth of net interest income. The Bank will rationally adjust asset structure and continuously increase the proportion of high-yield assets. Besides, it will strictly control the increase of high-interest deposits and increase the proportion of short-term deposits so as to control the overall funding cost. Second is to realize rapid growth of income from intermediary business. The Bank will closely follow the high-quality development strategy, and spare no effort to develop intermediary business. Based on its retail banking business, it will make full use of its network advantage to advance the development in wealth management and electronic payment, scale up agency sales, steadily develop the credit card business, and accelerate corporate and treasury businesses such as investment banking and custody, so as to achieve faster growth and raise the proportion of income from intermediary business.

With respect to reducing expenditures, the Bank will control total expenses, adjust the structure, and improve cost effectiveness. Firstly, the Bank will continue to optimize the human resource allocation, deepen the reform of remuneration distribution, and improve the incentive and restraint mechanism for labor costs and increase the output efficiency of human resources. Secondly, the Bank will continue to invest heavily in fintech, promote the digital transformation and ensure that IT spending account for about 3% of the operating income to lay a solid foundation for sustainable development of the Bank. Thirdly, the Bank will strengthen refined cost management, optimize the system for cost benchmarking, enhance cost allocation efficiency and unit cost effectiveness; leveraging technology empowerment, it will accelerate transformation and upgrading of outlets, effectively control operating costs and increase outlet capacity.

Net Non-interest Income

During the reporting period, net non-interest income of the Bank decreased by 3.69% year-on-year to RMB33.159 billion, accounting for 11.57% of the operating income, and was mainly due to: (1) increase in administration fee and commission income to RMB16.495 billion, representing a year-on-year increase of 12.80%, as the Bank fully utilized advantages of retail business to achieve rapid growth in key businesses such as credit cards, agency sales, electronic payment, wealth management and custody through measures like expanding customer base, increasing scale and optimizing structure; (2) increase in net securities investment income to RMB15.921 billion, representing a year-on-year increase of 27.82%, primarily due to gains from changes in fair value by our constant promotion of post-investment management in financial investments, and the increase in recoverable amount from trust investment plans; (3) decrease in net trading income to RMB3.259 billion, representing a year-on-year decrease of 13.02%, as the Bank actively adjusted investment structure and took the initiative to reduce scale of low-yield assets such as interbank deposit certificates, and also a decline in gains and losses from changes in the fair value due to impact of interest rate fluctuations in the bond market; (4) net gains and losses of minus RMB2.517 billion in other businesses, mainly due to exchange loss caused by substantial appreciation of the RMB against US dollar.

Looking into 2021, there will still be many uncertainties such as changes in the epidemic and the external environment. The Bank will identify changes, make responses and transform itself for the future. It will seize market opportunities, improve itself through reform and innovation, focus on strengthening comprehensive operation and investment capability, and promote the stable development of non-interest-bearing businesses.

Firstly, the Bank will take multiple measures to strengthen the development of intermediary businesses, maintain the rapid growth of income from intermediary business and keep increasing the proportion of such income. In terms of agency sales, it will continue to leverage its outlet advantage, effectively improve the productivity of outlets and make breakthroughs in both the volume and revenue of the bancassurance business and agency sales of non-monetary funds. As for credit cards, the Bank will continuously advance the building of acquisition channels, vigorously improve user activity and consumption, and strive to improve the quality and efficiency of its development. With respect to the electronic payment, the Bank will continue to increase the number of card accounts bound for quick payment, push for more transactions and fully explore the drivers for its growth. In terms of investment banking, it will strive to obtain qualifications as lead underwriters of bonds and lead banks of syndicated loans, and explore growth drivers such as asset securitization. As for wealth management, the Bank will continue the transition to NAV-based wealth management products, and improve the capabilities of diversified asset allocation. Regarding custody, it will continue to scale up businesses such as mutual funds and insurance funds, optimize the structure of assets under custody and increase the composite rate.

Secondly, the Bank will steadily develop other non-interest-bearing businesses to improve their comprehensive contributions to income. It will strengthen market analysis, improve the trading capacity and make flexible adjustments to the allocation pace and trading strategy. Moreover, it will improve the investment capability, seize opportunities and actively invest in high-quality assets such as asset securitization and bond funds to improve portfolio returns and maximize the overall income.

Asset Quality

The Bank always adhered to a prudent risk appetite, firmly upheld the new development philosophy, with the aim to strike a long-term balance between sustaining growth and preventing risks. It strengthened control over non-performing assets by controlling their generation, reducing existing bad assets and preventing credit migration, and thereby kept good asset quality on a continuous and stable basis. As of the end of the reporting period, the Bank recorded a NPL ratio of 0.88%, representing an increase of 0.02 percentage point compared with the prior year-end. The special mention loan ratio was 0.54%, a decrease of 0.12 percentage point compared with the prior year-end. The overdue loan ratio was 0.80%, a decrease of 0.23 percentage point as compared with the prior year-end. The allowance to NPLs ratio was 408.06%, an increase of 18.61 percentage points compared with the prior year-end. Risks were generally under control. The Bank acted in strict compliance with regulatory standards and constantly optimized risk classification rules. Therefore, the quality of assets was true and reliable. As of the end of the reporting period, the ratio of NPLs to loans overdue for more than 90 days was 1.58, and all loans overdue for more than 60 days as well as 94.69% of loans overdue for more than 30 days were recognized as NPLs. The figures reflected the risk of its loan profile in a comprehensive and authentic manner.

In terms of corporate loans, as of the end of the reporting period, the Bank's balance of non-performing corporate loans amounted to RMB18,649 million, representing an increase of RMB3,147 million compared with the prior year-end, with a NPL ratio of 0.95%. The increase in the balance of NPLs mainly came from transportation, storage and postal services. As of the end of the reporting period, the Bank's balance of non-performing corporate loans from transportation, storage and postal services was RMB7,759 million, an increase of RMB7,641 million compared with the prior year-end, which was mainly due to the business deterioration of certain clients in the transportation sector.

In terms of personal loans, as of the end of the reporting period, the Bank's balance of non-performing personal loans amounted to RMB31,708 million, representing an increase of RMB4,376 million compared with the prior year-end. Asset quality was stabilizing after a temporary decline. As of the end of the reporting period, the Bank recorded a NPL ratio of 0.98% in the personal loans, a decrease of 0.02 percentage point compared with the prior year-end. Specifically, the NPL ratio of personal micro loans was 2.00%, a decrease of 0.44 percentage point from the prior year-end. The NPL ratio of consumer loans was 0.60% and the NPL ratio of credit card business was 1.83%, up 0.08 percentage point and 0.09 percentage point over the prior year-end respectively, which was significantly lower than the peak during the year.

In 2020, regulators issued new policies, imposing tougher standards on asset quality management of the Bank. Firstly, the Bank attached great importance to risk prevention and control in the real estate sector, held fast to the idea of "houses are for living in, not for speculation" and facilitated the stable and healthy development of the real estate market. The Bank classified the real estate industry into the category of "prudent access" in its credit policy, continued to adjust the client structure and regional credit structure in this industry, implemented regulatory requirements including policies on managing the concentration of real estate loans, monitoring funds of key real estate enterprises and financing management rules, etc., reasonably controlled the credit supply and restricted financing of real estate enterprises with a high leverage ratio, leading to overall controllable risk in the industry. Secondly, the Bank strictly implemented the policy on delaying principal and interest repayment. For one thing, it increased financial support for epidemic prevention and control according to regulatory requirements. For another, it strengthened risk monitoring and mitigation, established a ledger for delayed principal and high-cost to regularly track and monitor customer risks, and thus effectively reduced the impact of the epidemic on its asset quality. It also made progress in credit services and risk management and control. The balance of loans with delayed repayment of principal and interests were declining month by month. Instead, more and more of them were repaid and settled. Only 2% of the remaining loans with delayed payment turned into NPLs, exerting a rather limited impact on the overall asset quality of the Bank. In 2021, the Bank will continue to strengthen asset quality management and control, and research and assess internal and external risks in a prudent manner. It will also intensify the monitoring and early warning of credit risks in key areas and devote greater efforts to risk disposal to achieve timely mitigation and resolution by timely identification. It is expected that the asset quality will remain good.

In terms of consolidated asset quality management, the Bank defined management requirements by formulating rules and policies. It enhanced special investigation on credit risk, supplemented by regular monitoring. It also took measures including establishing a long-effect mechanism for disposing of problematic assets to continuously enhance the control over subsidiaries' credit risks. As of the end of the reporting period, both the NPL balance and NPL ratio of PSBC Consumer Finance decreased. The overall assets under the management of PSBC Wealth Management were operated with stable quality.

Trend and Prospect of Credit Cost

In 2020, the Bank's credit cost (credit cost = loan impairment losses/average loan balance) was 0.98%, a decrease of 0.05 percentage point over last year. As of the end of the reporting period, its overall NPL ratio was 0.88%, and the allowance-to-NPLs ratio was 408.06%.

In the past three years, the Bank's credit cost was 1.09%, 1.03% and 0.98% respectively, showing a declining trend amid stability. To rise to the challenges imposed by the epidemic in 2020, the Bank dynamically optimized its credit policies, mitigated risks in key fields by controlling and supervising asset quality, inspecting and monitoring key businesses, and assessing and controlling large-value risk exposures, and efficiently disposed of NPLs, thereby maintaining continuous stability of asset quality. Additionally, it seized the opportunity of promoting the advanced approaches for capital management, continuously enhanced the capabilities for smart risk control, and promoted accurate customer portrait, quick identification of risks and effective post-lending management to control potential risks. The Bank adhered to prudent provisioning policies, constantly carried out risk assessment on financial assets, rose to challenges imposed by the epidemic, and increased impairment allowance, leading to the steady rise in the allowance-to-NPLs ratio and adequate buffers for risks.

Advanced Approaches for Capital Management

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

The Bank initiated the development and implementation of advanced approaches for capital management on all aspects. After the review by the Board of Directors and senior management, the development and implementation plan for the advanced approaches for capital management was published. The Bank promoted the development and implementation of advanced approaches in a stepwise manner, improved the risk management system, optimized the risk measurement model, sped up the building of IT systems, and put the results of risk measurement into more use. In terms of credit risk, the Bank's internal rating model covered financial institutions, companies, retail and other major risk exposure categories. The Bank further improved basic internal rating rules for comprehensive risk management, model verification, rating management and risk mitigation, successfully advanced key IT projects such as the internal rating platform, and continued to promote the application of internal rating results in the entire process of capital management and credit business. Market risk measurement and management were further improved, and the market risk management system was put into operation as scheduled. The Bank continued to push forward the development and application of three major tools for operational risk management, and launched the operation risk management system on schedule. It optimized the procedures for internal capital adequacy assessment, strengthened the upgrading of the risk-weighted asset measurement system, steadily advanced the improvement of other risk management, and improved the refined risk management.

Next, the Bank will strictly comply with regulatory requirements including the Capital Rules for Commercial Banks (Trial). Under the leadership of the Board of Directors, it will continue to promote the development of advanced approaches for capital management, strengthen the use of risk management tools, and form a virtuous circle of "development – application – optimization". It will closely follow regulatory dynamics, take the initiative to carry out benchmarking with advanced practices in the banking industry, conduct self-assessment and improvement, transform risk management in a steady manner, and improve the Bank's capability of risk management on all fronts.

Ordinary Shares

As at the end of the reporting period, the total number of ordinary shares of the Bank amounted to 86,978,562,200, including 67,122,395,200 A shares and 19,856,167,000 H shares, accounting for 77.17% and 22.83% of all shares respectively.

Details of Changes in Share Capital

Unit: share, except for percentages

	As at December 31, 2019		Increase/decrease (+,-) during the reporting period					As at December 31, 2020	
	Number of shares	Percentage (%)	Issuance of new shares	Issuance of bonus shares	Transferred from reserve	Others	Subtotal	Number of shares	Percentage (%)
I. Shares subject to restrictions on sales	**63,372,578,903**	**73.52**	**+775,824,000**	**–**	**–**	**-8,300,469,121**	**-7,524,645,121**	**55,847,933,782**	**64.21**
1. Shareholdings of the State	–	–	–	–	–	–	–	–	–
2. Shareholdings of state-owned legal persons	60,431,175,000	70.11	–	–	–	-4,583,241,218	-4,583,241,218	55,847,933,782	64.21
3. Other domestic shareholdings	2,941,403,903	3.41	+775,824,000	–	–	-3,717,227,903	-2,941,403,903	–	–
Including: Shareholdings of domestic non-state-owned legal persons	2,941,403,903	3.41	+775,824,000	–	–	-3,717,227,903	-2,941,403,903	–	–
Shareholdings of domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign shareholdings	–	–	–	–	–	–	–	–	–
Including: Shareholdings of foreign legal persons	–	–	–	–	–	–	=–	–	–
Shareholdings of foreign natural persons	–	–	–	–	–	–	–	–	–
II. Circulating shares not subject to restrictions on sales	**22,830,159,297**	**26.48**	**–**	**–**	**–**	**+8,300,469,121**	**+8,300,469,121**	**31,130,628,418**	**35.79**
1. RMB ordinary shares	2,973,992,297	3.45	–	–	–	+8,300,469,121	+8,300,469,121	11,274,461,418	12.96
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	19,856,167,000	23.03	–	–	–	–	–	19,856,167,000	22.83
4. Others	–	–	–	–	–	–	–	–	–
III. Total ordinary shares	**86,202,738,200**	**100.00**	**+775,824,000**	–	–	–	**+775,824,000**	**86,978,562,200**	**100.00**

Note (1): The Bank non-publicly issued 5,405,405,405 A shares of ordinary shares in March 2021. After completion of this issuance, the total number of shares of the Bank increased from 86,978,562,200 shares to 92,383,967,605 shares.

Changes in Ordinary Shares

Pursuant to the Approval of the Initial Public Offering of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2019] No. 1991) issued by the CSRC on October 25, 2019, the Bank completed the initial public offering of 5,172,164,200 RMB ordinary shares on November 28, 2019 and the listing on the Main Board of SSE on December 10, 2019, at an offer price of RMB5.50 per share. The joint lead underwriters exercised the over-allotment option in full on January 8, 2020. Based on the issue price of RMB5.50 per share, it issued an additional 775,824,000 shares on the basis of the initial issuance of 5,172,164,200 shares, increasing total proceeds by RMB4,267.03 million. After deducting issuance fees, net proceeds raised from the public issuance of A shares amounted to approximately RMB32,205.98 million, or approximately RMB5.41 per share. After exercising the over-allotment option, the total number of shares of the Bank increased from 86,202,738,200 shares to 86,978,562,200 shares. For details, please refer to the announcement of the Bank dated January 9, 2020.

Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC on March 8, 2021, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares at an issue price of RMB5.55 in March 2021, raising a total of RMB30 billion. After deducting the issuance cost, actual net proceeds were approximately RMB29,985.92 million, or approximately RMB5.55 per share. After completion of this issuance, total number of shares of the Bank increased from 86,978,562,200 shares to 92,383,967,605 shares.

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

During the reporting period, the Bank introduced an over-allotment option mechanism for the issuance and listing of A shares. Upon the initial issuance, the total number of shares of the Bank increased from 81,030,574,000 shares to 86,202,738,200 shares. Upon the exercise of the over-allotment option, the total number of shares of the Bank increased from 86,202,738,200 shares to 86,978,562,200 shares, and the new share capital and new capital reserve of the Bank amounted to RMB775,824,000.00 and RMB3,429,604,303.30, respectively.

In RMB

Item	2020	Same criteria for 2020(1)
Basic earnings per share	0.71	0.71
Diluted earnings per share	0.71	0.71
Net assets per share attributable to ordinary shareholders of the listed company	6.25	6.26

Note (1): Basic earnings per share, diluted earnings per share and net assets per share attributable to ordinary shareholders of the listed company under the same criteria for 2020 are calculated with the assumption that no shares were issued in 2020.

Changes in Shares Subject to Restrictions on Sales

Unit: share

Name of shareholder	Number of shares subject to restrictions on sales at the beginning of 2020	Shares released from restrictions on sales in 2020	Increase in shares subject to restrictions on sales in 2020	Number of shares subject to restrictions on sales at the end of 2020	Reason for restrictions on sales	Date of release from restriction on sales
China Life Insurance Company Ltd.	3,341,900,000	3,341,900,000	–	–	Restrictions on shares for A share listing	December 10, 2020
China Telecommunications Corporation	1,117,223,218	1,117,223,218	–	–	Restrictions on shares for A share listing	December 10, 2020
Ant Group Co., Ltd.	738,820,000	738,820,000	–	–	Restrictions on shares for A share listing	December 10, 2020
Shenzhen Tencent Domain Computer Network Co., Ltd.	128,530,000	128,530,000	–	–	Restrictions on shares for A share listing	December 10, 2020
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	–	461,009,000	461,009,000	–	Restrictions on shares for A share listing	December 10, 2020
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	110,022,000	424,837,000	314,815,000	–	Restrictions on shares for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	343,983,000	343,983,000	–	–	Restrictions on shares for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	271,640,000	271,640,000	–	–	Restrictions on shares for A share listing	December 10, 2020
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	212,773,000	212,773,000	–	–	Restrictions on shares for A share listing	December 10, 2020

Name of shareholder	Number of shares subject to restrictions on sales at the beginning of 2020	Shares released from restrictions on sales in 2020	Increase in shares subject to restrictions on sales in 2020	Number of shares subject to restrictions on sales at the end of 2020	Reason for restrictions on sales	Date of release from restriction on sales
Bank of China Limited – Harvest 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	177,311,000	177,311,000	–	–	Restrictions on shares for A share listing	December 10, 2020
Central SOEs Poor Regions Industry Investment Fund Co., Ltd.	124,118,000	124,118,000	–	–	Restrictions on shares for A share listing	December 10, 2020
National Social Security Fund – Portfolio 13	53,194,000	53,194,000	–	–	Restrictions on shares for A share listing	December 10, 2020
Circulating shares subject to restrictions on sales offered offline	905,130,903	905,130,903	–	–	Restrictions on shares for A share listing	June 10, 2020
Total	7,524,645,121	8,300,469,121	775,824,000	–	/	/

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

Note (2): Zhejiang Ant Small and Micro Financial Services Group Co., Ltd., the strategic investor, was renamed to Ant Group Co., Ltd.

Note (3): As of the end of the reporting period, there were 55,847,933,782 shares subject to restrictions on sales among the shares of the Bank held by China Post Group. There was no changes in the number of these shares during the reporting period. Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC on March 8, 2021, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares to China Post Group in March 2021. The above additional shares issued were circulating shares subject to restrictions on sales for a period of 60 months. The Bank has completed the registration of the shares on March 25, 2021 and the shares will be listed and circulated on SSE from March 25, 2026 for transaction.

Number of Shareholders and Shareholdings

As of the end of the reporting period, the Bank had a total number of 233,218 ordinary shareholders (including 230,469 holders of A shares and 2,749 holders of H shares) and no holders of preference shares with voting rights restored.

As of February 28, 2021, the Bank had a total number of 213,759 ordinary shareholders (including 211,073 A shareholders and 2,686 H shareholders) and no holders of preference shares with voting rights restored.

Shareholdings of Top Ten Ordinary Shareholders

Unit: share, except for percentages

Name of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares subject to restrictions on sales	Number of shares pledged or locked-up	Nature of shareholder	Type of ordinary shares
China Post Group Corporation Limited	56,829,208,784	65.34	55,847,933,782	–	State-owned legal person	RMB ordinary shares, overseas listed foreign shares
HKSCC Nominees Limited	19,842,949,630	22.81	–	Unknown	Foreign legal person	Overseas listed foreign shares
China Life Insurance Company Ltd.	3,341,900,000	3.84	–	–	State-owned legal person	RMB ordinary shares
China Telecommunications Corporation	1,117,223,218	1.28	–	–	State-owned legal person	RMB ordinary shares
Ant Group Co., Ltd.	738,820,000	0.85	–	–	Domestic non-state-owned legal person	RMB ordinary shares
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	461,009,000	0.53	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	424,837,000	0.49	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	343,983,000	0.40	–	–	Domestic non-state-owned legal person	RMB ordinary shares

Name of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares subject to restrictions on sales	Number of shares pledged or locked-up	Nature of shareholder	Type of ordinary shares
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	271,640,000	0.31	–	–	Domestic non-state-owned legal person	RMB ordinary shares
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	212,773,000	0.24	–	–	Domestic non-state-owned legal person	RMB ordinary shares

Note (1): The total number of shares held by HKSCC Nominees Limited, as the nominee, is the total number of H shares held by all institutions and individual investors registered with the company as at the end of the reporting period, which includes the 80,700,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee.

Note (2): The Bank is not aware of any connected relations among the afore-mentioned shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

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

Unit: share

Name of shareholder	Number of circulating shares held not subject to restrictions on sales	Type and number of shares: Type	Type and number of shares: Number
HKSCC Nominees Limited	19,842,949,630	Overseas listed foreign shares	19,842,949,630
China Life Insurance Company Ltd.	3,341,900,000	RMB ordinary shares	3,341,900,000
China Telecommunications Corporation	1,117,223,218	RMB ordinary shares	1,117,223,218
China Post Group Corporation Limited	981,275,002	RMB ordinary shares	900,575,002
		Overseas listed foreign shares	80,700,000
Ant Group Co., Ltd.	738,820,000	RMB ordinary shares	738,820,000
China Construction Bank Corporation – E Fund 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	461,009,000	RMB ordinary shares	461,009,000
Bank of China Limited – China Merchants 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	424,837,000	RMB ordinary shares	424,837,000
Industrial and Commercial Bank of China Limited – China Southern 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	343,983,000	RMB ordinary shares	343,983,000

Name of shareholder	Number of circulating shares held not subject to restrictions on sales	Type and number of shares	
		Type	Number
Industrial and Commercial Bank of China Limited – China Universal 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	271,640,000	RMB ordinary shares	271,640,000
Industrial and Commercial Bank of China Limited – China AMC 3-year Closed Operation Mixed Securities Investment Fund with Strategic Placement and Flexible Allocation (LOF)	212,773,000	RMB ordinary shares	212,773,000

Note (1): The total number of shares held by HKSCC Nominees Limited, as the nominee, is the total number of H shares held by all institutions and individual investors registered with the company as at the end of the reporting period, which includes the 80,700,000 H shares held by China Post Group Corporation Limited through HKSCC Nominees Limited as the nominee.

Note (2): The Bank is not aware of any connected relations among the afore-mentioned shareholders or between the afore- mentioned shareholders and the top ten shareholders or whether they constitute persons acting in concert as stipulated in the Administrative Measures for the Takeover of Listed Companies.

Shareholdings of the Top Ten Shareholders Subject to Restrictions on Sales

Unit: share

Name of shareholder	Number of shares subject to restrictions on sales	Conditions for listing of shares subject to restrictions on sales: Date on which listing and trading may commerce	Conditions for listing of shares subject to restrictions on sales: Number of new shares allowed to be listed and traded	Restrictions on sales
China Post Group Corporation Limited	55,847,933,782	December 12, 2022	–	36 months since the date of A share offering and listing of the Bank

Note (1): Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC on March 8, 2021, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares to China Post Group Co., Ltd. in March 2021.The above additional shares issued were circulating shares subject to restrictions on sales for a period of 60 months. The Bank has completed the registration of the shares on March 25, 2021 and the shares will be listed and circulated on SSE from March 25, 2026 for transaction.

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

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

Offshore Preference Shares

Issuance and Listing of Offshore Preference Shares

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

Issuance and Listing of Offshore Preference Shares

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

Number of Offshore Preference Shareholders and Shareholdings

As of the end of the reporting period, the total number of offshore preference shareholders (or nominees) of the Bank was 1. As of February 28, 2021, the total number of offshore preference shareholders (or nominees) of the Bank was 1. The top ten offshore preference shareholders (or nominees) of the Bank are as follows:

Number of Offshore Preference Shareholders and Shareholdings

Unit: share, except for percentages

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

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

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

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

Dividend 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 of the Board of Directors of the Bank, the Bank distributed cash dividends to offshore preference shareholders whose names appeared on the share register on the record date on September 27, 2020. For details, please refer to the announcement of the Bank dated May 28, 2020.

Dividends on the Bank's offshore preference shares are paid annually in cash, with interest-bearing principal as the preferred clearing amount. Dividends of the Bank's offshore preference shares are paid in a non-cumulative manner. Holders of the Bank's offshore preference shares are only entitled to dividends at the prescribed dividend rate, but are not entitled to any distribution of residual profits of the Bank together with the holders of ordinary shares. According to the dividend distribution provisions in the offshore preference share issuance plan, the Bank distributed dividends of USD362.5 million (tax inclusive) on the offshore preference shares. According to relevant laws and regulations, when the Bank distributes dividends on the offshore preference shares, the income tax shall be withheld by the Bank at a rate of 10%. The Bank actually paid USD326.25 million to holders of offshore preference shares.

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

In millions of RMB, except for percentages

2020		2019		2018	
Dividend rate (%)	**Total dividends paid**	**Dividend rate (%)**	**Total dividends paid**	**Dividend rate (%)**	**Total dividends paid**
4.5	2,584	4.5	2,501	4.5	2,391

Note (1): Total dividends payable include tax.

Redemption or Conversion of Offshore Preference Shares

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

Restoration of Voting Rights of Offshore Preference Shares

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

Accounting Policies Adopted for Offshore Preference Shares and the Reasons Thereof

According to the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments, and the Differentiation of Financial Liabilities and Equity Instruments and Relevant Accounting Treatment (Cai Kuai [2014] No. 13) promulgated by the MOF, the International Financial Reporting Standards No. 7 – Financial Instruments: Disclosures, the International Accounting Standards No. 9 – Financial Instruments, and the International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, and the Bank's main issuance articles on preference shares, the issued and existing preference shares of the Bank conform to the accounting requirements for equity instruments, and shall be calculated as equity instruments.

Substantial Shareholders

According to the Interim Measures on Equity Management of Commercial Banks published by the CBIRC, China Post Group, China Shipbuilding Industry Corporation ("CSIC") and Shanghai International Port (Group) Co., Ltd ("SIPG") were substantial shareholders of the Bank, as China Post Group held more than 5% of interest in the Bank, while CSIC and SIPG dispatched Directors to the Bank.

Basic Information of Substantial Shareholders

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

Controlling Shareholder and De Facto Controller

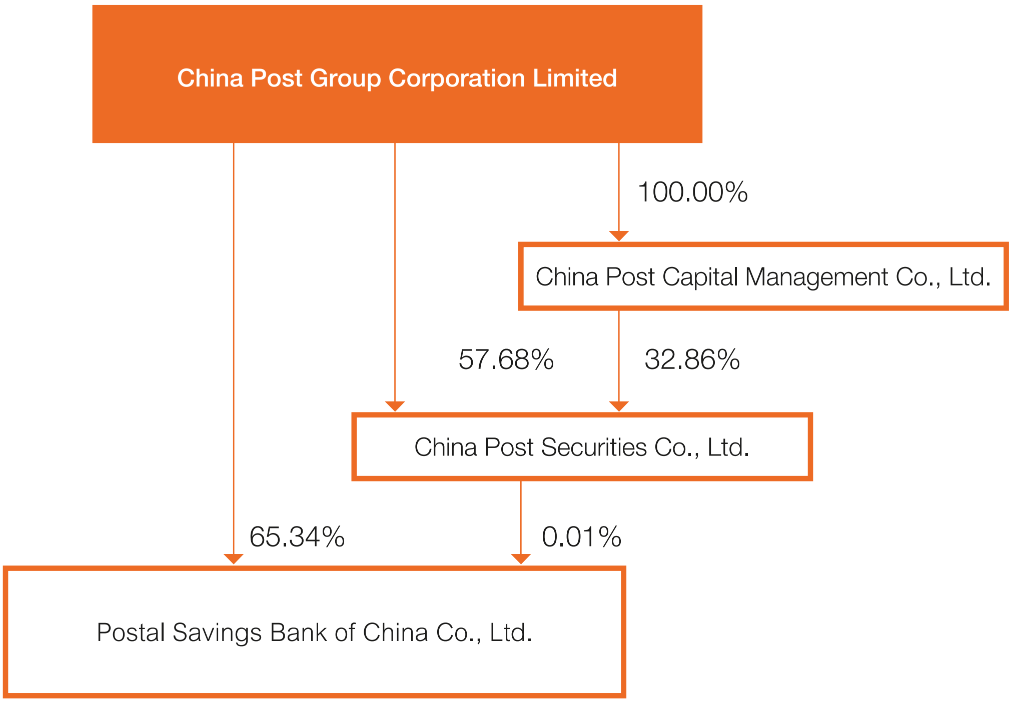
The controlling shareholder and de facto controller of the Bank is China Post Group. China Post Group, a wholly state-owned enterprise incorporated in accordance with the Company Law of the People's Republic of China, was established on October 4, 1995, and was officially restructured into China Post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

Pursuant to the Approval of the Non-public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751) issued by the CSRC on March 8, 2021, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares to China Post Group Co., Ltd. in March 2021. After completion of this issuance, total number of shares held by China Post Group Co., Ltd. increased from 56,829,208,784 shares to 62,234,614,189 shares.

Shares of other domestic and overseas listed companies held directly by China Post Group as of the end of the reporting period are listed below:

No.	Name of institution	Shareholding percentage	Stock exchange
1	Bank of Communications Co., Ltd.	0.0847%	SSE, Hong Kong Stock Exchange
2	Shanghai Pudong Development Bank Co., Ltd.	0.5370%	SSE
3	China Merchants Bank Co., Ltd.	0.0837%	SSE, Hong Kong Stock Exchange
4	Besttone Holding Co., Ltd.	0.1846%	SSE
5	Shenergy Company Limited	0.0059%	SSE
6	Orient Securities Company Limited	2.5558%	SSE, Hong Kong Stock Exchange
7	China Merchants Securities Co., Ltd.	0.0278%	SSE, Hong Kong Stock Exchange
8	Industrial Bank Co., Ltd.	0.1094%	SSE
9	China Pacific Insurance (Group) Co., Ltd.	0.0020%	SSE, Hong Kong Stock Exchange
10	Petrochina Company Limited	0.0004%	SSE, Hong Kong Stock Exchange, New York Stock Exchange
11	COSCO SHIPPING Development Co., Ltd.	0.0030%	SSE, Hong Kong Stock Exchange
12	China Coal Energy Company Limited	0.0025%	SSE, Hong Kong Stock Exchange
13	Yangmei Chemical Co., Ltd.	0.0556%	SSE
14	Southwest Securities Company Ltd.	0.1602%	SSE
15	Bank of Chongqing Co., Ltd.	0.1499%	Hong Kong Stock Exchange

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



As of the end of the reporting period, China Post Group directly held 56,748,508,784 A shares and 80,700,000 H shares of the Bank, with a shareholding percentage of 65.34%; held 11,874,150 A shares of the Bank through China Post Securities Co., Ltd., with a shareholding percentage of 0.01%.

Other Substantial Shareholders

China Shipbuilding Industry Corporation[1] ("CSIC") is a wholly state-owned enterprise established under the Company Law of the People's Republic of China by the state with a registered capital of RMB63 billion. Its registered address is No. 72 Kunminghu South Road, Haidian District, Beijing, and its unified social credit code is 9111000071092446XA. CSIC is principally engaged in the research, development and production of naval products, merchant ships and supporting facilities as well as non-marine equipment, and is one of the Global 500 companies in China's shipping industry.

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

Shanghai International Port (Group) Co., Ltd. ("SIPG") has its registered address at 4/F, Area A, Comprehensive Building, No. 1 Tonghui Road, China (Shanghai) Pilot Free Trade Zone, and its headquarters at No. 358 (International Port Building) East Daming Road, Hongkou District, Shanghai. Its unified social credit code is 913100001322075806, and the legal representative is Mr. Gu Jinshan. The registered capital of SIPG is RMB23,173,674,650 and its ultimate controller is Shanghai State-owned Assets Supervision and Administration Commission. SIPG, the operator of public terminals in the Port of Shanghai, is a large specialized business group established in January 2003 by restructuring the former Shanghai Port Administration Bureau. In June 2005, SIPG was transformed into a joint-stock company after an overall restructuring, and was listed on SSE on October 26, 2006, becoming the first joint-stock port company listed as a whole in China. It is now the largest public company in the port industry in the mainland of China and is also one of the largest port companies in the world. SIPG is mainly engaged in port-related business including container services, bulk cargo services, port logistics and port services.

Share Pledge by Substantial Shareholders of the Bank

As of the end of the reporting period, China Shipbuilding Industry Corporation pledged 1,620,000,000 ordinary shares of the Bank, accounting for 1.86% of the total share capital of the Bank, and there was no share pledge by other substantial shareholders of the Bank.

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

Save for China Postal Group, as of the end of the reporting period, the Bank had no other legal person shareholders[1] holding 10% or more of the Bank's shares.

Related Parties of Substantial Shareholders and Connected Transactions

There were approximately 1,200 enterprises regarded as related parties of the Bank including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries. During the reporting period, the types of transactions between the Bank and the above related parties mainly included credit extension, service provision, asset transfer, etc. These connected transactions were included in the ordinary connected transaction management of the Bank and submitted to the Board of Directors and its Related Party Transactions Control Committee for approval or filing.

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

1 Excluding HKSCC Nominees Limited.

Interests and Short Positions Held by Substantial Shareholders and Other Persons

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

Name of shareholder	Capacity	Class of shares	Relevant interests and short positions (shares)	Nature of interests	Percentage of issued class shares (%)	Percentage of total issued shares (%)
China Post Group[2]	Beneficial owner and interest of controlled corporations	A shares	56,760,382,934	Long position	84.56	65.26
	Beneficial owner	H shares	80,700,000	Long position	0.41	0.09
China Post Securities Co., Ltd.[2]	Beneficial owner	A shares	11,874,150	Long position	0.02	0.01
CSIC Investment One Limited[3]	Beneficial owner	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding Capital Limited[3]	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding & Offshore International (H.K.) Co., Limited[3]	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding & Offshore International Co., Limited[3]	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
China Shipbuilding Industry Corporation[3]	Interest of controlled corporations	H shares	3,776,297,000	Long position	19.02	4.34
Shanghai International Port Group (HK) Co., Limited[4]	Beneficial owner and interest of controlled corporations	H shares	3,369,532,345	Long position	16.97	3.87
Shanghai Port Group (BVI) Holding Co., Limited[4]	Beneficial owner	H shares	736,653,254	Long position	3.71	0.85
Shanghai International Port (Group) Co., Ltd.[4]	Beneficial owner and interest of controlled corporations	H shares	3,479,132,345	Long position	17.52	4.00
	Beneficial owner	A shares	112,539,226	Long position	0.17	0.13
Li Ka-Shing[5]	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.61
Li Tzar Kuoi, Victor[5]	Interest of controlled corporations	H shares	2,267,364,000	Long position	11.42	2.61

Name of shareholder	Capacity	Class of shares	Relevant interests and short positions (shares)	Nature of interests	Percentage of issued class shares (%)	Percentage of total issued shares (%)
Li Ka Shing (Canada) Foundation[5]	Beneficial owner	H shares	1,108,228,000	Long position	5.58	1.27
China National Tobacco Corporation	Beneficial owner	H shares	1,296,000,000	Long position	6.53	1.49
Li Lu[6]	Interest of controlled corporations	H shares	1,005,622,000	Long position	5.06	1.16
LL Group, LLC[6]	Interest of controlled corporations	H shares	1,005,622,000	Long position	5.06	1.16
Himalaya Capital Investors, L.P.[6]	Beneficial owner	H shares	1,005,622,000	Long position	5.06	1.16
Himalaya Capital Management LLC[6]	Investment manager	H shares	1,005,622,000	Long position	5.06	1.16

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

Note (2): China Post Group is beneficially interested in 56,748,508,784 A shares of the Bank, representing approximately 65.24% of its total share capital. China Post Securities Co., Ltd., a subsidiary of China Post Group, is interested in 11,874,150 A shares of the Bank, representing approximately 0.01% of its total share capital. China Post Group is therefore deemed to be interested in the A shares held by China Post Securities Co., Ltd. under the SFO.

Note (3): According to the interests disclosure forms submitted by CSIC Investment One Limited, China Shipbuilding Capital Limited, China Shipbuilding & Offshore International (H.K.) Co., Limited, China Shipbuilding & Offshore International Co., Ltd. and China Shipbuilding Industry Corporation, China Shipbuilding Industry Corporation indirectly holds a total of 3,776,297,000 H shares (long position) held by CSIC Investment One Limited as a beneficial owner through its controlled corporations, namely, China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (H.K.) Co., Limited and China Shipbuilding Capital Limited. China Shipbuilding Industry Corporation, China Shipbuilding & Offshore International Co., Ltd., China Shipbuilding & Offshore International (H.K.) Co., Limited and China Shipbuilding Capital Limited are therefore deemed to be interested in the total 3,776,297,000 H shares held by CSIC Investment One Limited under the SFO.

Note (4): According to the interests disclosure forms submitted by Shanghai International Port Group (HK) Co., Limited, Shanghai Port Group (BVI) Holding Co., Limited and Shanghai International Port (Group) Co., Ltd., Shanghai International Port (Group) Co., Ltd. is interested in a total of 3,479,132,345 H shares (long position), of which 109,600,000 H shares are beneficially owned, 2,632,879,091 H shares are held by Shanghai International Port Group (HK) Co., Limited (which is 100% directly owned by Shanghai International Port (Group) Co., Ltd.), and 736,653,254 H shares are held by Shanghai Port Group (BVI) Holding Co., Limited (which is 100% directly owned by Shanghai International Port Group (HK) Co., Limited).

Note (5): Consist of only unlisted derivatives that are physically settled. Mr. Li Ka-Shing and Mr. Li Tzar Kuoi, Victor each controls 33.33% of Li Ka Shing (Canada) Foundation and are therefore deemed to be interested in the 1,108,228,000 H shares held by Li Ka Shing (Canada) Foundation under the SFO.

Note (6): According to the interests disclosure forms submitted by Li Lu, LL Group, LLC, Himalaya Capital Investors, L.P. and Himalaya Capital Management LLC, Li Lu indirectly holds a total of 1,005,622,000 H shares held by Himalaya Capital Investors, L.P. as a beneficiary owner through its controlled corporation LL Group, LLC. According to the SFO, Li Lu and LL Group, LLC are therefore deemed to be interested in the 1,005,622,000 H shares held by Himalaya Capital Investors, L.P., and Himalaya Capital Management LLC is interested in the 1,005,622,000 H shares as investment manager.

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

Issuance and Listing of Securities

Type of equity and derivative securities	Issuing date	Issue price (RMB/share)	Issuing quantity (share)	Listing date	Permitted trading volume (share)	Termination date of transaction
RMB ordinary shares	January 8, 2020	5.50	775,824,000	January 8, 2020	775,824,000	–

Note (1): The Bank completed a non-pubic issuance of 5,405,405,405 ordinary A shares in March 2021. After this issuance, total number of shares of the Bank increased from 86,978,562,200 shares to 92,383,967,605 shares.

For details regarding exercise of the over-allotment option for the A share offering of the Bank, please refer to the "Changes in Ordinary Shares". For details of the issuance of other securities of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 31 Debt securities issued" and "Notes to the Consolidated Financial Statements – 33.2 Other equity instruments".

The Bank has no employee stocks.

Directors, Supervisors and Senior Management

Basic Information

Name	Title	Gender	Date of birth	Tenure
Directors				
Zhang Jinliang	Chairman	Male	November 1969	May 2019 – May 2022
	Non-executive Director			May 2019 – May 2022
Zhang Xuewen	Executive Director	Male	November 1962	January 2013 – October 2022
	Vice President			January 2013 –
Yao Hong	Executive Director	Female	October 1966	August 2016 – October 2022
	Vice President			December 2006 –
Han Wenbo	Non-executive Director	Male	December 1966	May 2017 – present
Liu Yue	Non-executive Director	Male	March 1962	December 2017 – December 2023
Ding Xiangming	Non-executive Director	Male	October 1968	October 2017 – December 2023
Fu Tingmei	Independent Non-executive Director	Male	May 1966	August 2016 – October 2022
Wen Tiejun	Independent Non-executive Director	Male	May 1951	October 2019 – October 2022
Chung Shui Ming Timpson	Independent Non-executive Director	Male	November 1951	October 2019 – October 2022
Hu Xiang	Independent Non-executive Director	Male	November 1975	October 2017 – December 2023
Pan Yingli	Independent Non-executive Director	Female	June 1955	December 2019 – December 2022

Name	Title	Gender	Date of birth	Tenure
Supervisors				
Chen Yuejun	Chairman of the Board of Supervisors	Male	June 1965	January 2013 – October 2022
	Shareholder Representative Supervisor			December 2012 – October 2022
Li Yujie	Shareholder Representative Supervisor	Male	November 1961	May 2016 – October 2022
Zhao Yongxiang	Shareholder Representative Supervisor	Male	February 1964	May 2016 – October 2022
Wu Yu	External Supervisor	Male	January 1966	May 2016 – October 2022
Bai Jianjun	External Supervisor	Male	July 1955	October 2019 – October 2022
Chen Shimin	External Supervisor	Male	July 1958	December 2019 – December 2022
Li Yue	Employee Supervisor	Male	March 1972	December 2012 – May 2022
Song Changlin	Employee Supervisor	Male	September 1965	March 2016 – May 2022
Bu Dongsheng	Employee Supervisor	Male	September 1965	May 2017 – May 2023

Name	Title	Gender	Date of birth	Tenure
Senior Management Members				
Zhang Xuewen	See "Directors" above			
Yao Hong	See "Directors" above			
Qu Jiawen	Vice President	Male	April 1963	January 2013 –
Xu Xueming	Vice President	Male	July 1967	January 2013 –
Shao Zhibao	Vice President	Male	June 1962	January 2013 –
Du Chunye	Vice President	Male	May 1977	July 2020 –
	Secretary to the Board of Directors			April 2017 –
	Joint Company Secretary			March 2017 –
Tang Junfang	Secretary of the Discipline Inspection Commission	Female	January 1968	May 2020 –
Liang Shidong	Chief Risk Officer	Male	January 1977	February 2020 –
Niu Xinzhuang	Chief Information Officer	Male	July 1976	July 2020 –

Name	Title	Gender	Date of birth	Tenure
Resigned Personnel				
Guo Xinshuang	Former President Former Executive Director	Male	November 1963	February 2020 – January 2021 April 2020 – January 2021
Tang Jian	Former Non-executive Director	Male	January 1960	January 2013 – January 2020
Liu Yaogong	Former Non-executive Director	Male	August 1967	May 2017 – January 2021
Ma Weihua	Former Independent Non-executive Director	Male	June 1948	January 2014 – January 2020
Bi Zhonghua	Former Independent Non-executive Director	Female	July 1952	January 2014 – January 2020
Liu Hucheng	Former Secretary of the Discipline Inspection Commission	Male	July 1966	January 2017 – March 2020

Note (1): Mr. Guo Xinshuang, former Executive Director and President of the Bank, resigned on January 4, 2021 due to change of job. Upon the approval of the Board of Directors, Mr. Zhang Xuewen, the Executive Director and Vice President, will perform the duties of President since January 4, 2021.

Note (2): The term of office of Mr. Han Wenbo as director has expired in May 2020. According to the Articles of Association of the Bank, before the re-elected director starts his/her term of office, such director shall continue to perform his/her duties as director. The Board of Directors of the Bank nominated Mr. Han Wenbo for re-election as a non-executive director of the Bank on March 29, 2021, and the election will be submitted to the Shareholders' General Meeting subsequently.

Note (3): During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held any share options or were granted restricted shares of the Bank.

Note (4): Resigned Directors, Supervisors and senior management members were not punished during the reporting period.

Positions Taken by Directors, Supervisors and Senior Management Members at Shareholders' Companies

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

Note (1): Save as disclosed above, none of the Directors, Supervisors and senior management members of the Bank took positions in shareholders' companies in 2020.

Remuneration of Directors, Supervisors and Senior Management Members Paid in 2020

In ten thousand of RMB

Name	Title	Fees(1)	Remuneration paid(2)	Contribution by the employer to social insurance, housing provident fund, enterprise annuity, etc.(3)	Total (4)=(1)+(2)+(3)	Obtain remuneration from other related parties or not
Zhang Jinliang	Chairman, Non-executive Director	–	–	–	–	Yes
Zhang Xuewen	Executive Director, Vice President	–	46.45	17.63	64.08	No
Yao Hong	Executive Director, Vice President	–	44.10	17.41	61.51	No
Han Wenbo	Non-executive Director	–	–	–	–	Yes
Liu Yue	Non-executive Director	–	–	–	–	Yes
Ding Xiangming	Non-executive Director	–	–	–	–	Yes
Fu Tingmei	Independent Non-executive Director	34.80	–	–	34.80	Yes
Wen Tiejun	Independent Non-executive Director	34.80	–	–	34.80	No
Chung Shui Ming Timpson	Independent Non-executive Director	34.80	–	–	34.80	Yes
Hu Xiang	Independent Non-executive Director	34.80	–	–	34.80	Yes
Pan Yingli	Independent Non-executive Director	34.80	–	–	34.80	Yes
Chen Yuejun	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	–	46.33	17.49	63.82	No
Li Yujie	Shareholder Representative Supervisor	–	–	–	–	Yes
Zhao Yongxiang	Shareholder Representative Supervisor	–	–	–	–	Yes
Wu Yu	External Supervisor	30.00	–	–	30.00	Yes
Bai Jianjun	External Supervisor	30.00	–	–	30.00	Yes
Chen Shimin	External Supervisor	30.00	–	–	30.00	Yes

Name	Title	Fees[(1)]	Remuneration paid[(2)]	Contribution by the employer to social insurance, housing provident fund, enterprise annuity, etc.[(3)]	Total (4)=(1)+(2)+(3)	Obtain remuneration from other related parties or not
Li Yue	Employee Supervisor	–	–	–	–	No
Song Changlin	Employee Supervisor	–	–	–	–	No
Bu Dongsheng	Employee Supervisor	–	–	–	–	No
Qu Jiawen	Vice President	–	44.24	17.42	61.66	No
Xu Xueming	Vice President	–	44.04	17.27	61.31	No
Shao Zhibao	Vice President	–	44.04	18.03	62.07	No
Du Chunye	Vice President, Secretary to the Board of Directors	–	41.72	15.50	57.22	No
Tang Junfang	Secretary of the Discipline Inspection Commission	–	21.46	7.79	29.25	No
Liang Shidong	Chief Risk Officer	–	76.71	14.59	91.30	No
Niu Xinzhuang	Chief Information Officer	–	60.00	10.47	70.47	No
Resigned Personnel						
Guo Xinshuang	Former Executive Director and President	–	–	–	–	Yes
Tang Jian	Former Non-executive Director	–	–	–	–	Yes
Liu Yaogong	Former Non-executive Director	–	–	–	–	Yes
Ma Weihua	Former Independent Non-executive Director	–	–	–	–	Yes
Bi Zhonghua	Former Independent Non-executive Director	–	–	–	–	No
Liu Hucheng	Former Secretary of the Discipline Inspection Commission	–	13.47	10.62	24.09	No

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

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

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

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

Note (5): Employee Supervisors of the Bank did not receive remuneration from the Bank as Employee Supervisors, and the remuneration due to them as employees of the Bank is not included here.

Note (6): Mr. Guo Xinshuang, the former Executive Director and President of the Bank, received remuneration from China Post Group, the controlling shareholder of the Bank, and did not receive any remuneration from the Bank.

Note (7): Mr. Tang Jian and Mr. Liu Yaogong, the former Non-executive Directors of the Bank, did not receive any remuneration from the Bank.

Note (8): Mr. Ma Weihua and Ms. Bi Zhonghua, former Independent Non-executive Directors of the Bank, did not receive any remuneration from the Bank in 2020.

Biographies of Directors, Supervisors and Senior Management Members

Biographies of Directors

Zhang Jinliang, Chairman, Non-executive Director

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

Zhang Xuewen, Executive Director, Vice President

Zhang Xuewen, male, obtained a doctor's degree in Economics from Dongbei University of Finance and Economics and holds the title of Senior Economist. Mr. Zhang has served as Executive Director and Vice President of the Bank since January 2013, and performed duties of President of the Bank since January 4, 2021. 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 Construction Department of the MOF, and Deputy Director General of the Economic Construction Department of the MOF. 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.

Han Wenbo, Non-executive Director

Han Wenbo, male, obtained a doctor's degree in Management from Northeast Agricultural University and holds a PRC lawyer's license and the title of Economist. Mr. Han has served as Non-executive Director of the Bank since May 2017 and has served as Board Member of China Post Group since February 2021. He previously served as Deputy Director and Assistant Ombudsman of Heilongjiang Fiscal Ombudsman Office of the MOF, Assistant Ombudsman of Beijing Fiscal Ombudsman Office of the MOF, Vice Ombudsman of Sichuan Fiscal Ombudsman Office of the MOF, Vice Ombudsman of Beijing Fiscal Ombudsman Office of the MOF, and Deputy Director (Deputy Director General level) and Director (Director General level) of the General Office of the Inspection Work Leadership Group of the MOF.

Liu Yue, Non-Executive Director

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

Ding Xiangming, Non-Executive Director

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

Fu Tingmei, Independent Non-executive Director

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

Wen Tiejun, Independent Non-executive Director

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

Chung Shui Ming Timpson, Independent Non-executive Director

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

Hu Xiang, Independent Non-executive Director

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

Pan Yingli, Independent Non-executive Director

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

Biographies of Supervisors

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

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

Li Yujie, Shareholder Representative Supervisor

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

Zhao Yongxiang, Shareholder Representative Supervisor

Zhao Yongxiang, male, obtained a master's degree in Engineering from Beijing University of Posts and Telecommunications and holds the title of Senior Economist. Mr. Zhao has served as Shareholder Representative Supervisor of the Bank since May 2016. He previously served as Deputy Chief of Hebei Shijiazhuang Municipal Post Bureau, Deputy Director of the Planning and Finance Department of the State Post Bureau, Deputy Chief (presiding over the work) and Chief of Hebei Shijiazhuang Municipal Post Bureau, Assistant Counsel of Hebei Post Bureau, Assistant Counsel of Hebei Post Company, Deputy General Manager of the Finance Department, and Director General of the Audit Bureau of China Post Group and Supervisor of Beijing Ule E-Commerce Company Limited. Mr. Zhao currently serves as Managing Director and Inspection Commissioner of Discipline Inspection Office of the Leading Party Members' Group 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.

Wu Yu, External Supervisor

Wu Yu, male, obtained a bachelor's degree in Law from Renmin University of China and holds the title of Senior Editor. Mr. Wu has served as External Supervisor of the Bank since May 2016. He previously served as Chief Editor of Entrepreneurship Weekly Publication, Deputy Director of Chief Editor Office and Director (Deputy Director General level) of Finance News Department at Economic Daily Press, Senior Vice President and Director of ChemChina Asset Management Co., Ltd., and Director of Sichuan Tianyi Science & Technology Co., Ltd. (now Haohua Chemical Technology Group Co., Ltd.) and Vice Chairman of Investment Association of Central SOEs. He currently served as General Manager of Yunnan Jinggu Forestry Company Limited.

Bai Jianjun, External Supervisor

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

Chen Shimin, External Supervisor

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

Li Yue, Employee Supervisor

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

Song Changlin, Employee Supervisor

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

Bu Dongsheng, Employee Supervisor

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

Biographies of Senior Management

Zhang Xuewen, Executive Director, Vice President

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

Yao Hong, Executive Director, Vice President

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

Qu Jiawen, Vice President

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

Xu Xueming, Vice President

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

Shao Zhibao, Vice President

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

Du Chunye, Vice President, 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, Secretary to the Board of Directors of the Bank since April 2017, President of Beijing Branch of the Bank since December 2019, and Vice President of the Bank since July 2020. He previously served as Deputy Manager, Senior Business Manager and Manager of the General Manager's Office of China Post Group, as well as General Manager of the General Office, Vice President of Beijing Branch and President of Shenzhen Branch of the Bank.

Tang Junfang, Secretary of the Discipline Inspection Commission

Tang Junfang, female, holds a bachelor's degree in Economics from Beijing University of Posts and Telecommunications and a master's degree in Business Administration from Nanjing University – Maastricht School of Management and holds the title of Senior Economist. Ms. Tang served as Secretary of the Discipline Inspection Commission of the Bank since May 2020. She previously served as the Deputy Director and Secretary of the Discipline Inspection Commission of Nanjing Post Bureau in Jiangsu Province, General Manager of the Market Operation Department and the Human Resources Department of Jiangsu Post Company, leader of the Discipline Inspection Team in Jiangxi Branch of China Post Group, leader of Nanjing sub-team of the Discipline Inspection Team under China Post Group, Director of the Nanjing Sub-bureau under the Supervision Bureau of China Post Group, Secretary of the Discipline Inspection Commission of Shanghai Branch of China Post Group, etc. She concurrently serves as Director of Suzhou New Century Hotel Co., Ltd.

Liang Shidong, Chief Risk Officer

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

Niu Xinzhuang, Chief Information Officer

Niu Xinzhuang, male, obtained a master's degree in Management from Nanjing University of Aeronautics and Astronautics. He has served as General Manager of the Financial Technology Innovation Department of the Bank since April 2020, and Chief Information Officer of the Bank since July 2020. He previously served as Chief Technology Officer and Supervisor of Shanghai Zhuangliang Information Technology Co., Ltd., Assistant to General Manager, Deputy General Manager and General Manager of the Technology Development Department and General Manager of the Information Technology Department of the Head Office of China Minsheng Banking Corporation Limited, and legal person, Executive Director and General Manager of Minsheng Fintech Corp. Ltd. He concurrently serves as member of the 2nd "Internet Plus" Action Expert Advisory Committee of the State Council, an AI expert of the Ministry of Industry and Information Technology, one of the first experts of the Central Enterprise Network Security and Information Service Sharing Alliance, and visiting professor at Zhejiang University, University of International Business and Economics, and Beijing Jiaotong University.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

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

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

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

On January 6, 2020, the Board of Directors of the Bank nominated Mr. Guo Xinshuang as the candidate of Executive Director of the Bank. On March 6, 2020, the 2020 First Extraordinary General Meeting of the Bank elected Mr. Guo Xinshuang as Executive Director of the Bank. On April 23, 2020, the CBIRC approved the appointment of Mr. Guo Xinshuang as Director. For details, please refer to the announcement of the Bank dated April 27, 2020. On January 4, 2021, Mr. Guo Xinshuang resigned from positions of Executive Director and President, Chairman and member of the Social Responsibility and Consumer Rights Protection Committee, member of the Strategic Planning Committee and member of the Nomination and Remuneration Committee of the Board of Directors of the Bank. Mr. Zhang Xuewen started to perform the duties on behalf of the President, and Ms. Yao Hong started to perform the duties on behalf of the Chairwoman of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors of the Bank, with effect from January 4, 2021, immediately after the departure of Mr. Guo Xinshuang. For details, please refer to the announcement of the Bank dated January 4, 2021.

On October 29, 2020, the Board of Directors of the Bank nominated Mr. Liu Yue and Mr. Ding Xiangming to continue to serve as Non-executive Directors of the Bank, and nominated Mr. Hu Xiang to continue to serve as Independent Non-executive Director of the Bank. On December 21, 2020, the 2020 Second Extraordinary General Meeting of the Bank reviewed and approved the proposal on the re-election of Mr. Liu Yue and Mr. Ding Xiangming as Non-executive Directors of the Bank, as well as the proposal on the re-election of Mr. Hu Xiang as Independent Non-executive Director of the Bank. The terms of office of Mr. Liu Yue, Mr. Ding Xiangming and Mr. Hu Xiang were three years commencing from December 21, 2020. For details, please refer to the Bank's announcement dated October 29, 2020.

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

Changes in Supervisors

On May 7, 2020, the Fourth Session of the First Employee Representative Assembly re-elected Mr. Bu Dongsheng as Employee Supervisor of the Bank. The term of office of Mr. Bu Dongsheng came into effect as from May 7, 2020. For details, please refer to the announcement of the Bank dated May 7, 2020.

Changes in Senior Management

On January 16, 2020, the Board of Directors of the Bank appointed Mr. Guo Xinshuang as President of the Bank. In February 2020, the CBIRC approved the appointment of Mr. Guo Xinshuang as President of the Bank. For details, please refer to the announcement of the Bank dated February 18, 2020.

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

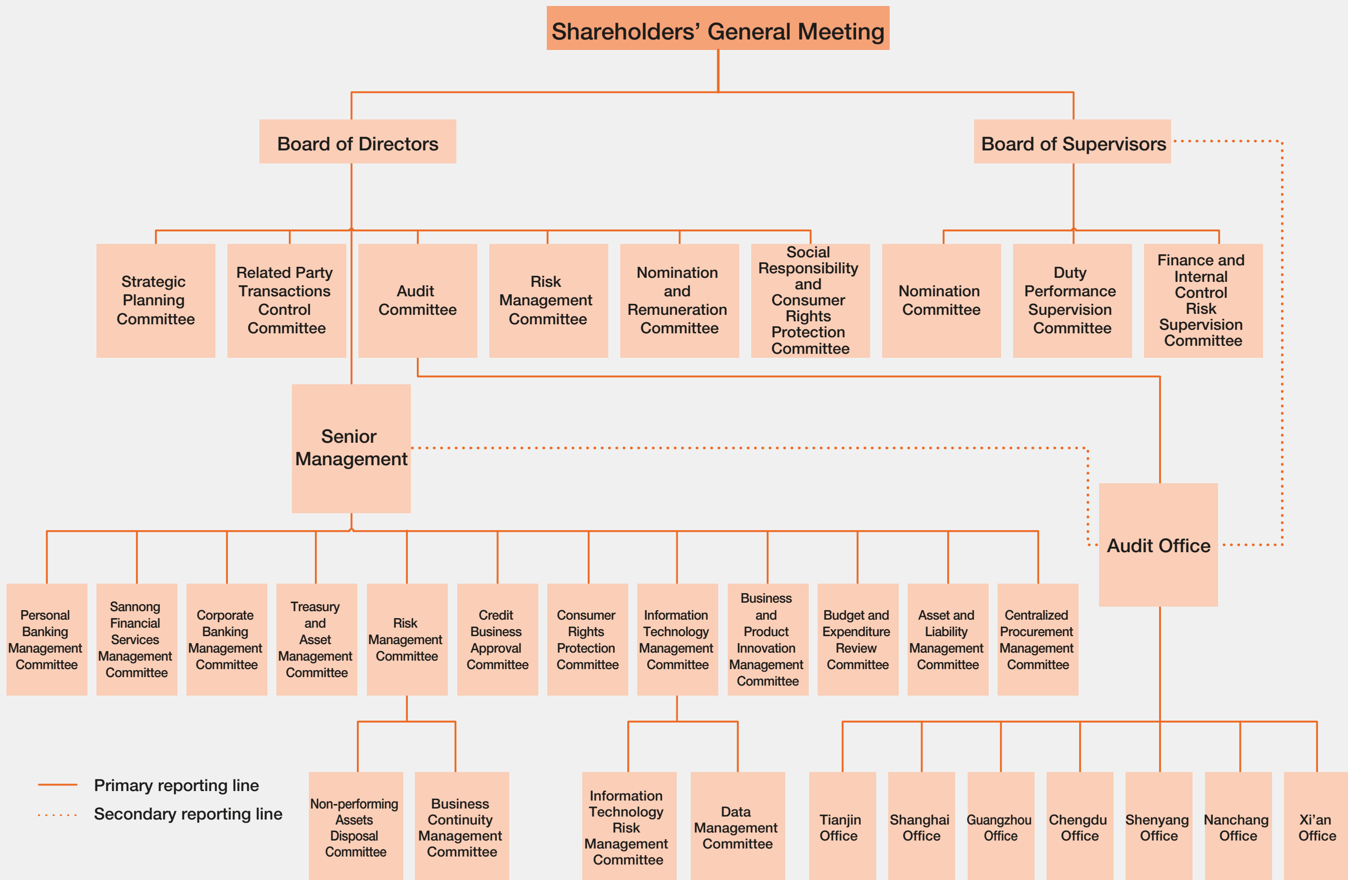
On January 16, 2020, the Board of Directors of the Bank appointed Mr. Niu Xinzhuang as Chief Information Officer of the Bank. In July 2020, the CBIRC approved the appointment of Mr. Niu Xinzhuang as Chief Information Officer of the Bank. For details, please refer to the announcement of the Bank dated July 15, 2020.

On March 25, 2020, the Board of Directors of the Bank appointed Mr. Du Chunye as Vice President of the Bank. In July 2020, the CBIRC approved the appointment of Mr. Du Chunye as Vice President of the Bank. For details, please refer to the announcement of the Bank dated July 15, 2020.

On May 14, 2020, Ms. Tang Junfang was appointed as Secretary of the Discipline Inspection Commission of the Bank.

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

The Bank considers well-performing corporate governance as the core component of the stable operation and sustainable development of a commercial bank. During the reporting period, the Bank adhered to the reform direction of a modern enterprise system with Chinese Characteristics, stayed true to integrating the leadership of the Party into the various process of corporate governance, clarified and ensured the legal status of the Party organization in the corporate governance structure, strived for more standardized and effective corporate governance, so as to further refine its corporate governance and operation performance.



Corporate Governance Code

During the reporting period, the Bank strictly complied with the laws and regulations, the normative documents about corporate governance issued by regulators such as the CSRC, CBIRC and SSE, as well as the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The Board of Directors actively performed its corporate governance duties by amending the Articles of Association, the Rules of Procedures of Shareholders' General Meeting and the Rules of Procedures of the Board of Directors, reviewing and approving fundamental policies on risk management, internal control, etc., as well as making efforts to improve the Bank's corporate governance. The Board of Directors established several special committees which perform their functions strictly in accordance with the applicable requirements for 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, ministerial 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 relevant resolution of the Board of Directors is passed. Consent of the Requesting Shareholders must be sought if there are any changes to the original proposal in the notice.

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

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

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

Convening of an Extraordinary Board Meeting

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

Enquiries to the Board of Directors

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

Proposals to the Shareholders' General Meeting

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

Proposals to the Board of Directors

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

Special Provisions for Preference Shareholders

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

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

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

Shareholders' General Meetings

During the reporting period, the Bank held one Annual General Meeting, two Extraordinary General Meetings, one A Shareholders' Class Meeting and one H Shareholders' Class Meeting in total, with 37 proposals reviewed and approved and three reports heard. Details are as follows:

On March 6, 2020, the Bank held the First Extraordinary General Meeting of 2020 in Beijing, and reviewed and approved four proposals, namely the proposal on the election of Mr. Guo Xinshuang as Executive Director of the Bank, the proposal on amendments to the Articles of Association of the Bank, the proposal on rules of procedures of the Shareholders' General Meeting, and the proposal on rules of procedures of the Board of Directors.

On May 28, 2020, the Bank held the Annual General Meeting for the Year 2019 in Beijing, reviewed and approved 11 proposals including the proposals on the final accounts for 2019, the profit distribution plan for 2019, increase in 2020 external donations limit and others, and heard three reports including the 2019 work report of independent directors, the report on the implementation of the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors of the Bank for 2019 and the special report on connected transactions of the Bank in 2019.

On December 21, 2020, the Bank held the Second Extraordinary General Meeting of 2020, the First A Shareholders' Class Meeting of 2020, and the First H Shareholders' Class Meeting of 2020 in Beijing, and reviewed and approved 22 proposals, including the proposals on the A Share Non-public Issuance Plan of the Bank, the re-election of Directors and the remuneration settlement plan for Directors and Supervisors for 2019.

The aforementioned Shareholders' General Meetings were convened and held in strict accordance with relevant laws and regulations and the listing rules of the Chinese mainland and Hong Kong. Directors, Supervisors and senior management members of the Bank attended the meetings and exchanged views with shareholders on their concerns. The Bank issued announcements on the resolutions of the above-mentioned Shareholders' General Meetings and legal opinions in a timely manner in accordance with the regulatory requirements. For details, please refer to the announcements of the Bank dated March 6, May 28 and December 21, 2020 respectively.

Under the epidemic, for the convenience of the Bank's shareholders, especially minority shareholders, to participate in the Shareholders' General Meeting, the Bank adopted the form of video conference that is safe, economic and convenient, which effectively facilitated the communication with shareholders.

Board of Directors and Special Committees

Functions and Powers of the Board of Directors

The Board of Directors, as the policy-making body of the Bank, is responsible for convening the Shareholders' General Meetings, reporting its work at the meetings and implementing resolutions adopted at the Shareholders' General Meetings; making decisions on the Bank's development strategies, business plans and investment plans; reviewing and approving capital management plans and risk capital allocation plans of the Bank; formulating the Bank's annual financial budget and final accounts plans, profit distribution plan and loss recovery plan, plan for the increase or reduction of the Bank's registered capital, plan for issuance of bonds or other marketable securities and listing plan, plans for merger, division, dissolution, liquidation or other changes in the corporate form, plan for repurchase of the Bank's shares, plan for material changes in equity interest or financial reorganization, and capital replenishment plans; making decisions on the general management rules, risk management and internal control policies of the Bank and supervising the implementation of such basic management rules and policies; reviewing and approving the internal audit rules of the Bank, appointing or dismissing the President and the Secretary to the Board of Directors of the Bank according to the nomination of the Chairman of the Board of Directors; appointing or dismissing Vice Presidents and other senior management members according to the nomination of the President and deciding on their remuneration, performance appraisal, incentive and punishment; listening to the risk management report presented by the senior management and evaluating the effectiveness of risk management in the Bank in order to improve the Bank's risk management; and examining the work of the senior management to monitor and ensure the effective performance of their management responsibilities, etc.

Composition of the Board of Directors and Board Diversity Policy

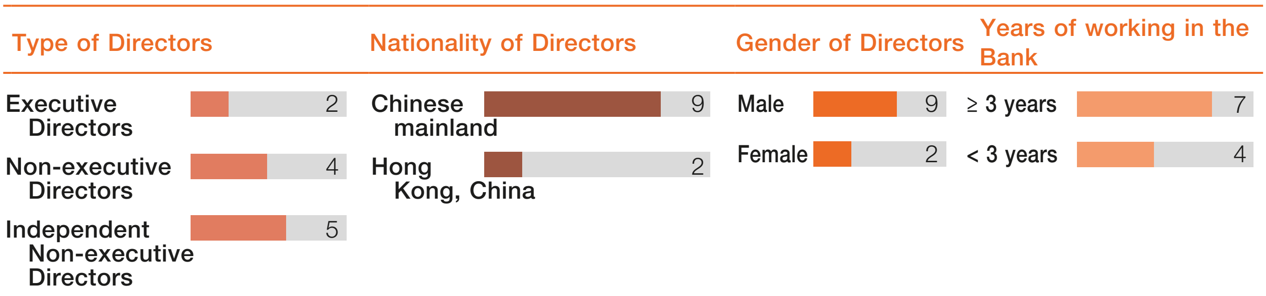
——Composition of the Board of Directors

As of the disclosure date of this report, the Board of Directors comprised 11 Directors, including Chairman and Non-executive Director Mr. Zhang Jinliang; Executive Directors Mr. Zhang Xuewen and Ms. Yao Hong; Non-executive Directors Mr. Han Wenbo, Mr. Liu Yue and Mr. Ding Xiangming; and Independent Non-executive Directors Mr. Fu Tingmei, Mr. Wen Tiejun, Mr. Chung Shui Ming Timpson, Mr. Hu Xiang and Ms. Pan Yingli.

——Board Diversity

The Bank believes that the diversity of Board members is a key factor in maintaining the Bank's sound corporate governance, achieving sustainable development and reaching strategic goals. Therefore, when nominating Directors, the Board of Directors considers various aspects of them, including but not limited to gender, age, culture, education background and professional experience in order to promote the diversity of Board members. The appointment of Board members is based on the skills and experience needed for the good operation of the Board of Directors as a whole, adhering to the principle of meritocracy, adjusting the composition of the special committees under the Board of Directors in time, and ensuring that the Directors give full play to their own professional advantages. Currently, the Chairman and Executive Directors have long been engaged in financial or postal financial operation and management, and are familiar with the operation and management of the Bank; the Non-executive Directors come from government authorities or large state-owned enterprises, and have rich experience in management; Independent Non-executive Directors are well-known experts in the fields of economics, finance, law and auditing, and can provide professional advice to the Bank from the perspectives of different fields. There are 2 female Directors and 5 Independent Non-executive Directors in the Board of Directors of the Bank, with the latter accounting for more than one-third of the total number of Board members, which meets relevant regulatory requirements.

To build a more diverse Board of Directors, the Nomination and Remuneration Committee of the Board of Directors of the Bank formulated and supervised the implementation of Board diversity policy. It is responsible for reviewing the implementation of this policy annually and reports to the Board of Directors, and proposes revisions to the policy to the Board of Directors according to the corporate governance practice to ensure its effectiveness. After self-inspection, 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 11 meetings of the Board of Directors, reviewed and discussed a total of 102 proposals, including work report of the Board of Directors, business plan and financial budget, budget plan for fixed asset investment, issuance of write-down undated capital bonds, non-public issuance of A shares, establishment of PSBC online and nomination of candidates for Directors; and listened to 17 reports, including 2019 audit report and 2020 audit plan, 2019 case-prevention work summary and work plan for 2020, work of senior management for the year of 2019 and implementation of the central government's major plans and decisions by PSBC. The Directors made in-depth research and earnest discussions, and actively expressed their opinions at the meetings to ensure that the Board of Directors mades well-convinced and effective decisions in leading the reform and development of the Bank.

During the reporting period, the Bank convened a seminar for the Chairman and Independent Directors in November 2020 to discuss and study the strategic development positioning, IT development, risk management and internal control of the Bank, etc.

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[1]/Number of meetings that should be attended

Directors	Shareholders' General Meeting	Board of Directors	Strategic Planning Committee	Related Party Transactions Control Committee	Audit Committee	Risk Management Committee	Nomination and Remuneration Committee	Social Responsibility and Consumer Rights Protection Committee
Chairman and Non-executive Director								
Zhang Jinliang	5/5	11/11	5/5	–	–	–	–	–
Executive Directors								
Zhang Xuewen	4/5	10/11	5/5	4/4	–	–	4/4	–
Yao Hong	5/5	10/11	4/5	3/4	–	6/9	–	6/6
Non-executive Directors								
Han Wenbo	5/5	11/11	5/5	–	–	9/9	–	–
Liu Yue	4/5	11/11	5/5	–	9/10	–	–	–
Ding Xiangming	4/5	11/11	–	–	–	7/9	–	6/6
Independent Non-executive Directors								
Fu Tingmei	5/5	11/11	–	4/4	–	9/9	4/4	–
Wen Tiejun	1/5	10/11	4/5	–	8/10	–	4/4	–
Chung Shui Ming Timpson	3/5	10/11	–	4/4	10/10	–	–	–
Hu Xiang	4/5	11/11	5/5	–	10/10	–	–	6/6
Pan Yingli	4/5	11/11	–	4/4	10/10	–	3/4	–
Resigned Directors[2]								
Guo Xinshuang	4/4	8/8	3/3	–	–	–	2/2	4/4
Tang Jian	0/0	1/1	–	–	–	0/1	–	0/0
Liu Yaogong	5/5	11/11	–	–	10/10	9/9	–	–

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

2 On April 23, 2020, the appointment of Mr. Guo Xinshuang was approved by the CBIRC, and he resigned from his positions as Executive Director of the Bank, Chairman and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors on January 4, 2021. Mr. Tang Jian resigned from his positions as Non-executive Director, member of the Risk Management Committee of the Board of Directors and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors on January 17, 2020. Mr. Liu Yaogong resigned from his positions as Non-executive Directors, member of the Audit Committee of the Board of Directors and member of the Risk Management Committee of the Board of Directors on January 29, 2021.

Special Committees of the Board of Directors

Six special committees were 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 members of the special committees of the Board of Directors:

On January 1, 2020, the term of office of Mr. Ma Weihua expired, and he no longer served as the Independent Non-executive Director, Chairman and member of the Related Party Transactions Control Committee of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors, and member of the Audit Committee of the Board of Directors of the Bank.

On January 1, 2020, Mr. Fu Tingmei started to serve as the Chairman of the Related Party Transactions Control Committee of the Board of Directors of the Bank immediately after the departure of Mr. Ma Weihua.

On January 1, 2020, the term of office of Ms. Bi Zhonghua expired, and she no longer served as the Independent Non-executive Director, Chairwoman and member of the Audit Committee of the Board of Directors, member of the Related Party Transactions Control Committee of the Board of Directors, member of the Nomination and Remuneration Committee of the Board of Directors, and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors of the Bank.

Mr. Chung Shui Ming Timpson started to serve as the Chairman of the Audit Committee of the Board of Directors of the Bank immediately after the departure of Ms. Bi Zhonghua, with effect from January 1, 2020.

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

On April 23, 2020, Mr. Guo Xinshuang served as Executive Director, Chairman and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors of the Bank.

On April 23, 2020, Ms. Yao Hong no longer performed the duties on behalf of the Chairman of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors of the Bank immediately after the commencement of the term of office of Mr. Guo Xinshuang.

On January 4, 2021, Mr. Guo Xinshuang resigned from his positions as Executive Director and President, Chairman and member of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors, member of the Strategic Planning Committee of the Board of Directors and member of the Nomination and Remuneration Committee of the Board of Directors of the Bank.

On January 4, 2021, Mr. Zhang Xuewen started to perform the duties on behalf of the President, and Ms. Yao Hong started to perform the duties on behalf of the Chairman of the Social Responsibility and Consumer Rights Protection Committee of the Board of Directors of the Bank immediately after the resignation of Mr. Guo Xinshuang.

On January 29, 2021, Mr. Liu Yaogong resigned from his positions as Non-executive Director, member of the Risk Management Committee of the Board of Directors and member of the Audit Committee of the Board of Directors of the Bank.

During the reporting period, within authorization of the Board of Directors and in accordance with the Articles of Association of the Bank and relevant rules of procedures, all special committees of the Board of Directors demonstrated expertise and diligently performed duties. Focusing on major matters of the Bank including development strategies, key tasks, risk management, internal control and case prevention, the special committees convened 38 meetings, at which they reviewed 105 proposals and heard 10 reports. They also made advice and recommendations to the Board of Directors, which provided strong support for the well-convinced and efficient decision-making of the Board of Directors.

Strategic Planning Committee

As of the disclosure date of this report, the Strategic Planning Committee of the Bank comprised seven Directors, namely, Chairman and Non-executive Director Mr. Zhang Jinliang; Executive Directors Mr. Zhang Xuewen and Ms. Yao Hong; Non-executive Directors Mr. Han Wenbo and Mr. Liu Yue; and Independent Non-executive Directors Mr. Wen Tiejun and Mr. Hu Xiang, and was chaired by Mr. Zhang Jinliang. It primarily performs such duties as considering the Bank's business objectives, overall strategic development plans and special strategic development plans, strategic capital allocation and assets and liabilities management objectives, business development plans, major investment and financing plans and other matters significant to the development of the Bank, and proposes suggestions to the Board of Directors.

During the reporting period, the Strategic Planning Committee convened five meetings, at which it reviewed and discussed 20 proposals, including the business plan and financial budget of 2020, establishment of specialized institution for Credit Card Center, implementation assessment of Medium and Long-term Development Strategy Outline (2019-2025) in 2019, issuance of write-down undated capital bonds and establishment of PSBC online. It also conducted in-depth study of various business development strategies of the Bank, gave full play to the leading role of strategies, strengthened capital management and operation, promoted orderly capital replenishment across the Bank and thus supported the Bank's reform and development.

Related Party Transactions Control Committee

As of the disclosure date of this report, the Related Party Transactions Control Committee of the Bank comprised five Directors, namely, Executive Directors Mr. Zhang Xuewen and Ms. Yao Hong, and Independent Non-executive Directors Mr. Fu Tingmei, Mr. Chung Shui Ming Timpson and Ms. Pan Yingli, and was chaired by Mr. Fu Tingmei. It primarily performs such duties as managing matters on connected transactions of the Bank, reviewing the basic management rules for connected transactions, supervising their implementation and making recommendations to the Board of Directors; verifying related parties of the Bank, reporting to the Board of Directors and Board of Supervisors, informing relevant personnel of the Bank in a timely manner, reviewing major connected transactions or other connected transactions subject to the approval of the Board of Directors or the 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 four meetings, at which it reviewed five proposals, including the 2019 special report on connected transactions, forecast of the cap of connected transactions in 2020-2021 and adjustment to related parties. It kept track of and managed connected transactions of the Bank, confirmed the status of the related parties and connected transactions of the Bank, and prudently performed its duties regarding the management of connected transactions in accordance with laws and regulations. The Committee provided opinions and suggestions to the Board of Directors on the review and approval of major connected transactions and strengthening the management over the Bank's connected transactions.

Audit Committee

As of the disclosure date of this report, the Audit Committee of the Bank comprised five Directors, namely, Non-executive Director Mr. Liu Yue, and Independent Non-executive Directors Mr. Chung Shui Ming Timpson, Mr. Wen Tiejun, Mr. Hu Xiang and Ms. Pan Yingli, and was chaired by Mr. Chung Shui Ming Timpson. It primarily performs such duties as supervising the Bank's internal control, reviewing the Bank's major financial and accounting policies and their implementation, reviewing the Bank's basic audit management rules, regulations, medium and long-term audit plan, as well as annual work plan, supervising and evaluating the work of the Bank's internal audit department, proposing the engagement or dismissal of the accounting firm, and making suggestions to the Board of Directors.

During the reporting period, the Audit Committee convened 10 meetings, at which it reviewed 20 proposals, including the 2019 audit report and 2020 audit plan, 2019 financial statements and audit reports, annual internal control and assessment report, and amendments to anti-money laundering internal audit management measures, and heard 9 reports, including the report on the audit of financial statements of 2019. The Committee provided opinions and suggestions to the Board of Directors on issues such as strengthening work on internal and external audits, enhancement on level of internal control, and improvement of an internal audit mechanism.

Reviewing truthfulness and accuracy of financial information and reporting to the Board of Directors

The Committee earnestly reviewed and proposed the Board of Directors to approve the disclosure of the financial statements and audit report for 2019, the financial statements for the first quarter of 2020, the interim financial statements and review report, and the financial statements for the third quarter of 2020. During the audits, the Committee expressed its opinion on the truthfulness, accuracy and completeness of the financial data.

Providing guidance on replacement of accounting firm and ensuring stability and sustainability of external audit

The Committee provided guidance on the performance evaluation of accounting firm in 2019, the procurement concerning accounting firm for 2021-2025, and the selection of accounting firm for 2020 and 2021. It heard several reports on the engagement of accounting firms, focused on the qualification, annual audit fees and terms of engagement of external auditors to ensure that they have the experience and capability, professional competence and independence to provide audit services to listed companies. The Committee also supervised the handover between accounting firms, and heard reports on the work during the transitional period for the accounting firm to ensure the stability and sustainability of external audit.

Focusing on quality and effectiveness and constantly improving the quality of internal audit

The Committee reviewed the audit reports for 2019 and the first half of 2020, strengthened work guidance, focused on the issues identified in the internal audit, and urged the senior management to strengthen rectification and implementation. It guided the annual internal control evaluation to ensure the effectiveness and stability of internal control. It also reviewed a number of special audit reports including anti-money laundering audit report, and provided a number of opinions and suggestions to further enhance the anti-money laundering management and information technology management.

The 2020 Performance Report of the Audit Committee of the Board of Directors was disclosed. For details, please visit the website of SSE.

Risk Management Committee

As of the disclosure date of this report, the Risk Management Committee of the Bank comprised four Directors, namely, Executive Director Ms. Yao Hong, Non-executive Directors Mr. Han Wenbo and Mr. Ding Xiangming, and Independent Non-executive Director Mr. Fu Tingmei, and was chaired by Mr. Han Wenbo. Based on the Bank's overall development strategic planning, it primarily performs such duties as reviewing and revising the Bank's risk management strategies, basic policies on risk management, risk appetite, comprehensive risk management framework and important procedures and policies for risk management, reviewing risk capital allocation plans, hearing risk management reports, and making suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee convened nine meetings, at which it reviewed 33 proposals, including the risk management strategies and risk appetite scheme for 2020, the three-year capital rolling plan for 2020-2022 and capital adequacy management plan for 2020, the report on comprehensive risk management, and basic rules for anti-money laundering work, and heard the report on the anti-money laundering work of 2019 and work plan for 2020. The Committee kept watching on the effectiveness of the overall risk management of the Bank on a regular basis and raised opinions and advice on improving risk management and internal control of the Bank.

Improving risk compliance system and actively promoting implementation of advanced approaches

During the reporting period, the Bank reviewed and approved 18 fundamental management policies including the management measures for implementation project group of advanced approach of capital management, risk management strategy and risk appetite management measures, management measures for concentration of risks, management measures for risk measurement model, comprehensive risk management measures, market risk management measures, credit risk management measures, basic requirements for anti-money laundering work, administrative measures for the assessment of money laundering and terrorist financing risks, and cases management measures. It vigorously promoted the implementation of advanced approach, continuously improved the risk compliance system, and strengthened the top-level design to ensure the risk compliance management is aligned with the rules.

Engaging professional institutions and strengthening performance of risk management duties

To strengthen the duty performance of the Risk Management Committee of the Board of Directors, the Bank hired a professional consulting firm to carry out projects on quality and performance improvement of the Committee to fully align with the regulatory requirements and excellent peers. It reviewed and improved the boundaries of the Committee's responsibilities, proposed the enhancement plan for the performance mechanism from three major perspectives of comprehensiveness, professionalism and effectiveness, and conducted research on difficult key issues in the field of risk management.

Nomination and Remuneration Committee

As of the disclosure date of this report, the Nomination and Remuneration Committee of the Bank comprised four Directors, namely, Executive-Director Mr. Zhang Xuewen, and Independent Non-executive Directors Mr. Fu Tingmei, Mr. Wen Tiejun and Ms. Pan Yingli, and was chaired by Mr. Wen Tiejun. The 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 its size and composition; 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 sets out the procedures and methods for the nomination of Directors and specific requirements for the appointment of Independent Non-executive Directors. When reviewing the qualification of Director candidates, the Nomination and Remuneration Committee mainly takes into account their qualifications as Directors in compliance with laws and regulations, diligence and faithfulness for fulfilling their duties, understanding of the Bank's operation and management and willingness to accept supervision of their performance by the Board of Supervisors as well as the fulfillment of the diversity requirements of the Board of Directors. For details, please refer to the Articles of Association and Rules of Procedures for the Nomination and Remuneration Committee of Postal Savings Bank of China Co., Ltd. on the website of the Bank. During the reporting period, the Bank strictly implemented 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 four meetings, at which it reviewed 15 proposals, including 2019 evaluation report on the performance of Directors by the Board of Directors, the structure, size and composition of the Board of Directors and the implementation of the Board diversity policy, the eligibility for appointment and qualifications of Directors and the adjustment of the remuneration of Independent Non-executive Directors. The Committee studied issues such as the structure, size and composition of the Board of Directors, the implementation of the Board diversity policy, the eligibility for appointment and qualifications of re-elected Directors, the remuneration settlement proposal of Directors and senior management members, and the evaluation of the performance of Directors by the Board of Directors and gave opinions and suggestions to the Board of Directors.

Social Responsibility and Consumer Rights Protection Committee

As of the disclosure date of this report, the Social Responsibility and Consumer Rights Protection Committee of the Bank comprised three Directors, namely Executive Director Ms. Yao Hong, Non-executive Director Mr. Ding Xiangming, and Independent Non-executive Director Mr. Hu Xiang. Ms. Yao Hong performed the duties on behalf of the Chairman of the Committee. The Committee primarily performs duties such as developing strategies, policies and goals of social responsibility and consumer rights protection which are consistent with the Bank's development strategies and actual situation, developing the basic management policies for social responsibility and consumer rights protection of the Bank and submitting them to the Board of Directors for approval before implementation; hearing the regular reports of the senior management on the progress in consumer rights protection as authorized by the Board of Directors, and supervising and evaluating the comprehensiveness, timeliness and effectiveness of the Bank's consumer rights protection as well as duty performance of the senior management.

During the reporting period, the Committee convened 6 meetings, at which it reviewed 12 proposals including the summary of consumer rights protection work in 2019 and work plan for 2020, 2019 Corporate Social Responsibility (Environmental, Social and Governance) Report, and 2019 work report on green bank building. It also studied social responsibility fulfillment, consumer rights protection and green banking and provided opinions and suggestions to the Board of Directors.

Responsibilities of Directors on Financial Statements

The Directors are responsible for supervising the preparation of financial statements of each accounting period so that financial statements can give a true and fair view of the financial position, operating results and cash flows of the Bank. In the course of preparation of the financial statements for 2020, the Directors fully adopted and applied appropriate accounting policies, and made prudent and reasonable judgments and estimates.

During the reporting period, the Bank complied with the requirements of relevant laws and regulations and listing rules of places where the Bank's shares are listed, and disclosed 2019 Results Announcement and 2019 Annual Report, First Quarterly Report of 2020, 2020 Interim Results Announcement and 2020 Interim Report, and Third Quarterly Report of 2020.

Terms of Office of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange ("SSE Listing Rules") and the Articles of Association that the Directors shall be elected by the Shareholders' General Meeting with a term of office of three years. Directors are eligible for re-election, and the consecutive term of office shall commence from the date of approval by the Shareholders' General Meeting. The term of office of an Independent Non-executive Director shall be no more than six years on an aggregated basis.

The three Directors, Mr. Liu Yue, Mr. Ding Xiangming and Mr. Hu Xiang, whose first term of office expired in 2020, have been committed and diligent in their duties during their term of office, fully performed their roles as Directors, and safeguarded the interests of the shareholders. According to the Articles of Association, the term of office of a Director shall be three years, and Directors are eligible for re-election. Therefore, the Bank re-elected Mr. Liu Yue and Mr. Ding Xiangming as non-executive Directors and Mr. Hu Xiang as independent Director. The re-election of Mr. Hu Xiang as an independent Director of the Bank satisfied the relevant requirements that the term of office of an independent Director shall not exceed six years.

The first term of office of the Director assigned to the Bank by the MOF, Mr. Han Wenbo, expired in 2020. Pursuant to the Articles of Association, whereas the Directors have not been re-elected in time at the expiration of their terms of office, before the re-elected Directors commence their office, the previous Directors shall continue to perform their duties in accordance with laws, administrative regulations, ministerial rules and the Articles of the Association.

Surveys, Researches and Training Attended by Directors and Company Secretary

Directors' Participation in Surveys and Researches

During the reporting period, the Directors of the Bank took the initiative and conducted various forms of surveys and researches, with a total of 49 times. The surveys and researches focused on topics such as financial support to fight the epidemic, comprehensive risk management, fee-based business development, financial crime prevention, and basic data quality management, with more than 10 research reports finished, providing reference for decision-making in improving the operation and management across the Bank, and promoting such implementation.

Directors' Participation in Training

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

During the reporting period, in compliance with the Listing Rules of the place of listing and relevant regulatory requirements, the Directors of the Bank actively participated in a series of training sessions organized by the China Association for Public Companies, the Listed Companies Association of Beijing, PricewaterhouseCoopers and the Bank, covering a wide range of topics such as macroeconomic situation, risk management, information technology, green finance development and anti-money laundering. During the reporting period, all Directors attended the training organized by the Bank. Meanwhile, by hearing special reports and other means, the Directors had a thorough understanding of the Bank's business dynamics while enhancing their professionalism.

Types of training	Main training topics
Training organized by regulators	China Association for Public Companies, The Listed Companies Association of Beijing: Domestic and international economic situation, quality improvement of listed companies, operation of the board of directors of listed companies, typical illegal and non-compliant cases of investigation and handling of listed companies, etc.
Training organized by the Bank	Training on Anti-Money Laundering Training on Investor Relation Expert Pool Training on Topics Related to Business Development
Training organized by external agencies	Directors Roundtable by PricewaterhouseCoopers Director's Academy

Company Secretary's Participation in Training

Mr. Du Chunye and Dr. Ngai Wai Fung, a Director and the Chief Executive Officer of SWCS Corporate Services Group (Hong Kong) Limited, are the joint company secretaries of the Bank. During the reporting period, the company secretaries 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 Duty Performance of Independent Non-executive Directors

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

During the reporting period, the Independent Non-executive Directors earnestly attended the meetings of the Board of Directors and special committees, and provided objective, unbiased and independent advice based on the overall interests of the Bank, and safeguarded the rights of depositors and minority shareholders by taking advantage of their professional capabilities and industrial experiences. In particular, they provided independent advice on matters including special report on connected transactions in 2019, profit distribution plan for 2019, dividend distribution for overseas preference shares, selection of Directors and senior management members, and engagement of accounting firm, and expressed prior approval opinions on such proposals as the engagement of accounting firm, forecast of cap of connected transaction amount and connected transactions involved in the non-public issuance of A shares. They earnestly reviewed 2019 Results Announcement and 2019 Annual Report, 2019 Corporate Social Responsibility Report, First Quarterly Report of 2020, 2020 Interim Results Announcement and 2020 Interim Report, and Third Quarterly Report of 2020 to ensure the disclosed contents are true, accurate and complete. An independent board committee was formed by all Independent Non-executive Directors of the Bank to guide the selection of independent financial adviser for connected transactions, appoint an independent financial adviser to advise the independent board committee and independent shareholders in respect of the Bank's connected transactions in relation to the Bank's non-public issuance of A shares, and express independent opinions on the major connected transactions of the Bank. 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.

Meanwhile, the Independent Non-executive Directors of the Bank actively strengthened the communication with the senior management, business departments and external auditors and thoroughly studied the operation and management of the Bank by attending important work meetings of the Bank, hearing special reports on major issues from the operation 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.

On November 30, 2020, the Bank organized and convened a seminar for Independent Non-executive Directors, at which all Independent Non-executive Directors exchanged views and discussed various aspects including the strategic development positioning, IT building, risk management and internal control etc. of the Bank, earnestly providing provide advice and suggestions for business development after taking into account of both internal and external environment and the actual situation of the Bank.

Board of Supervisors and Special Committees

Functions and Powers of the Board of Supervisors

The Board of Supervisors is the supervisory body of the Bank, and shall be responsible to the Shareholders' General Meeting. It exercises the following functions and powers according to the requirements of the Company Law of the People's Republic of China and the Articles of Association: to supervise the duty performance of the Board of Directors and senior management, to supervise and make enquiries on the duty performance of Directors and senior management members, and to urge Directors and senior management members to rectify their acts that impair the benefits of the Bank; to propose the removal of or initiate legal proceedings against Directors and senior management members who violate laws, administrative regulations, the Articles of Association or the resolutions of the Shareholders' General Meeting; to examine and supervise the financial activities of the Bank; to supervise matters such as operation decisions, risk management and internal control, guide the internal audit department of the Bank to independently perform the duty of auditing and supervision, and carry out business management and evaluation of the internal audit department; to propose the convening of extraordinary general meetings, and convene and preside over the meeting when the Board of Directors does not perform its duty of convening and presiding over the meeting as required by the Company Law of the People's Republic of China; to make proposals to the Shareholders' General Meeting; to formulate amendments to the rules of procedures of the Board of Supervisors; to supervise the implementation of policies and basic management rules of the Bank; to nominate Shareholder Representative Supervisors, External Supervisors and Independent Non-executive Directors; to conduct audit on resigning Directors and senior management members as required; to negotiate with the Directors on behalf of the Bank; to examine financial information to be submitted to the Shareholders' General Meeting by the Board of Directors, including financial reports, business reports and profit distribution plans, and to entrust certified public accountants and auditors to assist in the review in the name of the Bank in case of any doubt; to review the Bank's regular reports prepared by the Board of Directors, and provide review opinions in writing; to supervise the appointment, dismissal, re-appointment and audit of the external audit institutions of the Bank; to formulate performance evaluation policies, remuneration policies or plans for Supervisors, and propose remuneration allocation plans for Supervisors based on the performance evaluation of Supervisors and submit them to the Shareholders' General Meeting for approval.

Composition of the Board of Supervisors

As of the disclosure date of this report, the Board of Supervisors of the Bank consisted of 9 Supervisors, namely Mr. Chen Yuejun, Chairman of the Board of Supervisors and Shareholder Representative Supervisors, as well as 2 Shareholder Representative Supervisors Mr. Li Yujie and Mr. Zhao Yongxiang, 3 External Supervisors Mr. Wu Yu, Mr. Bai Jianjun and Mr. Chen Shimin, and 3 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, the Board of Supervisors of the Bank held 9 meetings in strict accordance with relevant laws and regulations, the Articles of Association and the rules of procedures of the Board of Supervisors, at which it studied and reviewed 28 proposals, including final accounts for 2019, 2019 profit distribution plan, 2019 Annual Report and abstract, 2019 Results Announcement, 2019 work report of the Board of Supervisors, report by the Board of Supervisors on performance evaluation of the Board of Directors, senior management and its members in 2019, as well as 2019 internal control evaluation report. Meanwhile, it heard 59 reports including the reports on risk, internal control and financial supervision, connected transactions, internal control and compliance management, comprehensive risk management, consumer rights protection, etc. in 2019.

Attendance of Supervisors at Meetings

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

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

Supervisors	Board of Supervisors	Nomination Committee	Duty Performance Supervision Committee	Finance and Internal Control Risk Supervision Committee
Shareholder Representative Supervisors				
Chen Yuejun	9/9	—	—	—
Li Yujie	8/9	2/2	—	—
Zhao Yongxiang	9/9	—	5/5	—
External Supervisors				
Wu Yu	9/9	—	—	7/7
Bai Jianjun	9/9	2/2	—	—
Chen Shimin	8/9	—	5/5	—
Employee Supervisors				
Li Yue	9/9	—	5/5	7/7
Song Changlin	9/9	2/2	5/5	7/7
Bu Dongsheng	9/9	—	—	7/7

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

Special Committees of the Board of Supervisors

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

Nomination Committee

As of the disclosure date of this report, the Nomination Committee of the Board of Supervisors comprised 3 members, namely, External Supervisor Mr. Bai Jianjun, Shareholder Representative Supervisor Mr. Li Yujie and Employee Supervisor Mr. Song Changlin, and was chaired by Mr. Bai Jianjun. The Nomination Committee is mainly responsible for the formulation of procedures and standards for the election and appointment of Shareholder Representative Supervisors and External Supervisors, the preliminary reviewing 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, at which it researched and reviewed issues including the remuneration adjustment of External Supervisors and the 2019 remuneration settlement plan for Supervisors.

Duty Performance Supervision Committee

As of the disclosure date of this report, the Duty Performance Supervision Committee of the Board of Supervisors comprised 4 members, namely, External Supervisor Mr. Chen Shimin, Shareholder Representative Supervisor Mr. Zhao Yongxiang, Employee Supervisors Mr. Li Yue and Mr. Song Changlin, and was chaired by Mr. Chen Shimin. The Duty Performance Supervision Committee is mainly 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, and handling other matters authorized by the Board of Supervisors. During the reporting period, it held 5 meetings, at which it studied and reviewed issues including the Board of Supervisors' evaluation report on the performance of the Board of Directors, senior management and its members in 2019, and 2019 performance evaluation report of the Board of Supervisors and its members.

Finance and Internal Control Risk Supervision Committee

The Finance and Internal Control Risk Supervision Committee of the Board of Supervisors of the Bank 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. The Finance and Internal Control Risk Supervision Committee is mainly responsible for researching and submitting supervision reports on the Bank's finance, internal control and risk management, supervising the establishment and improvement of the Bank's internal control governance structure and comprehensive risk management governance structure, and handling other issues authorized by the Board of Supervisors. During the reporting period, a total of 7 meetings were held to hear and review reports, including the reports on risk, internal control and financial supervision for 2019 and the first quarter, first half and third quarter of 2020.

Functions of Senior Management

Senior management members refer to the Bank's President, Vice Presidents, Secretary to the Board of Directors and other senior management members designated by the Board of Directors. All senior management members are collectively referred to as senior management. During the reporting period, the senior management of the Bank carried out business management activities within the scope of the Articles of Association and the authorization of the Board of Directors, studied the internal and external situation in depth in accordance with the annual business objectives set by the Board of Directors, ensured that no risks arise, and carried out solid work to achieve continuous improvement of business performance.

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 the Bank's annual financial budget plan and final accounts plan, capital management plan, risk capital allocation plan, profit distribution plan, loss recovery plan, plan for increase or reduction of registered capital, plans for issuance and listing of bonds or other marketable securities, and share repurchase plan, 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 senior management members (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 Head Office (other than the officer 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 senior management members, 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 Head Office (other than the officer in charge of the internal audit department) and the officers in charge of the domestic and overseas tier-1 branches, branches and other institutions directly under the Head Office and overseas institutions of the Bank, and to appraise the levels of their remuneration and performance;

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

(12) to decide on plans for the wages, benefits and punishment of 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, ministerial 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 labor, labor insurance, removal (or 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 labor 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. The President of the Bank is responsible for the operation and management of the Bank. The President of the Bank shall be appointed by, and is responsible to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

On January 16, 2020, Mr. Guo Xinshuang was appointed as the President of the Bank by the Board of the Directors of the Bank. Upon approval by the CBIRC, Mr. Guo Xinshuang had served as the President of the Bank since February 14, 2020. Mr. Guo Xinshuang resigned from his positions as the Executive Director and President of the Bank due to change of job, with effect from January 4, 2021. The Executive Director and Vice President Mr. Zhang Xuewen was appointed by the Board of Directors of the Bank to perform the duties of the President and shall perform such duties until the appointment of the new President by the Bank whose appointment being approved by the CBIRC. The Board of Directors believed that such arrangement ensured that the functions of the Board of Directors and the day-to-day operations of the Bank were not affected and did not undermine the balance of responsibilities and mandates between the Board of Directors and the senior management of the Bank.

Securities Transactions by Directors, Supervisors and Senior Management

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

Appraisal and Incentive Mechanisms for Senior Management

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

Auditors’ Engagement and Remuneration

As approved by the Shareholders’ General Meeting, the Bank engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors of the Bank for 2020, respectively. The auditors above have provided audit services on financial reporting to the Bank for eight consecutive years (2013-2020).

In 2020, the fees payable to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers for the audit of financial statements provided to the Bank amounted to RMB36.00 million in total (including fees for internal control audit of RMB2.00 million). In 2020, the fees payable to PricewaterhouseCoopers and its member institutions for the audit of financial statements provided to the subsidiaries of the Bank amounted to RMB0.72 million in total. In 2020, the fees payable to PricewaterhouseCoopers and its member institutions for professional non-audit services provided to the Bank amounted to RMB4.49 million in total.

As the current auditor of the Bank has served for 8 consecutive years after completing the annual audit for 2020, the auditor of the Bank shall be changed. On August 28, 2020, the Bank convened a meeting of the Board of Directors and intended to engage Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditor of the Bank for 2021, responsible for providing audit and related services for the financial statements of the Bank prepared in accordance with the China Accounting Standards for Business Enterprises and IFRS in 2021. The appointment of the auditor shall be submitted to the Shareholders’ General Meeting of the Bank for consideration.

In 2020, there was no disagreement between the Audit Committee and the Board of Directors on the selection, appointment, resignation or removal of the external auditors.

Sponsors' and Underwriters' Engagement and Remuneration

The Bank engaged China International Capital Corporation and China Post Securities Co., Ltd. as joint sponsors and joint lead underwriters of the Bank, UBS Securities Co., Ltd. as the sole financial advisor and joint lead underwriter, and CITIC Securities Co., Ltd. as the joint lead underwriter of the A share issuance. On December 10, 2019, the Bank was listed on the SSE. On January 8, 2020, the over-allotment option was exercised in full by the Bank in the A share issuance, and the underwriting fee and sponsor fee for the initial issuance and over-allotment were RMB462.93 million in total.

Significant Changes to the Articles of Association during the Reporting Period

On March 6, 2020, the Bank held the First Extraordinary General Meeting of 2020 to consider and approve the Proposal of Amendments to the Articles of Association of Postal Savings Bank of China Co., Ltd. According to the requirements of the regulatory authorities and the authorization of the Shareholders' General Meeting, the Bank made appropriate adjustments to the revised content of the Bank's Articles of Association. On August 19, 2020, the CBIRC issued 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 [2020] No. 534) and granted approval to the amended Articles of Association.

In accordance with the Approval by the CBIRC on the Change of Registered Capital of Postal Savings Bank of China Co., Ltd. (Yin Bao Jian Fu [2020] No. 673), the registered capital is changed to RMB86,978,562,200, and the Bank has made corresponding amendments to the Articles of Association pursuant to such approval and completed the change of registered capital with the market supervision and management authorities.

Internal Control and Internal Audit

Internal Control

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

The Board of Directors is responsible for ensuring that the Bank establishes and implements an adequate and effective internal control system and operates prudently within the framework of laws and policies, formulating annual risk management strategies and risk appetite, ensuring that the senior management takes necessary risk control measures, and supervising the monitoring and evaluation of the adequacy and effectiveness of the internal control system by the senior management. The Board of Supervisors is responsible for supervising the Board of Directors and senior management to improve the internal control system and supervising the Board of Directors, senior management and its members to perform their internal control responsibilities. The senior management is responsible for executing decisions of the Board of Directors, formulating systematic systems, processes and methods, establishing and improving the internal organizational structure, ensuring the effective performance of various responsibilities of internal control, and monitoring and evaluating the adequacy and effectiveness of the internal control system. Branches and departments are responsible for participating in the formulation of business systems and operating procedures relating to their own responsibilities, and strictly enforcing the rules of internal control. The internal control and compliance departments, as the departments taking the lead of internal control management, are responsible for leading the efforts for the building of an internal control system. The audit departments are responsible for evaluating the adequacy and effectiveness of internal control of the Bank, reporting on issues found in audit in a timely manner and supervising rectification. The risk and internal control committees at branches are responsible for the organization, supervision and review of the internal control of the branches.

During the reporting period, the Bank steadily advanced the building of the internal control system, launched a three-year plan for improving the quality and efficiency of internal control and compliance, and enhanced the quality of internal control management. It implemented the stationing of risk managers at branches and strengthened the vertical division of power and horizontal supervision to prevent and control key risk areas. It also enhanced the effectiveness of internal control of institutions at the primary level by dual presence of a business supervisor together with a risk manager. The Bank amended the management measures for problem rectification, improved the mechanism for rectifying problems circulated by regulatory authorities and strengthened the systematic rectification of problems by drawing inferences. It promoted the fostering of internal control and compliance culture, deepened the concept of proactive compliance and the idea that compliance creates value throughout the Bank, so as to establish a culture of internal control and compliance where the senior management sets the example and everyone performs his or her duty.

In accordance with the requirements of the Basic Standards for Enterprise Internal Control and its supporting guidelines, the Guidelines for Internal Control of Commercial Banks, and other internal control regulatory requirements, and considering the Bank's internal control rules and assessment methods, the Bank assessed the effectiveness of internal control as at December 31, 2020 (the base date of the internal control assessment report). Based on the Bank's identification criteria for deficiencies in internal control over financial reporting and deficiencies in internal control unrelated to financial reporting, as at the base date of the internal control assessment report, the Bank maintained effective internal control over financial reporting in all material aspects pursuant to the system of standards for enterprise internal control and relevant regulations with no significant internal control deficiencies in internal control over financial reporting or internal control unrelated to financial reporting. The Board of Directors of the Bank reviewed and approved the 2020 Annual Internal Control Assessment Report of Postal Savings Bank of China Co., Ltd. Please visit the website of SSE for details of the report.

PricewaterhouseCoopers Zhong Tian LLP audited the effectiveness of the internal control over financial reporting of the Bank as at December 31, 2020 in accordance with relevant regulations, and issued an unqualified Internal Control Audit Report. For details, please visit the website of SSE.

Internal Audit

The Bank implements an internal audit system and has established an independent and relatively vertical three-tier audit structure consisting of the Audit Office at the Head Office, regional audit offices and audit departments at tier-1 branches, and also set up an internal audit reporting system and reporting lines consistent with such structure. The Audit Office at the Head Office is responsible to the Board of Directors and the Audit Committee under it, regularly reports to the Board of Directors, the Audit Committee thereunder and the Board of Supervisors, and notifies the senior management.

The Audit Office at the Head Office is responsible for the overall audit work and the coordination of audit resources of the Bank, as well as the organization and conduct of audit activities in accordance with the Guidelines for the Internal Audit of Commercial Banks and the audit charter of the Bank. There are 7 regional audit offices under the Audit Office, which are key components of the audit force of the Head Office and are mainly responsible for the audit of tier-1 branches and institutions within their authority. The 36 audit departments of tier-1 branches, which are under the dual leadership of the Audit Office at the Head Office and their respective branch presidents, are responsible for the audit at institutions under the management of tier-1 branches.

During the reporting period, centering on the improvement of corporate governance and business management, and enhancement of internal control and risk management, the Bank upheld the problem-oriented, risk-oriented and efficiency-oriented audit principles. Focusing on key business lines and key risk areas, it conducted audit supervision on key areas such as implementation of major policies, risk management, internal control, information technology, protection of consumer rights and interests and anti-money laundering, put forward recommendations for improvement thereof, and followed up the rectification of problems identified in supervision.

During the reporting period, the Bank actively responded to the dynamics of development trends by continuously promoting the institutional and mechanism reform of internal audit, building high quality audit personnel teams, deepening the application of big data technology in audit, advancing the intelligent audit development, and giving full play to internal audit supervision, evaluation and consultation, so as to secure sound operation and high-quality development of the Bank.

Information Disclosure and Investor Relations

Information Disclosure

The Bank faithfully and diligently performed its information disclosure duties, strictly abided by the regulatory requirements on A share and H share, disclosed information in a true, accurate, complete, timely and fair manner, and released periodic reports and various types of interim reports with compliance. It formulated management measures for suspension and exemption of information disclosure according to the regulatory requirements of the CSRC and SSE and improved the information disclosure system. It proactively strengthened voluntary disclosure to address concerns of the market and investors. It also closely implemented the management measures for insiders of the Bank, strengthened the management of insider information, standardized the process of information transmission, and enhanced the compliance awareness of insiders.

During the reporting period, the Bank did not correct any material accounting error or omit any material information.

Investor Relations

The Bank adheres to the principle of closely following the market, being forward-looking in judgment, being professional and efficient, as well as comprehensiveness and synergy. By establishing contacts with various entities in the capital market, the Bank has established a multi-channel communication platform, continuously tracked regulatory trends, market focuses and analyst research reports, and developed an effective internal and external coordination mechanism. It took investor communication activities as an opportunity and relied on communication platforms such as results presentations and roadshows, researches and summits, investor hotline and mailbox, and SSE E-interaction to maintain normal communication with the capital market through various means with flexibility, display business development achievements in an all-round way, respond to investors' concerns in a timely manner and actively communicate on hot issues, making it widely recognized by the market. The Bank raised the bank-wide capital market awareness, strengthened its research on capital market viewpoints and conveyed market movements in order to promote the integration of investors' concerns into operation and management across the Bank.

During the reporting period, the Bank held the 2019 annual and 2020 interim results presentations and roadshows as well as the 2020 first quarter and third quarter presentation conference calls through on-site meetings, conference calls and other means. It attended more than 30 investor summits at home and abroad online or on-site, and organized around 40 online and on-site surveys at branches for investors and analysts. It also communicated and exchanged with around 1,500 domestic and overseas investors and analysts at 153 meetings, and actively participated in the "2020 Collective Reception Day for Investors of Listed Companies in Beijing" event, during which it communicated with investors online on the platform of SSE Roadshow Center.

For investors having questions with the operating results of the Bank, 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: psbc.ir@psbcoa.com.cn

Social Responsibility

Against a backdrop of the epidemic, the Bank coordinated efforts in working on epidemic prevention and control and supporting economic and social development, and vigorously assisted in fighting against COVID-19 and winning the "three critical battles". Besides, it facilitated the development of the real economy, practiced inclusive finance in an in-depth manner, and practically served ensuring stability on six key fronts and maintaining security in six key areas. While realizing high-quality development, it also made positive contributions to the sustainable development of economy, environment and society.

Strengthening Responsibility Management

The Bank continuously improved the corporate governance structure and operation mechanism, intensified the development of the Board of Directors, and strengthened the supervisory role of the Board of Supervisors. It improved the management structure and working mechanism for social responsibility, and continued to promote the integration of social responsibility work into the development strategy, governance structure, corporate culture and business procedure of the Bank to constantly improve the capabilities of social responsibility management and sustainable development.

Assisting in Poverty Alleviation

With supporting agriculture and poverty alleviation as its responsibilities, the Bank fully tapped the advantages of its network covering urban and rural areas, enhanced the top-level design of poverty alleviation efforts, and strengthened poverty alleviation in severely impoverished areas such as the "Three Regions and Three Prefectures". Through long-term practice, it figured out "five models" for targeted poverty alleviation to continuously make poverty alleviation more targeted and sustainable, making contributions to winning the battle against poverty.

Supporting Fight against COVID-19

After the breakout of COVID-19, the Bank immediately launched its emergency response mechanism for epidemic prevention and control. Specifically, it served enterprises fighting against COVID-19, opened green channels for resuming operations, reduced financing costs of enterprises via multiple measures, put great effort in developing "contactless" services to ensure off-line financial services for outlets, and made positive contributions to fighting against COVID-19 and recovering the economy.

Promoting Economic Development

The Bank earnestly implemented national strategies, vigorously supported the coordinated development of the Beijing-Tianjin-Hebei region, the development of the Yangtze Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area, integrated development in the Yangtze River Delta, the development of the Hainan Free Trade Port, and building Xiongan New Area to a high standard. It supported high-quality development of manufacturing and new forms of infrastructure as well as economic transformation and upgrading. It also strengthened the capacity of cross-border financial services and enhanced support for the Belt and Road Initiative.

Practicing Inclusive Finance

Upholding the philosophy of inclusive finance, the Bank focused on its positioning of serving Sannong customers, urban and rural residents and SMEs, provided more support for key fields and key service entities of rural revitalization, and steadily pushed forward the building of a coordinated agriculture support ecosystem to serve the strategy of rural revitalization on all fronts. Additionally, it leveraged its advantages in online and offline networks to help community members to live a better life. It continued to enrich the supply of digital products, optimized customer experience, and promoted intelligent upgrading of risk control to provide SMEs efficient and convenient financial services which are more accessible with more preferential prices.

Promoting Green Development

The Bank proactively practiced the philosophy of green development, and continued to enhance green management from aspects of strategic planning, policies, incentives and constraints, and fintech. It actively created new green financial products and services to support green and low-carbon development. Moreover, it strengthened ESG risk management, promoted green operation and green office, striving to build into a green inclusive finance bank and a climate-friendly bank.

Creating Intelligent Banking

The Bank stayed committed to the concept of development through technology, and completed the 13th Five-Year Plan for IT application. It worked faster to build an ecosystem of digital scenarios, and continued to create an intelligent ecosystem of "finance plus services". It was approved to participate in the state's pilot launch of e-CNY, and accelerated the building of convenient and diversified e-CNY application scenarios. It was the first major state-owned bank being granted the qualifications for piloting direct banking, as it was approved to establish PSBC online that would be built into an innovative platform connecting rural revitalization through financial services and better life through technology.

Creating a Better Life Together

The Bank continuously created values for shareholders, improved vocational happiness of employees, and practically enhanced consumer protection. It also kept improving customer experience, actively engaged in public charity activities, and created value and shared development fruits with stakeholders.

Caring for Employees

Taking Care of Employees amidst the Epidemic	Putting employees' safety in the first place, the Bank strengthened the guidance of public opinions and psychological counseling for its employees and took care of employees who were going through a rough time. It also carried out assistance and condolence work in fighting against the epidemic by disbursing a special fund for preventing and controlling the epidemic to the labor union of Hubei Branch and providing special financial aid to employees who were confirmed to be infected. Moreover, the Bank provided exclusive psychological consultation hotline services for financial personnel in those hardest-hit areas by the epidemic, distributed the Service Guide for Employee Psychological Resilience, assisted employees who resumed working with knowledge about the epidemic prevention and control, and helped them to learn self-psychological adjustment and counseling methods.
Being People-oriented and Caring for Employees	Firstly, the Bank continued to upgrade the building of "Home for Employees". In accordance with the work arrangement for the second three-year plan of building the Bank's "Home for Employees", the Bank established and standardized designated sites of the Bank's "Home for Employees", inspection of the Bank's building of "Home for Employees" and the evaluation of "Model Home for Employees". The Bank also proactively promoted the building of "Home for Employees" by strengthening and expanding the "Home for Employees" building fruits consistently so as to enhance employees' sense of gain and happiness. Secondly, the Bank delivered love and care to employees in daily life. The Bank visited a total of 3,873 employees and 4,852 groups, providing RMB24.57 million of financial aid. It also carried out flood control and disaster relief, and provided special subsidies to the affected employees. Thirdly, the Bank delivered love and care to female employees. The Bank worked with Spiritual Wealth Club to carry out special online event for International Women's Day. By inspecting the Bank's building of lactation rooms called Mother's Room, the Bank set the grading standards and configuration of the Mother's Room. As of the end of the reporting period, the Bank built 1,487 Mother's Rooms, and designed and promoted the "Badge for the Pregnant".
Actively Listening to the Voice of Employees	The Bank prepared the Annual Survey on PSBCers based on sample analysis and in-depth interviews, and conducted an annual check of indicators such as employees' experience and happiness index to analyze the annual focus of PSBCers. It continued to collect opinions and recommendations from PSBCers, providing data support and decision-making basis for improving employees' experience.

Principal Business and Business Review

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

Profit and Dividend Distribution

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

With the approval at the 2019 Annual General Meeting held on May 28, 2020, the Bank, based on the total share capital of 86,978,562,200 ordinary shares, distributed cash dividends of RMB2.102 (before tax) per ten ordinary shares, totaling approximately RMB18,283 million (before tax), to all the ordinary shareholders whose names appeared on the share register on the record date. The share register record date for distribution of dividends for A share and H share was June 9, 2020 (Tuesday). The dividends for A share in 2019 were distributed on June 10, 2020 (Wednesday), and the dividends for H share in 2019 were distributed on July 17, 2020 (Friday). The Bank did not declare or distribute interim dividends of 2020, nor did it convert any capital reserve to share capital.

In accordance with the Company Law of the People's Republic of China, the Administrative Measures for Provisioning of Financial Enterprises, the Articles of Association and relevant requirements, statutory surplus reserve of RMB6,249 million and general risk reserve of RMB13,572 million were appropriated for 2020. On the basis of 92,383,967,605 ordinary shares (including the non-public issuance in 2021) of the total share capital of the Bank, RMB19,262 million (before tax) of cash dividends were distributed to all the ordinary shareholders whose names appeared on the share register on the record date with RMB2.085 (before tax) per ten ordinary shares. Cash dividends are denominated and declared in Renminbi, and paid to holders of A shares in Renminbi and to holders of H shares in Hong Kong dollars converted at the RMB central parity rate announced by the PBOC on the day of the Bank's 2020 Annual General Meeting. The remaining undistributed profits are carried forward to the next year. The Bank did not convert its capital reserve to share capital in 2020. The aforesaid annual dividend distribution plan for 2020 is still subject to the approval of the 2020 Annual General Meeting of the Bank. The above dividends will be paid to shareholders of A shares and H shares listed on the Bank's register of shareholders after the market closes on July 21, 2021 (Wednesday), subject to the approval. The Bank will suspend the registration procedures of H share ownership transfer on July 16, 2021 (Friday) (inclusive) till July 21, 2021 (Wednesday) (inclusive). The H shareholders of the Bank who wish to receive the proposed cash dividends must lodge their share certificates together with the share transfer documents with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on July 15, 2021 (Thursday). In accordance with the relevant regulatory requirements and business rules, dividends for A shares are expected to be paid on July 22, 2021, and those for H shares on August 5, 2021.

Please refer to the relevant announcement on implementation of dividends issued by the Bank for details of taxes and tax relief related to the dividends.

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

Items	**2020**	2019	2018
Distributed dividends per ten shares (before tax, in RMB)	2.085	2.102	1.937
Cash dividends (before tax, in millions of RMB)	19,262	18,283	15,696
Net profit attributable to shareholders of the Bank in the consolidated statements (in millions of RMB)	64,199	60,933	52,311
Percentage of cash dividends(1)	30%	30%	30%

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

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

Implementation of Cash Dividend Policy

The Bank attaches importance to ensuring reasonable returns to investors as well as maintaining the continuity and stability of profit distribution policies. It takes into account the overall interests of all shareholders as well as the long-term interests and sustainable development of the Bank. The Bank may distribute dividends in cash or in shares, and priority shall be given to cash dividend distribution. In principle, the Bank distributes its profits once a year.

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

Reserves

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

Financial Summary

For the summary of operating results, assets and liabilities for the five years ended December 31, 2020, please refer to "Financial Highlights".

Donations

During the reporting period, the Bank donated approximately RMB37,323,400 (domestically).

Fixed Assets

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

Subsidiaries

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

Share Capital and Public Float

As of the end of the reporting period, the Bank had 86,978,562,200 ordinary shares in total (including 67,122,395,200 A shares and 19,856,167,000 H shares) as its share capital. The Bank completed the non-public issuance of A shares in March 2021. As of the disclosure date of this report, the Bank's total share capital of ordinary shares amounted to 92,383,967,605 shares (including 72,527,800,605 A shares and 19,856,167,000 H shares). As of the disclosure date of this report and based on publicly available information, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules.

Tax Relief

Shareholders of the Bank are taxed in accordance with the following tax regulations and the amendments thereof from time to time, and may enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before December 31, 2020.

Holders of A Shares

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

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

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

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

Holders of H Shares

In accordance with Chinese tax laws and regulations, the dividends and bonuses received by overseas resident individual shareholders from stocks issued by domestic non-foreign enterprises in Hong Kong are subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign enterprises in Hong Kong can enjoy relevant tax benefits pursuant to provisions in the tax conventions signed between China and the country where they reside or the tax arrangements between the Chinese mainland and Hong Kong (Macao). Accordingly, the Bank generally withholds 10% of the dividends to be distributed to individual H shareholders as individual income tax unless otherwise specified by relevant tax laws, regulations and agreements.

In accordance with the Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Taxation Administration of PRC, the Bank will withhold and pay enterprise income tax at a rate of 10% when distributing annual dividends to H-share holders who are overseas non-resident enterprises from the year of 2008.

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 H shares paid by the Bank.

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

Offshore Preference Shareholders

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

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

Purchase, Sale or Redemption of Shares

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

Pre-emptive Rights

There is no mandatory provision in relation to pre-emptive rights in the Articles of Association of the Bank. 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 the capital reserve to share capital and other methods as permitted by laws, regulations and relevant authorities.

Equity-linked Agreement

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

In accordance with the Capital Rules for Commercial Banks (Trial) and the Administrative Measures on Pilot Program of Preference Shares, commercial banks shall formulate clauses governing the mandatory conversion of preference shares into ordinary shares, namely, upon the occurrence of a trigger event, commercial banks shall convert the preference shares into ordinary shares as stipulated in the contract. Trigger events include the following situations: The Bank's core tier 1 capital adequacy ratio drops to 5.125% or below; the CBIRC concludes that without a conversion or write-off, the Bank would become non-viable, and the relevant authorities concludes that without a public sector injection of capital or equivalent support, the Bank would become non-viable. In accordance with relevant regulations, the Bank has set a trigger event clause for the mandatory conversion of preference shares into ordinary shares. Assuming that such trigger events occur and all the preference shares need to be converted into ordinary shares at the initial conversion price, the number of offshore preference shares to be converted into ordinary H shares shall not exceed 11,658,840,579.

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

Major Customers

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

Material Relationship with Employees and Suppliers

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

For details on the Bank's relationship with its employees, please refer to the 2020 Corporate Social Responsibility (Environmental, Social and Governance) Report of Postal Savings Bank of China to be published on the websites of the SSE, the Hong Kong Stock Exchange and the Bank.

Use of Proceeds from Fund-raising Activities

The joint underwriters of the initial public offering and listing of RMB ordinary shares (A shares) of the Bank exercised the over-allotment option in full on January 8, 2020. Based on the issue price of RMB5.50 per share, the Bank issued an additional 775,824,000 shares on top of the initial issuance of 5,172,164,200 shares, raising total additional proceeds of RMB4,267.03 million. Together with the proceeds raised from the initial public offering of A shares, the total proceeds raised amounted to RMB32,713.94 million. After deducting the issuance fee, the net proceeds raised were approximately RMB32,205.98 million. The funds raised have been used to replenish the Bank's capital and consolidate the Bank's capital base to support the continuing growth of the Bank's business. The funds raised have been used for the purposes as disclosed in the prospectuses.

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

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 interest in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

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

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

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

Connected Transactions

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

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

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

Remuneration of Directors, Supervisors and Senior Management Members

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

Permitted Indemnity Provision

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

Financial, Business and Family Relations among Directors, Supervisors and Senior Management Members

Save as disclosed in this Report, the Directors, Supervisors and senior management members of the Bank are not related to each other with respect to financial, business, family or other material relations.

Management Contracts

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

Auditors

The financial statements of the Bank for 2020, prepared in accordance with the PRC GAAP and IFRSs, have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers according to the Auditing Standards of China and International Standards on Auditing respectively, and both of them issued unqualified audit opinions.

Environmental Policy

The Bank strictly observed relevant laws and regulations on environmental protection in China and no major environmental issues occurred during the reporting period. The Bank actively advocated the concept of environmental protection in its business operation, adopted measures with improved energy-saving technology and promoted green office. It conserved resources and promoted paperless office, and conducted special campaigns to stop food waste which achieved significant results. It also saved energy, eliminated inefficient office equipment in procurement and consumption, and advocated garbage categorization, which was conducive to resource recycling. In terms of epidemic prevention and control, the Bank set up special recycling bins for masks in public areas, which were disinfected regularly, collected and disposed in a timely manner.

Compliance with Important Laws, Regulations and Rules

During the reporting period, the Bank complied with the laws and regulations of the place where it operates in all material respects. During the reporting period, the Bank and its Directors, Supervisors and senior management members were not subject to investigations, public criticisms from the CSRC or public denunciations from the stock exchanges, nor were they subject to penalties from other regulators which had a significant impact on the Bank's operations.

Significant Events

For other matters that are significant for shareholders to understand the Bank's business, please refer to "Significant Events" for details.

Protection of Consumer Rights and Interests

The Bank attached great importance to the protection of consumers' rights and interests. It adhered to the people-oriented development philosophy and the customer-centered development concept, ensured the delivery of financial services and consumer protection during the epidemic prevention and control as well as the resumption of work and production. It carried out promotion and education of financial knowledge, and was thus awarded the Exemplary Organizer of Joint Publicity and Education Activities in 2020. The Bank actively fulfilled the responsibility of consumer protection in its operation management and business, continuously raised the awareness of consumer protection within the Bank, constantly promoted the improvement of products and services, and comprehensively enhanced its customer experience in a systematic manner.

The Bank further improved consumer protection mechanisms, revamped the work framework on the decision-making and the supervision of implementation, the review of consumer protection, the internal assessment of consumer protection, information disclosure, etc., and constantly consolidated the foundation for consumer protection. The Bank consistently standardized its operations and services, and developed and improved the whole-process management and control mechanism. It further strengthened customer complaint management by tracing customer complaints and making improvement in this regard to effectively improve customer experience. It also enhanced the disclosure of product and service information and protected the legitimate rights and interests of financial consumers. In order to raise the awareness of consumer protection among all employees, the Bank carried out the 2020 Consumer Protection Labor Competition, which engaged all employees so as to create a sound atmosphere of consumer protection. In order to fulfill its social responsibilities, the Bank continued to carry out the education of financial knowledge, and constantly expanded the audience and influence of its campaigns. Making full use of its strengths based on the large number of outlets with wide coverage, alongside its online and offline accesses, the Bank strengthened the communication of important information among special groups, and made activities more engaging and effective, so as to help consumers establish the right attitude towards consumption and risks.

By Order of the Board of Directors
Zhang Jinliang
Chairman

March 29, 2021

Report of the Board of Supervisors

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors of the Bank, in strict accordance with laws, regulations, regulatory requirements and the Articles of Association of the Bank, coordinated epidemic prevention and control and supervision, pushed ahead with the improvement of corporate governance, earnestly performed its duty of supervision in the areas of performance, risk, finance, internal control, etc., and put forth efforts in strengthening the follow-up of corrective actions taken according to supervisory opinions. It also performed the obligation of information disclosure in compliance with laws and regulations and proactively safeguarded legitimate rights and interests of the Bank, shareholders, employees, creditors and other stakeholders. All Supervisors performed their duties diligently, earnestly attended meetings on corporate governance, intensively participated in supervision, inspection and research studies, and actively provided suggestions for the transformation and development of the Bank. Their time of duty performance at the Bank complied with the regulatory requirements.

Supervision on Strategies

The Board of Supervisors thoroughly implemented the decisions and deployment of central government and actively stepped up supervision of strategy implementation. In order to achieve quality development across the Bank, it placed emphasis on regional coordinated development strategy, conducted business development surveys in key regions, promoted empowered development of key regions, and paid attention to the issue of unbalanced and inadequate regional development. With highlight in the Bank's strategic positioning of serving Sannong, it summarized and promoted the advanced experience of Guyuan Branch in Ningxia in adhering to retail strategy and cultivating Sannong market, and pushed forward quality development of branches in economically underdeveloped regions. It facilitated transformation towards "uniqueness, comprehensiveness, lightness, intelligence and intensiveness", carried out supervision on the building of financial ecosystem, automobile industrial chain, open payment, acquiring business, corporate deposit, etc., and actively promoted the transformation and development. It also conducted comprehensive surveys and research at the grassroots level, paid close attention to issues related to the Bank's quality development, refined management, products and services, and production safety under the ongoing epidemic prevention and control, and oversaw and urged to strengthen coordination of epidemic prevention and control with its operation and production.

Supervision on Duty Performance

The Board of Supervisors paid close attention to the duty performance of the Board of Directors, the senior management and its members according to laws and regulations, their implementation of macro policies, regulatory opinions and resolutions of the Shareholders' General Meeting. Through attending meetings on corporate governance and attending such meetings as non-voting delegates, it continuously strengthened process supervision on the norms as well as operational quality and efficiency of the Board of Directors, the senior management and its members, and took internal and external audit opinions as an important reference for duty performance supervision. Focusing on the improvement of voluntary information disclosure, the Board of Supervisors conducted peer benchmarking research and analysis, and proposed suggestions for improvement. It conducted supervision and provided suggestions centering on the operation of special committees of the senior management. In line with regulatory requirements, it continuously improved the performance evaluation, earnestly completed the performance evaluation for the Board of

Directors, the senior management and its members for 2019, with evaluation indicators fully reflecting the regulatory requirements and full coverage of the Board of Directors, the Board of Supervisors, the senior management and the person-in-charge of departments of the Head Office and tier-one branches, and actively conducted self-evaluation within the Board of Supervisors and for its members to strengthen self-supervision. Meanwhile, it further strengthened the analysis and application of the performance evaluation results, provided suggestions for performance of duty in areas that were of continuous concern to the participants and were expected to be improved, in a bit to improve their competence in performing duties.

Supervision on Risk Management

The Board of Supervisors actively performed its risk management and supervision duties. It paid special attention to the duty performance in risk management by the Board of Directors and the senior management and its members, and pushed for the improvement of a comprehensive risk management system covering all respects, the whole process and all staff members. It heard work reports on comprehensive risk management, liquidity risk, stress testing, capital management and audit of the Bank. It also reviewed the Bank's risk, internal control and financial supervision on a quarterly basis, and provided targeted supervision opinions. Meanwhile, it paid close attention to key risk regulatory indicators like the Bank's capital adequacy ratio, leverage ratio, liquidity risk, etc. It enhanced monitoring of credit risk management, paid attention to development of industry credit business, and prevented key industry risks through supervision and warning. It focused on risks in new products, new technologies and new landscape of the industry, with promotion of solid development of Internet loan business. With awareness of the impact of epidemic on the risks in key areas, it urged active response to the risks and challenges posed by the epidemic. It strengthened risk monitoring in non-credit business and facilitated improvement of risk prevention and control in wealth management and investment business. Meanwhile, it paid attention to risk supervision on consolidated institutions, with timely supervision and precaution of the risks of its subsidiaries. It also emphasized the risks of information technology with management and monitoring of mobile banking and software tests to promote risk management capabilities of information technology.

Supervision on Finance

The Board of Supervisors earnestly performed duties of supervision on finance, seriously reviewed the Bank's periodic reports, and independently, objectively and impartially proposed audit opinions on the authenticity, accuracy and completeness of the reports. It reviewed proposals including final accounts, profit distribution plan, and non-public issuance of A shares, and paid constant attention to the making and implementation of significant financial decisions such as business plan, economic capital allocation and use of raised funds. It also heard on spot special reports including reports on management of connected transactions and related parties, and further clarified the definitions and scopes of connected transactions and reporting mechanism to the Board of Supervisions. In addition, the Board of Supervisor enhanced guidance on internal audit and regular communication with external auditors, paid close attention to internal and external audit plans, audit findings, audit recommendations and rectification, and supervised the entire process of the change of external auditors It stepped up the supervision of key financial areas, and continuously monitored the Bank's cost-to-income ratio, return on assets, development in regions, asset write-off, etc. What's more, the Board of Supervisors conducted a special inspection on property insurance and supervision on ETC business development, and urged the Board of Directors and the senior management to improve refined management.

Supervision on Internal Control

The Board of Supervisors earnestly performed the duties of supervision on internal control, paid constant attention to their performance of duties and responsibilities of internal control by the Board of Directors, the senior management and its members, and urged the enhancement of compliance management. Besides, it reviewed the Bank's internal control assessment report on an annual basis, and regularly listened to reports on major fields such as case prevention and control, internal audit, anti-money laundering, internal control and compliance, consumer protection, etc. and conducted regular follow-up supervision. It also facilitated the continuous improvement of internal control governance and further urged the Board of Directors and the senior management to shoulder their primary responsibilities of governance. Strictly adhering to the regulatory requirements, the Board of Supervisors strengthened supervision on key areas of internal control, specific areas such as the implementation of anti-nepotism policies among employees, management of consumer complaints, penalties for employee violations, management of money laundering risk, etc., and encouraged the Board of Directors and the senior management to continuously reinforce the development of internal control system and enhance internal control on an on-going basis. A joint survey by Directors and Supervisors was conducted on the prevention of financial crimes by employees to promote the improvement of the financial crime prevention mechanism and to prevent risks of financial cases.

Self-building

The Board of Supervisors continued to strengthen the building of the Supervisor team, performed the democratic election procedures in strict accordance with relevant regulations and rules, and successfully completed the re-election of Employee Supervisors. By fully utilizing internal and external resources and through online and offline trainings and other means, the Board of Supervisors held training on various areas such as macro situation, the Securities Law of the People's Republic of China, the operation of the board of directors and the board of supervisors of listed companies, anti-money laundering, etc., in order to enhance supervisors' ability to perform their duties. To promote tracking and supervision of the rectification regarding supervision opinions and suggestions, it carried out evaluation on the rectification regarding supervision opinions and suggestions for 4 consecutive years, and regularly compiled reports on the implementation of resolutions of the Board of Supervisors and that of supervision opinions, and continued to improve the rectification supervision mechanism. Meanwhile, the Board of Supervisors took new approaches and methods to strengthen the synergy and coordination between Directors and Supervisors. It organized Directors and Supervisors to jointly listen to special work reports on key areas, and conducted joint surveys in aspects including prevention of financial crimes by employees and risk management of retail loans, thereby enhancing the integration of supervision resources and the quality and effectiveness of supervision.

Work of External Supervisors

During the reporting period, External Supervisors of the Bank acted in strict compliance with the Articles of Association, performed their duties diligently, discussed at meetings in due course, and fully studied and reviewed all proposals. They actively participated in all supervision activities carried out by the Board of Supervisors, earnestly attended meetings of the Board of Supervisors and its special committees, and expressed professional, rigorous and independent opinions and recommendations, playing an active role in improving the corporate governance and the management of the Bank. During the reporting period, time spent by each External Supervisor on supervision for the Bank complied with the regulatory requirements.

Independent Opinions Issued by the Board of Supervisors

Operation According to Law

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

Annual Report

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

Use of Raised Funds

During the reporting period, the use of raised funds was in line with the purposes as disclosed in the offering documents and prospectuses.

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 losses of the Bank's assets in the process of the Bank's acquisition or sale of assets.

Connected Transactions

During the reporting period, the Bank's connected transactions were conducted based on commercial 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 true, accurate and complete.

Corporate Social Responsibilities

During the reporting period, the Bank earnestly performed its social responsibilities. The Board of Supervisors reviewed the Bank's 2020 Corporate Social Responsibility (Environmental, Social and Governance) Report and had no objection to the report.

Performance Evaluation of Directors, Supervisors and Senior Management Members

All the Directors, Supervisors and senior management members who participated in the 2020 performance assessment were evaluated as competent.

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

By Order of the Board of Supervisors
Chen Yuejun
Chairman of the Board of Supervisors

March 29, 2021

Connected Transactions with China Post Group

As of the end of the reporting period, China Post Group directly held approximately 65.34% of the total issued equity shares of the Bank, and was the Bank's controlling shareholder, and held approximately 0.01% of the total issued equity shares of the Bank through China Post Securities Co., Ltd. According to the Hong Kong Listing Rules and the SSE Listing Rules, China Post Group and its associates are the Bank's related parties, and the following transactions constitute the connected transactions of the Bank under the Hong Kong Listing Rules and the SSE Listing Rules. During the reporting period, the Bank fully complied with relevant rules for connected transactions under the Hong Kong Listing Rules and the SSE Listing Rules, and entered into the following transactions with China Post Group and its associates in the ordinary course of business on normal or better business terms. Except for the connected transactions between the Bank and China Post Group and its associates that constitute connected transactions under the Hong Kong Listing Rules, the other connected transactions disclosed in this report do not constitute connected transactions under the Hong Kong Listing Rules.

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

During the reporting period, in order to continue to meet regulatory standards in respect of capital for commercial banks, improve the capital adequacy and promote the steady and healthy development of businesses, the Bank decided to non-publicly issue A shares to China Post Group, its controlling shareholder. On November 30, 2020, the Bank and China Post Group entered into the Share Subscription Contract with Conditions Precedent for the Non-public Issuance of A Shares by Postal Savings Bank of China Co., Ltd., pursuant to which, China Post Group plans to subscribe up to RMB30 billion (inclusive), the maximum size of proceeds, and the subscription amount shall be determined in accordance with the final approval on the amount of proceeds by relevant regulators. On March 8, 2021, the CSRC issued the Approval of the Non-Public Issuance of Shares by Postal Savings Bank of China Co., Ltd. (Zheng Jian Xu Ke [2021] No. 751), which approved the Bank's non-public issuance of A shares. In March 2021, the Bank completed the non-public issuance of A shares and issued 5,405,405,405 shares. After deducting issuance expenses, the net proceeds were RMB29,985.92 million, which will be used to replenish the core tier 1 capital of the Bank. The non-public issuance of A shares constitutes a major connected transaction of the Bank and a connected transaction under the Hong Kong Listing Rules, and the Bank complied with the requirements for reporting, announcement and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules. The non-public issuance of A shares has been reviewed and approved by the Related Party Transactions Control Committee, the Board of Directors, the Board of Supervisors and the Shareholders' General Meeting of the Bank, and has been disclosed on the websites of the SSE and the Hong Kong Stock Exchange as required, and relevant filing and approval procedures have been fulfilled as per relevant laws and regulations.

Agency Banking Businesses

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

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

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

Agency Deposit-taking Business

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

Agency Renminbi Deposit-taking Business

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

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

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

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

During the reporting period, the aggregate amount of the deposit agency fees the Bank paid for the agency Renminbi deposit-taking business was RMB85,213 million, and the Composite Rate was 1.31%, lower than the agreed cap on Composite Rate of 1.50%.

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

In millions of RMB, except for percentages

	For the year ended December 31, 2020		
Type	Average daily balance	Scaled fee rates (%)	Deposit agency fees
Demand deposits	1,853,776	2.30	42,637
Time-demand optional deposits	15,465	1.50	232
Call deposits	35,865	1.70	610
3-month time deposits	128,529	1.25	1,607
6-month time deposits	169,866	1.15	1,953
1-year time deposits	3,159,530	1.08	34,123
2-year time deposits	396,020	0.50	1,980
3-year time deposits	763,364	0.30	2,290
5-year time deposits	5,644	0.20	11
Aggregate cash (including cash in transit)	15,334	1.50	(230)[1]
Total	6,528,059	1.31	85,213

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

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

To effectively control the funding cost and maintain a steady growth in the size of deposits, the Bank launched relevant mechanisms to boost the increase of deposits, including the arrangements of cost sharing for floating interest rates of deposits and incentives for deposits. The Bank and China Post Group have agreed that the amount of deposit incentive shall not be higher than the payment by China Post Group under the cost sharing mechanism for floating interest rates of deposits in any circumstances. During the reporting period, the net settlement amount of the Bank's relevant mechanisms to boost deposit increase was minus RMB2,900 million[1].

Agency Foreign Currency Deposit-taking Business

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

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

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

Agency Intermediary Banking Business

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

1 Pursuant to the agreement between the Bank and China Postal Group, the deposit agency fee and the settlement amount of the relevant mechanism to promote deposit development were settled on a net basis, and the deposit agency fee and other amounts totaled RMB82,313 million in 2020.

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

During the reporting period, fees payable by the Bank for the agency intermediary banking business were RMB13,701 million, of which fees payable for the settlement services provided by agency outlets were RMB8,170 million, and fees payable for the agency financial services and other services by agency outlets were RMB5,531 million.

Land Use Rights and Property Leasing

Pursuant to the Land Use Rights and Property Leasing Framework Agreement entered into between the Bank and China Post Group on September 2, 2016 (the "Land Use Rights and Property Leasing Framework Agreement"), the Bank and China Post Group and its associates leased their properties, ancillary equipment and other assets to each other in the form of operating lease in the ordinary course of business. On the premise that both parties to the agreement raise no objections and regulatory requirements are met in the place where the Bank is listed, the Land Use Rights and Property Leasing Framework Agreement shall be automatically renewed for a further term of three years upon expiry. The current extension period is from January 1, 2019 to December 31, 2021. For details of the renewal of the continuing connected transaction, please refer to the Bank's announcement dated October 30, 2018.

During the reporting period, China Post Group and its associates paid a total of RMB82 million of rental to the Bank for certain of the Bank's properties and ancillary equipment for business or office purposes. China Post Group agreed to lease certain assets including land use rights, properties and ancillary equipment to the Bank. The rental of the above-mentioned properties and ancillary equipment by the Bank was mainly for its outlets or office purposes. The aggregate amount of the rental payments to China Post Group and its associates for the properties and ancillary equipment leased by the Bank was RMB1,000 million.

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

Comprehensive Services and Other Transactions

Pursuant to the Comprehensive Services Framework Agreement between China Post Group Corporation and Postal Savings Bank of China Co., Ltd. entered into between the Bank and China Post Group on September 6, 2016 (the "Comprehensive Services Framework Agreement"), the Bank and China Post Group and its associates provide a number of comprehensive services to each other and conduct other transactions. If both parties to the agreement raise no objections and regulatory requirements are met in the place where the Bank is listed, the Comprehensive Services Framework Agreement shall be automatically renewed for a further term of three years upon expiry. The current extension period is from January 1, 2019 to December 31, 2021. For details of the renewal of the continuing connected transaction, please refer to the Bank's announcement dated October 30, 2018. Due to business development and other reasons, on March 25, 2020, the Bank revised the annual caps of sales of goods other than philatelic items, provision of marketing services of deposits and other businesses, and provision of labor services by China Post Group and/or its associates to the Bank and set the annual caps of provision of agency sales (distribution) services of precious metals by the Bank to China Post Group and/or its associates under the Comprehensive Services Framework Agreement for the two years ending December 31, 2021. For details of the revised annual caps, please refer to the Bank's announcement dated March 25, 2020.

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

The comprehensive services provided by the Bank to related parties are mainly labor services and agency business services, among which, labor services include cash escort and vaults, equipment maintenance and other services, and agency business services include bancassurance, agency sales of funds and agency sales (distribution) of precious metals. The business materials sold from the Bank to the related parties are mainly printed materials such as brochures used in the ordinary and usual course of business. During the reporting period, the total revenue from the comprehensive services and sales of business materials provided by the Bank to China Post Group and its associates was RMB624 million.

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

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

The comprehensive services received by the Bank from related parties are mainly labor services and marketing services, among which, labor services include cash escort and vaults, equipment maintenance, advertising, mail and other services, and marketing services are mainly for deposits and other businesses. The goods purchased by the Bank from related parties are mainly philatelic items and promotional supplies other than philatelic items, and other banking related materials. During the reporting period, the aggregate amount paid for the comprehensive services provided by and purchasing products from China Post Group and its associates by the Bank was RMB2,295 million.

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

Trademark Licensing

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

Disclosure and Consideration Requirements for Relevant Connected Transactions

The non-public issuance of A shares to China Post Group constitutes a connected transaction as defined in the Hong Kong Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

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

In addition to the above-mentioned continuing connected transactions, the Bank's continuing connected transactions also include the transactions under the Trademark License Agreement, the sale of philatelic items and the provision of mailing service, the sale of goods other than philatelic items and the provision of labor services, the provision of marketing for deposit-taking and other businesses by China Post Group and/or its associates under the Comprehensive Services Framework Agreement to the Bank; the leasing of certain properties and ancillary equipment, the provision of bancassurance services and the provision of agency sales (distribution) of precious metal business by the Bank to China Post Group and/or its associates under the Comprehensive Services Framework Agreement. Meanwhile, in the ordinary and usual course of business, the Bank also provided related persons with commercial banking services and products, including providing related persons with loans and credit facilities, taking deposits from related persons and providing related persons with other banking services and products. The aforesaid continuing connected transactions are exempted from compliance with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Implementation of the Caps of Connected Transactions

On March 25, 2020, the Bank held the third meeting of the Board of Directors in 2020, at which it reviewed and approved the Proposal on the Forecast Caps of Connected Transactions of Postal Savings Bank of China for 2020-2021. For details, please refer to the Bank's announcement dated March 25, 2020. As of the end of the reporting period, the actual amounts of the above continuing connected transactions did not exceed the annual caps.

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

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

Credit Type Connected Transactions

In 2020, the caps of routine credit type connected transactions between the Bank and China Post Group and its related parties shall be "no more than RMB18 billion subject to applicable regulatory requirements". As of the end of the reporting period, the balance of credit to China Post Group and its related parties by the Bank was RMB6,459 million. Credit type transactions were conducted on normal or better commercial terms, and were fully exempted in accordance with the Hong Kong Listing Rules.

Non-credit Type Connected Transactions

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

In RMB100 million

Type of Connected Transactions	**Forecast Caps in 2020**	**Amount of connected transactions as at December 31, 2020**
Agency sales of insurance products provided by the Bank to China Post Group and/or its associates	4	3.47
Provision of agency sales (distribution) of precious metals business by the Bank to China Post Group and/or its associates	5	2.61
Leasing of properties and ancillary equipment of China Post Group and/or its associates by the Bank	13.72	10.00
Sales of philatelic items and provision of mailing services by China Post Group and/or its associates to the Bank	4.87	1.71
Sale of goods other than philatelic items by China Post Group and/or its associates to the Bank	10	3.94
Provision of marketing for deposit-taking and other businesses by China Post Group and/or its associates to the Bank	15	5.69
Provision of labor services by China Post Group and/or its associates to the Bank	13	8.56

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

In 2020, the caps of routine credit type connected transactions between the Bank and China State Shipbuilding Corporation Limited[1] and its related parties shall be "no more than RMB20 billion subject to applicable regulatory requirements". As of the end of the reporting period, the balance of credit to China State Shipbuilding Corporation Limited and its related parties by the Bank was RMB705 million.

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

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

In RMB100 million

Type of Connected Transactions	Forecast Caps in 2020	Amount of connected transactions as at December 31, 2020
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund paid by the Bank	35	11.58
Clearing services between the Bank and China UnionPay Co., Ltd. – Fund received by the Bank	75	40.39

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

Confirmation of Connected Transactions

Confirmation from Independent Non-executive Directors

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

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

The Independent Non-executive Directors also confirmed that:

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

Confirmation from Auditor

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

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

Implementation of the Management System for Connected Transactions

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

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

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

Significant Events

Material Legal Proceedings and Arbitration

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

As at the end of the reporting period, the Bank was the defendant or arbitration respondent in certain pending and material legal proceedings or arbitrations each with a claim amount of over RMB10 million, and the aggregate claim amount was approximately RMB6,619 million. Accruals in respect of these matters have been fully established, and the Bank considers that these pending cases will not have any material adverse impact on the business, financial position or operating results of the Bank.

Major Asset Acquisition, Disposal and Merger

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

Significant Contracts and Their Performance

Material Custody, Subcontracting and Leasing

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

Material Guarantees

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

Specific Explanations and Independent Opinions on the Guarantee Business of the Bank issued by the Independent Non-executive Directors of Postal Savings Bank of China

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

Upon verification, the Bank carried out the guarantee business mainly by issuing letters of guarantee, which was one of the routine banking businesses within the scope of the Bank's daily operation approved by the PBOC and the CBIRC. As of December 31, 2020, the outstanding amount of the letters of guarantee issued by the Bank was RMB40,226 million.

The Bank attaches great importance to the risk management of the guarantee business, has strict rules on the creditworthiness standard of guaranteed companies, the operational processes and the approval procedure of the guarantee business, and conducts relevant business accordingly. In our opinion, the Bank's control over the risks of guarantee business is effective, and there is no case of illegal guarantees.

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

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

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

Credibility

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

Appropriation of Funds by Controlling Shareholder and Other Related Parties

During the reporting period, there was no appropriation of the Bank's funds by controlling shareholder and other related parties. The auditor has issued the 2020 Special Explanation about Appropriation of Funds by Controlling Shareholder and Other Related Parties of Postal Savings Bank of China Co., Ltd.

Fulfillment of Commitments

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

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

Pledge of Assets

For details relating to the pledge of assets of the Bank during the reporting period, please refer to "Notes to the Consolidated Financial Statements – 40.4 Collateral".

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

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

Targeted Poverty Alleviation by the Bank

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

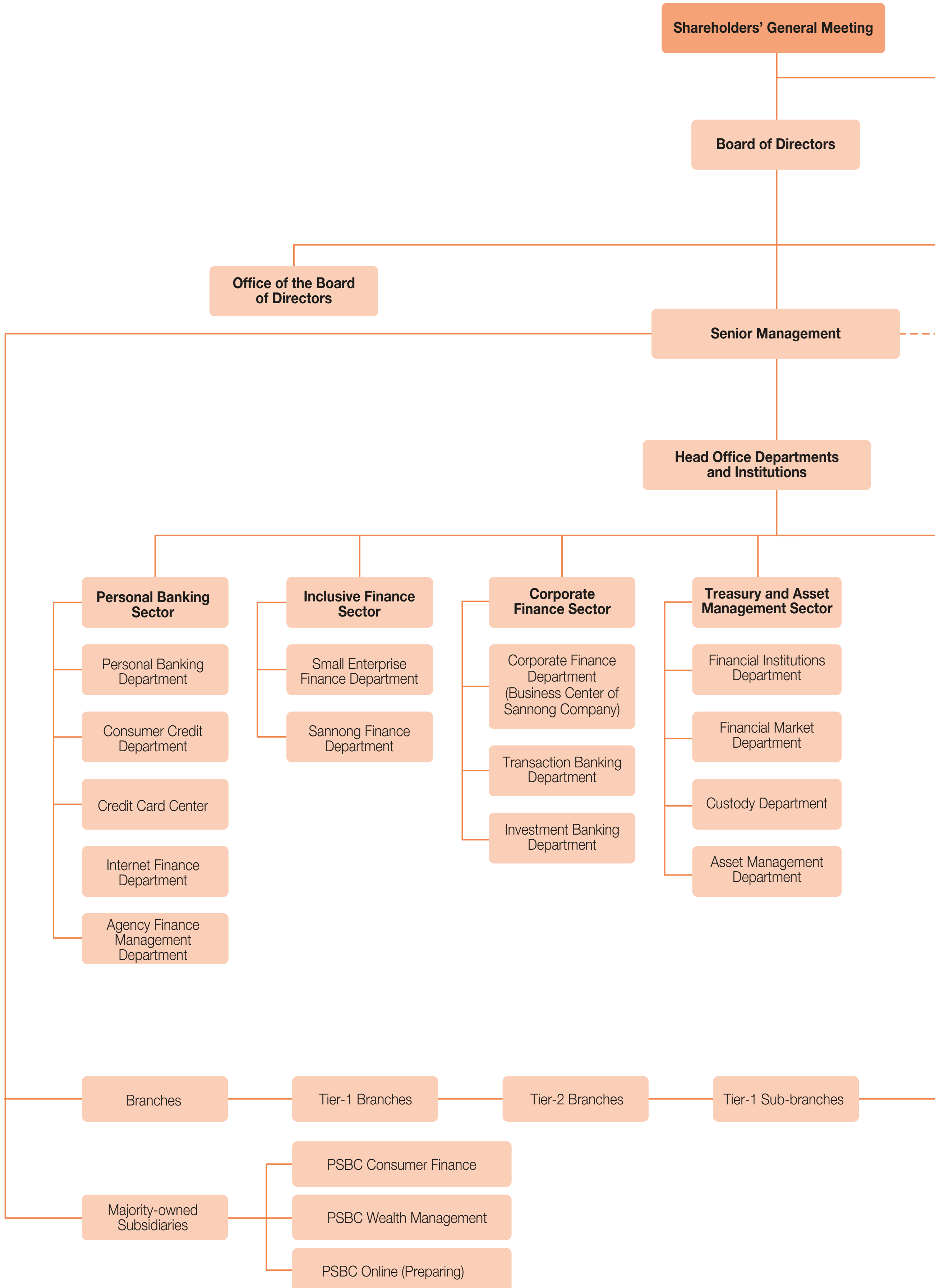
Major Connected Transactions

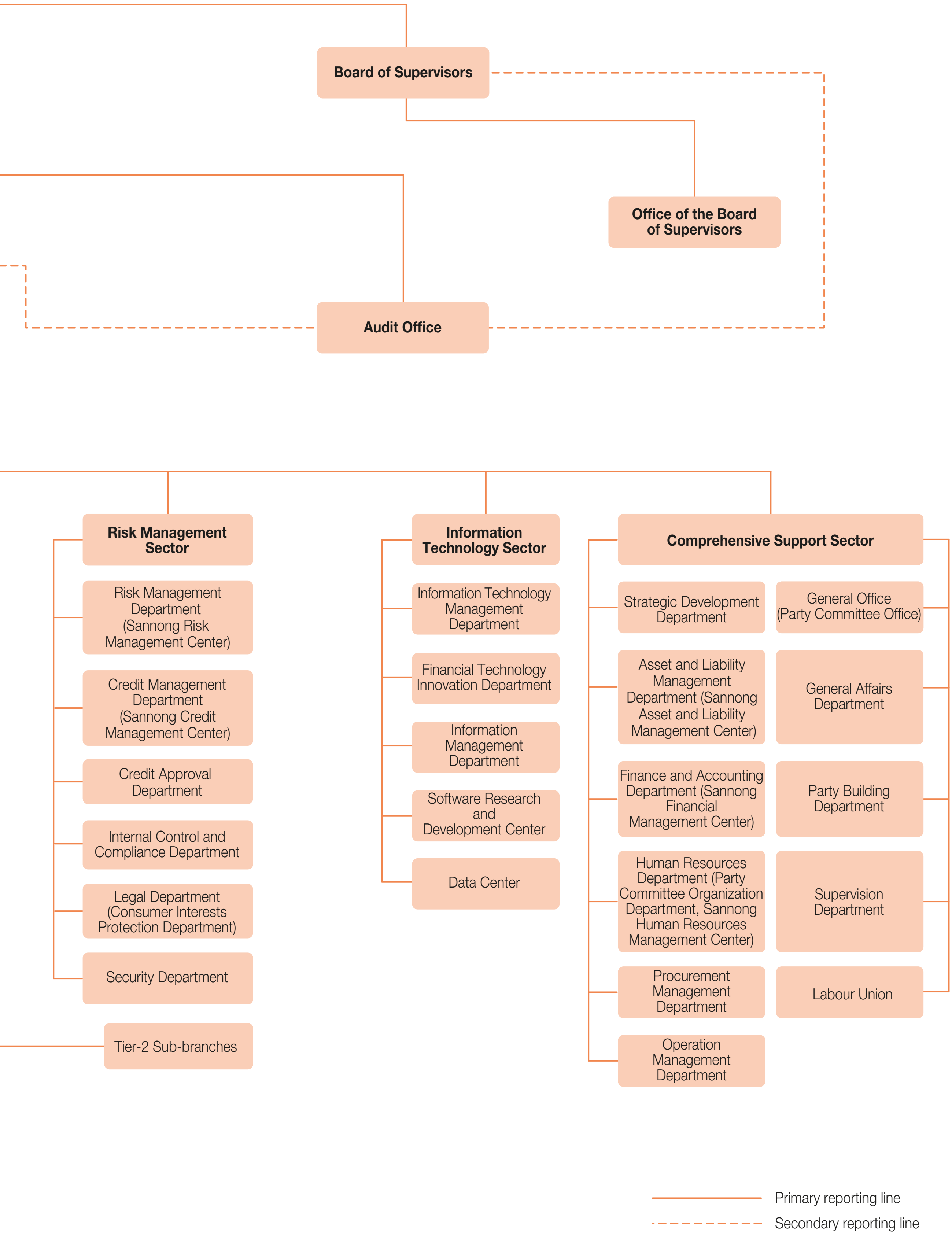
During the reporting period, the Bank's non-public issuance of A shares to China Post Group constituted a major connected transaction. For details, please refer to "Connected Transactions and the Implementation of the Management System for Connected Transactions".

Other Significant Events

In July 2020, the Board of Directors of the Bank reviewed and approved the Proposal on Adjusting the Plan of Postal Savings Bank of China for the Establishment of a Direct Bank Subsidiary, and proposed to invest RMB5 billion with its own funds to establish PSBC online, a wholly-owned subsidiary. In December 2020, the CBIRC approved the application for establishing PSBC online. After completion of preparations, the Bank would apply to the CBIRC for opening of business in accordance with relevant regulations and procedures. For details, please refer to the Bank's announcement dated December 21, 2020.

Organizational Structure





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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

What we have audited

The consolidated financial statements of Postal Savings Bank of China Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 285 to 499, which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost Refer to Note 2.8(3) to the Consolidated Financial Statements "Impairment of financial instruments" in significant accounting policies, Note 3.1 "Measurement of the expected credit loss allowance" in critical accounting estimates and judgements in applying accounting policies, Note 19 "Loans and advances to customers", Note 20.4 "Financial assets at amortized cost" in financial investments and Note 25 "Allowance for impairment losses".	We evaluated and tested the internal controls relating to the measurement of ECL for loans and advances to customers and other debt 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;

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (continued) As at December 31, 2020, the Group's gross loans and advances to customers amounted to RMB5,716.26 billion, and a loss allowance of RMB205.53 billion was recognized in the Group's consolidated statement of financial position. Other debt instruments measured at amortized cost amounted to RMB92.03 billion, and a loss allowance of RMB16.43 billion was recognized in the Group's consolidated statement of financial position. 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.	Internal controls relating to significant management judgments and assumptions, including the review and approval of portfolio segmentation, model selection, 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 accuracy and completeness of key inputs used by the models; Review and approval of the measurement result of expected credit losses. The substantive procedures we performed, primarily included: We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, model selection, key parameters estimation, and significant judgements and assumptions in relation to the models. We examined the calculation for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (continued) For loans and advances to customers and other debt instruments measured at amortized cost classified into stage 1 and 2, loans and advances to customers and other debt instruments measured at amortized cost classified into stage 3 which are not considered individually significant, 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 and other debt instruments measured at amortized cost in stage 3 which are considered individually significant, the management assesses loss allowance by estimating the cash flows from the loans and advances and other debt instruments measured at amortized cost. 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;	We have examined the accuracy of data inputs for the ECL models, included: (i) examination of supporting information on a sample basis, including contractual information, such as maturity dates, and other financial and non-financial information, such as the borrower's historical and reporting date information, which have been agreed with the underlying data used to generate probability of default and internal credit ratings; (ii) assessment of the reasonableness of the loss given default using historical data and benchmarking against industry practices; (iii) examination of borrowing contracts and assessment of the reasonableness of exposure at default and discounting rates; and (iv) examination of the accuracy of key inputs which are taken from the information systems and used in ECL models and the calculation of ECL models to verify their accuracy and completeness on a sample basis.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other debt instruments measured at amortized cost (continued) (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 and other debt instruments measured at amortized cost 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.	In consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, we assessed the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans on a sample basis. For forward-looking measurements, we assessed management's selection of economic indicators and their analysis of co-relation with the performance of the credit risk portfolios by using statistical techniques. We further tested the reasonableness of the prediction of economic indicators by comparing with available external expert estimates. In addition, we performed sensitivity analysis of economic scenarios weightings and economic indicators. 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. For loans and advances to customers and other debt instruments measured at amortized cost in stage 3 which are considered individually significant, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Agency Banking Transactions with China Post Group Co., Ltd. Refer to Note 38.3.1(1) "Agency banking services from China Post Group". The Group operates its business through both directly-operated outlets and agency outlets owned by China Post Group Co., Ltd. (the Bank's controlling shareholder). In accordance with the Framework Agreement on Entrusted and Agency Banking Services of Agency Outlets ("Framework Agreement") signed between the Bank and China Post Group Co., Ltd., agency outlets can provide deposits taking, financial settlement, financial agency and other services under the name of the Bank, and the Bank pays agency fees to China Post Group Co., Ltd. for these services ("Agency Banking Transactions"). In 2020, deposit agency fee and others amounted to RMB82.31 billion, representing 49.00% of total operating expenses of the Group; fees for agency savings settlement, and fees for agency sales and other commissions amounted to RMB8.17 billion and RMB5.53 billion, respectively, the two together representing 84.31% of total fee and commission expense. We focus on the Agency Banking Transactions due to the unique features, the amount and disclosure of these transactions, both have significant impacts on the financial statements, which drew our special attention in audit work, thus we have identified Agency Banking Transactions as a key audit matter.	Our procedures in relation to services from China Post Group Co., Ltd. include: • Understood and tested the controls designed and applied in the Agency Banking Transactions with China Post Group Co., Ltd.; • Tested the IT systems and controls applied by the Group in capturing data for calculation of agency fees; • Inspected the Framework Agreement, evaluated whether the transactions had been appropriately authorized and approved in accordance with specific terms and conditions of the agreement; • On a sample basis, inspected evidence of payments and receipts of transactions, recalculated the settlement amounts based on the Framework Agreement, and sent confirmations to China Post Group Co., Ltd. to confirm the transaction amounts and balances; and • Evaluated if the Agency Banking Transactions with China Post Group Co., Ltd. were properly disclosed in the consolidated financial statements. We found no significant exceptions from our above procedures.

Other Information

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

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

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

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

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information 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 the 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 the 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, actions taken to eliminate threats or safeguards applied.

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, China
March 29, 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	**2020**	2019
Interest income	4	**416,252**	390,700
Interest expense	4	**(162,874)**	(148,014)
Net interest income	4	**253,378**	242,686
Fee and commission income	5	**32,746**	29,513
Fee and commission expense	5	**(16,251)**	(14,890)
Net fee and commission income	5	**16,495**	14,623
Net trading gains	6	**3,259**	3,747
Net gains on investment securities	7	**15,921**	12,456
Net gains on derecognition of financial assets at amortized cost		**1**	120
Net other operating gains	8	**(2,517)**	3,484
Operating income		**286,537**	277,116
Operating expenses	9	**(167,984)**	(157,976)
Credit impairment losses	11	**(50,398)**	(55,384)
Impairment losses on other assets		**(19)**	(11)
Profit before income tax		**68,136**	63,745
Income tax expense	12	**(3,818)**	(2,709)
Net profit		**64,318**	61,036
Net profit attributable to:			
Shareholders of the Bank		**64,199**	60,933
Non-controlling interests		**119**	103

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	2020	2019
Net profit		**64,318**	61,036
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		**(19)**	(110)
Changes in fair value of equity instrument investment measured at fair value through other comprehensive income		**980**	–
Subtotal		**961**	(110)
Items that may be reclassified subsequently to profit or loss			
Net losses on investments in financial assets at fair value through other comprehensive income		**(555)**	(1,164)
Subtotal		**(555)**	(1,164)
Total comprehensive income for the period		**64,724**	59,762
Total comprehensive income attributable to:			
Shareholders of the Bank		**64,605**	59,659
Non-controlling interests		**119**	103
Basic and diluted earnings per share (in RMB Yuan)			
Basic/Diluted	13	**0.71**	0.72

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

		As at December 31	
	Note	**2020**	2019
Assets			
Cash and deposits with central bank	14	**1,219,862**	1,154,843
Deposits with banks and other financial institutions	15	**43,682**	28,373
Placements with banks and other financial institutions	16	**248,396**	269,597
Derivative financial assets	17	**11,140**	5,009
Financial assets held under resale agreements	18	**259,956**	147,394
Loans and advances to customers	19	**5,512,361**	4,808,062
Financial investments			
Financial assets at fair value through profit or loss	20.1	**419,281**	310,161
Financial assets at fair value through other comprehensive income-debt instruments	20.2	**315,922**	228,672
Financial assets at fair value through other comprehensive income-equity instruments	20.3	**5,804**	1,053
Financial assets at amortized cost	20.4	**3,173,643**	3,135,144
Property and equipment	22	**48,706**	46,490
Deferred tax assets	23	**53,217**	47,237
Other assets	24	**41,293**	34,671
Total assets		**11,353,263**	10,216,706
Liabilities			
Borrowings from central bank	26	**25,288**	–
Deposits from banks and other financial institutions	27	**85,912**	47,252
Placements from banks and other financial institutions	28	**30,743**	25,796
Derivative financial liabilities	17	**9,632**	5,065
Financial assets sold under repurchase agreements	29	**25,134**	98,658
Customer deposits	30	**10,358,029**	9,314,066
Debt securities issued	31	**57,974**	96,979
Other liabilities	32	**87,621**	84,011
Total liabilities		**10,680,333**	9,671,827

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

		As at December 31	
	Note	**2020**	2019
Equity			
Share capital	33.1	**86,979**	86,203
Other equity instruments	33.2		
Preference shares		**47,869**	47,869
Perpetual bonds		**79,989**	–
Capital reserve	34	**100,906**	97,477
Other reserves	35	**175,484**	154,887
Retained earnings		**180,572**	157,431
Equity attributable to shareholders of the Bank		**671,799**	543,867
Non-controlling interests		**1,131**	1,012
Total equity		**672,930**	544,879
Total equity and liabilities		**11,353,263**	10,216,706

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

Approved and authorized for issue by the Board of Directors on March 29, 2021.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank										
			Other equity instruments			Other reserves						
	Note	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total
As at January 1, 2020		86,203	47,869	-	97,477	36,439	116,129	2,319	157,431	543,867	1,012	544,879
Profit for the year		-	-	-	-	-	-	-	64,199	64,199	119	64,318
Other comprehensive income	35.3	-	-	-	-	-	-	406	-	406	-	406
Total comprehensive income for the year		-	-	-	-	-	-	406	64,199	64,605	119	64,724
Capital contribution from shareholders	33.1	776	-	-	3,429	-	-	-	-	4,205	-	4,205
Issuance of perpetual bonds	33.2	-	-	79,989	-	-	-	-	-	79,989	-	79,989
Appropriation to surplus reserve	35.1	-	-	-	-	6,249	-	-	(6,249)	-	-	-
Appropriation to general reserve	35.2	-	-	-	-	-	13,942	-	(13,942)	-	-	-
Dividends paid to ordinary shareholders	36	-	-	-	-	-	-	-	(18,283)	(18,283)	-	(18,283)
Dividends paid to preference shareholders	36	-	-	-	-	-	-	-	(2,584)	(2,584)	-	(2,584)
As at December 31, 2020		86,979	47,869	79,989	100,906	42,688	130,071	2,725	180,572	671,799	1,131	672,930

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

		Attributable to shareholders of the Bank									
					Other reserves						
	Note	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Subtotal	Non-controlling interests	Total
As at January 1, 2019		81,031	47,869	74,648	30,371	103,959	3,593	132,933	474,404	909	475,313
Profit for the year		–	–	–	–	–	–	60,933	60,933	103	61,036
Other comprehensive income	35.3	–	–	–	–	–	(1,274)	–	(1,274)	–	(1,274)
Total comprehensive income for the year		–	–	–	–	–	(1,274)	60,933	59,659	103	59,762
Capital contribution from shareholders	33.1	5,172	–	22,829	–	–	–	–	28,001	–	28,001
Appropriation to surplus reserve	35.1	–	–	–	6,068	–	–	(6,068)	–	–	–
Appropriation to general reserve	35.2	–	–	–	–	12,170	–	(12,170)	–	–	–
Dividends paid to ordinary shareholders	36	–	–	–	–	–	–	(15,696)	(15,696)	–	(15,696)
Dividends paid to preference shareholders	36	–	–	–	–	–	–	(2,501)	(2,501)	–	(2,501)
As at December 31, 2019		86,203	47,869	97,477	36,439	116,129	2,319	157,431	543,867	1,012	544,879

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**68,136**	63,745
Adjustments for:		
Amortization of intangible assets and other assets	**888**	710
Depreciation of property and equipment and right-of-use assets	**7,190**	6,515
Impairment losses on assets	**50,417**	55,395
Interest income arising from financial investments	**(126,233)**	(126,293)
Interest expense arising from debt securities issued	**3,417**	3,459
Net gains on investment securities	**(15,922)**	(12,576)
Unrealized exchange gains	**4,452**	(1,846)
Net losses from disposal of property and equipment and other assets	**70**	28
Subtotal	**(7,585)**	(10,863)
NET (INCREASE)/DECREASE IN OPERATING ASSETS		
Deposits with central bank	**(73,603)**	49,528
Deposits with banks and other financial institutions	**(13,882)**	111,331
Placements with banks and other financial institutions	**413**	(26,836)
Financial assets at fair value through profit or loss	**7,870**	20,784
Financial assets held under resale agreements	**(19,585)**	1,701
Loans and advances to customers	**(754,611)**	(703,627)
Other operating assets	**(4,076)**	(11,394)
Subtotal	**(857,474)**	(558,513)
NET INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Borrowings from central bank	**25,288**	–
Deposits from banks and other financial institutions	**38,314**	(26,702)
Placements from banks and other financial institutions	**4,803**	(13,794)
Financial liabilities at fair value through profit or loss	**–**	(2,360)
Financial assets sold under repurchase agreements	**(73,224)**	(36,545)
Customer deposits	**1,012,436**	664,372
Other operating liabilities	**27,647**	31,427
Subtotal	**1,035,264**	616,398
NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE TAX	**170,205**	47,022
Income tax paid	**(8,433)**	(20,579)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**161,772**	26,443
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:		
Interest received	**297,518**	269,723
Interest paid	**(127,724)**	(122,499)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

	Note	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale and redemption of financial investments		**984,242**	700,567
Cash received from income arising from financial investments		**129,148**	121,729
Cash paid for purchase of financial investments		**(1,228,168)**	(989,315)
Cash paid for purchase of property and equipment, intangible assets and other long-term assets		**(7,571)**	(6,734)
Cash received from disposal of property and equipment, intangible assets and other long-term assets		**274**	39
NET CASH USED IN INVESTING ACTIVITIES		**(122,075)**	(173,714)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from ordinary shareholders		**4,203**	28,020
Dividends paid		**(20,867)**	(18,197)
Interests paid on debt securities issued		**(3,032)**	(3,015)
Cash received from issuance of perpetual bonds		**80,000**	–
Cash received from issuance of debt securities		**59,103**	52,540
Cash paid for issuance of perpetual bonds		**(11)**	–
Cash paid for issuance of stocks		**(1)**	–
Cash paid for repayment of debt securities		**(98,493)**	(32,160)
Cash paid to repay principal and interest of lease liabilities		**(4,155)**	(3,331)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**16,747**	23,857
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1,266)**	1,342
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**55,178**	(122,072)
Balance of cash and cash equivalents at the beginning of year		**280,348**	402,420
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF YEAR	37	**335,526**	280,348

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

1 General information

Postal Savings Bank of China Co., Ltd. (the "Bank" or "PSBC") is a joint-stock commercial bank controlled by China Post Group Co., Ltd. ("China Post Group"). The Bank, originally known as Postal Savings Bank of China Company Limited (the "Company"), was established on March 6, 2007 ("establishment date") through restructuring of the postal savings system. The initial registered capital of Postal Savings Bank Co., Ltd. is RMB20 billion. In September 2009 and October 2010, China Post Group increased the capital of Postal Savings Bank Co., Ltd. by RMB10 billion and RMB11 billion respectively.

In 2011, with the approval from the Ministry of Finance (the "MOF") of the People's Republic of China ("China" or the "PRC") and China Banking Regulatory Commission ("CBRC"), renamed as China Banking and Insurance Regulatory Commission ("CBIRC") since 2018, the Company was restructured into a joint-stock bank. According to the Approval by the Ministry of Finance on the State-owned Equity Management Plan of Postal Savings Bank Co., Ltd. (Finance (2011) No. 181), China Post Group was the sole sponsor of the Bank. 45 billion Promoter's shares were established and paid-in capital of the Bank amounted to RMB45 billion. In December 2013 and December 2014, China Post Group increased the capital of Postal Savings Bank Co., Ltd. by RMB2 billion and RMB10 billion respectively.

On December 8, 2015, in accordance with the Approval of the China Banking Regulatory Commission on Capital Increase and the Introduction of Strategic Investors by the Postal Savings Bank, CBRC agreed the Bank's non-public offering of no more than 11,604 million shares to UBS Limited, China Life Insurance Co., Ltd., China Telecom Group Corporation, Canada Pension Fund Investment Corporation, Zhejiang Ant Micro Financial Services Group Co., Ltd., JPMorgan Bank China Investment Second Investment Co., Ltd., Futun Management Pte Ltd., International Finance Corporation, DBS Bank Co., Ltd. and Shenzhen Tencent Domain Calculator Network Co., Ltd. and 10 other institutions (hereinafter referred to as "Strategic Investors"). After the capital increase, the Bank's total shares amounted to 68,604 million.

On September 28, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. On December 10, 2019, the Bank was listed on the Shanghai Stock Exchange. Information regarding the Bank's share issuance is in Note 33.

As at December 31, 2020, the Bank had 86,979 million common shares, at a face value of RMB1 per share.

1 General information (continued)

The Bank, as approved by the CBIRC, holds a financial institution license of the PRC (No. B0018H111000001) and obtained its business license with unified social credit code 9111000071093465XC from the Beijing Administration for Market Regulation. The address of the Bank's registered office is No. 3 Jinrong Street, Xicheng District, Beijing, the PRC.

The Bank and its subsidiaries (the "Group") conduct their operating activities in the PRC, and the principal activities include: personal and corporate banking business, treasury operations and other business activities as approved by the CBIRC.

As at December 31, 2020, the Bank had a total of 36 tier-one branches and 324 tier-two branches across China.

The consolidated financial statements were authorized for issue by the Board of Directors of the Bank on March 29, 2021.

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

2 Significant accounting policies (continued)

2.2 New standards, amendments and interpretations

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

		Effective date
Amendments to IAS 1 and IAS 8	The Definition of Material	January 1, 2020
Amendments to IFRS 3	The Definition of A Business	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020

Adoption of the above standards and amendments has no significant impact on the operating results, comprehensive income or financial position of the Group.

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

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2019. The effective date has now been deferred/ removed. Early application of the amendments continues to be permitted.

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

2 Significant accounting policies (continued)

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Bank, subsidiaries and all structured entities under the Bank's control (Note 39).

A subsidiary is an entity 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)

2.4 Revenue recognition

(1) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) Purchased or originated credit-impaired ("POCI") financial assets, for which the original credit adjusted effective interest rate is applied to the amortized cost of the financial asset.

(b) Financial assets that are not "POCI" but have subsequently become credit impaired (or "stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(2) Fee and commission income

Fee and commission income is recognized at the time or within the period when the Group has fulfilled its contractual obligations, i.e. when the customer obtains the control right of relevant services.

For performance obligations performed at a certain point of time, the Group recognizes income at the point when the customer acquires control of the relevant services, mainly including insurance agency service fee, settlement and clearing fee, bond underwriting income, etc. And for performance obligations performed within a certain period of time, the Group shall confirm the income in accordance with the progress during that period, mainly including consultants fee, custodian business fee income, etc.

2.5 Foreign currency translation

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

Foreign currency transactions are recorded in accordance with the prevailing rates at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the prevailing rates 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.

At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the prevailing rates at that date. The resulting exchange differences are recognised in profit or loss.

2 Significant accounting policies (continued)

2.6 Taxation

Income tax expense comprises current and deferred tax.

Current tax

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

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

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)

2.7 Employee benefits

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

(1) Short-term employee benefits

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

(2) Retirement benefits

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

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

Social welfare plan

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

2 Significant accounting policies (continued)

2.7 Employee benefits (continued)

(2) Retirement benefits (continued)

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.

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.

2 Significant accounting policies (continued)

2.7 Employee benefits (continued)

(3) Early retirement benefits (continued)

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

2.8 Financial Instruments

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

(1) Classification of financial instruments

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

– Amortized cost;

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

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

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

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

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

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

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.

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

Financial assets measured at FVOCI (continued)

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 2.8(2). Once the designation is made, it cannot be revoked.

Financial assets and liabilities measured at FVTPL

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

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

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

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

(b) it has no control, joint control and significant impact on the equity instrument and equity instruments for which the entity has not designated at FVOCI.

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

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

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

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

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

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(1) Classification of financial instruments (continued)

Financial liabilities measured at amortized cost

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

(2) Measurement of financial instruments

Initial recognition

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

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

Subsequent measurement

Subsequent measurement of financial instruments depends on the categories:

Financial assets and liabilities measured at amortized cost

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

(a) deducting the principal repaid;

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

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

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

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

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

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

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

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.

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Financial assets measured at FVOCI (continued)

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 measured at FVTPL

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

Financial liabilities measured at FVTPL

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

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

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

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

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(2) Measurement of financial instruments (continued)

Subsequent measurement (continued)

Equity instruments

An equity instrument refers to a contract that can prove that a company has the remaining equity in the assets after deducting all liabilities.

Perpetual bonds issued by the Group do not include the delivery of cash or other financial assets to other parties, or contractual obligations to exchange financial assets or financial liabilities with other parties under potentially unfavorable conditions, and there is no arrangement that needs or can use the Group's own equity instruments for settlement. The Group classifies the issued perpetual bonds as equity instruments.

(3) Impairment of financial instruments

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

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

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

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

(b) the time value of money;

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

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(3) Impairment of financial instruments (continued)

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

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

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

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

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.

2 Significant accounting policies (continued)

2.8 Financial Instruments (continued)

(4) Modification of loans

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

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

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

2.9 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.

2 Significant accounting policies (continued)

2.9 Property and equipment (continued)

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

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

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

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

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.

2.10 Land use rights

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

2 Significant accounting policies (continued)

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 2.13 "Impairment of non-financial assets".

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

2.12 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)

2.13 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 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.

2.14 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 some of short-term debt securities.

2.15 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.

2.16 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)

2.17 Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, trust companies and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

2.18 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

– The amount of expected credit loss under Note 2.8(3); and

– The premium received on initial recognition less income recognized 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 recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

2 Significant accounting policies (continued)

2.19 Contingent liabilities

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

A contingent liability is not recognized but disclosed. The Group's contingent liabilities are disclosed in Note 40 "Contingent Liabilities and Commitments".

A provision is recognized when it meets the criteria as set forth in Note 2.16 "Provisions".

2.20 Lease

(1) Identifying a lease

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right of control the use of an identified asset for a period of time, the Group assesses the following:

a) Whether there is an identified asset in a contract. An identified asset is typically identified by being explicitly or implicitly specified in a contract. A capacity or other portion of an asset that is not physically distinct is not an identified asset, unless it represents substantially all of the capacity of the asset. The Group does not have the right to use an identified asset if the lessor has the substantive right to substitute the asset throughout the period of use;

b) the right to obtain substantially all of the economic benefits from use of the identified asset;

c) the right to direct the use of an identified asset. The Group has the right to direct the use of an identified asset throughout the period of use only if either the Group has the right to direct how and for what purpose the asset is used; or the relevant decisions about how and for what purpose the asset is used are predetermined and:

    i) the Group has the right to operate the asset;

    ii) the Group designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

For a contract that is, or contains, a lease, the Group does not elect to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

2 Significant accounting policies (continued)

2.20 Lease (continued)

(2) The Group as a lessee

At the commencement date, the Group recognizes a right-of-use asset and a lease liability. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the Group; an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset.

The Group uses the straight-line method to accrue depreciation for the right to use assets in the period from the beginning of the lease term to the end of the service life or the lease term, whichever is shorter. The estimated service life of the right-of-use asset is determined based on the same method as the estimated service life of the real estate and equipment. In addition, the impairment loss (if any) of the right-of-use assets is recognized on a regular basis and adjusted according to a number of remeasurement results of the leased liabilities.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments need to be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate.

The lease payments comprise the following:

a) fixed payments (including in-substance fixed payments);

b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

c) the exercise price of a purchase or an extension option if the Group is reasonably certain to exercise that option; and the payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

2 Significant accounting policies (continued)

2.20 Lease (continued)

(2) The Group as a lessee (continued)

The Group remeasures the lease liability by discounting the revised lease payments, if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessments about whether to exercise an option about purchase, extension or termination.

The Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-to-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognizes any remaining amount of the remeasurement in profit or loss.

The Group elects not to apply the requirements to short-term leases and leases for which the underlying asset is of low value. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

When the lease changes and the following conditions are met at the same time, the Group treats it as a separate lease for accounting treatment: (1) The lease change expands the scope of the lease by adding the right to use one or more leased assets; (2) The increased consideration is equivalent to the individual price of the expanded part of the lease scope after adjustment according to the contract.

When the lease change is not treated as a separate lease, except for the simplified method adopted for contract changes directly caused by COVID-19, the Group re-determines the lease term on the effective date of the lease change, uses the revised discount rate to discount the subsequent lease payments and remeasured the lease liability. If the lease change narrowed the scope of the lease or shortened the lease term, the Group correspondingly reduces the book value of the right-of-use asset and recognizes the relevant gains or losses from the partial or complete termination of the lease as the current profit or loss. If other lease changes cause the lease liability to be remeasured, the Group adjusts the book value of the right-of-use asset accordingly.

2 Significant accounting policies (continued)

2.20 Lease (continued)

(3) The Group as a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

As a lessor of an operating lease, the Group recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. For the initial direct costs, the Group adds the costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognize those costs as an expense over the lease term on the same basis as the lease income. For the depreciable underlying assets subject to operating leases, the depreciation policy is consistent with the Group's similar assets. For the variable lease payments not including in lease payments but related to operating lease, the Group recognizes the amount in profit or loss when it actually happens.

For the rent reductions or exemptions that were a direct consequence of the COVID-19 before June 30, 2021, the Group chooses to adopt the simplified method to treat the exempted rent as a variable rent, and include the exemption amount in the current profit or loss during the exemption period.

Except for the simplified method adopted for contract changes directly caused by COVID-19, when the lease change happens, the Group treats it as a new lease from the effective date of the change and regards lease-related advances or lease receivables before the change as the collection amount for the new lease.

The sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

2 Significant accounting policies (continued)

2.21 Segment analysis

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

The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

3 Critical accounting estimates and judgements in applying accounting policies

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

3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 43.3 Credit Risk, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

– Classifing the businesses with similar credit risk characteristics into the same portfolio, selecting appropriate measurement model and determining the key parameters related to measurement;

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

3.1 Measurement of the expected credit loss allowances (continued)

– Determining criteria for significant increase in credit risk;

– Establishing the number and relative weightings of forward-looking scenarios;

– Management overlay adjustment for major uncertainties not covered by the model;

– Forecast of future cash flow of loans and financial investments with significant single amount in stage 3.

Detailed information about the above judgements and estimates made by the Group is set out in Note 43.3 Credit Risk.

3.2 Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined by the Group through valuation techniques. Valuation techniques include the use of recent prices of transaction between knowledgeable, willing parties, observable prices of similar financial instruments, discounted cash flows analysis with risk adjusted, as well as pricing models that are commonly used in the market. To the extent practical, models for the valuation of derivatives and other financial instruments use observable market data, such as interest yield curves and foreign exchange rates, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. 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 techniques, 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, 2020 (All amounts in millions of RMB unless otherwise stated)

4 Net interest income

	Year ended December 31	
	2020	2019
Interest income		
Deposits with central bank	**17,655**	17,784
Deposits with banks and other financial institutions	**939**	2,202
Placements with banks and other financial institutions	**11,509**	12,489
Financial assets held under resale agreements	**2,961**	4,608
Loans and advances to customers	**256,955**	227,324
Including: Corporate loans and advances	**91,378**	87,612
Personal loans and advances	**165,577**	139,712
Financial investments		
Financial assets at fair value through other comprehensive income-debt instruments	**9,765**	7,410
Financial assets at amortized cost	**116,468**	118,883
Subtotal	**416,252**	390,700
Interest expense		
Borrowings from central bank	**(239)**	–
Deposits from banks and other financial institutions	**(1,100)**	(876)
Placements from banks and other financial institutions	**(1,237)**	(1,391)
Financial assets sold under repurchase agreements	**(2,088)**	(2,370)
Customer deposits	**(154,793)**	(139,918)
Debt securities issued	**(3,417)**	(3,459)
Subtotal	**(162,874)**	(148,014)
Net interest income	**253,378**	242,686
Included in interest income		
Interest income from listed investments	**98,758**	92,980
Interest income from unlisted investments	**27,475**	33,313

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

5 Net fee and commission income

	Note	Year ended December 31	
		2020	2019
Bank cards and POS	(1)	**11,516**	12,210
Settlement and clearing	(2)	**8,281**	7,523
Agency service business	(3)	**7,108**	4,556
Wealth management		**4,198**	3,950
Custody business		**887**	780
Others		**756**	494
Fee and commission income		**32,746**	29,513
Fee and commission expense	(4)	**(16,251)**	(14,890)
Net fee and commission income		**16,495**	14,623

(1) According to the "Notice on Strictly Implementing Accounting Standards for Business Enterprises and Practically Strengthening the Work of Enterprises' 2020 Annual Reports" (關於嚴格執行企業會計準則切實加強企業2020年年報工作的通知) issued by the MOF, State-owned Assets Supervision and Administration Commission of the State Council, CBIRC and China Securities Regulatory Commission (Cai Kuai [2021] No. 2), the Group reclassified credit card installment fee income, which has been included in bank cards and POS fee income in 2019. 2019 comparative figure of RMB2,426 million has been reclassified accordingly, from net fee and commission income to interest income from personal loans and advances, to conform to current year presentation.

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

(3) Fee income from agency service mainly refers to fee and commission income from various agency services, including agency collection and payment services, agency sales of insurance, funds and governance bonds, etc.

(4) Fee and commission expense is expense incurred for agency and settlement services, including those paid to China Post Group for agency services. Please refer to Note 38.3.1(1) for expenses paid by the Group to China Post Group.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

6 Net trading gains

	Year ended December 31	
	2020	2019
Debt securities	**3,220**	3,810
Derivative financial instruments	**39**	(63)
Total	**3,259**	3,747

7 Net gains on investment securities

	Year ended December 31	
	2020	2019
Net gains from financial assets at fair value through profit or loss	**15,406**	11,737
Net gains from financial assets at fair value through other comprehensive income	**515**	719
Total	**15,921**	12,456

8 Net other operating gains

	Year ended December 31	
	2020	2019
Net gains on foreign exchanges	**(3,999)**	1,723
Government subsidies	**809**	794
Leasing income	**143**	164
Others	**530**	803
Total	**(2,517)**	3,484

9 Operating expenses

		Year ended December 31	
	Note	**2020**	2019
Deposit agency fee and others	(1)	**82,313**	76,153
Staff costs (including emoluments of directors, supervisors and senior management)	(2)	**51,355**	50,039
Depreciation and amortization		**8,078**	7,225
Taxes and surcharges	(3)	**2,187**	1,996
Auditor's remuneration		**36**	34
Other expenses	(4)	**24,015**	22,529
Total		**167,984**	157,976

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

9 Operating expenses (continued)

(1) Deposit agency fee and others mainly are payments by the Group to China Post Group for the agency services they provided for gathering RMB deposits on behalf of the Group (Note 38.3.1(1)).

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

	Year ended December 31	
	2020	2019
Short-term employee benefits		
Wages and salaries, bonuses, allowance and subsidies	**36,873**	35,140
Housing funds	**3,537**	3,183
Social security contributions	**2,453**	2,612
Including: Medical insurance	**2,324**	2,396
Maternity insurance	**81**	155
Work injury insurance	**48**	61
Staff welfare	**2,258**	2,083
Labour union funds and employee education funds	**1,041**	1,301
Other	**36**	28
Subtotal	**46,198**	44,347
Defined contribution benefits		
Basic pensions	**3,293**	4,441
Annuity scheme	**1,804**	1,121
Unemployment insurance	**41**	112
Subtotal	**5,138**	5,674
Retirement benefits	**19**	18
Total	**51,355**	50,039

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

(4) For the year ended December 31, 2020, the rental expenses of short-term leases and low value asset leases related to unrecognized right-of-use assets included in other expenses was RMB772 million (for the year ended December 31, 2019: RMB1,369 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors

10.1 Details of the directors and supervisors' emoluments are as follows:

		Year ended December 31, 2020				
		Fees	Remuneration	Contribution to pension schemes	Benefits in kind	Total
Name	Note	RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Chairman						
Zhang Jinliang (張金良)	(i)	–	–	–	–	–
Executive directors						
Zhang Xuewen (張學文)		–	464	102	74	640
Yao Hong (姚紅)		–	441	99	75	615
Non-executive directors						
Han Wenbo (韓文博)	(ii)	–	–	–	–	–
Liu Yue (劉悅)	(ii)	–	–	–	–	–
Ding Xiangming (丁向明)	(ii)	–	–	–	–	–
Independent non-executive directors						
Fu Tingmei (傅廷美)		348	–	–	–	348
Wen Tiejun (溫鐵軍)		348	–	–	–	348
Chung Shui Ming Timpson (鍾瑞明)		348	–	–	–	348
Hu Xiang (胡湘)		348	–	–	–	348
Pan Yingli (潘英麗)		348	–	–	–	348
Supervisors						
Chen Yuejun (陳躍軍)		–	463	100	74	637
Li Yujie (李玉傑)	(iii)	–	–	–	–	–
Zhao Yongxiang (趙永祥)	(iii)	–	–	–	–	–

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

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

		Year ended December 31, 2020				
		Fees	Remuneration	Contribution to pension schemes	Benefits in kind	Total
Name	Note	RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Wu Yu (吳昱)		300	–	–	–	300
Bai Jianjun (白建軍)		300	–	–	–	300
Chen Shimin (陳世敏)		300	–	–	–	300
Li Yue (李躍)	(iv)	–	–	–	–	–
Song Changlin (宋長林)	(iv)	–	–	–	–	–
Bu Dongsheng (卜東升)	(iv)	–	–	–	–	–
Directors and supervisors resigned						
Guo Xinshuang (郭新雙)	(v)	–	–	–	–	–
Tang Jian (唐健)	(vi)	–	–	–	–	–
Liu Yaogong (劉堯功)	(vii)	–	–	–	–	–
Ma Weihua (馬蔚華)	(viii)	–	–	–	–	–
Bi Zhonghua (畢仲華)	(viii)	–	–	–	–	–
Total	(ix)	2,640	1,368	301	223	4,532

10 Emoluments of directors and supervisors (continued)

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

(i) Mr. Zhang Jinliang received emolument from China Post Group, the controlling shareholder of the Bank, and did not receive emolument from the Bank.

(ii) Non-executive Directors, Mr. Han Wenbo, Mr. Liu Yue, and Mr. Ding Xiangming, did not receive emolument from the Bank.

(iii) Mr. Li Yujie and Mr. Zhao Yongxiang did not receive emolument from the Bank.

(iv) The employee supervisors were not remunerated for their role as supervisors, and their remuneration from the Bank as employees were not disclosed here.

(v) Mr. Guo Xinshuang was elected President of the Bank effective on February 14, 2020 and the Executive Director effective on April 23, 2020. On January 4, 2021, Mr. Guo Xinshuang ceased to be the Executive Director and President of the Bank. During the term of office, Mr. Guo Xinshuang received emolument from China Post Group, the controlling shareholder of the Bank, and did not receive emolument from the Bank.

(vi) Mr. Tang Jian ceased to be the Non-executive Director of the Bank on January 17, 2020. During the term of office, he did not receive emolument from the Bank.

(vii) Mr. Liu Yaogong ceased to be the Non-executive Director of the Bank on January 29, 2021. During the term of office, he did not receive emolument from the Bank.

(viii) Mr. Ma Weihua and Ms. Bi Zhonghua ceased to be Independent Non-executive Directors of the Bank on January 1, 2020.

(ix) The total compensation packages for certain directors and supervisors for the year ended December 31, 2020 have not been finalized at the date of these consolidated financial statements. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended December 31, 2020. The final compensation will be disclosed when determined.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

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

		Year ended December 31, 2019				
		Fees	Remuneration	Contribution to pension schemes	Benefits in kind	Total
Name	Note	RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Chairman						
Zhang Jinliang (張金良)	(i)	–	–	–	–	–
Executive directors						
Zhang Xuewen (張學文)		–	1,832	106	78	2,016
Yao Hong (姚紅)		–	1,677	103	78	1,858
Non-executive directors						
Han Wenbo (韓文博)	(ii)	–	–	–	–	–
Liu Yaogong (劉堯功)	(ii)	–	–	–	–	–
Liu Yue (劉悅)	(ii)	–	–	–	–	–
Ding Xiangming (丁向明)	(ii)	–	–	–	–	–
Independent non-executive directors						
Fu Tingmei (傅廷美)		300	–	–	–	300
Wen Tiejun (溫鐵軍)	(iii)	53	–	–	–	53
Chung Shui Ming Timpson (鍾瑞明)	(iii)	53	–	–	–	53
Hu Xiang (胡湘)		300	–	–	–	300
Pan Yingli (潘英麗)	(iv)	8	–	–	–	8
Supervisors						
Chen Yuejun (陳躍軍)		–	1,833	107	78	2,018
Li Yujie (李玉傑)	(v)	–	–	–	–	–
Zhao Yongxiang (趙永祥)	(v)	–	–	–	–	–

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

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

		Year ended December 31, 2019				
		Fees	Remuneration	Contribution to pension schemes	Benefits in kind	Total
Name	Note	RMB thousand	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Wu Yu (吴昱)	(vi)	–	–	–	–	–
Bai Jianjun (白建軍)	(vii)	45	–	–	–	45
Chen Shimin (陳世敏)	(viii)	16	–	–	–	16
Li Yue (李躍)	(ix)	–	–	–	–	–
Song Changlin (宋長林)	(ix)	–	–	–	–	–
Bu Dongsheng (卜東升)	(ix)	–	–	–	–	–
Directors and supervisors resigned						
Lyu Jiajin (呂家進)	(x)	–	–	–	–	–
Tang Jian (唐健)	(xi)	–	–	–	–	–
Chin Hung I David (金弘毅)	(xii)	–	565	–	–	565
Ma Weihua (馬蔚華)	(xiii)	450	–	–	–	450
Bi Zhonghua (畢仲華)	(xiii)	300	–	–	–	300
Gan Peizhong (甘培忠)	(xiv)	250	–	–	–	250
Zeng Kanglin (曾康霖)	(xv)	208	–	–	–	208
Guo Tianyong (郭田勇)	(xvi)	250	–	–	–	250
Total	(xvii)	2,233	5,907	316	234	8,690

10 Emoluments of directors and supervisors (continued)

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

(i) Mr. Zhang Jinliang was elected as Non-executive Director at the 2019 First Extraordinary General Meeting of the Bank on April 8, 2019. On the same day, the Board of Directors elected Mr. Zhang Jinliang as the Chairman of the Bank. On May 8, Mr. Zhang Jinliang was approved by the CBIRC for his qualification. According to the relevant regulations, Mr. Zhang Jinliang has been the Chairman and Non-executive Director of the Bank since May 8, 2019. Mr. Zhang Jinliang received emolument from China Post Group, the controlling shareholder of the Bank, and did not receive emolument from the Bank.

(ii) Non-executive Directors, Mr. Han Wenbo, Mr. Liu Yaogong, Mr. Liu Yue, and Mr. Ding Xiangming, did not receive emolument from the Bank.

(iii) Mr. Wen Tiejun and Mr. Chung Shui Ming Timpson were elected as Independent Non-executive Directors of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started then.

(iv) Ms. Pan Yingli was elected as Independent Non-executive Director of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. According to the relevant regulations, the term started from December 23, 2019.

(v) Mr. Li Yujie and Mr. Zhao Yongxiang did not receive emolument from the Bank.

(vi) Mr. Wu Yu, as external supervisor, did not receive emolument from the Bank in 2019.

(vii) Mr. Bai Jianjun was elected as external supervisor of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started then.

(viii) Mr. Chen Shimin was elected as external supervisor of the Bank at the Second Extraordinary General Meeting of the Bank on October 29, 2019. The term started from December 8, 2019.

(ix) The employee supervisors were not remunerated for their role as supervisors, and their remuneration from the Bank as employees were not disclosed here.

(x) Mr. Lyu Jiajin ceased to be Executive Director and President of the Bank on January 4, 2019. During the term of office, he received emolument from China Post Group, and received no emolument from the Bank.

(xi) Mr. Tang Jian ceased to be the Non-executive Director of the Bank on January 17, 2020. During the term of office, he did not receive emolument from the Bank.

(xii) Mr. Chin Hung I David ceased to be Non-executive Director of the Bank on August 21, 2019.

(xiii) Mr. Ma Weihua and Ms. Bi Zhonghua ceased to be Independent Non-executive Directors of the Bank on January 1, 2020.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

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

(xiv) Mr. Gan Peizhong ceased to be Independent Non-executive Director of the Bank on October 29, 2019.

(xv) Mr. Zeng Kanglin ceased to be external supervisor of the Bank on October 29, 2019.

(xvi) Mr. Guo Tianyong ceased to be external supervisor of the Bank on December 8, 2019.

(xvii) The total remuneration of directors and supervisors of the Bank in 2019 has been approved by the Second Extraordinary General Meeting of the Bank in 2020.

10.2 Five highest paid individuals

For the years ended December 31, 2020 and 2019, 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	
	2020	2019
	RMB thousand	RMB thousand
Remunerations paid	**9,095**	8,813
Contribution to pension schemes	**340**	529
Benefits in kind	**342**	390
Total	**9,777**	9,732

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

	Year ended December 31	
	2020	2019
	Headcount	Headcount
RMB1,500,001-RMB2,000,000	**3**	3
RMB2,000,001-RMB2,500,000	**1**	2
RMB2,500,001-RMB3,000,000	**1**	–

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

10 Emoluments of directors and supervisors (continued)

10.3 Benefits and interests of directors, supervisors and their 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, 2020 and 2019, the balance of loans and advances from the Group to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors was not significant. The Group did not provide any guarantee or security to the directors, supervisors or certain controlled corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

(ii) For the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

11 Credit impairment losses

	Year ended December 31	
	2020	2019
Deposits with banks and other financial institutions	**24**	(277)
Placements with banks and other financial institutions	**(776)**	179
Financial assets held under resale agreements	**229**	69
Loans and advances to customers	**52,377**	47,434
Financial investments		
Financial assets at fair value through other comprehensive income-debt instruments	**131**	200
Financial assets at amortized cost	**(4,552)**	7,751
Credit commitments	**2,178**	(434)
Other financial assets	**787**	462
Total	**50,398**	55,384

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

12 Income tax expense

	Year ended December 31	
	2020	2019
Current income tax	**9,941**	13,935
Deferred income tax (Note 23)	**(6,123)**	(11,226)
Total	**3,818**	2,709

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

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

		Year ended December 31	
	Note	**2020**	2019
Profit before income tax		**68,136**	63,745
Income tax expense calculated at the statutory tax rate of 25%		**17,034**	15,936
Tax effect of non-taxable income and tax reduction	(1)	**(13,670)**	(13,531)
Tax effect of items not deductible for tax purpose	(2)	**454**	304
Income tax expense		**3,818**	2,709

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

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

13 Basic and diluted earnings per share

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

	Year ended December 31	
	2020	2019
Net profit attributable to shareholders of the Bank (in RMB millions)	**64,199**	60,933
Less: Net profit for the period attribute to preference shareholders of the Bank (in RMB millions)	**(2,584)**	(2,501)
Net profit attributable to ordinary shareholders of the Bank (in RMB millions)	**61,615**	58,432
Weighted average number of ordinary shares in issue (in millions)	**86,914**	81,341
Basic earnings per share (in RMB Yuan)	**0.71**	0.72

13.2 For the years ended December 31, 2020 and 2019, as there were no potential dilutive ordinary shares, the dilutive earnings per share were the same as the basic earnings per share.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

14 Cash and deposits with central bank

		As at December 31	
	Note	**2020**	2019
Cash on hand		**50,056**	43,922
Statutory reserve with central bank	(1)	**1,131,795**	1,059,215
Surplus reserve with central bank	(2)	**31,899**	46,589
Fiscal deposits with central bank		**6,112**	5,117
Total		**1,219,862**	1,154,843

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

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

15 Deposits with banks and other financial institutions

		As at December 31	
	Note	**2020**	2019
Deposits with:			
Domestic banks		**40,091**	24,298
Other domestic financial institutions		**173**	171
Overseas banks		**3,491**	3,953
Gross amount		**43,755**	28,422
Allowance for impairment losses	(1)	**(73)**	(49)
Carrying amount		**43,682**	28,373

(1) For the year ended December 31, 2020 and 2019, there was no transfer between stages for the Group's deposits with banks and other financial institutions. The reasons for the changes in the provision for impairment are new sources or purchases and derecognition or settlement.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

16 Placements with banks and other financial institutions

		As at December 31	
	Note	**2020**	2019
Placements with:			
Domestic banks		**8,791**	22,478
Other domestic financial institutions		**240,189**	248,580
Overseas banks		**299**	198
Gross amount		**249,279**	271,256
Allowance for impairment losses	(1)	**(883)**	(1,659)
Carrying amount		**248,396**	269,597

(1) For the year ended December 31, 2020 and 2019, there was no transfer between stages for the Group's placements with banks and other financial institutions. The reasons for the changes in the provision for impairment are new sources or purchases and derecognition or settlement.

17 Derivative financial assets and liabilities

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

The contractual/notional amounts and fair values of the derivative financial instruments held by the Group as at balance sheet date are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

17 Derivative financial assets and liabilities (continued)

By types of contracts:

	As at December 31, 2020		
		Fair Value	
	Contractual/ Notional amounts	Assets	Liabilities
Exchange rate contracts	**433,998**	**10,438**	**(8,959)**
Interest rate contracts	**154,117**	**702**	**(673)**
Total	**588,115**	**11,140**	**(9,632)**

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

Analyzed by credit risk-weighted amount for counterparty:

	As at December 31	
	2020	2019
Credit risk-weighted amount		
Exchange rate contracts	**5,852**	4,856
Interest rate contracts	**1**	5
Subtotal	**5,853**	4,861
Credit value adjustments	**3,800**	3,502
Total	**9,653**	8,363

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

17 Derivative financial assets and liabilities (continued)

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 the *Administrative Measures for Capital of Commercial Banks (for Trial Inplementation)*《商業銀行資本管理辦法（試行）》issued by the CBIRC which was effective 1 January 2013 and the *Measurement Rule of Counterparty Default Risk Weighted Assets on Derivatives*《衍生工具交易對可違約風險資產計量規則》issued by the CBIRC which was effective 1 January 2019. The counterparty's credit risk-weighted assets include adjustments to credit valuations, which are calculated based on the positions of counterparties and the specifics of the remaining maturities.

18 Financial assets held under resale agreements

18.1 By collateral:

	As at December 31	
	2020	2019
By collateral:		
Debt securities	**205,824**	117,981
Bills	**55,252**	30,304
Gross amount	**261,076**	148,285
Allowance for impairment losses	**(1,120)**	(891)
Carrying amount	**259,956**	147,394

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in "Note 40.4 Contingent liabilities and commitments – Collateral". As at December 31, 2020 and December 31, 2019, the Group did not have any netting arrangements or similar agreements with counterparties.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial assets held under resale agreements (continued)

18.2 The following tables illustrate the changes of financial assets held under resale agreements:

For the year ended December 31, 2020, there was no transfer between stages for the Group's financial assets held under resale agreements. The reasons for the changes in the gross carring amount are the new origination or purchases and derecognition or settlement.

For the year ended December 31, 2019, the following tables illustrate the changes of the Group's financial assets held under resale agreements:

The following table illustrates the changes in the gross carrying amount of financial assets held under resale agreements:

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets held under resale agreements	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	240,509	–	–	240,509
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(5,507)	5,507	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(235,002)	–	–	(235,002)
New financial assets originated or purchased	142,778	–	–	142,778
Gross carrying amount as at December 31, 2019	142,778	5,507	–	148,285

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

18 Financial assets held under resale agreements (continued)

18.2 The following tables illustrate the changes of financial assets held under resale agreements: (continued)

The following table shows the changes in the loss allowance:

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets held under resale agreements	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	822	–	–	822
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(7)	7	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	433	–	433
Financial assets derecognized or settled during the period	(815)	–	–	(815)
New financial assets originated or purchased	451	–	–	451
Remeasurement	–	–	–	–
Loss allowance as at December 31, 2019	451	440	–	891

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers

19.1 Loans and advances by types

	Note	As at December 31 2020	2019
Loans and advances to customers			
– At amortized cost	(1)	**4,901,887**	4,320,547
– At fair value through other comprehensive income	(2)	**610,474**	487,515
Total		**5,512,361**	4,808,062

(1) Loans and advances to customers at amortized cost

	As at December 31 2020	2019
Corporate loans and advances		
– Loans	**1,826,416**	1,562,622
– Discounted bills	**25,475**	173,261
Subtotal	**1,851,891**	1,735,883
Personal loans and advances		
Consumer loans	**2,363,000**	2,017,399
– Residential mortgage loans	**1,921,055**	1,700,049
– Other consumer loans	**441,945**	317,350
Personal micro loans	**746,252**	610,201
Credit cards overdrafts and others	**144,641**	123,188
Subtotal	**3,253,893**	2,750,788
Gross loans and advances to customers at amortized cost	**5,105,784**	4,486,671
Less: Allowance for impairment losses of loans and advances to customers at amortized cost		
– Stage 1	**(148,428)**	(114,698)
– Stage 2	**(12,003)**	(13,101)
– Stage 3	**(43,466)**	(38,325)
Net loans and advances to customers at amortized cost	**4,901,887**	4,320,547

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.1 Loans and advances by types (continued)

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

	As at December 31	
	2020	2019
Corporate loans and advances		
– Loans	**151,369**	177,942
– Discounted bills	**459,105**	309,573
Loans and advances to customers at fair value through other comprehensive income	**610,474**	487,515

19.2 Detailed information regarding loans and advances to customers by geographical region, industries, types of collateral and overdue situation is set out in Note 43.3.4.

19.3 Loans and advances by allowance for impairment losses

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

	As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances to customers at amortized cost	4,405,384	37,411	43,876	4,486,671
Allowance for impairment losses of loans and advances to customers at amortized cost	(114,698)	(13,101)	(38,325)	(166,124)
Net loans and advances to customers at amortized cost	4,290,686	24,310	5,551	4,320,547
Gross loans and advances to customers at fair value through other comprehensive income	483,981	3,336	198	487,515
Allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income	(646)	(44)	(40)	(730)

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2020	1,691,515	27,824	16,544	1,735,883
Transfers:				
Transfer to stage 1	410	(409)	(1)	–
Transfer to stage 2	(15,255)	15,268	(13)	–
Transfer to stage 3	(4,681)	(7,586)	12,267	–
Financial assets derecognized or settled during the period	(906,422)	(12,329)	(6,789)	(925,540)
New financial assets originated or purchased	1,044,907	–	–	1,044,907
Write-offs	–	–	(3,359)	(3,359)
Gross carrying amount as at December 31, 2020	1,810,474	22,768	18,649	1,851,891

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	1,388,491	25,502	13,497	1,427,490
Transfers:				
Transfer to stage 1	325	(322)	(3)	–
Transfer to stage 2	(15,143)	15,150	(7)	–
Transfer to stage 3	(8,464)	(1,501)	9,965	–
Financial assets derecognized or settled during the period	(691,434)	(11,005)	(3,379)	(705,818)
New financial assets originated or purchased	1,017,740	–	–	1,017,740
Write-offs	–	–	(3,529)	(3,529)
Gross carrying amount as at December 31, 2019	1,691,515	27,824	16,544	1,735,883

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at January 1, 2020	**2,713,869**	**9,587**	**27,332**	**2,750,788**
Transfers:				
Transfer to stage 1	**1,435**	**(1,098)**	**(337)**	**–**
Transfer to stage 2	**(8,829)**	**8,859**	**(30)**	**–**
Transfer to stage 3	**(19,705)**	**(2,896)**	**22,601**	**–**
Financial assets derecognized or settled during the period	**(867,939)**	**(4,072)**	**(6,480)**	**(878,491)**
New financial assets originated or purchased	**1,392,958**	**–**	**–**	**1,392,958**
Write-offs	**–**	**–**	**(11,362)**	**(11,362)**
Gross carrying amount as at December 31, 2020	**3,211,789**	**10,380**	**31,724**	**3,253,893**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	2,286,422	8,608	24,810	2,319,840
Transfers:				
Transfer to stage 1	1,013	(697)	(316)	–
Transfer to stage 2	(7,535)	7,656	(121)	–
Transfer to stage 3	(14,631)	(2,251)	16,882	–
Financial assets derecognized or settled during the period	(673,698)	(3,729)	(6,003)	(683,430)
New financial assets originated or purchased	1,122,298	–	–	1,122,298
Write-offs	–	–	(7,920)	(7,920)
Gross carrying amount as at December 31, 2019	2,713,869	9,587	27,332	2,750,788

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	
Loans and advances to customers at fair value through other comprehensive income	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at January 1, 2020	**483,981**	**3,336**	**198**	**487,515**
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(607)	607	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(483,981)	(3,336)	(188)	(487,505)
New financial assets originated or purchased	610,464	–	–	610,464
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2020	**609,857**	**607**	**10**	**610,474**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

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

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at fair value through other comprehensive income	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	526,672	–	–	526,672
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(3,336)	3,336	–	–
Transfer to stage 3	(198)	–	198	–
Financial assets derecognized or settled during the period	(526,672)	–	–	(526,672)
New financial assets originated or purchased	487,515	–	–	487,515
Write-offs	–	–	–	–
Gross carrying amount as at December 31, 2019	483,981	3,336	198	487,515

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers:

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	67,105	10,170	15,302	92,577
Transfers:				
Transfer to stage 1	200	(199)	(1)	–
Transfer to stage 2	(2,123)	2,132	(9)	–
Transfer to stage 3	(2,880)	(4,245)	7,125	–
Changes of ECL arising from transfer of stages	(174)	1,230	3,208	4,264
Financial assets derecognized or settled during the period	(22,895)	(1,377)	(5,306)	(29,578)
New financial assets originated or purchased	51,851	–	–	51,851
Remeasurement	(10,565)	341	(14)	(10,238)
Write-offs	–	–	(3,359)	(3,359)
Loss allowance as at December 31, 2020	80,519	8,052	16,946	105,517

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers: (continued)

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	50,550	6,487	12,227	69,264
Transfers:				
Transfer to stage 1	137	(135)	(2)	–
Transfer to stage 2	(3,011)	3,018	(7)	–
Transfer to stage 3	(2,553)	(373)	2,926	–
Changes of ECL arising from transfer of stages	(127)	208	5,636	5,717
Financial assets derecognized or settled during the period	(9,641)	(1,414)	(2,069)	(13,124)
New financial assets originated or purchased	20,434	–	–	20,434
Remeasurement	11,316	2,379	120	13,815
Write-offs	–	–	(3,529)	(3,529)
Loss allowance as at December 31, 2019	67,105	10,170	15,302	92,577

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers: (continued)

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	47,593	2,931	23,023	73,547
Transfers:				
Transfer to stage 1	661	(431)	(230)	–
Transfer to stage 2	(1,405)	1,429	(24)	–
Transfer to stage 3	(3,623)	(1,242)	4,865	–
Changes of ECL arising from transfer of stage	(625)	2,184	11,788	13,347
Financial assets derecognized or settled during the period	(14,818)	(867)	(3,235)	(18,920)
New financial assets originated or purchased	37,423	–	–	37,423
Remeasurement	2,703	(53)	1,695	4,345
Write-offs	–	–	(11,362)	(11,362)
Loss allowance as at December 31, 2020	67,909	3,951	26,520	98,380

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers: (continued)

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	34,565	2,418	21,080	58,063
Transfers:				
Transfer to stage 1	590	(308)	(282)	–
Transfer to stage 2	(913)	1,022	(109)	–
Transfer to stage 3	(1,984)	(967)	2,951	–
Changes of ECL arising from transfer of stage	(566)	1,552	10,098	11,084
Financial assets derecognized or settled during the period	(10,234)	(644)	(3,275)	(14,153)
New financial assets originated or purchased	20,043	–	–	20,043
Remeasurement	6,092	(142)	480	6,430
Write-offs	–	–	(7,920)	(7,920)
Loss allowance as at December 31, 2019	47,593	2,931	23,023	73,547

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers: (continued)

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at fair value through other comprehensive income	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	646	44	40	730
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(11)	11	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	–	–	–
Financial assets derecognized or settled during the period	(646)	(44)	(30)	(720)
New financial assets originated or purchased	847	–	–	847
Remeasurement	773	–	–	773
Write-offs	–	–	–	–
Loss allowance as at December 31, 2020	1,609	11	10	1,630

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

19 Loans and advances to customers (continued)

19.5 The following tables explain the changes in the loss allowance of loans and advances to customers: (continued)

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at fair value through other comprehensive income	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	599	–	–	599
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(44)	44	–	–
Transfer to stage 3	(40)	–	40	–
Changes of ECL arising from transfer of stage	–	–	–	–
Financial assets derecognized or settled during the period	(599)	–	–	(599)
New financial assets originated or purchased	730	–	–	730
Remeasurement	–	–	–	–
Write-offs	–	–	–	–
Loss allowance as at December 31, 2019	646	44	40	730

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments

20.1 Financial assets at fair value through profit or loss

Analyzed by listed markets:

	As at December 31, 2020	As at December 31, 2019
Debt securities		
– Listed in Hong Kong	**823**	202
– Listed outside Hong Kong	**75,530**	63,281
Subtotal	**76,353**	63,483
Interbank certificates of deposits		
– Listed outside Hong Kong	**46,948**	60,991
– Unlisted	**7,055**	20,939
Subtotal	**54,003**	81,930
Asset-backed securities		
– Listed outside Hong Kong	**301**	4,937
Fund investments		
– Unlisted	**236,389**	115,783
Trust investment plans and asset management plans		
– Unlisted	**50,693**	42,287
Financial institution wealth management products		
– Unlisted	**493**	–
Equity instruments		
– Listed outside Hong Kong	**12**	–
– Unlisted	**1,037**	1,741
Subtotal	**1,049**	1,741
Total	**419,281**	310,161

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

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

Analyzed by types of issuers:

	As at December 31, 2020	As at December 31, 2019
Debt securities		
– Government	**1,189**	2,139
– Public institutions and quasi-government	**–**	176
– Financial institutions	**46,578**	43,583
– Corporates	**28,586**	17,585
Subtotal	**76,353**	63,483
Interbank certificates of deposits		
– Financial institutions	**54,003**	81,930
Asset-backed securities		
– Financial institutions	**301**	4,937
Fund investments		
– Financial institutions	**236,389**	115,783
Trust investment plans and asset management plans		
– Financial institutions	**50,693**	42,287
Financial institution wealth management products		
– Financial institutions	**493**	–
Equity instruments		
– Financial institutions	**14**	14
– Corporates	**1,035**	1,727
Subtotal	**1,049**	1,741
Total	**419,281**	310,161

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

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

Analyzed by listed markets:

	As at December 31, 2020	As at December 31, 2019
Debt securities		
– Listed in Hong Kong	**6,064**	6,924
– Listed outside Hong Kong	**305,200**	221,527
Subtotal	**311,264**	228,451
Interbank certificates of deposits		
– Listed outside Hong Kong	**719**	–
Asset-backed securities		
– Listed outside Hong Kong	**–**	221
Debt financing plans		
– Unlisted	**3,939**	–
Total	**315,922**	228,672

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.2 Financial assets at fair value through other comprehensive income-debt instruments (continued)

Analyzed by types of issuers:

	As at December 31, 2020	As at December 31, 2019
Debt securities		
– Government	**59,577**	60,711
– Financial institutions	**203,253**	128,614
– Corporates	**48,434**	39,126
Subtotal	**311,264**	228,451
Interbank certificates of deposits		
– Financial institutions	**719**	–
Asset-backed securities		
– Financial institutions	**–**	221
Debt financing plans		
– Corporates	**3,939**	–
Total	**315,922**	228,672

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.2 Financial assets at fair value through other comprehensive income-debt instruments (continued)

The following tables illustrate the changes in the gross carrying amount of financial assets at fair value through other comprehensive income-debt instruments:

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through other comprehensive income-debt instruments	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at January 1, 2020	228,572	100	–	228,672
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	(100)	100	–
Financial assets derecognized or settled during the period	(69,078)	–	–	(69,078)
New financial assets originated or purchased	156,375	–	–	156,375
Remeasurement	–	–	(47)	(47)
Gross carrying amount as at December 31, 2020	315,869	–	53	315,922

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.2 Financial assets at fair value through other comprehensive income-debt instruments (continued)

The following tables illustrate the changes in the gross carrying amount of financial assets at fair value through other comprehensive income-debt instruments: (continued)

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through other comprehensive income-debt instruments	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	183,053	297	–	183,350
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(100)	100	–	–
Transfer to stage 3	–	–	–	–
Financial assets derecognized or settled during the period	(54,067)	(297)	–	(54,364)
New financial assets originated or purchased	99,686	–	–	99,686
Gross carrying amount as at December 31, 2019	228,572	100	–	228,672

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.2 Financial assets at fair value through other comprehensive income-debt instruments (continued)

The following tables explain the changes in the loss allowance of financial assets at fair value through other comprehensive income-debt instruments:

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through other comprehensive income-debt instruments	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Loss allowance as at January 1, 2020	382	13	–	395
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	(13)	13	–
Changes of ECL arising from transfer of stage	–	–	40	40
Financial assets derecognized or settled during the period	(34)	–	–	(34)
New financial assets originated or purchased	190	–	–	190
Remeasurement	(65)	–	–	(65)
Loss allowance as at December 31, 2020	473	–	53	526

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.2 Financial assets at fair value through other comprehensive income-debt instruments (continued)

The following tables explain the changes in the loss allowance of financial assets at fair value through other comprehensive income-debt instruments: (continued)

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through other comprehensive income-debt instruments	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	156	39	–	195
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(3)	3	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stage	–	10	–	10
Financial assets derecognized or settled during the period	(51)	(39)	–	(90)
New financial assets originated or purchased	271	–	–	271
Remeasurement	9	–	–	9
Loss allowance as at December 31, 2019	382	13	–	395

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

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

Analyzed by listed markets:

	As at December 31, 2020	As at December 31, 2019
Equity instruments		
– Listed outside Hong Kong	**4,251**	–
– Unlisted	**1,553**	1,053
Total	**5,804**	1,053

Analyzed by types of issuers:

	As at December 31, 2020	As at December 31, 2019
Equity instruments		
– Financial institutions	**1,553**	1,053
– Corperates	**4,251**	–
Total	**5,804**	1,053

In 2020, as a result of loan restructuring, the Group recognized investment in listed ordinary shares upon restructuring of RMB2,944 million. The loss associated with these loan restructuring was not material.

The Group designates part of non-trading equity investments as financial assets at fair value through other comprehensive income-equity instruments. As at December 31, 2020, the fair value of such equity investments was RMB5,804 million (December 31, 2019: RMB1,053 million). During the year, the Group recognized dividend income for such equity investments as RMB3 million (During the year 2019: RMB3 million). During the year 2020 and the year 2019, the Group did not dispose any such equity investments.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost

Analyzed by listed markets:

	Note	**As at December 31, 2020**	As at December 31, 2019
Debt securities			
– Listed in Hong Kong		**38,395**	20,958
– Listed outside Hong Kong		**2,076,861**	2,063,667
– Unlisted	(1)	**661,376**	770,608
Subtotal		**2,776,632**	2,855,233
Interbank certificates of deposits			
– Listed outside Hong Kong		**179,904**	183,537
Asset-backed securities			
– Listed outside Hong Kong		**119,803**	43,869
– Unlisted		**25,360**	5,277
Subtotal		**145,163**	49,146
Debt financing plans			
– Unlisted		**406**	–
Other debt instruments			
– Unlisted	(2)	**92,025**	72,228
Gross amount		**3,194,130**	3,160,144
Allowance for impairment losses		**(20,487)**	(25,000)
Carrying amount		**3,173,643**	3,135,144

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

(1) Unlisted debt securities included long term special financial bonds issued by China Development Bank and Agricultural Development Bank of China in 2015, with maturity of 7 to 20 years. As at December 31, 2020, the carrying amount of these special financial bonds was RMB514,475 million (December 31, 2019: RMB666,425 million).

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost (continued)

Analyzed by types of issuers:

	As at December 31, 2020	As at December 31, 2019
Debt securities		
– Government	**1,069,157**	998,949
– Financial institutions	**1,586,139**	1,740,770
– Corporates	**121,336**	115,514
Subtotal	**2,776,632**	2,855,233
Interbank certificates of deposits		
– Financial institutions	**179,904**	183,537
Asset-backed securities		
– Financial institutions	**145,163**	49,146
Debt financing plans		
– Corporates	**406**	–
Other debt instruments		
– Financial institutions	**92,025**	70,819
– Corporates	**–**	1,409
Subtotal	**92,025**	72,228
Gross amount	**3,194,130**	3,160,144
Allowance for impairment losses	**(20,487)**	(25,000)
Carrying amount	**3,173,643**	3,135,144

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost (continued)

The following tables illustrate the changes in the gross carrying amount of financial assets at amortized cost:

	Year ended December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	
Financial assets at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Gross carrying amount as at January 1, 2020	**3,119,753**	**27,050**	**13,341**	**3,160,144**
Transfers:				
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(2,758)**	**2,758**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Financial assets derecognized or settled during the period	**(562,900)**	**(11,368)**	**(327)**	**(574,595)**
New financial asset originated or purchased	**608,581**	**–**	**–**	**608,581**
Gross carrying amount as at December 31, 2020	**3,162,676**	**18,440**	**13,014**	**3,194,130**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost (continued)

The following tables illustrate the changes in the gross carrying amount of financial assets at amortized cost: (continued)

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	2,851,237	16,443	11,222	2,878,902
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(18,996)	18,996	–	–
Transfer to stage 3	(376)	(1,535)	1,911	–
Financial assets derecognized or settled during the period	(468,528)	(6,854)	208	(475,174)
New financial asset originated or purchased	756,416	–	–	756,416
Gross carrying amount as at December 31, 2019	3,119,753	27,050	13,341	3,160,144

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost (continued)

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

20 Financial investments (continued)

20.4 Financial assets at amortized cost (continued)

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at January 1, 2019	2,520	4,079	10,381	16,980
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(404)	404	–	–
Transfer to stage 3	(1)	(187)	188	–
Changes of ECL arising from transfer of stage	–	6,280	1,305	7,585
Financial assets derecognized or settled during the period	(1,001)	(906)	–	(1,907)
New financial assets originated or purchased	1,676	–	–	1,676
Remeasurement	(174)	(184)	755	397
Exchange rate changes and other	–	–	269	269
Loss allowance as at December 31, 2019	2,616	9,486	12,898	25,000

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

21 Investment in subsidiaries

The Bank

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

Name of entities	Place of incorporation	Authorized/ paid-in capital	Nature of business	Percentage of equity interest	Proportion of voting rights	Year of incorporation
PSBC Consumer Finance Co., Ltd.	Guangzhou, Guangdong Province, PRC	RMB3 billion	Consumer Finance	70.50%	70.50%	2015
PSBC Wealth Management Co., Ltd.	Beijing, PRC	RMB8 billion	Wealth Management	100.00%	100.00%	2019

(1) On November 19, 2015, the Bank, together with other investors jointly sponsored the establishment of PSBC Consumer Finance Co., Ltd. ("PSBC Consumer Finance"). PSBC Consumer Finance mainly engages in granting personal consumer loans; accepting the deposits from domestic shareholders and their domestic subsidiaries; lending to domestic financial institutions; authorised issuance of financial bonds; placements with banks and other financial institutions; consumer financing advisory and agency services; agency sales of consumer loans related insurance products investments in fixed income securities and other businesses as approved by CBIRC.

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

21 Investment in subsidiaries (continued)

The Bank (continued)

(3) On July 9, 2020, under the approval of the Board of Directors, the Bank decided to establish a wholly-owned direct bank subsidiary, PSBC online. The Bank received the approval issued by CBIRC on December 18, 2020 for the establishment of the subsidiary. On January 22, 2021, the Bank completed the capital injection of RMB5 billion into PSBC online.

22 Property and equipment

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

22 Property and equipment (continued)

	Buildings	Electronic equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost						
As at January 1, 2019	44,406	10,244	1,184	4,372	12,080	72,286
Add: Additions	218	468	80	329	4,483	5,578
Transfer-in from investment properties	19	–	–	–	–	19
Transfer-in from construction in progress	3,605	248	–	49	(3,902)	–
Less: Deductions	(57)	(467)	(21)	(153)	(896)	(1,594)
As at December 31, 2019	48,191	10,493	1,243	4,597	11,765	76,289
Accumulated depreciation						
As at January 1, 2019	(14,043)	(8,573)	(1,112)	(3,159)	–	(26,887)
Add: Charge for the year	(2,375)	(786)	(20)	(363)	–	(3,544)
Transfer-in from investment properties	(6)	–	–	–	–	(6)
Less: Deductions	31	445	20	142	–	638
As at December 31, 2019	(16,393)	(8,914)	(1,112)	(3,380)	–	(29,799)
Carrying amount						
As at January 1, 2019	30,363	1,671	72	1,213	12,080	45,399
As at December 31, 2019	31,798	1,579	131	1,217	11,765	46,490

Upon the Bank's establishment and restructuring, China Post Group injected certain property and equipment to the Bank as its capital contribution. Part of the properties were still in the process of renewing ownership certificates, with original book value amounted to RMB1,026 million as at December 31, 2020 (December 31, 2019: RMB1,032 million), with net book value amounted to RMB415 million as at December 31, 2020 (December 31, 2019: RMB468 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

22 Property and equipment (continued)

In addition, as at December 31, 2020, the Group was still in the process of obtaining ownership certificates of certain property other than those contributed from China Post Group, with original book value of RMB3,889 million (December 31, 2019: RMB3,560 million), with net book value of RMB3,366 million (December 31, 2019: RMB3,110 million).

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

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

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

23 Deferred taxation

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

	As at December 31	
	2020	2019
Deferred tax assets	**53,217**	47,237

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Deferred taxation (continued)

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

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial assets	Provisions	Contract liabilities and others	Total
January 1, 2020	**41,390**	**1,244**	**2,362**	**1,850**	**391**	**47,237**
Charge to profit or loss	**8,196**	**401**	**(2,481)**	**(85)**	**92**	**6,123**
Charge to other comprehensive income	**(259)**	**–**	**116**	**–**	**–**	**(143)**
December 31, 2020	**49,327**	**1,645**	**(3)**	**1,765**	**483**	**53,217**

	Allowance for impairment losses	Staff cost accrued but not paid	Fair value changes of financial assets	Provisions	Contract liabilities and others	Total
January 1, 2019	29,604	757	2,781	2,143	602	35,887
Charge to profit or loss	12,067	487	(824)	(293)	(211)	11,226
Charge to other comprehensive income	(281)	–	405	–	–	124
December 31, 2019	41,390	1,244	2,362	1,850	391	47,237

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

23 Deferred taxation (continued)

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

	As at December 31			
	2020		2019	
	Deductible/ (Taxable) temporary difference	**Deferred tax assets/(liabilities)**	Deductible/ (Taxable) temporary difference	Deferred tax assets/(liabilities)
Deferred tax assets				
Allowance for impairment losses	**197,308**	**49,327**	165,559	41,390
Provisions	**7,060**	**1,765**	7,398	1,850
Staff cost accrued but not paid	**6,580**	**1,645**	4,976	1,244
Fair value changes of financial assets	**3,520**	**880**	11,824	2,956
Contract liabilities and others	**2,256**	**564**	1,842	460
Total	**216,724**	**54,181**	191,599	47,900
Deferred tax liabilities				
Fair value changes of financial assets	**(3,532)**	**(883)**	(2,375)	(594)
Others	**(324)**	**(81)**	(276)	(69)
Total	**(3,856)**	**(964)**	(2,651)	(663)
Net	**212,868**	**53,217**	188,948	47,237

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

24 Other assets

	Note	As at December 31	
		2020	2019
Right-of-use assets	(1)	**12,325**	11,145
Settlement and clearing payables		**9,039**	7,872
Receivable of fee and commission		**3,679**	1,980
Interest receivable		**3,582**	970
Continuing involvement assets (Note 41.2)		**2,871**	2,372
Intangible assets	(2)	**2,307**	2,060
Prepaid expenses		**2,058**	1,619
Other accounts receivable		**1,687**	2,595
Deferred expenses	(3)	**1,289**	1,205
Low-value consumables		**431**	565
Foreclosed assets		**234**	227
Investment properties		**45**	544
Others		**2,635**	2,180
Gross amount		**42,182**	35,334
Allowance for impairment losses		**(889)**	(663)
Carrying amount		**41,293**	34,671

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

24 Other assets (continued)

(1) Right-of-use assets

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

24 Other assets (continued)

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

	Properties	Land use rights	Total
Cost			
As at January 1, 2019	8,998	2,270	11,268
Additions	3,449	–	3,449
Deductions	(188)	–	(188)
As at December 31, 2019	12,259	2,270	14,529
Accumulated depreciation/amortization			
As at January 1, 2019	–	(531)	(531)
Additions	(2,855)	(54)	(2,909)
Deductions	56	–	56
As at December 31, 2019	(2,799)	(585)	(3,384)
Carrying value			
As at January 1, 2019	8,998	1,739	10,737
As at December 31, 2019	9,460	1,685	11,145

(2) Intangible assets of the Group mainly include computer software which is amortized within 10 years.

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

25 Allowance for impairment losses

		As at December, 2020					
	Note	Beginning balance	Current year accrual (reversal)	Current year recover	Write-off and transfer-out/ disposal	Exchange rate changes and other	Year end balance
Deposits with banks and other financial institutions	15	49	24	–	–	–	73
Placements with banks and other financial institutions	16	1,659	(776)	–	–	–	883
Financial assets held under resale agreements	18	891	229	–	–	–	1,120
Loans and advances to customers	19	166,854	52,377	3,738	(16,410)	(1,032)	205,527
Financial assets at fair value through other comprehensive income-debt instruments	20.2	395	131	–	–	–	526
Financial assets at amortized cost	20.4	25,000	(4,552)	–	–	39	20,487
Foreclosed assets	24	29	19	–	(9)	–	39
Other assets	24	634	787	65	(636)	–	850
Total		195,511	48,239	3,803	(17,055)	(993)	229,505

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

25 Allowance for impairment losses (continued)

	As at December, 2019						
	Note	Beginning balance	Current year accrual (reversal)	Current year recover	Write-off and transfer-out/ disposal	Exchange rate changes and other	Year end balance
Deposits with banks and other financial institutions	15	326	(277)	–	–	–	49
Placements with banks and other financial institutions	16	1,480	179	–	–	–	1,659
Financial assets held under resale agreements	18	822	69	–	–	–	891
Loans and advances to customers	19	127,926	47,434	3,336	(11,449)	(393)	166,854
Financial assets at fair value through other comprehensive income-debt instruments	20.2	195	200	–	–	–	395
Financial assets at amortized cost	20.4	16,980	7,751	–	–	269	25,000
Foreclosed assets	24	27	11	–	(9)	–	29
Other assets	24	566	462	36	(430)	–	634
Total		148,322	55,829	3,372	(11,888)	(124)	195,511

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

26 Borrowings from central bank

	As at December 31	
	2020	2019
Borrowings from central bank	**25,288**	–

As at December 31, 2020, borrowings from central bank were special central bank lendings carried out by the Bank and PBOC.

27 Deposits from banks and other financial institutions

	As at December 31	
	2020	2019
Deposits from:		
Domestic banks	**21,099**	20,137
Other domestic financial institutions	**64,813**	27,115
Total	**85,912**	47,252

28 Placements from banks and other financial institutions

	As at December 31	
	2020	2019
Placements from:		
Domestic banks	**26,723**	22,611
Overseas banks	**4,020**	3,185
Total	**30,743**	25,796

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

29 Financial assets sold under repurchase agreements

	As at December 31	
	2020	2019
Analyzed by type of collateral:		
Debt securities	**2,573**	64,010
Bills	**22,561**	34,648
Total	**25,134**	98,658

The collateral pledged under repurchase agreement is disclosed in "Note 40.4 Contingent liabilities and commitments – Collateral".

30 Customer deposits

	As at December 31	
	2020	2019
Demand deposits		
Corporates	**874,155**	771,034
Personal	**2,893,163**	2,701,369
Subtotal	**3,767,318**	3,472,403
Time deposits		
Corporates	**385,694**	357,931
Personal	**6,202,401**	5,481,019
Subtotal	**6,588,095**	5,838,950
Structured deposits		
Personal	**–**	926
Subtotal	**–**	926
Other deposits	**2,616**	1,787
Total	**10,358,029**	9,314,066

As at December 31, 2020, customer deposits received by the Group included pledged deposits of RMB39,020 million (December 31, 2019: RMB34,908 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Debt securities issued

	Note	As at December 31	
		2020	2019
Debt securities issued	(1)	**50,835**	76,158
Interbank certificates of deposits	(2)	**7,139**	20,821
Total		**57,974**	96,979

(1)

	Note	As at December 31	
		2020	2019
10-year tier-2 capital bonds at a fixed interest rate	(i)	**–**	25,330
10-year tier-2 capital bonds at a fixed interest rate	(ii)	**30,154**	30,151
10-year tier-2 capital bonds at a fixed interest rate	(iii)	**20,681**	20,677
Total		**50,835**	76,158

(i) In September 2015, upon the approval from CBRC and PBOC, the Group issued RMB25 billion of 10-year tier-two capital bonds at a fixed coupon rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in September 2020 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from September 2020 onward. The Group has exercised the right of redemption, and redeemed all of the bonds on September 9, 2020, upon the approval from CBIRC.

(ii) In October 2016, upon the approval from CBRC and PBOC, the Group issued RMB30 billion of 10-year tier-two capital bonds at a fixed coupon rate of 3.30%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in October 2021 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 3.30% from October 2021 onward.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

31 Debt securities issued (continued)

(iii) In March 2017, upon the approval from CBRC and PBOC, the Group issued RMB20 billion of 10-year tier-two capital bonds at a fixed coupon rate of 4.50%, with interests paid annually. The Group has an option to redeem part or all of the bonds at face value in March 2022 if specified redemption conditions as stipulated in the offering documents are met, subject to approval of CBIRC. If the Group does not exercise this redemption right, the annual coupon rate would remain at 4.50% from March 2022 onward.

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

(2) During the year of 2020, the Group issued interbank certificates of deposit with the total carrying amount of RMB59.47 billion (2019: RMB53.37 billion) ranging from one month to one year, with interest rates ranging from 1.33% to 3.05% (2019: ranging from 2.40% to 3.05%). As at December 31, 2020, the unmatured interbank certificates of deposit amounted to RMB7.17 billion (As at December 31, 2019: RMB21.21 billion).

32 Other liabilities

		As at December 31	
	Note	**2020**	2019
Payables for agency services		**15,704**	17,594
Employee benefits payable	(1)	**15,615**	14,046
Tax payable		**14,635**	12,931
Provisions	(2)	**11,498**	9,658
Lease liabilities	(3)	**9,278**	8,396
Continuing involved liabilities (Note 41.2)		**2,871**	2,372
Payables to China Post Group and other related parties (Note 38.3.1(9))		**2,118**	2,231
Dormant deposit payables		**1,998**	2,150
Contract liabilities		**1,746**	1,462
Settlement and clearing payables		**1,457**	1,961
Payable for construction cost		**1,151**	1,079
Exchange transaction payables		**939**	915
Others		**8,611**	9,216
Total		**87,621**	84,011

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable

	Note	As at December 31 2020	2019
Short-term employee benefits	(i)	**14,339**	12,107
Defined contribution benefits	(ii)	**640**	1,309
Supplementary retirement benefits and early retirement benefits	(iii)	**636**	630
Total		**15,615**	14,046

(i) Short-term employee benefits

	Year ended December 31, 2020			
	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	10,459	36,873	(34,635)	12,697
Staff welfare	–	2,258	(2,258)	–
Social security contributions	91	2,453	(2,411)	133
Including: Medical insurance	88	2,324	(2,288)	124
Maternity insurance	2	81	(75)	8
Work injury insurance	1	48	(48)	1
Housing funds	14	3,537	(3,537)	14
Labour union funds and employee education funds	1,543	1,041	(1,089)	1,495
Others	–	36	(36)	–
Total	12,107	46,198	(43,966)	14,339

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(i) Short-term employee benefits (continued)

	Year ended December 31, 2019			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Wages and salaries, bonus, allowance and subsidies	7,086	35,140	(31,767)	10,459
Staff welfare	–	2,083	(2,083)	–
Social security contributions	68	2,612	(2,589)	91
Including: Medical insurance	65	2,396	(2,373)	88
Maternity insurance	2	155	(155)	2
Work injury insurance	1	61	(61)	1
Housing funds	15	3,183	(3,184)	14
Labour union funds and employee education funds	1,276	1,301	(1,034)	1,543
Others	–	28	(28)	–
Total	8,445	44,347	(40,685)	12,107

(ii) Defined contribution benefits

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(ii) Defined contribution benefits (continued)

	Year ended December 31, 2019			
	Balance at the beginning of the year	Increase in current year	Decrease in current year	Balance at the end of the year
Basic pensions	112	4,441	(4,458)	95
Unemployment insurance	4	112	(112)	4
Annuity scheme	606	1,121	(517)	1,210
Total	722	5,674	(5,087)	1,309

(iii) Supplementary retirement benefits and early retirement benefits

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

	As at December 31	
	2020	2019
Balance at the beginning of year	**630**	531
Interest expenses	**21**	18
Gain or loss from actuarial calculation	**17**	110
– Charge to profit or losses	**(2)**	–
– Charge to other comprehensive income	**19**	110
Benefits paid	**(32)**	(29)
Balance at the end of year	**636**	630

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(1) Employee benefits payable (continued)

(iii) Supplementary retirement benefits and early retirement benefits (continued)

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

	As at December 31	
	2020	2019
Discount rate-retirement benefit plan	**3.50%**	3.50%
Discount rate-early retirement benefit plan	**3.00%**	2.75%
Annual growth rate of average medical expenses	**8.00%**	8.00%
Annual growth rates of retiree expenses	**3% and 0%**	3% and 0%
Annual growth rates of early-retiree expenses	**6%, 3% and 0%**	6%, 3% and 0%
Normal retirement age		
– Male	**60**	60
– Female	**55, 50**	55, 50

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(2) Provisions

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

	Note	January 1, 2019	Current year accrual/ (reversal)	December 31, 2019
Guarantee and commitments	(i)	2,694	(434)	2,260
Litigation and others	(ii)	8,593	(1,195)	7,398
Total		11,287	(1,629)	9,658

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(2) Provisions (continued)

(i) Guarantee and commitments

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
Guarantee and commitments	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Provisions as at January 1, 2020	2,254	6	–	2,260
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(19)	19	–	–
Transfer to stage 3	(1)	–	1	–
Changes of ECL arising from transfer of stages	–	5	17	22
Financial assets derecognized or settled during the period	(720)	(6)	–	(726)
New financial assets originated or purchased	1,643	–	–	1,643
Remeasurement	1,239	–	–	1,239
Provisions as at December 31, 2020	4,396	24	18	4,438

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(2) Provisions (continued)

(i) Guarantee and commitments (continued)

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
Guarantee and commitments	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Provisions as at January 1, 2019	2,507	137	50	2,694
Transfers:				
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(5)	5	–	–
Transfer to stage 3	–	–	–	–
Changes of ECL arising from transfer of stages	–	–	–	–
Financial assets derecognized or settled during the year	(1,166)	(136)	(50)	(1,352)
New financial assets originated or purchased	1,020	–	–	1,020
Remeasurement	(102)	–	–	(102)
Provisions as at December 31, 2019	2,254	6	–	2,260

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

32 Other liabilities (continued)

(3) Lease liabilities

	As at Decemeber 31	
	2020	2019
Net present value of lease payments	**8,938**	8,060
Interest adjustments	**340**	336
Total	**9,278**	8,396

33 Share capital and other equity instruments

33.1 Share capital

	As at December 31 2020	
	Number of shares (millions)	**Face value**
Domestically listed (A shares)	**67,123**	**67,123**
Listed overseas (H shares)	**19,856**	**19,856**
Total	**86,979**	**86,979**

	As at December 31 2019	
	Number of shares (millions)	Face value
Domestically listed (A shares)	66,347	66,347
Listed overseas (H shares)	19,856	19,856
Total	86,203	86,203

33 Share capital and other equity instruments (continued)

33.1 Share capital (continued)

A shares refer to ordinary shares that are subscribed and traded in RMB, and H shares are shares that are approved to be listed in Hong Kong and denominated in RMB, but subscribed and traded in Hong Kong dollars.

All H shares and A shares issued by the Bank are ordinary shares with a par value of RMB1.00 per share and enjoy equal rights.

Approved by the CBIRC through *the Initial Public Offering of A Shares by the Postal Savings Bank of China and amendment of the Articles of Association (Yinbaojianfu [2019] No.565)*《中國銀保監會關於郵儲銀行首次公開發行A股股票並上市和修改公司章程的批覆》(銀保監複[2019]565號) and approved by the China Securities Regulatory Commission through *the Approval of Postal Savings Bank Co., Ltd.'s Initial Public Offering (CSRC License [2019] No. 1991)* 《關於核准中國郵政儲蓄銀行股份有限公司首次公開發行股票的批覆》(證監許可[2019]1991號文). The Bank completed the initial public offering of 5,172 million A shares (excluding over-allotment) in December 2019. The face value of A shares is RMB1.00 per share, and the issue price is RMB5.50 per share. The net proceeds raised were RMB28,001 million, of which the share capital was RMB5,172 million and the capital reserve was RMB22,829 million.

Over-allotment option was exercised in January 2020. The over-allotment issued 776 million A shares at a face value of RMB1.00 and an issue price of RMB5.50 per share. The net proceeds raised were RMB4,205 million, of which the share capital was RMB776 million and the capital reserve was RMB3,429 million.

As at December 31, 2020, the total number of ordinary shares of the Bank was 86,979 million of which 55,848 million shares were restricted for sales and 31,131 millon shares were unrestricted shares. The sales restriction periods will last for one or three years (As at December 31, 2019, the total number of restricted shares of the Bank was 63,373 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments

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

Outstanding financial instruments	Issue date	Classification	Initial dividend rate	Issue price	Quantity (million shares)	Total amount: Original Currency (USD million)	Total amount: Equivalent (RMB million)	Conversion condition	Maturity date	Conversion
Offshore preference shares	September 27, 2017	Equity instruments	4.50%	USD20/share	362.5	7,250	47,989	Mandatory	No Maturity Date	No
Less: Issuance fee							(120)			
Carrying amount							47,869			

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

The key terms are as below:

(a) Dividend

Fixed rate is applied for a certain period after the issuance of the offshore preference shares. Dividend rate is reset every 5 years thereafter to the sum of the benchmark rate and the Fixed Spread. The Fixed Spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The Fixed Spread will remain unchanged throughout the term of the Preference Shares. Dividends will be paid annually.

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

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

The key terms are as below: (continued)

(b) Conditions to distribution of dividends

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

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full.

(d) Mandatory conversion trigger events

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

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.

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

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

The key terms are as below: (continued)

(e) Order of distribution and liquidation method

Upon the winding-up of the Bank, the rights and claims in respect of the offshore preference shareholders shall rank: junior to holders of all liabilities of the Bank including any tier 2 capital instruments and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; equally in all respects with each other and without preference among themselves and with the holders of Parity Obligations; and in priority to the Ordinary Shareholders.

(f) Redemption

The offshore preference shares are perpetual and have no maturity date. Under the premise of obtaining the approval of the CBIRC and condition of redemption, the Bank has right to redeem all or some of the offshore preference shares at the first redemption date and any subsequent dividend payment date until all offshore preference shares are redeemed or converted. Redemption price of offshore preference shares is equal to issue price plus accrued dividend in current period.

The First Redemption Date of the USD Preference Shares is five years after the issuance.

(g) Dividend setting mechanism

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

(2) Changes in preference shares outstanding

There was no changes in quantity and carrying amount for the preference shares in 2020 (in 2019: nil).

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

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

The key terms are as below:

(a) Conditional Redemption Rights

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

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

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

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

The key terms are as below: (continued)

(b) Subordination

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

(c) Write-down/write-off Clauses

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

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

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

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

The key terms are as below: (continued)

(d) Distribution Rate

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

(e) Distribution Payment

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

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

33 Share capital and other equity instruments (continued)

33.2 Other equity instruments (continued)

(4) Changes in perpetual bond outstanding

	January 1, 2020		Increase in current year		December 31, 2020	
Outstanding financial instruments	Quantity (million)	Carrying Amount (RMB million)	Quantity (million)	Carrying Amount (RMB million)	Quantity (million)	Carrying Amount (RMB million)
Undated Additional Tier 1 Capital Bonds	–	–	800	79,989	**800**	**79,989**

(5) Equity attributable to the holders of equity instruments

	As at December 31	
Items	2020	2019
1. Total equity attributable to equity holders of the Bank	**671,799**	543,867
(1) Equity attributable to ordinary equity holders of the Bank	**543,941**	495,998
(2) Equity attributable to other equity holders of the Bank	**127,858**	47,869
Including: Net profit	**2,584**	2,501
Dividends paid	**(2,584)**	(2,501)
2. Total equity attributable to non-controlling interests	**1,131**	1,012
(1) Equity attributable to non-controlling interests of ordinary shares	**1,131**	1,012
(2) Equity attributable to non-controlling interests of preference shares	**–**	–

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

34 Capital reserve

	Note	As at December 31 2020	2019
Net asset revaluation appreciation from the Bank's joint stock restructuring		**3,448**	3,448
Share premium arising from strategic investors		**33,536**	33,536
Share premium arising from the Bank's initial public offering of H shares		**37,675**	37,675
Change of equity interest in a subsidiary	(1)	**(11)**	(11)
Share premium arising from the Bank's initial public offering of A shares	(2)	**26,258**	22,829
Total		**100,906**	97,477

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

(2) The Bank completed the initial public offering of 5,172 million A shares (excluding over-allotment) in December 2019. The face value of A shares is RMB1.00 per share, and the issue price is RMB5.50 per share. Over-allotment option was exercised in January 2020. The over-allotment issued 776 million A shares at a face value of RMB1.00 and an issue price of RMB5.50 per share. The final net proceeds raised from the initial public offering and the over-allotment were RMB32,206 million, of which the share capital was RMB5,948 million and the capital reserve was RMB26,258 million.

35 Other reserves

35.1 Surplus reserve

	Year ended December 31, 2020	Year ended December 31, 2019
At the beginning of year	**36,439**	30,371
Appropriations in current year	**6,249**	6,068
At the end of year	**42,688**	36,439

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

35 Other reserves (continued)

35.2 General reserve

	Year ended December 31, 2020	Year ended December 31, 2019
At the beginning of year	**116,129**	103,959
Appropriations in current year	**13,942**	12,170
At the end of year	**130,071**	116,129

In accordance with *the Administrative Measures for Provisioning of Financial Enterprises* (金融企業準備金計提管理辦法) issued by the MOF on March 30, 2012, the balance of general reserve should be no less than 1.5% of risk assets at the end of each year.

35.3 Other comprehensive income

	Gross amount	**Taxation effect**	**Net carrying amount**
December 31, 2019	**3,177**	**(858)**	**2,319**
Remeasurement of retirement benefit obligations	**(19)**	**–**	**(19)**
Fair value changes on equity instrument at fair value through other comprehensive income	**1,307**	**(327)**	**980**
Gains arising from changes in fair value of financial assets at fair value through other comprehensive income	**(1,772)**	**443**	**(1,329)**
Changes in impairment provision of financial assets at fair value through other comprehensive income	**1,033**	**(259)**	**774**
December 31, 2020	**3,726**	**(1,001)**	**2,725**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

35 Other reserves (continued)

35.3 Other comprehensive income (continued)

	Gross amount	Taxation effect	Net carrying amount
December 31, 2018	4,575	(982)	3,593
Remeasurement of retirement benefit obligations	(110)	–	(110)
Gains arising from changes in fair value of financial assets at fair value through other comprehensive income	(1,597)	405	(1,192)
Changes in impairment provision of financial assets at fair value through other comprehensive income	309	(281)	28
December 31, 2019	3,177	(858)	2,319

36 Dividends distribution

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

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

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

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

37 Cash and cash equivalents

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

	As at December 31	
	2020	2019
Cash	**50,056**	43,922
Surplus reserve with central bank	**31,897**	46,584
Deposits with banks and other financial institutions	**9,958**	8,526
Placements with banks and other financial institutions	**8,888**	30,458
Financial assets held under resale agreements	**233,979**	140,929
Short-term debt securities	**748**	9,929
Total	**335,526**	280,348

38 Relationship and transactions with related parties

38.1 Information of the parent company

(1) General information of the parent company

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

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

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

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

(3) Proportion of parent company's equity shares and voting rights

As at December 31, 2020, China Post Group directly held 65.34% of the equity shares and voting rights in the Bank (As at December 31, 2019: 64.95%). China Post Group held 0.01% of the equity shares and voting rights in the Bank through China Post Securities Co., Ltd. (As at December 31, 2019: 0.01%).

38 Relationship and transactions with related parties (continued)

38.2 Information of major related parties

Name of enterprise	Relationship with the Bank
Shanghai International Port (Group) Co., Ltd.	Substantial shareholder of the Bank
China Ship-building Industry Corporation	Substantial shareholder of the Bank
China Postal Express & Logistics Co., Ltd.	Company under the common control of China Post Group
China Post Life Insurance Co., Ltd.	Company under the common control of China Post Group
China Post Securities Co., Ltd.	Company under the common control of China Post Group
Ningxia China Post Logistics Co., Ltd.	Company under the common control of China Post Group
Jiangsu Post and Telecommunication Printing Factory	Company under the common control of China Post Group
Shanghai Ule Network Technology Co., Ltd.	Company under the common control of China Post Group
China Post Technology Co., Ltd.	Company under the common control of China Post Group
China Post & Capital Fund Management Co., Ltd.	An associate of China Post Group
Mulei Tongyuan Hongshen New Energy Development Co., Ltd.	Related party of the substantial shareholder of the Bank
CSIC (Tianjin) Offshore Wind Power Eng. & Tech. Co., Ltd.	Related party of the substantial shareholder of the Bank
China Shipbuilding Industry Corporation Finance Co., Ltd.	Related party of the substantial shareholder of the Bank
China National Shipbuilding Equipment & Materials (South China) Company Limited	Related party of the substantial shareholder of the Bank
China UnionPay Co., Ltd.	Related party of the related natural persons of the Bank
Shenzhen Investment Holdings Co., Ltd.	Related party of the related natural persons of the Bank
Ant Group Co,. Ltd.	Related party of the related natural persons of the Bank
Anhui Ltech Information Technology Co., Ltd.	Related party of the related natural persons of the Bank

The Group's related natural persons include the Bank's directors, supervisors, senior executives and their direct families, as well as the Bank's controlling shareholders, actual controllers' leadership members and their direct families and other related natural persons. The Group's other related parties include other related parties of China Post Group, other related parties of substantial shareholders of the Bank and other related legal persons triggered by related natural persons.

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions

For transactions between the Group and related parties in accordance with general commercial terms and normal business procedures, the pricing principle is the same as that of independent third party transactions. For transactions other than normal banking business between the Group and related parties, the pricing principle shall be determined by both parties through negotiation in accordance with general commercial terms.

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

(1) Agency banking services from China Post Group

In addition to conducting commercial banking services at its owned business locations, the Bank also engages China Post Group 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.

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:

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

(1) Agency banking services from China Post Group (continued)

Monthly deposit agency fee costs at the relevant branch = (aggregate amount of deposit for each type of deposit at the branch for the month multiplied by the number of days of deposit × the respective deposit agency fee rate of the relevant type of deposit/365) – aggregate cash (including that in transit) multiplied by the number of days at the relevant branch for the month × 1.5%/365.

The Bank pays deposit agency fee for agency RMB savings deposits received, net of cash reserves held by agency outlets and deposits in transit. The agency fee rates range from 0.2% to 2.3% during the periods.

The agency fee for foreign currency deposit-taking was insignificant, and it is determined in line with industry practice, applying market rates such as the composite interest rate of the China Interbank Foreign Currency Market.

For intermediary business services performed by agency outlets such as settlement and sales services, the agency fees are determined based on the income from agency services net of all direct taxes and expenses.

To effectively manage the interest payment cost and maintain a stable growth in the size of deposits, the Bank launched relevant mechanisms to boost the increase of deposits, including the arrangements of cost sharing for floating interest rates of deposits and incentives for deposits. The Bank and China Post Group have agreed that the amount of deposit incentive shall not be higher than the payment by China Post Group under the cost sharing mechanism for floating interest rates of deposits in any circumstances.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

(1) Agency banking services from China Post Group (continued)

The agency fee, floating interest rates and incentives for deposits between the Bank and China Post Group are settled with an offsetting amount in fixed period.

	Note	Year ended December 31	
		2020	2019
Deposit agency fee and others	(i)	**82,313**	76,153
Fees for agency savings settlement		**8,170**	8,242
Fees for agency sales and other commissions	(ii)	**5,531**	3,971
Total		**96,014**	88,366

(i) In 2020, deposit agency fee cost amounted to RMB85,213 million (2019: RMB78,805 million). The offsetting settlement amount of the Bank's relevant mechanisms to boost deposit increase was RMB-2,900 million (2019: RMB-2,652 million). According to the netting arrangement between the Bank and China Post Group, deposit agency fee costs and others are settled on a net basis.

(ii) Fees for agency sales and other commissions include agency income generated from sales of insurance products of China Post Life Insurance Co., Ltd. by agency outlets. The remaining agency income generated from sales for other insurance companies are directly settled with China Post Group according to the contracts.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

(2) Operating lease with China Post Group and its related parties

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

As lessor

	Year ended December 31	
	2020	2019
Buildings and others	**82**	85

As lessee

	Year ended December 31	
	2020	2019
Buildings and others	**1,000**	1,008

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

	As at December 31	
	2020	2019
Right-of-use assets	**718**	723
Lease liabilities	**685**	717

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

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

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

	Note	Year ended December 31	
		2020	2019
Agency sales of insurance products	(i)	**347**	203
General office materials sold		**83**	56
Agency sales of fund products		**72**	32
Comprehensive services rendered	(ii)	**61**	34
Custody business		**37**	38
Agency sales of collective asset management plans		**13**	4
Agency sales of precious metals		**10**	11
Treasury depository business		**1**	1
Total		**624**	379

(i) Income generated from agency service for China Post Life Insurance Co., Ltd. by directly-operated outlets of the Bank.

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

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

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

	Note	Year ended December 31	
		2020	2019
Comprehensive services received	(i)	**999**	1,048
Marketing services received		**569**	423
Goods purchased		**422**	275
Payment of precious metals		**251**	200
Underwriting and sponsoring service received	(ii)	**54**	–
Total		**2,295**	1,946

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

(ii) Underwriting and sponsoring service received from China Post Securities Co., Ltd. for A share issuance and perpetual bonds issuance of the Group.

(4) Loans, discounted bills and letters of guarantee

	Note	As at December 31	
		2020	2019
Other related parties	(i)	**18**	11

(i) The Group granted loans, discounted bills and issued letters of guarantee mainly to Ningxia China Post Logistics Co., Ltd., China Postal Express & Logistics Co., Ltd. and Jiangsu Post and Telecommunication Printing Factory.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

(5) Deposits from related parties

	Note	As at December 31 2020	2019
China Post Group		**6,247**	9,188
Other related parties	(i)	**3,176**	2,494
Total		**9,423**	11,682
Interest rates per annum		**0.30%-2.94%**	0.30%-2.94%

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

(6) Deposits from banks and other financial institutions

	Note	As at December 31 2020	2019
Other related parties	(i)	**6,369**	1,034

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

(7) Financial investments

	As at December 31 2020	2019
Financial assets at fair value through profit or loss		
– China Post Group	**2,011**	–
– China Post & Capital Fund Management Co., Ltd.	**1,139**	250
Total	**3,150**	250
Financial assets at amortized cost		
– China Post Group	**399**	399
Financial assets at fair value through other comprehensive income-debt instruments		
– China Post Group	**2,934**	1,727

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

(8) Other receivables

	As at December 31	
	2020	2019
China Post Group and other related parties	**254**	371

(9) Other payables

	As at December 31	
	2020	2019
China Post Group and other related parties (Note 32)	**2,118**	2,231

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

	Year ended December 31	
	2020	2019
Interest income	**148**	93
Fee and commission income	**27**	8
Interest expense	**147**	172
Fee and commission expense	**21**	30
Operating expenses	**5**	2

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

Transactions	Note	As at December 31	
		2020	2019
Assets			
Loans and advances to customers	(1)	**704**	399
Liabilities			
Customer deposits		**35**	123

Transactions	Year ended December 31	
	2020	2019
Interest income	**10**	22
Interest expense	**–**	9

(1) As at December 31, 2020, loans and advances to customers are mainly to Mulei Tongyuan Hongshen New Energy Development Co., Ltd., China Ship-building Industry Corporation Finance Co., Ltd., China National Ship-building Equipment & Materials (South China) and CSIC (Tianjin) Offshare Wind Power Eng. & Tech. Co., Ltd. As at December 31, 2019, loans and advances to customers were mainly to CSIC Xi'an Dongyi Science Technology & Industry Group Co., Ltd. and CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

		As at December 31	
Transactions	Note	**2020**	2019
Assets			
Loans and advances to customers	(1)	**1,361**	366
Financial assets at fair value through profit or loss	(2)	**505**	–
Financial assets at amortized cost	(2)	**710**	509
Financial assets at fair value through other comprehensive income-debt instruments	(2)	**796**	647
Financial assets at fair value through other comprehensive income-equity instruments	(3)	**53**	53
Right-of-use assets		**15**	19
Other assets		**8**	3
Liabilities			
Customer deposits		**4,182**	3,434
Lease liabilities		**15**	19
Other liabilities		**8**	5

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

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

Transactions	Note	Year ended December 31	
		2020	2019
Interest income		**118**	118
Fee and commission income	(4)	**4,039**	4,365
Interest expense		**80**	57
Fee and commission expense	(4)	**1,158**	963

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

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

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

(4) During the year 2020 and 2019, the net fee and commission income is mainly settlement and clearing with China UnionPay Co., Ltd.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.3 Related party transactions (continued)

38.3.4 Transactions with related natural persons of the Bank

	As at December 31	
Transactions	**2020**	2019
Assets		
Loans and advances to customers	**120**	72
Liabilities		
Customer deposits	**239**	228

	Year ended December 31	
Transactions	**2020**	2019
Interest income	**5**	2
Interest expense	**3**	3

38.3.5 The Group and other government related entities

Other than related party transactions disclosed above and also in other relevant notes, a great part of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other state controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative product transactions, agency services, underwriting and distribution of bonds issued by government authorities, purchase, sales and redemption of securities issued by government authorities.

The Group considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

38 Relationship and transactions with related parties (continued)

38.4 Key management personnel compensation

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

		Year ended December 31	
	Note	**2020**	2019
Key management personnel compensation	(1)	**9**	18

(1) Part of the remuneration of key management personnel for the year ended December 31, 2020 is subject to strategic performance assessment after the reporting date and has not yet been paid; the compensation of key management personnel for the year ended December 31, 2019 is the final compensation after the assessment.

39 Structured entities

39.1 Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP vehicles") formed to issue and distribute wealth management products ("non-principal guaranteed WMPs") which are not subject to any guarantee by the Group in respect the principal invested or yield to be paid. The nature and purpose of the structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors. 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, 2020 and December 31, 2019, the outstanding non-principal guaranteed WMPs managed by WMP vehicles amounted to RMB865,319 million and RMB809,896 million, respectively. The Group earned fee and commission of RMB4,198 million and RMB3,950 million from these non-principal guaranteed WMPs for the years ended December 31, 2020 and 2019, respectively.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

39 Structured entities (continued)

39.1 Unconsolidated structured entities managed by the Group (continued)

As at December 31, 2020 and December 31, 2019, there were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its income from the WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by the WMPs. As at December 31, 2020 and December 31, 2019, the non-principal guaranteed WMP vehicles did not incur any losses, or experience any difficulties in financing their activities.

39.2 Unconsolidated structured entities held by the Group

The Group invests in unconsolidated structured entities issued and managed by other institutions, and records trading gains or losses or interest income therefrom. These structured entities mainly comprise trust investment plans, fund investments, asset-backed securities, asset management plans and wealth management products, etc. As at December 31, 2020 and December 31, 2019, the Group's maximum exposure to these unconsolidated structured entities is summarized in the table below:

	As at December 31, 2020		
	Financial assets at fair value through profit or loss	**Financial assets at amortized cost**	**Total**
Fund investments	**236,389**	**–**	**236,389**
Trust investment plans and asset management plans	**50,693**	**–**	**50,693**
Financial institution wealth management products	**493**	**–**	**493**
Asset-backed securities	**301**	**143,220**	**143,521**
Other debt instruments	**–**	**37,793**	**37,793**
Total	**287,876**	**181,013**	**468,889**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

39 Structured entities (continued)

39.2 Unconsolidated structured entities held by the Group (continued)

	As at December 31, 2019			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Fund investments	115,783	–	–	115,783
Trust investment plans and asset management plans	42,287	–	–	42,287
Asset-backed securities	4,937	48,312	221	53,470
Other debt instruments	–	50,647	–	50,647
Total	163,007	98,959	221	262,187

No open market information was readily available for overall scale of those unconsolidated structured entities mentioned above.

For the year ended December 31 2020 and 2019, the income from these unconsolidated structured entities earned by the Group was as follows:

	Year ended December 31	
	2020	2019
Interest income	**5,683**	8,266
Net gain arising from investment securities	**15,209**	9,690
Other comprehensive income	**2**	17
Total	**20,894**	17,973

39.3 Consolidated structured entities held by the Group

The consolidated structured entities issued and managed by the Group consist of special purpose trusts founded by a third party trust company for conducting asset securitization business by the Group(Note 41.2). For the years ended December 31, 2020 and 2019, the Group did not provide any financial support to the special purpose trusts.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments

40.1 Lawsuits and claims

The Group was involved in a number of lawsuits and claims during its normal business operations. Provisions for losses from cases and lawsuits are disclosed in Note 32 Other Liabilities.

40.2 Capital commitments

		As at December 31	
	Note	**2020**	2019
Contracts signed but not executed	(1)	**2,828**	2,340

(1) The Group's capital commitments are contracts signed but not executed, which mainly include purchase of property and equipment, and decoration projects.

40.3 Credit commitments

	As at December 31	
	2020	2019
Loan commitments		
– With an original maturity of less than 1 year	**3,986**	18,808
– With an original maturity of 1 year or above	**273,806**	415,969
Subtotal	**277,792**	434,777
Bank acceptances	**38,652**	31,583
Guarantees and letters of guarantee	**40,226**	20,447
Letters of credit	**30,383**	17,846
Unused credit card commitments	**330,260**	267,537
Total	**717,313**	772,190

Credit commitments of the Group mainly include unused limits for credit cards issued to customers and general credit facilities. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantees and letters of guarantee or bank acceptances.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments (continued)

40.4 Collateral

Assets pledged as collaterals

The carrying amounts of assets pledged as collaterals under repurchase agreements are as follows:

	As at December 31	
	2020	2019
Debt securities	**420**	72,835
Bills	**22,639**	34,797
Total	**23,059**	107,632

In addition, due to other business needs, some of the debt securities held by the Group were pledged as collaterals. As at December 31, 2020, the carrying amount of debt securities pledged as collaterals amounted to RMB73,536 million (December 31, 2019: RMB72,285 million). The pledged debt securities are mainly classified as financial assets at amortized cost.

Collaterals received

Collaterals under loans and advances mainly include land use rights and buildings. The Group has not resold or re-pledged these collaterals given that the owners of the pledged properties do not breach the contracts. As at December 31, 2020, the Group's exposure to customer loans and advances with credit impairment covered by corresponding collateral was RMB30,916 million.

The Group obtains debt securities from counterparts which could be resold or re-pledged as collaterals during the operation of financial assets held under resale agreements from banks. As at December 31, 2020, the Group obtained the above-mentioned collaterals from counterparts with a fair value of RMB2,150 million (December 31, 2019: RMB2,020 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

40 Contingent liabilities and commitments (continued)

40.5 Redemption commitment for government bonds

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of the treasury bonds have the right to redeem the bonds at any time prior to maturity and the Group is committed to honoring such redemption requests. The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity or regular settlement. The redemption price is the par value of the treasury bonds underwritten and sold plus unpaid interest in accordance with the terms of the early redemption arrangement.

As at December 31, 2020, the nominal value of treasury bonds the Group was obligated to redeem was RMB118,605 million (December 31, 2019: RMB128,816 million). The original maturities of these bonds range from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

40.6 Credit risk-weighted amounts for financial guarantees and credit commitments

	As at December 31	
	2020	2019
Financial guarantees and credit commitments	**267,884**	320,873

The credit risk-weighted figures are amounts calculated in accordance with the CBIRC's guidance, and also based on positions of the counterparties and the specifics of remaining maturities. Risk weights applied to contingent liabilities and credit commitments may vary from 0% to 100%.

41 Transfer of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to structured entities. Where the transfers fully or partially qualify for derecognition, the related financial assets will be fully or partially derecognized. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the transfers do not qualify for derecognition and the Group shall continue to recognize these financial assets. When the Group neither transfers nor retains almost all risks and rewards of the ownership of the financial assets, and does not give up the control over the financial assets, the relevant financial assets and liabilities shall be recognized according to the extent to which the Group continues to be involved in the transferred financial assets, i.e. the risk level faced by the Group due to the change of the value of the financial assets.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

41 Transfer of financial assets (continued)

41.1 Outright repurchase agreements

The Group has entered into the following repurchase agreements, and the recourse rights of the counterparties are not limited to the transferred assets. The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements.

	As at December 31, 2020		As at December 31, 2019	
	Financial assets at amortized cost	**Financial assets at fair value through other comprehensive income**	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income
Carrying amount of the collateral	**2,122**	**30**	796	–
Financial assets sold under repurchase agreements	**(2,142)**	**(29)**	(801)	–

41.2 Credit assets securitization transactions

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to special purpose trusts which issue asset-backed securities to investors.

(1) The Group maintain continuing involvement in its transferred assets as it 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, 2020 and December 31, 2019, the Group maintained continuing involvement in the following securitised assets due to its holding of subordinated tranches:

	As at December 31	
	2020	2019
ABS issued-par value	**31,139**	26,120
Assets retained by the Group, gross	**2,871**	2,372
Assets retained by the Group, net	**2,559**	2,110

41 Transfer of financial assets (continued)

41.2 Credit assets securitization transactions (continued)

(2) As at December 31, 2020, the par value of the issued ABS that had been derecognized through holding the ABS at all levels of the special purpose trusts was RMB3,817 million (December 31, 2019: RMB3,817 million) and the balance of related assets was RMB69 million (December 31, 2019: RMB87 million).

The Group acts as a credit service provider of the special purpose trusts, manages the credit assets transferred to the special purpose trusts, and collects the corresponding fee as the loan asset manager. For the year ended December 31, 2020 and the year ended December 31, 2019, the Group did not provide any financial support to the special purpose trusts.

42 Segment analysis

42.1 Business segment

The Group manages the business from both a business and geographic perspective. From the business perspective, the Group provides services through four main business segments listed below:

Personal banking

Services to personal customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services, etc.

Corporate banking

Services to corporate customers, government authorities and financial institutions including establishment of current accounts, deposits, loans, trade related products and other credit facilities, foreign currency, and wealth management products, etc.

Treasury operations

This segment covers businesses including deposits and placements with banks and other financial institutions, interbank lending transactions, repurchase and resale transactions, various debt instrument investments, equity instrument investment, investment banking and wealth management products, etc. The issuance of bond securities also falls into this range.

Others

This segment include items that are not attributed to the above segments or can not be allocated on a reasonable basis.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	Year ended December 31, 2020				
	Personal banking	Corporate banking	Treasury operations	Others	Total
Interest income from external customers	171,154	95,543	149,555	–	416,252
Interest expense to external customers	(140,117)	(14,676)	(8,081)	–	(162,874)
Inter-segment net interest income/ (expense)	154,730	(25,020)	(129,710)	–	–
Net interest income	185,767	55,847	11,764	–	253,378
Net fee and commission income	12,485	955	3,055	–	16,495
Net trading gains	–	–	3,259	–	3,259
Net gains from investment securities	–	–	15,921	–	15,921
Net gains on derecognition of financial assets at amortized cost	–	–	1	–	1
Net other operating gains	(125)	(903)	(1,897)	408	(2,517)
Operating expenses	(135,119)	(16,358)	(16,366)	(141)	(167,984)
Credit impairment losses	(33,676)	(21,341)	4,619	–	(50,398)
Impairment losses on other assets	(19)	–	–	–	(19)
Profit before income tax	29,313	18,200	20,356	267	68,136
Supplementary information					
Depreciation and amortization	6,726	1,244	108	–	8,078
Capital expenditures	6,304	1,166	101	–	7,571

	As at December 31, 2020				
	Personal banking	Corporate banking	Treasury operations	Others	Total
Segment assets	3,647,977	2,644,587	5,007,482	–	11,300,046
Deferred tax assets					53,217
Total assets					11,353,263
Segment liabilities	(9,176,091)	(1,278,929)	(225,313)	–	(10,680,333)
Supplementary information					
Credit commitments	330,260	387,053	–	–	717,313

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.1 Business segment (continued)

	Year ended December 31, 2019				
	Personal banking	Corporate banking	Treasury operations	Others	Total
Interest income from external customers	144,999	91,896	153,805	–	390,700
Interest expense to external customers	(126,204)	(13,714)	(8,096)	–	(148,014)
Inter-segment net interest income/ (expense)	144,333	(19,290)	(125,043)	–	–
Net interest income	163,128	58,892	20,666	–	242,686
Net fee and commission income	11,961	766	1,896	–	14,623
Net trading gains	–	–	3,747	–	3,747
Net gains from investment securities	–	–	12,456	–	12,456
Net gains on derecognition of financial assets at amortized cost	–	–	120	–	120
Net other operating gains	1,547	158	1,368	411	3,484
Operating expenses	(129,664)	(14,352)	(13,755)	(205)	(157,976)
Credit impairment losses	(21,839)	(25,624)	(7,921)	–	(55,384)
Impairment losses on other assets	(11)	–	–	–	(11)
Profit before income tax	25,122	19,840	18,577	206	63,745
Supplementary information					
Depreciation and amortization	6,202	927	96	–	7,225
Capital expenditures	5,780	864	90	–	6,734

	As at December 31, 2019				
	Personal banking	Corporate banking	Treasury operations	Others	Total
Segment assets	3,098,469	2,428,501	4,642,499	–	10,169,469
Deferred tax assets					47,237
Total assets					10,216,706
Segment liabilities	(8,254,382)	(1,140,069)	(277,376)	–	(9,671,827)
Supplementary information					
Credit commitments	267,537	504,653	–	–	772,190

42 Segment analysis (continued)

42.2 Geographical segment

Geographical segments, as defined for management reporting purposes, are as follows:

– Head Office

– "Yangtze River Delta": Shanghai Municipality, Jiangsu Province, Zhejiang Province and Ningbo;

– "Pearl River Delta": Fujian Province, Xiamen, Guangdong Province and Shenzhen;

– "Bohai Rim": Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province and Qingdao;

– "Central China" region: Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hubei Province, Hunan Province and Hainan Province;

– "Western China" region: Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region;

– "Northeastern China" region: Liaoning Province, Dalian, Jilin Province and Heilongjiang Province.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	Year ended December 31, 2020								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	176,876	47,468	33,978	36,231	63,180	44,635	13,884	–	416,252
Interest expense to external customers	(15,311)	(24,768)	(12,361)	(22,957)	(45,423)	(31,418)	(10,636)	–	(162,874)
Intersegment net interest (expense)/income	(153,196)	15,541	10,052	23,088	53,288	37,677	13,550	–	–
Net interest income	8,369	38,241	31,669	36,362	71,045	50,894	16,798	–	253,378
Net fee and commission income	(3,404)	3,002	3,549	4,153	4,285	3,749	1,161	–	16,495
Net trading gains/(losses)	3,256	(1)	–	6	(1)	(1)	–	–	3,259
Net gains from investment securities	15,245	251	45	86	135	71	88	–	15,921
Net gains on derecognition of financial assets at amortized cost	1	–	–	–	–	–	–	–	1
Net other operating gains	(3,831)	143	269	163	182	539	18	–	(2,517)
Operating expenses	(9,121)	(22,452)	(18,527)	(23,304)	(45,216)	(35,916)	(13,448)	–	(167,984)
Credit impairment losses	1,475	(11,415)	(8,561)	(5,894)	(14,184)	(9,455)	(2,364)	–	(50,398)
Impairment losses on other assets	–	–	–	(11)	(1)	(4)	(3)	–	(19)
Profit before income tax	11,990	7,769	8,444	11,561	16,245	9,877	2,250	–	68,136
Supplementary information									
Depreciation and amortization	759	1,231	928	1,272	1,518	1,768	602	–	8,078
Capital expenditures	2,688	585	509	911	1,340	963	575	–	7,571

	As at December 31, 2020								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	4,723,307	1,728,335	1,134,851	1,836,351	3,424,621	2,402,606	843,684	(4,793,709)	11,300,046
Deferred tax assets									53,217
Total assets									11,353,263
Segment liabilities	(3,681,078)	(1,714,679)	(1,121,574)	(1,814,651)	(3,402,708)	(2,387,698)	(840,866)	4,282,921	(10,680,333)
Supplementary information									
Credit commitments	330,261	66,040	81,584	81,054	67,157	73,924	17,293	–	717,313

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	Year ended December 31, 2019								
	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Interest income from external customers	180,313	38,250	30,431	32,154	56,324	39,817	13,411	–	390,700
Interest expense to external customers	(15,536)	(21,618)	(10,746)	(20,266)	(42,194)	(28,150)	(9,504)	–	(148,014)
Intersegment net interest (expense)/ income	(140,616)	15,109	9,126	20,503	49,870	34,383	11,625	–	–
Net interest income	24,161	31,741	28,811	32,391	64,000	46,050	15,532	–	242,686
Net fee and commission income	(2,610)	2,822	3,058	2,710	4,151	3,308	1,184	–	14,623
Net trading gains/(losses)	3,727	–	(1)	4	1	12	4	–	3,747
Net gains from investment securities	11,869	185	78	88	108	57	71	–	12,456
Net gains on derecognition of financial assets at amortized cost	120	–	–	–	–	–	–	–	120
Net other operating gains	1,522	188	399	224	423	632	96	–	3,484
Operating expenses	(7,110)	(20,894)	(18,138)	(21,699)	(42,707)	(34,302)	(13,126)	–	(157,976)
Credit impairment losses	(10,533)	(6,467)	(6,726)	(8,120)	(10,507)	(10,995)	(2,036)	–	(55,384)
Impairment losses on other assets	–	–	–	(13)	–	2	–	–	(11)
Profit before income tax	21,146	7,575	7,481	5,585	15,469	4,764	1,725	–	63,745
Supplementary information									
Depreciation and amortization	855	1,126	722	1,096	1,329	1,560	537	–	7,225
Capital expenditures	1,517	656	525	843	1,338	1,202	653	–	6,734

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

42 Segment analysis (continued)

42.2 Geographical segment (continued)

	As at December 31, 2019								
	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	North-eastern China	Eliminations	Total
Segment assets	6,725,834	1,703,964	1,084,787	1,763,158	3,327,545	2,405,710	838,511	(7,680,040)	10,169,469
Deferred tax assets									47,237
Total assets									10,216,706
Segment liabilities	(6,304,475)	(1,692,104)	(1,072,402)	(1,743,708)	(3,305,624)	(2,396,851)	(835,986)	7,679,323	(9,671,827)
Supplementary information									
Credit commitments	267,537	79,515	94,437	109,833	103,035	96,442	21,391	–	772,190

43 Financial risk management

43.1 Overview

To ensure an appropriate level of risk-adjusted return and sufficient capital adequacy, the Group adheres to a prudent risk management strategy, and achieves a decent return through appropriate risk-taking with consideration of size, growth and quality of its businesses.

The Group is mainly exposed to credit risk, market risk, liquidity risk and operational risk. Market risk includes mainly exchange rate risk (inclusive of gold) and interest rate risk.

This section describes the Group's position with respect to the above risk exposures, and the Group's objectives, policies and processes in managing those risk exposures, and conditions of the Group's capital management.

The amount and scale of subsidiaries and structured entities included in the consolidated statements of the Group are not significant, so the following mainly analyzes the financial risks faced by the Bank.

43 Financial risk management (continued)

43.2 Framework of financial risk management

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

The Group's Board of Supervisors assumes the supervisory responsibilities for comprehensive risk management, and is responsible for supervising the Board of Directors and the senior management in fulfilling their duties of risk management and urging them for any rectification.

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

43 Financial risk management (continued)

43.3 Credit risk

Credit risk refers to the risk of loss caused by the default or the reduction of credit rating and performance ability of the debtor or the counterparty.

The main sources of the Group's credit risk include: loan business, treasury business (including deposits and placements, redemptions, corporate bonds and financial bonds investment, inter-bank investment, etc.), off-balance sheet credit business (including guarantee, commitment, etc.).

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

With worst-case scenarios in mind, the Group highly values the work of forestalling and defusing financial risks and actively copes with the epidemic impact. It makes continuing efforts to identify and monitor credit risks, prevent against them in advance, and makes solid judgments on and responses to these risks. It strengthens access management, optimizes credit policies, intensifies risk prevention and control in key areas, and expedites distressed assets resolution.

43 Financial risk management (continued)

43.3 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 non-performing loans ("NPL") due to failure of a borrower to repay the principal and interest in full upon maturity of a loan. Given the loan portfolio is a major component of the Group's assets, risk on the loan portfolio is considered as a principal credit risk.

The Group continued to adopt prudent and sound credit risk management policies, improved the credit risk management system and implemented special rectification requirements of regulatory authorities. Actively following national strategic deployment and industrial policies, the Group improved the credit extension policy, guided and optimized the allocation of credit resources, dynamically optimized the credit structure to effectively serve the real economy and promote high quality development. During the COVID-19 outbreak, the Group implemented differentiated credit policies, defined supporting measures and standardization requirements such as extended repayment periods, emergency credit lines process, remote services and customer credit reporting protection, and actively supported prevention and control of the epidemic. It established measures on credit risk management to improve the credit risk management system; implemented the accountability mechanism on the person in charge for credit extension business and strengthened the whole-process management of credit extension; strengthened the management and control over unified credit extension, as well as control of concentration risk and prevented regional and systematic risks. It optimized the internal rating and risk limit management system for financial institutions, general enterprises and SMEs customers, and improved the development of the internal rating platform for retail credit business, deepening the application of the internal rating-based approach. It improved credit risk monitoring and early-warning mechanism, paid equal attention to the existing non-performing loans and the increase of non-performing loans as well as NPLs and NPL ratio control, improved the quality of credit assets and enhanced the risk compensation capacity. In addition, it further intensified efforts of asset preservation, enriched the disposal means of non-performing loans, actively expanded the disposal channels, strengthened the write-off of non-performing assets, and improved the effectiveness of risk disposal.

43 Financial risk management (continued)

43.3 Credit risk (continued)

(2) Debt securities and other debt instruments

Credit risks on debt securities and other debt instruments arise from changes in credit spreads, default rates, loss ratios and credit quality of underlying assets.

The Group adopts a prudent approach in making debt securities investments by focusing on low-risk debt securities, including government bonds and financial institution bonds. Other debt instruments are mainly trust investment plans and assets management plans.

The Group established a risk evaluation system on the trust companies, securities companies and fund management companies, and performs ongoing post-lending monitoring on timely basis.

(3) Interbank financing business

The Group manages the credit quality of deposits and placements with banks and other financial institutions and financial assets held under resale agreements by considering the size, financial position and the internal and external credit rating of those banks and financial institutions.

43.3.1 Expected credit loss measurement

The Group has applied “Expected Credit Loss Model” (“ECL”) 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 classifies it in three stages to calculate the ECL.

Stage 1 includes financial assets that have not had a significant increase in credit risk since initial recognition.

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition, measured by the changes of default risk over their expected life. These changes have been determined by comparing the default risk at the balance sheet date with it at the date of initial recognition. Please refer to note 43.3.1(2) for the criteria of a significant increase in credit risk.

Stage 3 includes financial assets that are credit-impaired. Please refer to note 43.3.1(3) for the Group’s definition of credit-impaired.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

The Group assesses impairment allowance through the use of expected credit loss models and discounted cash flow method. Loans and advances and financial investments 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 which not considered individually significant are accessed using expected credit loss models.

The Group has incorporated forward-looking information for measuring ECL and constructed comprehensive models involving substantial management judgements and assumptions, mainly including the following:

– Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL;

– Significant increase in credit risk;

– Definition of default and credit-impaired;

– Descriptions of parameters, assumptions and estimation techniques;

– Forward-looking information;

– Management overlay;

– The estimated future cash flows for loans and advances to customers and financial investments in stage 3 which are considered individually significant.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(1) Segmentation of portfolio sharing similar credit risk characteristics for the purposes of measuring ECL

For measurement of ECL, segmentation of portfolio is based on similar credit risk characteristics. In performing the portfolio segmentation of credit assets, the Group considers the type of borrower, industry, loan usage, and security type. The segmentation of portfolio are regularly monitored and reviewed to ensure the reliability of credit risk segmentation.

In 2020, considering the impact of COVID-19 on the customers varies by industries, the Group comprehensively considers the impact of internal and external environmental changes on assessment of credit risk segmentation, and regroups the credit risk segmentation on a reasonable basis.

(2) Significant Increase in Credit Risk (SICR)

At each balance sheet date, the Group evaluates whether a significant increase in credit risk of related financial instruments has occurred since initial recognition, which mainly includes: impacts of regulation and operating environment, changes in internal and external credit rating, insolvency, business performance, loan contractual terms, etc. Based on individual financial instrument or financial instrument portfolios with similar credit risk characteristics, the Group determines changes of the 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 grading 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.

During the COVID-19 outbreak, the Group developed financial relief scheme for existing customers being affected by the epidemic in accordance with the regulatory provisions. For the customers who applied for the financial relief policy, the Group took into account of borrowers' repayment ability. If they meet the requirements of financial relief policy, the Group should take the methods of term extension, loan extension and loan renewal to relieve their difficulties, and assess whether there have been significant increase in credit risk.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(3) Definition of Default and Credit-impaired

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 overdues 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;
- 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 the financial assets.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(4) Description of Parameters, Assumptions, and Estimation Techniques

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.

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 Group estimates PD, LGD and EAD of each portfolio in the future to calculate the ECL. The Group multiples the three and adjusts their expected life (such as default), and discount and aggregate the calculation result of each period.The discount rate used in the ECL calculation is the contractual rate or its approximate value.

The Group monitors the related assumptions concerning the calculation of expected credit loss on a quarterly basis, and makes necessary updates and adjustments.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(5) Forward-looking Information

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio, mainly including Gross Domestic Product("GDP"), Consumer Price Index, and Producer Price Index, etc. The growth rate of GDP for 2021 in the base scenario is predicted to be approximately 8%.

These economic variables and their associated impacts on the PD vary by segmentation of the portfolio. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "basic economic scenario") are made by the Group every year, and the relationship between these economic variables and PD is identified through performing statistical regression analysis with the purpose of understanding the impact that the historical changes of these variables have on PD.

The Group has adopted three economic scenarios (Base, Upside and Downside) and applied weightings for them respectively, on the basis of a combination of the macroeconomic information, statistical analysis and expert judgment. Usually, the highest weighting is assigned to Base scenario, while lower and comparable weightings are assigned to Upside and Downside scenarios.

The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis, and makes necessary updates and adjustments.

Relatively substantial management judgements are involved in the weighting scheme of macroeconomic scenarios, macroeconomic forecasts, and significant increase in credit risk in 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, and the fluctuation of macroeconomic forecasts and transition of financial assets from Stage 2 to Stage 1.

Assuming the weighting of the Upside scenario or Downside scenario would increase by 10% and the weighting of the base scenario would decrease by 10%, the absolute change rate of the balance of loss allowance as at December 31, 2020 would be no more than 10%.

Assuming year-over-year growth in GDP, 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, 2020 would be no more than 10%.

Assuming Stage 2 financial assets transferred into Stage 1, the balance of loss allowance as at December 31, 2020 would accordingly decrease by no more than 5%.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.1 Expected credit loss measurement (continued)

(6) Management Overlay

Taking into account inherent limitations of ECL model and temporary systematic risk factors, the Group has additionally accrued loss allowance in response to potential risk and improved its risk compensation capability.

In 2020, the Group has additionally accrued loss allowance for the loans delayed payment of principals and interests. The amount of overlay was not material as compared to the balance of loss allowance.

(7) The estimated future cash flows for loans and advances to customers and financial investments in stage 3 which are considered individually significant.

At each measurement date, the Group projects the future cash inflows of each future period related to credit-impaired financial assets. The cash flows are discounted and aggregated to determine the present value of the assets' future cash flows.

(8) Write-off Policy

The Group writes off financial assets, in whole or in part, when it has taken all necessary recovery efforts and is still not capable of reasonably expecting to recover partial or all the financial assets. The Group may write-off financial assets that are still subject to enforcement activities. The outstanding amounts of such assets written off during the year ended December 31, 2020 were RMB14,721 million (for the year ended December 31, 2019: RMB11,449 million).

(9) Rescheduled loans and advances

In order to collect loans as much as possible, the Group may renegotiate the terms of the contract with borrowers because of deterioration in their financial position, or of the inability to meet their original repayment schedule. Such contract modifications include period of loan, repayment mode or interest rate. Based on the management's judgment of the borrowers' repayment possibility, the Group has formulated specific rescheduled loan policy and practice, and reviewed the policy continuously. Rescheduled loans should be reviewed with at least 6 months of observation to reach the corresponding stage classification criteria. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Credit-impaired rescheduled loans and advances of the Group as at December 31, 2020 amounted to RMB339 million (December 31, 2019: RMB491 million).

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.2 Credit risk limit control and mitigation policy

In accordance with risk policies and limits, the risk management and business departments of the Group set risk management measures. That aims to optimize business processes and monitor the implementation of risk control indicators.

To reduce risks, the Group requires customers to provide collateral or guarantees when appropriate. The Group has established guidelines for the acceptability of specific types of collateral, and set up a collateral management system to standardizing the collateral operation process. At the same time, the value, structure and legal documents of the collateral are regularly reviewed to ensure that it can continue to fulfill its intended purpose and conform to market practices.

43.3.3 Credit risk exposures

(1) Maximum credit risk exposures

The table below presents the Group's maximum credit risk exposures before considering any collaterals or other credit enhancements as at December 31, 2020, and December 31, 2019. For on-balance sheet assets, the maximum credit risk exposures are presented at their net carrying amounts on the balance sheet.

	As at December 31	
	2020	2019
Deposits with central bank	**1,169,806**	1,110,921
Deposits with banks and other financial institutions	**43,682**	28,373
Placements with banks and other financial institutions	**248,396**	269,597
Derivative financial assets	**11,140**	5,009
Financial assets held under resale agreements	**259,956**	147,394
Loans and advances to customers	**5,512,361**	4,808,062
Financial investments		
Financial assets at fair value through profit or loss – debt instruments	**418,232**	308,420
Financial assets at fair value through other comprehensive income – debt instruments	**315,922**	228,672
Financial assets at amortized cost	**3,173,643**	3,135,144
Other financial assets	**20,247**	15,396
Subtotal	**11,173,385**	10,056,988
Credit commitments	**717,313**	772,190
Total	**11,890,698**	10,829,178

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment

According to the characteristics of risk level, the Group classifies the risk level of financial assets included in the measurement of expected credit losses into "Risk level 1", "Risk level 2", "Risk level 3" and "default". "Risk level 1" means that the asset credit quality is good, there is sufficient evidence to show that the asset is not expected to default; "Risk level 2" means that the asset quality is relatively good, there is no reason or there is no sufficient reason to suspect that the asset is expected to default; "Risk level 3" refers to the unfavorable factors that may cause or have caused an asset default, but no default event has occurred or no significant default has occurred. The criteria for "default" are consistent with the definition of credit-impaired assets.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amounts of financial assets below also represent the Group's maximum exposure to credit risk on these assets.

	As at December 31, 2020 ECL Staging			
	Stage 1	Stage 2	Stage 3	
Deposits and placements with banks and other financial institutions and financial assets held under resale agreements	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**416,164**	**–**	**–**	**416,164**
Risk level 2	**137,946**	**–**	**–**	**137,946**
Risk level 3	**–**	**–**	**–**	**–**
Default	**–**	**–**	**–**	**–**
Gross Carrying amount	**554,110**	**–**	**–**	**554,110**
Loss allowance	**(2,076)**	**–**	**–**	**(2,076)**
Carrying amount	**552,034**	**–**	**–**	**552,034**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Deposits and placements with banks and other financial institutions and financial assets held under resale agreements	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Credit Grade				
Risk level 1	383,583	–	–	383,583
Risk level 2	58,873	5,507	–	64,380
Risk level 3	–	–	–	–
Default	–	–	–	–
Gross Carrying amount	442,456	5,507	–	447,963
Loss allowance	(2,159)	(440)	–	(2,599)
Carrying amount	440,297	5,067	–	445,364

	As at December 31, 2020			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Corporate loans and advances to customers at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**1,796,622**	**12,030**	**–**	**1,808,652**
Risk level 2	**13,852**	**10,142**	**–**	**23,994**
Risk level 3	**–**	**596**	**–**	**596**
Default	**–**	**–**	**18,649**	**18,649**
Gross Carrying amount	**1,810,474**	**22,768**	**18,649**	**1,851,891**
Loss allowance	**(80,519)**	**(8,052)**	**(16,946)**	**(105,517)**
Carrying amount	**1,729,955**	**14,716**	**1,703**	**1,746,374**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Corporate loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Credit Grade				
Risk level 1	1,681,469	1,026	–	1,682,495
Risk level 2	10,046	15,721	–	25,767
Risk level 3	–	11,077	–	11,077
Default	–	–	16,544	16,544
Gross Carrying amount	1,691,515	27,824	16,544	1,735,883
Loss allowance	(67,105)	(10,170)	(15,302)	(92,577)
Carrying amount	1,624,410	17,654	1,242	1,643,306

	As at December 31, 2020			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Personal loans and advances to customers at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**3,210,897**	**–**	**–**	**3,210,897**
Risk level 2	**892**	**5,934**	**–**	**6,826**
Risk level 3	**–**	**4,446**	**–**	**4,446**
Default	**–**	**–**	**31,724**	**31,724**
Gross Carrying amount	**3,211,789**	**10,380**	**31,724**	**3,253,893**
Loss allowance	**(67,909)**	**(3,951)**	**(26,520)**	**(98,380)**
Carrying amount	**3,143,880**	**6,429**	**5,204**	**3,155,513**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Personal loans and advances to customers at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Credit Grade				
Risk level 1	2,709,098	–	–	2,709,098
Risk level 2	4,771	6,069	–	10,840
Risk level 3	–	3,518	–	3,518
Default	–	–	27,332	27,332
Gross Carrying amount	2,713,869	9,587	27,332	2,750,788
Loss allowance	(47,593)	(2,931)	(23,023)	(73,547)
Carrying amount	2,666,276	6,656	4,309	2,677,241

The majority of loans and advances to customers at fair value through other comprehensive income and credit commitments are in Stage 1 with credit grade as "Risk level 1".

	As at December 31, 2020			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Financial investments – financial assets at fair value through other comprehensive income-debt instruments	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**315,646**	**–**	**–**	**315,646**
Risk level 2	**223**	**–**	**–**	**223**
Risk level 3	**–**	**–**	**53**	**53**
Default	**–**	**–**	**–**	**–**
Carrying amount	**315,869**	**–**	**53**	**315,922**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Financial investments – financial assets at fair value through other comprehensive income-debt instruments	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Credit Grade				
Risk level 1	225,654	–	–	225,654
Risk level 2	2,918	100	–	3,018
Risk level 3	–	–	–	–
Default	–	–	–	–
Carrying amount	228,572	100	–	228,672

	As at December 31, 2020			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Financial investments – financial assets at amortized cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Credit Grade				
Risk level 1	**3,129,905**	**9,040**	**–**	**3,138,945**
Risk level 2	**32,771**	**9,340**	**–**	**42,111**
Risk level 3	**–**	**60**	**–**	**60**
Default	**–**	**–**	**13,014**	**13,014**
Gross Carrying amount	**3,162,676**	**18,440**	**13,014**	**3,194,130**
Loss allowance	**(3,784)**	**(3,723)**	**(12,980)**	**(20,487)**
Carrying amount	**3,158,892**	**14,717**	**34**	**3,173,643**

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.3 Credit risk exposures (continued)

(2) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at December 31, 2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Financial investments – financial assets at amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Credit Grade				
Risk level 1	3,074,390	–	–	3,074,390
Risk level 2	45,363	27,050	–	72,413
Risk level 3	–	–	293	293
Default	–	–	13,048	13,048
Gross Carrying amount	3,119,753	27,050	13,341	3,160,144
Loss allowance	(2,616)	(9,486)	(12,898)	(25,000)
Carrying amount	3,117,137	17,564	443	3,135,144

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers

(1) Loans and advances by geographical region:

	As at December 31			
	2020		2019	
	Amount	**Proportion**	Amount	Proportion
Head Office	**318,627**	**6%**	294,229	6%
Yangtze River Delta	**1,157,455**	**20%**	979,711	20%
Pearl River Delta	**668,372**	**12%**	570,988	11%
Bohai Rim	**869,133**	**15%**	759,469	15%
Central China	**1,406,061**	**25%**	1,216,003	25%
Western China	**979,625**	**17%**	851,016	17%
Northeastern China	**316,985**	**5%**	302,770	6%
Total	**5,716,258**	**100%**	4,974,186	100%

(2) Loans and advances by types:

	As at December 31			
	2020		2019	
	Amount	**Proportion**	Amount	Proportion
Corporate loans and advances				
Including: Loans	**1,977,785**	**35%**	1,740,564	35%
Discounted bills	**484,580**	**8%**	482,834	10%
Personal loans and advances	**3,253,893**	**57%**	2,750,788	55%
Total	**5,716,258**	**100%**	4,974,186	100%

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers (continued)

(3) Loans and advances by industry:

	As at December 31			
	2020		2019	
	Amount	**Proportion**	Amount	Proportion
Corporate loans and advances				
Transportation, storage and postal services (i)	**611,929**	**11%**	508,233	11%
Manufacturing	**312,480**	**5%**	273,074	6%
Production and supply of electricity, heating, gas and water	**204,923**	**4%**	187,145	4%
Financial services	**193,861**	**3%**	206,322	4%
Wholesale and retail	**117,424**	**2%**	104,441	2%
Construction	**110,440**	**2%**	103,094	2%
Leasing and business services	**110,249**	**2%**	99,571	2%
Management of water conservancy, environmental and public facilities	**96,018**	**2%**	71,449	1%
Real estate	**93,607**	**2%**	70,158	1%
Mining	**69,268**	**1%**	58,479	1%
Other industries	**57,586**	**1%**	58,598	1%
Subtotal	**1,977,785**	**35%**	1,740,564	35%
Discounted bills	**484,580**	**8%**	482,834	10%
Personal loans and advances				
Consumer loans				
– Residential mortgage loans	**1,921,055**	**34%**	1,700,049	34%
– Other consumer loans	**441,945**	**8%**	317,350	6%
Personal micro loans	**746,252**	**13%**	610,201	13%
Credit card overdraft and others	**144,641**	**2%**	123,188	2%
Subtotal	**3,253,893**	**57%**	2,750,788	55%
Total	**5,716,258**	**100%**	4,974,186	100%

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers (continued)

(3) Loans and advances by industry: (continued)

(i) As at December 31, 2020, the balance included loans to China State Railway Group Co., Ltd. (In June 2019, China Railway Corporation was restructured and renamed as China State Railway Group Co., Ltd.) of RMB182,089 million (December 31, 2019: RMB182,673 million).

(4) Loans and advances by types of collateral:

	As at December 31			
	2020		2019	
	Amount	Proportion	Amount	Proportion
Unsecured loans	**1,504,504**	**26%**	1,255,903	25%
Guaranteed loans	**383,601**	**7%**	298,011	6%
Loans secured by mortgages	**2,779,991**	**49%**	2,476,942	50%
Loans secured by pledges	**563,582**	**10%**	460,496	9%
Discounted bills	**484,580**	**8%**	482,834	10%
Total	**5,716,258**	**100%**	4,974,186	100%

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.4 Loans and advances to customers (continued)

(5) Overdue loans and advances by security types and overdue status are as follows:

	As at December 31, 2020				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	4,018	4,960	2,504	198	11,680
Guaranteed loans	2,165	2,154	2,394	812	7,525
Loans secured by mortgages	6,910	7,005	7,219	2,943	24,077
Loans secured by pledges	460	5	1,414	208	2,087
Discounted bills	–	–	10	–	10
Total	13,553	14,124	13,541	4,161	45,379

	As at December 31, 2019				
	Overdue for 1 to 90 days (including 90 days)	Overdue for 91 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for over 3 years	Total
Unsecured loans	5,220	3,162	2,220	141	10,743
Guaranteed loans	2,314	2,211	2,749	816	8,090
Loans secured by mortgages	9,019	6,900	7,427	2,480	25,826
Loans secured by pledges	5,493	77	590	254	6,414
Discounted bills	–	10	–	–	10
Total	22,046	12,360	12,986	3,691	51,083

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments

(1) Credit quality of debt instruments

The table below represents the carrying amounts and allowance for impairment losses of financial assets at amortized cost and financial assets at fair value through other comprehensive income – debt instruments:

	As at December 31, 2020			
	Stage 1(i)	**Stage 2**	**Stage 3**	**Total**
Financial assets at amortized cost	**3,158,892**	**14,717**	**34**	**3,173,643**
Financial assets at fair value through other comprehensive income – debt instruments	**315,869**	**–**	**53**	**315,922**
Total	**3,474,761**	**14,717**	**87**	**3,489,565**

	As at December 31, 2019			
	Stage 1(i)	Stage 2	Stage 3	Total
Financial assets at amortized cost	3,117,137	17,564	443	3,135,144
Financial assets at fair value through other comprehensive income – debt instruments	228,572	100	–	228,672
Total	3,345,709	17,664	443	3,363,816

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1

	As at December 31, 2020		
The types of debt instruments	**Financial assets at amortized cost**	**Financial assets at fair value through other comprehensive income**	**Total**
Debt securities-by types of issuers:			
Government	1,069,157	59,577	1,128,734
Financial institutions	1,586,139	203,253	1,789,392
Corporates	120,956	48,381	169,337
Interbank certificates of deposits	177,417	719	178,136
Asset-backed securities	144,626	–	144,626
Other debt instruments	63,975	–	63,975
Debt financing plans	406	3,939	4,345
Gross amount	3,162,676	315,869	3,478,545
Less: Allowance for impairment losses	(3,784)	–	(3,784)
Carrying amount of debt instruments at stage 1	3,158,892	315,869	3,474,761

The allowance for impairment losses of financial assets at fair value through other comprehensive income is RMB526 million, which is reflected in other comprehensive income.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(1) Credit quality of debt instruments (continued)

(i) Debt instruments of stage 1 (continued)

	As at December 31, 2019		
The types of debt instruments	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Debt securities-by types of issuers:			
Government	998,949	60,711	1,059,660
Financial institutions	1,740,770	128,614	1,869,384
Corporates	113,993	39,026	153,019
Interbank certificates of deposits	176,562	–	176,562
Asset-backed securities	48,484	221	48,705
Other debt instruments	40,995	–	40,995
Gross amount	3,119,753	228,572	3,348,325
Less: Allowance for impairment losses	(2,616)	–	(2,616)
Carrying amount of debt instruments at stage 1	3,117,137	228,572	3,345,709

The allowance for impairment losses of financial assets at fair value through other comprehensive income is RMB395 million, which is reflected in other comprehensive income.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(2) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debts instruments held. The ratings are obtained from major rating agencies where the issuers of the debt instruments are located. The carrying amounts of debts instruments analyzed by rating as at the end of the reporting period are as follows:

	As at December 31, 2020					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	652,437	477,486	–	–	–	1,129,923
Financial institution bonds	1,683,521	124,952	101	17,439	9,957	1,835,970
Corporate bonds	22,144	154,889	408	19,615	1,300	198,356
Interbank certificates of deposits	234,626	–	–	–	–	234,626
Asset-backed securities	41,519	103,881	64	–	–	145,464
Debt financing plans	4,345	–	–	–	–	4,345
Fund investments	236,389	–	–	–	–	236,389
Trust investment plans and asset management plans	50,693	–	–	–	–	50,693
Financial institution wealth management products	493	–	–	–	–	493
Other debt instruments	92,025	–	–	–	–	92,025
Total	3,018,192	861,208	573	37,054	11,257	3,928,284

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.5 Debt instruments (continued)

(2) Debt instruments analyzed by credit rating (continued)

	As at December 31, 2019					
	Unrated (i)	AAA	AA	A	Below A	Total
Government bonds	648,912	412,887	–	–	–	1,061,799
Public sector and quasi-government bonds	176	–	–	–	–	176
Financial institution bonds	1,775,207	117,728	3,334	15,366	1,332	1,912,967
Corporate bonds	14,845	154,075	909	1,701	695	172,225
Interbank certificates of deposits	265,467	–	–	–	–	265,467
Asset-backed securities	8,283	44,686	1,335	–	–	54,304
Fund investments	115,783	–	–	–	–	115,783
Trust investment plans and asset management plans	42,287	–	–	–	–	42,287
Other debt instruments	72,228	–	–	–	–	72,228
Total	2,943,188	729,376	5,578	17,067	2,027	3,697,236

(i) Unrated debt instruments held by the Group are bonds issued by policy banks, China Development Bank, and the Chinese government, interbank certifictates of deposits and fund investments.

43 Financial risk management (continued)

43.3 Credit risk (continued)

43.3.6 Concentration of credit risk

The credit risk exposure of financial assets mainly concentrates in Mainland China.

43.4 Liquidity risk

Liquidity risk refers to the risk of failure to obtain sufficient funds by commercial bank at a reasonable cost in a timely manner to repay maturing debts, fulfill other payment obligations and meet other financial needs of normal operation. Events or factors that cause the Group's liquidity risk include: deposit customers withdrawing deposits, loan customers and debtors failing to repay principal and interest, excessive mismatch of maturity of assets and liabilities, difficulty in realizing assets, decline in financing capacity, etc. The objective of liquidity risk management of the Group is to meet the liquidity needs and fulfill its payment obligation to external parties during the normal operation or at a highly stressed condition which is achieved through the establishment of a scientific and comprehensive liquidity risk management mechanism, through which liquidity risk can be timely identified, measured and effectively controlled. The Group adheres to prudent liquidity risk management strategy and effectively balances the rhythm and structure of capital source and utilization.

The Group conducts liquidity risk stress tests on a quarterly basis to test risk tolerance under stress scenarios and continually improve stress testing methods based on regulatory and internal management requirements. The stress test results show that under the various pressure scenario assumptions, the Group can pass the minimum life expectancy test.

The Group is mainly funded by personal deposits, which is considered a stable source of funding. On the other hand, the Group primarily invests in assets with high liquidity such as deposits with banks and other financial institutions, and government bonds. During the reporting period, the Bank's liquidity regulatory indicators were functioning normally, with sufficient liquidity as a whole and safe and controllable.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The table below summarizes the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	As at December 31, 2020								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	–	81,953	–	559	–	–	–	1,137,350	1,219,862
Deposits with banks and other financial institutions	–	9,958	3,493	863	29,368	–	–	–	43,682
Placements with banks and other financial institutions	–	–	20,491	24,504	156,019	47,382	–	–	248,396
Derivative financial assets	–	–	1,159	2,170	7,153	658	–	–	11,140
Financial assets held under resale agreements	–	–	217,257	31,958	10,741	–	–	–	259,956
Loans and advances to customers	7,974	–	355,597	402,017	1,611,352	1,087,726	2,047,695	–	5,512,361
Financial assets at fair value through profit or loss	10	60,737	8,863	29,342	50,084	123,464	145,732	1,049	419,281
Financial assets at fair value through other comprehensive income-debt instruments	–	–	5,742	9,420	76,092	212,204	12,464	–	315,922
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	5,804	5,804
Financial assets at amortized cost	34	–	59,998	167,341	429,556	1,454,642	1,062,072	–	3,173,643
Other financial assets	1,410	11,724	133	3,216	134	362	3,081	187	20,247
Total financial assets	9,428	164,372	672,733	671,390	2,370,499	2,926,438	3,271,044	1,144,390	11,230,294

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2020								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Borrowings from central bank	–	–	–	4,422	20,866	–	–	–	25,288
Deposits from banks and other financial institutions	–	65,733	–	–	11,045	9,134	–	–	85,912
Placements from banks and other financial institutions	–	–	4,647	5,132	20,964	–	–	–	30,743
Derivative financial liabilities	–	–	1,403	1,870	5,643	716	–	–	9,632
Financial assets sold under repurchase agreements	–	–	7,695	10,763	6,676	–	–	–	25,134
Customer deposits	–	3,819,615	652,681	1,452,836	3,112,622	1,320,275	–	–	10,358,029
Debt securities issued	–	–	–	695	7,312	–	49,967	–	57,974
Other financial liabilities	–	13,131	16,456	2,776	240	1,121	2,871	–	36,595
Total financial liabilities	–	3,898,479	682,882	1,478,494	3,185,368	1,331,246	52,838	–	10,629,307
Net liquidity	9,428	(3,734,107)	(10,149)	(807,104)	(814,869)	1,595,192	3,218,206	1,144,390	600,987

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Cash and deposits with central bank	–	90,506	–	591	–	–	–	1,063,746	1,154,843
Deposits with banks and other financial institutions	–	8,507	–	14	19,852	–	–	–	28,373
Placements with banks and other financial institutions	–	–	38,719	14,381	177,274	39,223	–	–	269,597
Derivative financial assets	–	–	1,044	1,177	2,123	665	–	–	5,009
Financial assets held under resale agreements	–	–	123,679	16,532	7,183	–	–	–	147,394
Loans and advances to customers	9,198	–	309,523	386,289	1,421,427	841,854	1,839,771	–	4,808,062
Financial assets at fair value through profit or loss	71	114,882	18,653	17,641	57,115	23,409	76,649	1,741	310,161
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,547	17,128	40,585	159,254	3,158	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	1,053	1,053
Financial assets at amortized cost	178	–	40,037	117,883	404,115	1,760,904	812,027	–	3,135,144
Other financial assets	970	9,370	149	1,669	79	448	2,533	178	15,396
Total financial assets	10,417	223,265	540,351	573,305	2,129,753	2,825,757	2,734,138	1,066,718	10,103,704

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (continued)

	As at December 31, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Deposits from banks and other financial institutions	–	46,190	221	44	401	396	–	–	47,252
Placements from banks and other financial institutions	–	–	2,139	5,936	17,721	–	–	–	25,796
Derivative financial liabilities	–	–	999	1,445	2,172	449	–	–	5,065
Financial assets sold under repurchase agreements	–	–	61,651	19,383	17,624	–	–	–	98,658
Customer deposits	–	3,528,475	524,808	1,478,123	2,457,929	1,324,731	–	–	9,314,066
Debt securities issued	–	–	–	2,118	19,917	–	74,944	–	96,979
Other financial liabilities	–	14,396	18,640	2,332	224	1,016	2,372	–	38,980
Total financial liabilities	–	3,589,061	608,458	1,509,381	2,515,988	1,326,592	77,316	–	9,626,796
Net liquidity	10,417	(3,365,796)	(68,107)	(936,076)	(386,235)	1,499,165	2,656,822	1,066,718	476,908

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

The table below presents the cash flows of the Group's financial assets and financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the undiscounted contractual cash flows. The Group manages its inherent liquidity risk in the short term based on the expected undiscounted cash flows.

	As at December 31, 2020								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	–	81,953	–	559	–	–	–	1,137,350	1,219,862
Deposits with banks and other financial institutions	–	9,958	3,502	946	29,833	–	–	–	44,239
Placements with banks and other financial institutions	–	–	20,516	26,667	159,654	49,282	–	–	256,119
Financial assets held under resale agreements	–	–	217,337	32,106	10,858	–	–	–	260,301
Loans and advances to customers	9,086	–	383,273	444,868	1,758,500	1,610,617	3,016,250	–	7,222,594
Financial assets at fair value through profit or loss	10	60,737	8,871	29,488	51,870	131,008	150,011	1,049	433,044
Financial assets at fair value through other comprehensive income-debt instruments	–	–	5,816	9,753	80,091	229,380	14,444	–	339,484
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	5,804	5,804
Financial assets at amortized cost	332	–	63,076	178,438	493,266	1,769,345	1,302,363	–	3,806,820
Other financial assets	–	9,552	133	3,216	134	362	3,081	187	16,665
Total non-derivative financial assets	9,428	162,200	702,524	726,041	2,584,206	3,789,994	4,486,149	1,144,390	13,604,932

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2020								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial liabilities									
Borrowings from central bank	–	–	–	4,497	20,958	–	–	–	25,455
Deposits from banks and other financial institutions	–	65,733	–	–	11,131	9,970	–	–	86,834
Placements from banks and other financial institutions	–	–	4,649	5,321	21,299	–	–	–	31,269
Financial assets sold under repurchase agreements	–	–	7,700	10,798	6,719	–	–	–	25,217
Customer deposits	–	3,819,615	653,192	1,458,023	3,155,990	1,389,964	–	–	10,476,784
Debt securities issued	–	–	–	900	8,160	7,560	53,690	–	70,310
Other financial liabilities	–	13,131	16,456	2,776	240	1,121	2,871	–	36,595
Total non-derivative financial liabilities	–	3,898,429	681,997	1,482,315	3,224,497	1,408,615	56,561	–	10,752,464
Net liquidity	9,428	(3,736,279)	20,527	(756,274)	(640,291)	2,381,379	4,429,588	1,144,390	2,852,468

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial assets									
Cash and deposits with central bank	–	90,506	–	591	–	–	–	1,063,746	1,154,843
Deposits with banks and other financial institutions	–	8,507	–	156	20,394	–	–	–	29,057
Placements with banks and other financial institutions	–	–	38,984	16,790	183,378	40,218	–	–	279,370
Financial assets held under resale agreements	–	–	124,648	16,611	7,254	–	–	–	148,513
Loans and advances to customers	9,959	–	329,933	419,664	1,551,996	1,213,876	2,517,895	–	6,043,323
Financial assets at fair value through profit or loss	228	114,882	18,719	18,165	59,581	31,430	81,622	1,741	326,368
Financial assets at fair value through other comprehensive income-debt instruments	–	–	8,568	17,320	44,177	168,877	4,394	–	243,336
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	–	–	1,053	1,053
Financial assets at amortized cost	13,240	–	42,372	125,199	472,462	2,086,002	1,011,385	–	3,750,660
Other financial assets	–	9,370	149	1,669	79	448	2,533	178	14,426
Total non-derivative financial assets	23,427	223,265	563,373	616,165	2,339,321	3,540,851	3,617,829	1,066,718	11,990,949

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

	As at December 31, 2019								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	–	46,190	221	45	406	418	–	–	47,280
Placements from banks and other financial institutions	–	–	2,141	6,113	17,979	–	–	–	26,233
Financial assets sold under repurchase agreements	–	–	65,362	30,962	19,507	–	–	–	115,831
Customer deposits	–	3,528,475	525,241	1,482,843	2,490,229	1,412,205	–	–	9,438,993
Debt securities issued	–	–	–	2,330	21,895	12,060	80,805	–	117,090
Other financial liabilities	–	14,396	18,640	2,332	224	1,016	2,372	–	38,980
Total non-derivative financial liabilities	–	3,589,061	611,605	1,524,625	2,550,240	1,425,699	83,177	–	9,784,407
Net liquidity	23,427	(3,365,796)	(48,232)	(908,460)	(210,919)	2,115,152	3,534,652	1,066,718	2,206,542

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Cash flow of derivative financial instruments

Derivative financial instruments settled on a net basis

The fair values of the Group's derivative financial instruments that will be settled on a net basis are primarily related to changes in interest rates. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	As at December 31, 2020					
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate derivative financial instruments	**3**	**6**	**11**	**35**	**–**	**55**

	As at December 31, 2019					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate derivative financial instruments	10	1	24	10	–	45

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Cash flow of derivative financial instruments (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, 2020					
	Within 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Derivative financial instruments settled on a gross basis						
– Cash inflow	**103,517**	**76,350**	**244,850**	**9,134**	**–**	**433,851**
– Cash outflow	**(104,142)**	**(76,025)**	**(242,890)**	**(9,320)**	**–**	**(432,377)**
Total	**(625)**	**325**	**1,960**	**(186)**	**–**	**1,474**

	As at December 31, 2019					
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivative financial instruments settled on a gross basis						
– Cash inflow	152,175	99,818	305,078	6,819	–	563,890
– Cash outflow	(152,101)	(100,041)	(305,098)	(6,493)	–	(563,733)
Total	74	(223)	(20)	326	–	157

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.4 Liquidity risk (continued)

Credit commitments

The off-balance sheet items of the Group are listed in the following table by remaining contractual maturity, and the financial guarantees are listed in the nominal amount according to the earliest contract expiration date:

	As at December 31, 2020			
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Loan commitments	**70,856**	**190,821**	**16,115**	**277,792**
Bank acceptance	**38,652**	**–**	**–**	**38,652**
Guarantee and letters of guarantee	**22,618**	**13,982**	**3,626**	**40,226**
Letters of credit	**30,383**	**–**	**–**	**30,383**
Unused credit card commitments	**330,260**	**–**	**–**	**330,260**
Total	**492,769**	**204,803**	**19,741**	**717,313**

	As at December 31, 2019			
	Within 1 year	1 to 5 years	Over 5 years	Total
Loan commitments	118,307	278,652	37,818	434,777
Bank acceptance	31,583	–	–	31,583
Guarantee and letters of guarantee	9,153	7,785	3,509	20,447
Letters of credit	17,846	–	–	17,846
Unused credit card commitments	267,537	–	–	267,537
Total	444,426	286,437	41,327	772,190

43 Financial risk management (continued)

43.5 Market risk

Market risk refers to the risk of losses to the Group's on- and off-balance sheet activities arising from unfavourable changes on market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The Group is primarily exposed to interest rate risk and exchange rate risk (inclusive of gold) in the course of business.

The Group adopts a centralized approach in market risk management process, including identification, measurement, monitoring and control. At present, the Group has established its basic rules and procedures for market risk management, separation of banking and trading books, and valuation of financial assets. The Group applies such rules and procedures to separate banking and trading books, and to identify, measure, monitor and control market risks on banking book and trading book.

The Group is also exposed to market risk on its derivative investments on behalf of customers, which is hedged through back-to-back transactions with other financial institutions.

Techniques for measuring and limits for market risks

Trading book

Market risk on the trading book mainly arises from loss in value of financial instruments in the trading book due to adverse changes of market interest rates and exchange rates etc.

The Group uses limit management, sensitivity analysis, exposure analysis, stress test and other methods to manage the market risk of trading book and control the risk exposure within an acceptable range.

Banking book

The interest rate risk of the Group includes the risk that the adverse changes in the interest rate level and term structure may affect the economic value and overall income of the Group, mainly based on the gap risk and the basis risk of assets and liabilities.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Techniques for measuring and limits for market risks (continued)

Banking book (continued)

The Group measures the gap between assets and liabilities caused by repricing dates and maturity dates mismatch by monitoring the interest rate sensitivity gap mainly through repricing gap analysis, and makes adjustments to refine the structure and bridge the interest rate risk gap by assessing potential changes of interest rates.

Sensitivity analysis on net interest income

The sensitivity analysis on net interest income is based on changes in interest rates with the assumption that all interest rates move by the same margin and the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behaviour, benchmark interest rates or any prepayment options on debt securities into consideration. On the assumption that the RMB yield and foreign currency yield move in parallel, the Group calculates changes to net interest income of the current year.

The table below shows the potential impact on the Group's net interest income by an upward or a downward parallel shift of interest rates by 100 basis points. The actual circumstances may differ from the assumptions so that the impact on the net interest income as shown in the following analysis may be different from the actual outcome.

	Increase/(Decrease) in net interest income	
	As at December 31, 2020	As at December 31, 2019
Upward parallel shift of 100 bps for yield curves	**(4,171)**	(1,262)
Downward parallel shift of 100 bps for yield curves	**4,171**	1,262

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk

The Group's interest rate exposures are as follows. The financial assets and financial liabilities at the end of the reporting period are stated at their carrying amounts based on the earlier of their repricing date or contractual maturity date.

	As at December 31, 2020						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,160,589	–	–	–	–	59,273	1,219,862
Deposits with banks and other financial institutions	13,451	847	29,337	–	–	47	43,682
Placements with banks and other financial institutions	20,475	24,238	155,882	47,382	–	419	248,396
Derivative financial assets	–	–	–	–	–	11,140	11,140
Financial assets held under resale agreements	217,090	31,847	10,690	–	–	329	259,956
Loans and advances to customers	2,872,910	559,660	1,885,547	155,817	19,903	18,524	5,512,361
Financial assets at fair value through profit or loss	8,654	28,953	40,645	14,847	35,951	290,231	419,281
Financial assets at fair value through other comprehensive income-debt instruments	5,658	10,748	72,704	208,637	12,464	5,711	315,922
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	5,804	5,804
Financial assets at amortized cost	181,033	573,939	517,136	1,019,197	837,282	45,056	3,173,643
Other financial assets	–	–	–	–	–	20,247	20,247
Total financial assets	4,479,860	1,230,232	2,711,941	1,445,880	905,600	456,781	11,230,294

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2020						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Borrowings from central bank	–	4,400	20,866	–	–	22	25,288
Deposits from banks and other financial institutions	65,706	–	10,861	8,934	–	411	85,912
Placements from banks and other financial institutions	4,613	5,078	20,875	–	–	177	30,743
Derivative financial liabilities	–	–	–	–	–	9,632	9,632
Financial assets sold under repurchase agreements	7,661	10,717	6,663	–	–	93	25,134
Customer deposits	4,463,110	1,451,070	3,048,314	1,242,662	–	152,873	10,358,029
Debt securities issued	–	–	7,138	–	49,967	869	57,974
Other financial liabilities	–	–	–	–	–	36,595	36,595
Total financial liabilities	4,541,090	1,471,265	3,114,717	1,251,596	49,967	200,672	10,629,307
Interest rate risk gap	(61,230)	(241,033)	(402,776)	194,284	855,633	256,109	600,987

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2019						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and deposits with central bank	1,104,061	–	–	–	–	50,782	1,154,843
Deposits with banks and other financial institutions	8,507	–	19,851	–	–	15	28,373
Placements with banks and other financial institutions	38,655	14,036	177,267	39,222	–	417	269,597
Derivative financial assets	–	–	–	–	–	5,009	5,009
Financial assets held under resale agreements	123,575	16,470	7,176	–	–	173	147,394
Loans and advances to customers	2,944,893	413,512	1,335,181	84,238	11,505	18,733	4,808,062
Financial assets at fair value through profit or loss	20,085	18,448	54,867	20,843	33,784	162,134	310,161
Financial assets at fair value through other comprehensive income-debt instruments	9,697	19,558	40,506	152,544	2,355	4,012	228,672
Financial assets at fair value through other comprehensive income-equity instruments	–	–	–	–	–	1,053	1,053
Financial assets at amortized cost	174,278	719,434	411,823	1,195,888	588,145	45,576	3,135,144
Other financial assets	–	–	–	–	–	15,396	15,396
Total financial assets	4,423,751	1,201,458	2,046,671	1,492,735	635,789	303,300	10,103,704

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Interest rate risk (continued)

	As at December 31, 2019						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Deposits from banks and other financial institutions	46,380	43	383	380	–	66	47,252
Placements from banks and other financial institutions	2,111	5,889	17,606	–	–	190	25,796
Derivative financial liabilities	–	–	–	–	–	5,065	5,065
Financial assets sold under repurchase agreements	61,557	19,248	17,460	–	–	393	98,658
Customer deposits	4,033,582	1,448,825	2,428,501	1,282,268	–	120,890	9,314,066
Debt securities issued	–	1,424	19,397	–	74,944	1,214	96,979
Other financial liabilities	–	–	–	–	–	38,980	38,980
Total financial liabilities	4,143,630	1,475,429	2,483,347	1,282,648	74,944	166,798	9,626,796
Interest rate risk gap	280,121	(273,971)	(436,676)	210,087	560,845	136,502	476,908

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk

The table below presents the Group's exposures that were subject to changes in exchange rates as at December 31, 2020, and December 31, 2019. The Group's RMB exposures are included in the table for comparison. The financial assets and liabilities and off-balance sheet credit commitments are stated at their carrying amounts in RMB equivalent.

The major currency of the Group for daily operation is RMB. Other currencies used by the Group include United States Dollars (USD), Euro (EUR), Hong Kong Dollars (HKD) and U.K. Pound Sterling (GBP), etc.

	As at December 31, 2020			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,217,177	2,625	60	1,219,862
Deposits with banks and other financial institutions	39,737	3,059	886	43,682
Placements with banks and other financial institutions	245,087	3,309	–	248,396
Derivative financial assets	701	10,439	–	11,140
Financial assets held under resale agreements	259,956	–	–	259,956
Loans and advances to customers	5,474,928	29,759	7,674	5,512,361
Financial assets at fair value through profit or loss	411,184	8,097	–	419,281
Financial assets at fair value through other comprehensive income-debt instruments	308,211	7,711	–	315,922
Financial assets at fair value through other comprehensive income-equity instruments	5,804	–	–	5,804
Financial assets at amortized cost	3,129,775	43,868	–	3,173,643
Other financial assets	18,458	1,789	–	20,247
Total financial assets	11,111,018	110,656	8,620	11,230,294

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2020			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Borrowings from central bank	25,288	–	–	25,288
Deposits from banks and other financial institutions	85,912	–	–	85,912
Placements from banks and other financial institutions	17,426	13,317	–	30,743
Derivative financial liabilities	652	8,980	–	9,632
Financial assets sold under repurchase agreements	25,134	–	–	25,134
Customer deposits	10,304,038	53,647	344	10,358,029
Debt securities issued	57,974	–	–	57,974
Other financial liabilities	35,713	880	2	36,595
Total financial liabilities	10,552,137	76,824	346	10,629,307
Net on-balance sheet position	558,881	33,832	8,274	600,987
Net notional amount of derivative financial instruments	(15,357)	25,295	(8,123)	1,815
Credit commitments	700,522	12,192	4,599	717,313

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2019			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and deposits with central bank	1,153,497	1,269	77	1,154,843
Deposits with banks and other financial institutions	23,560	3,536	1,277	28,373
Placements with banks and other financial institutions	253,919	15,678	–	269,597
Derivative financial assets	507	4,502	–	5,009
Financial assets held under resale agreements	147,394	–	–	147,394
Loans and advances to customers	4,786,228	17,267	4,567	4,808,062
Financial assets at fair value through profit or loss	285,909	24,252	–	310,161
Financial assets at fair value through other comprehensive income-debt instruments	219,525	9,147	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments	1,053	–	–	1,053
Financial assets at amortized cost	3,111,636	23,508	–	3,135,144
Other financial assets	10,739	4,529	128	15,396
Total financial assets	9,993,967	103,688	6,049	10,103,704

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

	As at December 31, 2019			
	RMB	USD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Deposits from banks and other financial institutions	47,249	3	–	47,252
Placements from banks and other financial institutions	17,998	7,798	–	25,796
Derivative financial liabilities	464	4,601	–	5,065
Financial assets sold under repurchase agreements	98,658	–	–	98,658
Customer deposits	9,268,878	44,785	403	9,314,066
Debt securities issued	96,979	–	–	96,979
Other financial liabilities	37,745	1,222	13	38,980
Total financial liabilities	9,567,971	58,409	416	9,626,796
Net on-balance sheet position	425,996	45,279	5,633	476,908
Net notional amount of derivative financial instruments	8,022	(3,282)	(4,808)	(68)
Credit commitments	761,771	6,258	4,161	772,190

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.5 Market risk (continued)

Foreign exchange rate risk (continued)

Exchange Rate Sensitivity Analysis

The table below indicates the potential effect of appreciation or depreciation of USD spot and forward exchange rate against RMB by 5% on net profit of the Group.

	As at December 31	
Exchange rate changes	**2020**	2019
5% of appreciation of USD against RMB	**661**	191
5% of depreciation of USD against RMB	**(661)**	(191)

The impact on the net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities. The effect on the net profit is based on the assumption that the Group's net foreign currency at the end of the reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign exchange exposures, based on the management expectation of future foreign currency movements. Therefore the above sensitivity analysis may differ from the actual situation.

43.6 Operational risk

Operational risk refers to risks caused by imperfect or problematic internal procedures, employee misconduct and IT system failures, and external events. The types of operational risks that the Group may face include seven categories: internal fraud, external fraud, employment systems and workplace safety, customers, products and business activities, damage to physical assets, information technology system failures, execution, delivery and process management.

Guided by the operational risk preference approved by the Board of Directors, the Group's senior management is mainly responsible for building and implementing the operational risk management policies and limitations. The policies aim to continuously improve the internal control mechanism, reinforce the supervision and inspection framework, improve the information technology capability, enrich the basis of operation management, intensify monitoring report, regulate staff behaviour, foster risk management culture and initiative awareness to regulations and ensure the security of business operation.

43 Financial risk management (continued)

43.7 Fair value of financial instruments

Most of the balance sheet items of the Group are financial assets and financial liabilities. The fair value measurement of non-financial assets and non-financial liabilities will not have a significant impact on the Group's overall financial performance.

For the years ended December 31, 2020 and 2019, in the Group, there were no assets or liabilities which were discontinued being measured at fair value.

(1) Valuation techniques, input parameters and processes

The fair value of financial assets and financial liabilities is determined according to the following methods:

– The fair value of financial assets and financial liabilities with standard terms and conditions and traded in an active circulation market is determined by reference to the market price.

– For non-option derivative financial instruments, the fair value is determined by discounted cash flow analysis using the applicable yield curve within the term of the instrument.

– The fair value of other financial assets and financial liabilities is determined according to the generally accepted pricing model or the current market price observable for similar instruments based on the discounted cash flow analysis. If there is no observable market transaction price for similar instruments, the net assets are used for valuation, and the price is analyzed by the management.

The Group has established an independent valuation process for financial assets and financial liabilities. According to the division of responsibilities, relevant departments are respectively responsible for valuation, model verification and accounting treatment.

For the years ended December 31, 2020 and 2019, there was no significant change in the valuation technology and input value used in the fair value measurement of the Group's financial statements.

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(2) Fair value hierarchy

Financial instruments at fair value are classified into the following three levels of measurement hierarchy:

Level 1: Fair value is determined based on quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

(3) Financial assets and financial liabilities not measured at fair value on the statement of financial position

Financial assets and liabilities not measured at fair value mainly represent deposits with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, interest receivable, borrowings from central bank, loans and advances to customers, financial assets measured at amortized cost, deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, customer deposits, interest payable and debt securities issued.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(3) Financial assets and financial liabilities not measured at fair value on the statement of financial position (continued)

The tables below summarize the carrying amounts and the fair values of the financial assets measured at amortized cost and debt securities issued which are not set out in the statement of financial position.

	As at December 31, 2020				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Financial assets at amortized cost	**3,173,643**	**3,011,327**	**45,451**	**2,340,101**	**625,775**
Financial liabilities					
Debt securities issued	**57,974**	**58,201**	**–**	**58,201**	**–**

	As at December 31, 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets at amortized cost	3,135,144	3,187,178	23,456	2,282,348	881,374
Financial liabilities					
Debt securities issued	96,979	97,611	–	97,611	–

Except for the financial assets and liabilities above, the fair value of other financial assets and liabilities not measured at fair value in the statement of financial position are determined using discounted future cash flows. There is no significant difference between their carrying amounts and fair value.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured at their fair value in the statement of financial position.

	As at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and advances to customers				
– At fair value through other comprehensive income	–	151,369	459,105	610,474
Subtotal	–	151,369	459,105	610,474
Financial assets at fair value through profit or loss				
– Debt securities	1,047	75,306	–	76,353
– Interbank certificates of deposits	7,055	46,948	–	54,003
– Asset-backed securities	–	301	–	301
– Fund investments	–	235,673	716	236,389
– Trust investment plans and asset management plans	–	–	50,693	50,693
– Financial institution wealth management products	–	493	–	493
– Equity instruments	12	–	1,037	1,049
Subtotal	8,114	358,721	52,446	419,281
Derivative financial assets				
– Exchange rate derivatives	–	10,438	–	10,438
– Interest rate derivatives	–	702	–	702
Subtotal	–	11,140	–	11,140

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	7,711	303,553	–	311,264
– Interbank certificates of deposits	–	719	–	719
– Debt financing plans	–	–	3,939	3,939
Subtotal	7,711	304,272	3,939	315,922
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	4,251	1,553	5,804
Subtotal	–	4,251	1,553	5,804
Total financial assets	15,825	829,753	517,043	1,362,621

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities				
– Exchange rate derivatives	–	(8,959)	–	(8,959)
– Interest rate derivatives	–	(673)	–	(673)
Subtotal	–	(9,632)	–	(9,632)
Total financial liabilities	–	(9,632)	–	(9,632)

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to customers				
– At fair value through other comprehensive income	–	177,942	309,573	487,515
Subtotal	–	177,942	309,573	487,515
Financial assets at fair value through profit or loss				
– Debt securities	202	63,281	–	63,483
– Interbank certificates of deposits	20,939	60,991	–	81,930
– Asset-backed securities	–	4,937	–	4,937
– Fund investments	–	114,882	901	115,783
– Trust investment plans and asset management plans	–	–	42,287	42,287
– Equity instruments	–	–	1,741	1,741
Subtotal	21,141	244,091	44,929	310,161
Derivative financial assets				
– Exchange rate derivatives	–	4,496	–	4,496
– Interest rate derivatives	–	513	–	513
Subtotal	–	5,009	–	5,009

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income-debt instruments				
– Debt securities	9,147	219,304	–	228,451
– Asset-backed securities	–	221	–	221
Subtotal	9,147	219,525	–	228,672
Financial assets at fair value through other comprehensive income-equity instruments				
– Equity instruments	–	–	1,053	1,053
Subtotal	–	–	1,053	1,053
Total financial assets	30,288	646,567	355,555	1,032,410

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Customer deposits				
– Structured deposits	–	(926)	–	(926)
Subtotal	–	(926)	–	(926)
Derivative financial liabilities				
– Exchange rate derivatives	–	(4,598)	–	(4,598)
– Interest rate derivatives	–	(467)	–	(467)
Subtotal	–	(5,065)	–	(5,065)
Total financial liabilities	–	(5,991)	–	(5,991)

There were no significant movements among levels of the fair value hierarchy for the years ended December 31, 2020 and 2019.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices. Where quoted prices are not available from open markets, the fair value of financial instruments is determined by valuation techniques.

Parameters used in valuation techniques include mainly debt securities prices, interest rates, exchange rates, equity prices, fluctuation level, correlation, pre-payment rate and counterparties' credit spread.

Changes in Level 3 are analyzed below:

	Year ended December 31, 2020			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income-debt instruments	Financial assets at fair value through other comprehensive income-equity instruments	Loans and advances to customers
Balance at the beginning of the year	44,929	–	1,053	309,573
Increased	–	3,939	500	149,484
Settled	(325)	–	–	–
Total gains or losses recognized in				
– Profit or loss	7,842	–	–	–
– Other comprehensive income	–	–	–	48
Balance at the end of the year	52,446	3,939	1,553	459,105

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

	Year ended December 31, 2019			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income-equity instruments	Loans and advances to customers	Financial liabilities at fair value through profit or loss
Balance at the beginning of the year	76,802	553	361,634	(2,360)
Increased	–	500	–	–
Settled	(34,316)	–	(51,506)	2,360
Total gains or losses recognized in				
– Profit or loss	2,443	–	(14)	–
– Other comprehensive income	–	–	(541)	–
Balance at the end of the year	44,929	1,053	309,573	–

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements is summarized below:

				Unobservable inputs		
December 31, 2020	Note	Fair Value	Valuation technique	Inputs	Range of inputs/ weighted average	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets at fair value through profit or loss						
– Fund investments	(i)	716	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	50,693	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,037	Net asset method	Net assets		Positive correlation
Subtotal		52,446				
Financial assets at fair value through other comprehensive income						
– Debt financing plans	(ii)	3,939	Discounted cash flow method	Discount rate	3.70%-5.50%	Negative correlation
– Equity instruments	(i)	1,553	Net asset method	Net assets		Positive correlation
– Loans and advances	(iii)	459,105	Discounted cash flow method	Discount rate	2.83%	Negative correlation
Total		517,043				

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

December 31, 2019	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 at fair value through profit or loss						
– Fund investments	(i)	901	Net asset method	Net assets		Positive correlation
– Trust investment plans and asset management plans	(i)	42,287	Net asset method	Net assets		Positive correlation
– Equity instruments	(i)	1,741	Net asset method	Net assets		Positive correlation
Subtotal		44,929				
Financial assets at fair value through other comprehensive income						
– Equity instruments	(i)	1,053	Net asset method	Net assets		Positive correlation
– Loans and advances	(iii)	309,573	Discounted cash flow method	Discount rate	2.52%-4.15%	Negative correlation
Total		355,555				

43 Financial risk management (continued)

43.7 Fair value of financial instruments (continued)

(4) Financial assets and financial liabilities at fair value on the statement of financial position (continued)

(i) The fair value of fund investments, trust investment plans and asset management plans, equity instruments of FVTPL, and the fair value of equity instruments of FVOCI are determined using net asset method, where the significant unobservable data are the net assets.

(ii) The fair value of debt financing plans of FVOCI are measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

(iii) The fair value of loans and advances to customers in financial assets at fair value through other comprehensive income is measured using the discounted cash flow method, where the significant unobservable data are the yield curves of similar financial instruments to be used as discount rates.

43.8 Capital management

The Group's capital management aims at meeting regulatory requirements, continuously improving the ability to mitigate risks and increasing returns on capital. Accordingly, the Group has set its capital adequacy objectives and employed various means and methods to deliver its management objectives, including performance assessment against plans and budgets and limit management; to ensure its capital management meets external regulatory, credit rating, risk compensation and shareholders' value requirements; help drive risk management across the Group; ensure a disciplinary expansion of its assets; and improve its business structure and operating models.

The Group has maintained a relatively fast pace of development in terms of business scale in recent years with an increase in the utilisation of capital accordingly. In order to ensure that the Group meets regulatory capital adequacy requirements and maximises returns to shareholders without compromising its risk control, the Group makes strong efforts to promote the establishment of capital constraints system, strengthen the control of total amount and structure of risk assets, and promotes the transformation of its business model towards a capital efficient one through comprehensively using several measures such as capital planning, limit management, economic capital management and estimation of internal capital adequacy, in order to ensure that the capital adequacy ratios meet the risk coverage and regulatory requirements continuously.

43 Financial risk management (continued)

43.8 Capital management (continued)

In accordance with *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《商業銀行資本管理辦法（試行）》 promulgated by CBIRC and the related provisions, as from January 1, 2013, CBIRC requires commercial banks to maintain a minimum capital adequacy ratio, where core tier 1 capital adequacy ratio not lower than 5%, tier 1 capital adequacy ratio not lower than 6%, and capital adequacy ratio not lower than 8%. Meanwhile, in accordance with the *Notice of the CBRC on Issues concerning Transitional Arrangements for the Implementation of the Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* 《中國銀監會關於實施<商業銀行資本管理辦法（試行）過渡期安排相關事項的通知》, capital reserve requirement will be gradually introduced within the transitional period, and is to be satisfied by the core tier 1 capital of commercial banks. In accordance with this provision, as at December 31, 2020, the Group's core tier 1 capital adequacy ratio should meet 7.50%, tier 1 capital adequacy ratio should meet 8.50%, and capital adequacy ratio should meet 10.50% (as at December 31, 2019: 7.50%, 8.50% and 10.50%, respectively). The Group continuously intensifies the monitoring, analyzing and reporting of capital adequacy ratios, constantly optimizes the risk asset structure, increases internal capital accumulation, and promotes the supplement of external capital, in order to ensure that the Group's capital adequacy ratio meets regulatory requirements and internal management needs.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

43 Financial risk management (continued)

43.8 Capital management (continued)

The Group's regulatory capital as calculated according to the *Administrative Measures for Capital of Commercial Banks (for Trial Implementation)* (商業銀行資本管理辦法（試行）) promulgated by the CBIRC at December 31, 2020 and 2019 is as follows:

	Notes	As at December 31	
		2020	2019
Core tier 1 capital adequacy ratio	(1)	**9.60%**	9.90%
Tier 1 capital adequacy ratio	(1)	**11.86%**	10.87%
Capital adequacy ratio	(1)	**13.88%**	13.52%
Core tier 1 capital		**544,654**	494,270
Deductions of core tier 1 capital	(2)	**(2,307)**	(2,058)
Core tier 1 capital – net		**542,347**	492,212
Other tier 1 capital		**127,954**	47,948
Tier 1 capital – net		**670,301**	540,160
Tier 2 capital			
Directly issued qualifying tier 2 instruments including related premium		**49,967**	74,944
Excess provision for loan loss		**64,121**	56,572
Non-controlling interest given recognition in tier 2 capital		**190**	158
Net capital	(3)	**784,579**	671,834
Risk-weighted assets	(4)	**5,651,439**	4,969,658

43 Financial risk management (continued)

43.8 Capital management (continued)

(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 of core tier 1 capital include other intangible assets (exclusive of land use rights).

(3) Net capital is equal to total capital net of deductions from total capital.

(4) Risk-weighted assets include credit risk-weighted assets measured using the risk-weighted method, market risk-weighted assets measured using the standardized method, and operational risk-weighted assets measured using the basic indicator approach.

44 Events after the balance sheet date

(1) Private Placement of A Shares

Approved by China Securities Regulatory Commision, the Bank non-publicly issued 5,405,405,405 A shares of ordinary shares listed in China to China Post group, the controlling shareholder and de facto controller of the Bank.

As at March 17, 2021, the Bank completed the non-public issuance of 5,405,405,405 A shares of ordinary shares at an issue price of RMB5.55 per share, raising a total of RMB29,999,999,997.75 in cash. After deducting the related issuance cost of RMB14,084,460.51 (excluding VAT), the actual net proceeds were RMB29,985,915,537.24, which will be used to replenish the core tier 1 capital of the Bank. On March 25, 2021, the Bank have completed the procedures of registration, custody and sales restriction in Shanghai branch of China Securities Depository and Clearing Corporation Limited for the shares issued.

The shares subscribed by China Post group in the non-public issuance will have a sales restriction period of five years.

(2) Issuance of non-fixed term capital bond

On March 19, 2021, the Bank publicly issued a non-fixed term capital bond of RMB30 billion in the national interbank bond market. After deducting the issuance fees, the proceeds will be used to supplement additional tier 1 capital of the Bank in accordance with the applicable laws and the approval of relevant authorities.

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

44 Events after the balance sheet date (continued)

(3) Dividend distribution

On March 29, 2021, the Board of Directors proposed the following profit distribution scheme for the year ended December 31, 2020. In accordance with the Company Law of the People's Republic of China (中華人民共和國公司法), Administrative Measures for Provisioning of Financial Enterprises (金融企業準備金計提管理辦法) and the Articles of Association and other relevant provisions: declaration of cash dividend of RMB2.085 per ten shares (tax included), totalling RMB19,262 million (tax included) to ordinary shareholders based on RMB92,384 million ordinary shares (including the non-public Issuance in 2021). The proposed profit distribution scheme is subject to the approval in the forthcoming Annual General Meeting for the year of 2020. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

45 Reclassification of comparative figures

Certain comparative figures have been reclassified to conform to the current period presentation.

46 Bank statement of financial position

	As at December 31	
	2020	2019
Assets		
Cash and deposits with central bank	**1,219,862**	1,154,843
Deposits with banks and other financial institutions	**46,130**	30,694
Placements with banks and other financial institutions	**256,758**	275,380
Derivative financial assets	**11,140**	5,009
Financial assets held under resale agreements	**259,956**	147,394
Loans and advances to customers	**5,480,647**	4,779,643
Financial investments		
Financial assets at fair value through profit or loss	**418,788**	310,161
Financial assets at fair value through other comprehensive income-debt instruments	**309,629**	228,672
Financial assets at fair value through other comprehensive income-equity instruments	**5,804**	1,053
Financial assets at amortized cost	**3,172,656**	3,135,144
Investment in subsidiary	**10,115**	10,115
Property and equipment	**48,670**	46,454
Deferred tax assets	**52,559**	46,513
Other assets	**40,539**	34,421
Total assets	**11,333,253**	10,205,496

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

46 Bank statement of financial position (continued)

	As at December 31	
	2020	2019
Liabilities		
Borrowings from central bank	**25,288**	–
Deposits from banks and other financial institutions	**88,132**	56,015
Placements from banks and other financial institutions	**13,317**	7,948
Derivative financial liabilities	**9,632**	5,065
Financial assets sold under repurchase agreements	**25,134**	98,658
Customer deposits	**10,358,029**	9,314,066
Debt securities issued	**57,974**	96,979
Other liabilities	**85,966**	83,232
Total liabilities	**10,663,472**	9,661,963
Equity		
Share capital	**86,979**	86,203
Other equity instruments		
Preference shares	**47,869**	47,869
Perpetual bonds	**79,989**	–
Capital reserve	**100,917**	97,488
Other reserves	**175,131**	154,874
Retained earnings	**178,896**	157,099
Total equity	**669,781**	543,533
Total equity and liabilities	**11,333,253**	10,205,496

Approved and authorized for issue by the Board of Directors on March 29, 2021.

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

For the year ended December 31, 2020 (All amounts in millions of RMB unless otherwise stated)

47 Bank statement of changes in equity

		Other equity instruments			Other reserves				
	Share capital	Preference Shares	Perpetual Bonds	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total
As at January 1, 2020	86,203	47,869	–	97,488	36,439	116,116	2,319	157,099	543,533
Profit for the year	–	–	–	–	–	–	–	62,485	62,485
Other comprehensive income	–	–	–	–	–	–	436	–	436
Total comprehensive income for the year	–	–	–	–	–	–	436	62,485	62,921
Capital contribution from shareholders	776	–	–	3,429	–	–	–	–	4,205
Issuance of perpetual bonds	–	–	79,989	–	–	–	–	–	79,989
Appropriation to surplus reserve	–	–	–	–	6,249	–	–	(6,249)	–
Appropriation to general reserve	–	–	–	–	–	13,572	–	(13,572)	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	–	(18,283)	(18,283)
Dividends paid to preference shareholders	–	–	–	–	–	–	–	(2,584)	(2,584)
As at December 31, 2020	86,979	47,869	79,989	100,917	42,688	129,688	2,755	178,896	669,781

				Other reserves				
	Share capital	Other equity instruments-Preference Shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total
As at January 1, 2019	81,031	47,869	74,659	30,371	103,950	3,593	132,846	474,319
Profit for the year	–	–	–	–	–	–	60,684	60,684
Other comprehensive income	–	–	–	–	–	(1,274)	–	(1,274)
Total comprehensive income for the year	–	–	–	–	–	(1,274)	60,684	59,410
Capital contribution from shareholders	5,172	–	22,829	–	–	–	–	28,001
Appropriation to surplus reserve	–	–	–	6,068	–	–	(6,068)	–
Appropriation to general reserve	–	–	–	–	12,166	–	(12,166)	–
Dividends paid to ordinary shareholders	–	–	–	–	–	–	(15,696)	(15,696)
Dividends paid to preference shareholders	–	–	–	–	–	–	(2,501)	(2,501)
As at December 31, 2019	86,203	47,869	97,488	36,439	116,116	2,319	157,099	543,533

APPENDIX I: SUPPLEMENTARY FINANCIAL INFORMATION

Leverage Ratio

In millions of RMB, except for percentages

Item	**As at December 31, 2020**	As at September 30, 2020	As at June 30, 2020	As at March 31, 2020
Tier 1 capital – net	**670,301**	655,785	636,586	644,503
On- and off-balance sheet assets after adjustments	**11,806,091**	11,623,969	11,423,194	11,234,217
Leverage ratio (%)	**5.68**	5.64	5.57	5.74

Relevant accounting items corresponding to regulatory leverage ratio items and differences between regulatory items and accounting items

In millions of RMB

No.	Item	**As at December 31, 2020**
1	Consolidated total assets	**11,353,263**
2	Consolidated adjustments	**–**
3	Customer assets adjustments	**–**
4	Derivative adjustments	**6,401**
5	Securities financing transactions adjustments	**14,023**
6	Off-balance sheet items adjustments	**434,711**
7	Other adjustments	**(2,307)**
8	On- and off-balance sheet assets after adjustments	**11,806,091**

Leverage ratio, Tier 1 capital – net, On- and off-balance sheet assets after adjustments and relevant details

In millions of RMB, except for percentages

No.	Item	As at December 31, 2020
1	On-balance sheet assets (excluding derivatives and securities financing transactions)	**11,082,167**
2	Less: Deduction from tier 1 capital	**2,307**
3	On-balance sheet assets after adjustments (excluding derivatives and securities financing transactions)	**11,079,860**
4	Replacement costs of various derivatives (excluding eligible margin)	**10,128**
5	Potential risk exposures of various derivatives	**7,413**
6	Total collateral deducted from the balance sheet	**–**
7	Less: Assets receivable arising from the provision of eligible margin	**–**
8	Less: Derivative assets arising from central counterpart transactions when providing clearing services to customers	**–**
9	Nominal principal arising from sales of credit derivatives	**–**
10	Less: Deductible assets arising from sales of credit derivatives	**–**
11	Derivative assets	**17,541**
12	Accounting assets arising from securities financing transactions	**259,956**
13	Less: Deductible assets arising from securities financing transactions	**–**
14	Counter-party credit risk exposures arising from securities financing transactions	**14,023**
15	Assets arising from agency services in connection with securities financing transactions	**–**
16	Securities financing transactions assets	**273,979**
17	Off-balance sheet assets	**1,806,571**
18	Less: Decrease in off-balance sheet items due to credit conversion	**1,371,860**
19	Off-balance sheet items after adjustments	**434,711**
20	Tier 1 capital – net	**670,301**
21	On- and off-balance sheet assets after adjustments	**11,806,091**
22	Leverage ratio (%)	**5.68**

International Claims

The Group regards all claims on third parties outside the Chinese mainland and claims denominated in foreign currencies on third parties in the Chinese mainland as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits and placements with banks and other financial institutions, investments in debt securities and others, etc.

A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

In millions of RMB

Item	**As at December 31, 2020**			
	Public sector	**Banks and other financial institutions**	**Non-bank private sectors**	**Total**
Asia Pacific	**4,936**	**45,321**	**45,885**	**96,142**
– of which attributed to Hong Kong	**–**	**420**	**11,137**	**11,557**
North and South America	**–**	**2,668**	**4,054**	**6,722**
Europe	**–**	**1,005**	**8,170**	**9,175**
Total	**4,936**	**48,994**	**58,109**	**112,039**

In millions of RMB

Item	As at December 31, 2019			
	Public sector	Banks and other financial institutions	Non-bank private sectors	Total
Asia Pacific	3,704	63,932	19,588	87,224
– of which attributed to Hong Kong	–	1,102	3,183	4,285
North and South America	–	3,120	4,551	7,671
Europe	–	2,401	7,298	9,699
Total	3,704	69,453	31,437	104,594

Gross Amount of Overdue Loans to Customers

In millions of RMB, except for percentages

Item	**As at December 31, 2020**	As at December 31, 2019
Gross loans to customers which have been overdue with respect to either principal or interest for periods		
Within 3 months (inclusive)	**13,553**	22,046
Between 3 months and 6 months (inclusive)	**5,716**	5,411
Between 6 months and 12 months (inclusive)	**8,408**	6,949
Over 12 months	**17,702**	16,677
Total	**45,379**	51,083
As a percentage of total loans and advances to customers[1] (%)		
Within 3 months (inclusive)	**0.24%**	0.44%
Between 3 months and 6 months (inclusive)	**0.10%**	0.11%
Between 6 months and 12 months (inclusive)	**0.15%**	0.14%
Over 12 months	**0.31%**	0.34%
Total	**0.80%**	1.03%

[1] In calculating the percentage, total loans and advances to customers exclude accrued interest.

APPENDIX II: COMPOSITION OF CAPITAL

In millions of RMB, except for percentages

		As at December 31, 2020
Core tier 1 capital:		
1	Paid-in capital	**86,979**
2	Retained earnings	**353,331**
2a	Surplus reserve	**42,688**
2b	General risk reserve	**130,071**
2c	Undistributed profits	**180,572**
3	Accumulated other comprehensive income and disclosed reserve	**103,631**
3a	Capital reserve	**100,906**
3b	Others	**2,725**
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	**713**
6	Core tier 1 capital before regulatory adjustments	**544,654**
Core tier 1 capital: Regulatory adjustments		
7	Prudential valuation adjustments	**–**
8	Goodwill (net of deferred tax liabilities)	**–**
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	**2,307**
10	Net deferred tax assets that rely on future profitability and arise from operating losses	**–**
11	Reserves that relate to the cash flow hedging of items that are not measured at fair value	**–**
12	Shortfall of provision for loan impairment	**–**
13	Gain on sale related to asset securitization	**–**
14	Unrealized gains and losses resulted from changes in the fair value of liabilities due to changes in own credit risk	**–**
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	**–**
16	Direct or indirect holding in own ordinary shares	**–**
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	**–**
18	Deductible amount of insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**

		As at December 31, 2020
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–
20	Mortgage servicing rights	–
21	Deductible amount in net deferred tax assets that rely on the bank's future profitability	–
22	Deductible amount exceeding the 15% threshold for significant minority capital investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation and undeducted portion of net deferred tax assets that rely on the bank's future profitability	–
23	Including: Deductible amount of significant minority investments in capital instruments issued by financial institutions	–
24	Including: Deductible amount of mortgage servicing rights	–
25	Including: Deductible amount in net deferred tax assets that rely on the bank's future profitability	–
26a	Investments in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
26b	Shortfall in core tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
26c	Other items that should be deducted from core tier 1 capital	–
27	Undeducted shortfall that should be deducted from additional tier 1 capital and tier 2 capital	–
28	Total regulatory adjustments to core tier 1 capital	**2,307**
29	Core tier 1 capital	**542,347**
Additional tier 1 capital:		
30	Additional tier 1 capital instruments and related premium	**127,858**
31	Including: Portion classified as equity	**127,858**
32	Including: Portion classified as liabilities	–
33	Invalid instruments to additional tier 1 capital after the transition period	–
34	Valid portion of minority interests	**96**
35	Including: Invalid portion to additional tier 1 capital after the transition period	–
36	Additional tier 1 capital before regulatory adjustments	**127,954**

		As at December 31, 2020
Additional tier 1 capital: Regulatory adjustments		
37	Direct or indirect investments in own additional tier 1 instruments	**–**
38	Reciprocal cross-holdings in additional tier 1 capital between banks or between banks and other financial institutions	**–**
39	Deductible amount of insignificant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
40	Significant minority investments in additional tier 1 capital instruments issued by financial institutions that are not subject to consolidation	**–**
41a	Investments in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
41b	Shortfall in additional tier 1 capital instruments issued by financial institutions that are under control but not subject to consolidation	**–**
41c	Other items that should be deducted from additional tier 1 capital	**–**
42	Undeducted shortfall that should be deducted from tier 2 capital	**–**
43	Total regulatory adjustments to additional tier 1 capital	**–**
44	Additional tier 1 capital	**127,954**
45	Tier 1 capital (core tier 1 capital + additional tier 1 capital)	**670,301**
Tier 2 capital:		
46	Tier 2 capital instruments and related premium	**49,967**
47	Invalid instruments to tier 2 capital after the transition period	**–**
48	Valid portion of minority interests	**190**
49	Including: Invalid portion to tier 2 capital after the transition period	**–**
50	Valid portion of surplus provision for loan impairment	**64,121**
51	Tier 2 capital before regulatory adjustments	**114,278**

		As at December 31, 2020
Tier 2 capital: Regulatory adjustments		
52	Direct or indirect investments in own tier 2 instruments	–
53	Reciprocal cross-holdings in tier 2 capital between banks or between banks and other financial institutions	–
54	Deductible portion of insignificant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–
55	Significant minority investments in tier 2 capital instruments issued by financial institutions that are not subject to consolidation	–
56a	Investments in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
56b	Shortfall in tier 2 capital instruments issued by financial institutions that are under control but not subject to consolidation	–
56c	Other items that should be deducted from tier 2 capital	–
57	Total regulatory adjustments to tier 2 capital	–
58	Tier 2 capital	**114,278**
59	Total capital (tier 1 capital + tier 2 capital)	**784,579**
60	Total risk-weighted assets	**5,651,439**
Requirements for capital adequacy ratio and reserve capital		
61	Core tier 1 capital adequacy ratio	**9.60**
62	Tier 1 capital adequacy ratio	**11.86**
63	Capital adequacy ratio	**13.88**
64	Institution specific capital requirements	**2.50**
65	Including: Capital conservation buffer requirement	**2.50**
66	Including: Countercyclical buffer requirement	–
67	Including: G-SIB buffer requirement	–
68	Percentage of core tier 1 capital meeting buffers to risk-weighted assets	**4.60**
Domestic minimum requirements for regulatory capital		
69	Core tier 1 capital adequacy ratio	**5.00**
70	Tier 1 capital adequacy ratio	**6.00**
71	Capital adequacy ratio	**8.00**

		As at December 31, 2020
Amounts below the thresholds for deduction		
72	Undeducted amount of insignificant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	**39,015**
73	Undeducted amount of significant minority investments in capital instruments issued by financial institutions that are not subject to consolidation	**–**
74	Mortgage servicing rights (net of deferred tax liabilities)	**–**
75	Other net deferred tax assets that rely on the bank's future profitability (net of deferred tax liabilities)	**53,216**
Valid caps of surplus provision for loan impairment to tier 2 capital		
76	Provision for loan impairment under the weighted approach	**205,528**
77	Valid cap of surplus provision for loan impairment in tier 2 capital under the weighted approach	**64,121**
78	Surplus provision for loan impairment under the internal ratings-based approach	**–**
79	Valid cap of surplus provision for loan impairment in tier 2 capital under the internal ratings-based approach	**–**
Capital instruments subject to phase-out arrangements		
80	Valid cap to core tier 1 capital for the current period due to phase-out arrangements	**–**
81	Excluded from core tier 1 capital due to phase-out arrangements	**–**
82	Valid cap to additional tier 1 capital for the current period due to phase-out arrangements	**–**
83	Excluded from additional tier 1 capital due to phase-out arrangements	**–**
84	Valid cap to tier 2 capital for the current period due to phase-out arrangements	**–**
85	Excluded from tier 2 capital for the current period due to phase-out arrangements	**–**

Detailed Description of Related Items

In millions of RMB

	Balance sheet under regulatory scope of consolidation	Code
Goodwill	–	a
Intangible assets	2,307	b
Deferred income tax liabilities	–	
Including: Deferred tax liabilities related to goodwill	–	c
Including: Deferred tax liabilities related to other intangible assets other than land use rights	–	d
Paid-in capital		
Including: Amount included in core tier 1 capital	86,979	e
Other equity instruments	127,858	f
Including: Preference shares	47,869	
Including: Perpetual bonds	79,989	
Capital reserve	100,906	g
Others	2,725	h
Surplus reserve	42,688	i
General risk reserve	130,071	j
Undistributed profits	180,572	k

Correspondence between All the Items Disclosed in the Second Step and Items in the Disclosure Template of Capital Composition

In millions of RMB

		Amount	Code
Core tier 1 capital:			
1	Paid-in capital	86,979	e
2	Retained earnings	353,331	i+j+k
2a	Surplus reserve	42,688	i
2b	General risk reserve	130,071	j
2c	Undistributed profits	180,572	k
3	Accumulated other comprehensive income and disclosed reserve	103,631	g+h
3a	Capital reserve	100,906	g
3b	Others	2,725	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	713	
6	Core tier 1 capital before regulatory adjustments	544,654	
Core tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	–	
8	Goodwill (net of deferred tax liabilities)	–	a-c
9	Other intangible assets other than land use rights (net of deferred tax liabilities)	2,307	b-d

		Amount	Code
10	Net deferred tax assets that rely on future profitability and arise from operating losses	–	
11	Reserves that relate to the cash flow hedging of items that are not measured at fair value	–	
12	Shortfall of provision for loan impairment	–	
13	Gain on sale related to asset securitization	–	
14	Unrealized gains and losses resulted from changes in the fair value of liabilities due to changes in own credit risk	–	
15	Defined-benefit pension fund net assets (net of deferred tax liabilities)	–	
16	Direct or indirect holding in own ordinary shares	–	
17	Reciprocal cross-holdings in core tier 1 capital between banks or between banks and other financial institutions	–	
18	Deductible amount of insignificant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
19	Deductible amount of significant minority investments in core tier 1 capital instruments issued by financial institutions that are not subject to consolidation	–	
20	Mortgage servicing rights	–	
Additional tier 1 capital:			
21	Additional tier 1 capital instruments and related premium	127,858	
22	Including: Portion classified as equity	127,858	f

APPENDIX II: COMPOSITION OF CAPITAL

	Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
1	Issuer	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.	Postal Savings Bank of China Co., Ltd.
2	Identification code	601658.SH	1658.HK	1628016.IB	1728005.IB	4612	2028006.IB
3	Applicable laws	PRC laws	PRC laws/laws of Hong Kong, PRC	PRC laws	PRC laws	The creation and issuance of the Offshore Preference Shares and the rights and obligations (including non-contractual rights and obligations) attached to them are governed by and shall be construed in accordance with PRC laws	PRC laws
4	Including: Applicable to rules for the transitional period of the Capital Rules for Commercial Banks (Trial)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital	Additional tier 1 capital
5	Including: Applicable to the rules after expiration of the transitional period of the Capital Rules for Commercial Banks (Trial)	Core tier 1 capital	Core tier 1 capital	Tier 2 capital	Tier 2 capital	Additional tier 1 capital	Additional tier 1 capital
6	Including: Applicable to bank/group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level	Bank and group level
7	Instrument type	Core tier 1 capital instruments	Core tier 1 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Additional tier 1 capital instruments	Additional tier 1 capital instruments
8	Amount that can be included in regulatory capital (in millions; on the latest reporting date)	RMB112,279	RMB75,606	RMB29,981	RMB19,986	RMB47,869	RMB79,989
9	Par value of instrument (in millions)	RMB67,122	RMB19,856	RMB30,000	RMB20,000	USD7,250	RMB80,000
10	Accounting treatment	Share capital, capital reserve	Share capital, capital reserve	Bonds payable	Bonds payable	Other equity instruments	Other equity instruments
11	Initial issuance date	November 28, 2019	September 20, 2016	October 26, 2016	March 22, 2017	September 27, 2017	March 16, 2020
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Perpetual	Perpetual
13	Including: Original maturity date	No maturity date	No maturity date	October 28, 2026	March 24, 2027	No maturity date	No maturity date

Main Features of Qualified Capital Instruments		Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
14	Issuer's redemption (subject to regulatory approval)	No	No	Yes	Yes	Yes	Yes
15	Including: Redemption date (or contingent redemption date) and amount	Not applicable	Not applicable	October 28, 2021 Part or full	March 24, 2022 Part or full	The first redemption date is September 27, 2022 full or part	The first redemption date is March 18, 2025 full or part
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	March 18 in each year after the first redemption date
17	Including: Fixed or floating interest payment or dividend	Floating	Floating	Fixed	Fixed	Floating: The dividend yield is fixed in a single dividend yield adjustment cycle (five years) and is reset every five years	Floating: The coupon rate is fixed in a single coupon rate adjustment cycle (five years) and is reset every five years
18	Including: Coupon rate and relevant indicators	Not applicable	Not applicable	3.30%	4.50%	The dividend yield in the first five years is 4.50% and is reset every five years based on the yield of five-year US treasury bond on the resetting date plus 263.4 basis points	The coupon rate in the first five years is 3.69% and is reset every five years based on the arithmetic average of the maturity yield of the 5-year product of the maturity yield curve of China Bonds published on ChinaBond.com (or other websites approved by China Central Depository & Clearing Co., Ltd.) (rounded to 0.01%) plus 125 basis points to reset the coupon rate 5 trading days (excluding the day) before the adjustment date of the benchmark interest rate.

	Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
19	Including: Existence of dividend brake mechanism	Not applicable	Not applicable	No	No	Yes	Yes
20	Including: Discretion to cancel dividend or interest payment	Full discretion	Full discretion	No	No	Full discretion	Full discretion
21	Including: Existence of redemption incentive mechanism	No	No	No	No	No	No
22	Including: Cumulative or non-cumulative	Non-cumulative	Non-cumulative	Not applicable	Not applicable	Non-cumulative	Non-cumulative
23	Conversion into shares	No	No	No	No	Yes	No
24	Including: Please specify the trigger condition for share conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, that is, the CET 1 CAR drops to 5.125% or below; or upon the occurrence of any tier 2 capital instrument trigger event, which means either of the following circumstances (whichever is earlier): (1) the CBIRC having concluded that a share conversion or write-off is necessary without which the Bank would become non-viable; (2) the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable	Not applicable

Main Features of Qualified Capital Instruments		Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
25	Including: Please specify share conversion in whole or in part, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Upon the occurrence of any additional tier 1 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all or part of the issued and outstanding offshore preference shares into ordinary H shares; Upon the occurrence of any tier 2 capital instrument trigger event, the Bank shall have the right to, without the consent of holders of preference shares, convert all of the issued and outstanding offshore preference shares into ordinary H shares	Not applicable
26	Including: Please specify the method to determine the conversion price, if share conversion is allowed	Not applicable	Not applicable	Not applicable	Not applicable	The initial conversion price is the average trading price of ordinary H shares of the Bank in the 20 trading days prior to the announcement date of the Board resolution (March 24, 2017) on the Offshore Preference Shares issuance	Not applicable
27	Including: Please specify share conversion is mandatory or not, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Mandatory	Not applicable

	Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
28	Including: Please specify the instrument type after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	Core tier 1 capital	Not applicable
29	Including: Please specify the issuer of the instrument after conversion, if allowed	Not applicable	Not applicable	Not applicable	Not applicable	The Bank	Not applicable
30	Write-down or not	No	No	Yes	Yes	No	Yes
31	Including: Please specify the trigger point of write-down, if allowed	Not applicable	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable	Not applicable	Trigger events refer to either of the following circumstances (whichever is earlier): 1. the CBIRC having concluded that a write-off is necessary without which the issuer would become non-viable; or 2. the relevant authorities having concluded that a public sector injection of capital or equivalent support is necessary without which the issuer would become non-viable
32	Including: Please specify write-down in part or in full, if allowed	Not applicable	Not applicable	In full	In full	Not applicable	Part or full
33	Including: Please specify the write-down is perpetual or temporary, if write-down is allowed	Not applicable	Not applicable	Perpetual	Perpetual	Not applicable	Perpetual
34	Including: Please specify the book entry value recovery mechanism, if temporary write-down is allowed	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

	Main Features of Qualified Capital Instruments	Ordinary shares (A shares)	Ordinary shares (H shares)	Tier 2 capital bonds	Tier 2 capital bonds	Preference shares (overseas)	Undated capital bonds
35	Hierarchy of claims in liquidation (please specify instrument types enjoying higher priorities)	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital bonds) and additional tier 1 capital instruments	After depositor, general creditor, and holders of subordinated debts (including tier 2 capital bonds) and additional tier 1 capital instruments	The repayment sequence of the bond principal and the interest payment sequence are after depositors and general creditors, and before equity capital, additional tier 1 capital instruments and hybrid capital bonds; the current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer with the same repayment order as the current bonds and are paid in the same order as additional tier 2 capital instruments that may be issued in the future with the same repayment order as the current bonds	The repayment sequence of the bond principal and the interest payment sequence are after depositors and general creditors, and before equity capital, additional tier 1 capital instruments and hybrid capital bonds; the current bonds are in the same liquidation order as other subordinated debts which are issued by the issuer with the same repayment order as the current bonds and are paid in the same order as additional tier 2 capital instruments that may be issued in the future with the same repayment order as the current bonds	After depositors, general creditors, and holders of subordinated debts (including tier 2 capital bonds), pari passu with those capital instruments with the same repayment order	After depositors, general creditors, and holders of subordinated debts that are senior to the current bonds and before all classes of shares held by shareholders of the issuer; the current bonds are in the same priority as additional tier 1 capital instruments of the issuer with the same repayment order
36	Does the instrument contain temporary illegible attribute?	No	No	No	No	No	No
37	Including: If yes, please specify such attribute	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

APPENDIX III: REFERENCE MATERIALS FOR SHAREHOLDERS

Financial Calendar for 2021

2020 annual results	Announced on March 29, 2021
2021 first quarterly results	To be announced no later than April 30, 2021
2021 interim results	To be announced no later than August 31, 2021
2021 third quarterly results	To be announced no later than October 31, 2021

Securities Information

Listing

The ordinary A shares of the Bank were listed on the SSE on December 10, 2019. The ordinary H shares were listed on the Hong Kong Stock Exchange on September 28, 2016, and the offshore preference shares were listed on the Hong Kong Stock Exchange on September 28, 2017.

Ordinary Shares

Issued A shares: 67,122,395,200 shares (as at December 31, 2020).
Issued H shares: 19,856,167,000 shares (as at December 31, 2020).

Preference Shares

Issued offshore preference shares: 362,500,000 shares (as at December 31, 2020).

Market Capitalization

As at the last trading day in 2020 (December 31, 2020), the Bank's market capitalization was RMB320.848 billion in the A-share market, and HKD86.970 billion in the H-share market, with a total market capitalization of RMB394.045 billion (based on the closing price of A shares and H shares on December 31, 2020, the exchange rate as of December 31 is the exchange rate announced by the State Administration of Foreign Exchange (HKD100 = RMB84.164)).

Securities Prices

	Closing price on December 31, 2020	Highest trading price during the year	Lowest trading price during the year
A shares	RMB4.78/share	RMB6.02/share	RMB4.47/share
H shares	HKD4.38/share	HKD5.44/share	HKD3.02/share

Securities Information

	Stock exchange on which shares are listed	Stock name	Stock code
A shares	Shanghai Stock Exchange	Postal Savings Bank of China	601658
H shares	The Stock Exchange of Hong Kong Limited	Postal Savings Bank of China	1658
Offshore preference shares	The Stock Exchange of Hong Kong Limited	PSBC 17USDPREF	4612

Shareholder Enquiries

Shareholders who have any inquiries about the shares they hold, such as share transfer, change of name or address, report of loss of share certificates, etc., please write to the following address:

A shares:
China Securities Depository and Clearing Corporation Limited, Shanghai Branch
Address: 188 Yanggao South Road, Pudong New Area, Shanghai
Telephone: (86)4008 058 058

H shares:
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: (852) 2862 8555
Fax: (852) 2865 0990

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
Morgan Stanley Capital International (MSCI) Index Series
SSE Composite Index
CSI 300 Index
CSI 100 Index

Investor Enquiries

The Office of the Board of Directors of Postal Savings Bank of China Co., Ltd.
No. 3 Financial Street, Xicheng District, Beijing, PRC
Telephone: (86)10 6885 8158
Fax: (86)10 6885 8165
Email: psbc.ir@psbcoa.com.cn

Other Information

You may write to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited (address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRSs or visit the domicile of the Bank for copies prepared under PRC GAAP. The Chinese or English versions of this report are also available on the following websites: www.psbc.com, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this report or access the document on the Bank's website, please call the Bank's A share registrar at (86) 4008 058 058, H share registrar at (852) 2862 8555 or the Bank's hotline at (86) 10 6885 8158.

List of Organizations

Tier-1 Branches

Beijing Branch

Address: No. 1 Jia 6, Second Yard, Beijiadi Road, Fengtai District, Beijing
Postal Code: 100068
Telephone: 010-86353872
Fax: 010-86353845

Tianjin Branch

Address: No. 121 Dagu North Road, Heping District, Tianjin
Postal Code: 300040
Telephone: 022-88588888
Fax: 022-88588858

Hebei Branch

Address: No. 134 Hongqi Avenue, Qiaoxi District, Shijiazhuang, Hebei (temporary)
Postal Code: 050000
Telephone: 0311-86683329
Fax: 0311-86698360

Shanxi Branch

Address: Postal Building, No.2 Bingzhou North Road, Taiyuan, Shanxi
Postal Code: 030001
Telephone: 0351-2112807
Fax: 0351-2112840

Inner Mongolia Branch

Address: Complex No.2, the eighth District of Juhaicheng, the junction of Ordos Main Street and Dingxiang Road, Saihan District, Hohhot City, Inner Mongolia Autonomous Region
Postal Code: 010010
Telephone: 0471-6924787
Fax: 0471-6263020

Liaoning Branch

Address: No. 72 Beizhan Road, Shenhe District, Shenyang, Liaoning
Postal Code: 110013
Telephone: 024-31927119
Fax: 024-31927219

Jilin Branch

Address: No. 3266 South Ring Road, Nanguan District, Changchun, Jilin
Postal Code: 130000
Telephone: 0431-81285127
Fax: 0431-88985924

Heilongjiang Branch

Address: No. 55 West 14th Street, Daoli District, Harbin, Heilongjiang
Postal Code: 150010
Telephone: 0451-87659373
Fax: 0451-86209997

Shanghai Branch

Address: No. 1080 Dongdaming Road, Hongkou District, Shanghai
Postal Code: 200082
Telephone: 021-63292666
Fax: 021-63293206

Jiangsu Branch

Address: Building No. 2, Nanjing Financial City, No. 242 Lushan Road, Jianye District, Nanjing, Jiangsu

Postal Code: 210019
Telephone: 025-83797811
Fax: 025-83796099

Zhejiang Branch

Address: No. 87 Baijingfang Lane, Xiacheng District, Hangzhou, Zhejiang
Postal Code: 310003
Telephone: 0571-87335016
Fax: 0571-85164911

Anhui Branch

Address: No. 12236 Fanhua Avenue, Economic and Technology Development Zone, Hefei, Anhui
Postal Code: 230061
Telephone: 0551-62256516
Fax: 0551-62256677

Fujian Branch

Address: No.101 Gutian Road, Gulou District, Fuzhou, Fujian
Postal Code: 350005
Telephone: 0591-87117836
Fax: 0591-83373480

Jiangxi Branch

Address: No. 969 Shimao Road, Jinggutan New District, Nanchang, Jiangxi
Postal Code: 330038
Telephone: 0791-88891101
Fax: 0791-86730610

Shandong Branch

Address: Building No. 6, District 4, Hanyu Financial Business Center, No. 7000 Jingshi Road, Gaoxin District, Jinan, Shandong
Postal Code: 250102
Telephone: 0531-58558790
Fax: 0531-58558780

Henan Branch

Address: No. 59 Huayuan Road, Jinshui District, Zhengzhou, Henan
Postal Code: 450008
Telephone: 0371-69199191
Fax: 0371-69199191

Hubei Branch

Address: No. 183 Yunxia Road, Jianghan District, Wuhan, Hubei
Postal Code: 430022
Telephone: 027-65778565
Fax: 027-85722512

Hunan Branch

Address: No. 489 Furong Middle Road Section 1, Changsha, Hunan
Postal Code: 410005
Telephone: 0731-85988267
Fax: 0731-85988345

Guangdong Branch

Address: Fengyuan Building, No. 1-3 Tiyu West Road, Tianhe District, Guangzhou, Guangdong
Postal Code: 510620
Telephone: 020-38186880
Fax: 020-38186666

Guangxi Branch

Address: No. 6 Gehai Road, Liangqing District, Nanning, Guangxi Zhuang Autonomous Region
Postal Code: 530201
Telephone: 0771-5836014
Fax: 0771-5836013

Hainan Branch

Address: No. 1 West Fourth Road, Dayingshan, Meilan District, Haikou, Hainan
Postal Code: 570203
Telephone: 0898-66556005
Fax: 0898-66788066

Chongqing Branch

Address: No.5 Juxian Street, Jiangbei District, Chongqing
Postal Code: 400024
Telephone: 023-63859333
Fax: 023-63859222

Sichuan Branch

Address: No. 588 Tianfu Fourth Street, Gaoxin District, Chengdu, Sichuan
Postal Code: 610094
Telephone: 028-88619027
Fax: 028-88619020

Guizhou Branch

Address: North Tower 4, Financial City, Changling North Road, Guanshanhu District, Guiyang
Postal Code: 550081
Telephone: 0851-85208005
Fax: 0851-85258832

Yunnan Branch

Address: No. 388 Xuefu Road, Wuhua District, Kunming, Yunnan
Postal Code: 650033
Telephone: 0871-63318155
Fax: 0871-63326698

Tibet Branch

Address: No. 5 Linkuo East Road Lane 1, Lhasa, Tibet Autonomous Region
Postal Code: 850014
Telephone: 0891-6310332
Fax: 0891-6310332

Shaanxi Branch

Address: Postal Information Building, No. 5 Tangyan Road, Gaoxin District, Xi’an, Shaanxi
Postal Code: 710075
Telephone: 029-88602848
Fax: 029-88602861

Gansu Branch

Address: No. 369 Qingyang Road, Chengguan District, Lanzhou, Gansu
Postal Code: 730030
Telephone: 0931-8429172
Fax: 0931-8429891

Qinghai Branch

Address: Building A, Guotou Square, No. 32 Wenjing Street, Chengxi District, Xining, Qinghai
Postal Code: 810001
Telephone: 0971-8299173
Fax: 0971-8299178

Ningxia Branch

Address: No. 9 Jiefang West Street, Xingqing District, Yinchuan, Ningxia Hui Autonomous Region
Postal Code: 750001
Telephone: 0951-6920359
Fax: 0951-6920505

Xinjiang Branch

Address: No. 239 Jiefang North Road, Urumqi, Xinjiang Uygur Autonomous Region
Postal Code: 830002
Telephone: 0991-2357992
Fax: 0991-2357988

Dalian Branch

Address: No. 191 Chengren Street, Shahekou District, Dalian, Liaoning

Postal Code: 116021
Telephone: 0411-84376640
Fax: 0411-84376688

Ningbo Branch

Address: No. 120 Taodu Road, Jiangbei District, Ningbo, Zhejiang
Postal Code: 315020
Telephone: 0574-87950777
Fax: 0574-87950986

Xiamen Branch

Address: Commercial Building of Panji Center, No. 1 Lianyue Road, Siming District, Xiamen, Fujian
Postal Code: 361012
Telephone: 0592-2205134
Fax: 0592-2206124

Qingdao Branch

Address: No. 15 Donghai West Road, Shinan District, Qingdao, Shandong
Postal Code: 266971
Telephone: 0532-83886609
Fax: 0532-83877070

Shenzhen Branch

Address: 41-44/F, Information Hub Building, Yitian Road, Futian District, Shenzhen, Guangdong
Postal Code: 518048
Telephone: 0755-22228000
Fax: 0755-22228002

Majority-owned Subsidiaries

PSBC Consumer Finance Co., Ltd.

Address: Tian Lun Holdings Building, No. 281 Linhe East Road, Tianhe District, Guangzhou, Guangdong
Postal Code: 510610
Telephone: 020-22361163
Fax: 020-22361004

PSBC Wealth Management Co., Ltd.

Address: Xinsheng Building, No. 5 Financial Street, Xicheng District, Beijing
Postal Code: 100034
Telephone: 010-68857004
Fax: 010-68857024